

Industry
Bloomberg
BSE CODE

TECHNOLOGY
WPRO IN
507685

Investment to hold margins in near term

RATING	ACCUMULATE
CMP	244
Price Target	278
Potential Upside	14%

Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	302/221
Mkt Capital (Rs Cr)	139395
Free float (%)	26%
Avg. Vol 1M (,000)	250
No. of Shares (Crs)	571
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	59,019	60,326	63,881
EBITDA	11,617	12,019	12,495
EBIT	9,670	10,033	10,439
PAT	9,018	9,492	9,911
EPS (Rs)	15	17	17
EPS growth (%)	13%	11%	4%
ROE (%)	17%	17%	17%
ROCE (%)	17%	17%	17%
BV	94	96	112
P/B (X)	3	3	2
P/E (x)	17	15	14

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2QFY20 Result Update

IT services revenue in line , PAT beat estimates

- Wipro reported a mixed set of number in 2QFY20 result. IT services segment posted a revenue growth of 1.1%QoQ in cc terms in line with our estimate of 1.3%QoQ while PAT beats our estimates by growing 6.5%QoQ; primarily led by lower tax rate .
- IT product revenue grew 34.1%QoQ to Rs323 crore; resulting in overall revenue growth of 2.3%QoQ in 2QFY20.
- IT services margins came at 18.1%, a contraction of 30bps QoQ (in line). The company managed to maintain the margin to 18% to 18.5% range despite continued investment in big bets and two months wage hike(adversely impacted 110bp)mainly driven by cost optimization(benefitted 120bps) .
- Digital revenue for the company now stands at 39.6% vs 37.4% last quarter, a growth of 29.0% YoY.

BFSI remained soft while retail grew against peers

Wipro reported positive growth on YoY basis in six out of seven verticals. BFSI grew 5.9%YoY in cc terms while remained muted sequentially (declined by 0.11%QoQ)due to continued challenges in Banking and capital market .Retail which dragged the growth of TCS and Infosys in 2Q, remained strong for Wipro and grew 6.1%YoY and 4.1%QoQ due to new deal wins . Communications/Health grew 2.4%/3%YoY while remained weak during the quarter (-2.4%/0.6%QoQ in cc terms). Energy, Natural Resources& Utilities and Manufacturing continued to drive growth by growing 6.3%/0.9%YoY and 2.3%/3.3%QoQ respectively. Going ahead, the management believes 3QFY20 see will continued challenges in same or slight more worse in BFSI segment while remained confident of strong growth from consumer in near term. Healthcare is expected to continue to grow outside HPS business.

Better order book

Despite macro challenges like Brexit, US china trade war etc which resulted in slow down of decision making in some segment , still in 2Q the company managed to continue to build strong pipeline. Order booking (net new wins like ICICI bank and from US mid tier banks) was better than 1Q as some of deal which got delayed in 1Q, was signed in 2Q.Thus the management believe demand environment has remained unchanged and it is macro volatility that is impacting near term.

Continued investment in big bets

Margin during the quarter was managed within the narrow range of 18% to 18.5% mainly driven by cost optimization however it was offset by investment made by company on bench, two months impact of wage hike and continued investment in digital, cloud, engineering (adversely impacted 1.1%).Going ahead, as the company priority is towards growth , the company will continue to remain invested in commitment made on big bets(digital, cloud, engineering and cyber security)to grab more growth as well as remain committed to some of work done on building right capabilities. The company will not hesitate to invest if needed.

Moderate growth guidance for 3Q

Despite the current macro environment, . The company has given guidance of 0.8% to 2.8%QoQ in cc terms for 3QFY20 factoring in 0.3% growth coming from ITI acquisition.

View and valuation on WIPRO

Wipro ended H1 with moderate growth of 4.8%YoYwhich is higher than Full year growth of FY19 (2.9% YoY in FY19) .Going ahead we are confident of FY20 to better than FY19 owing to ramp of net new wins (deferment deal which got signed in 2Q), continued growth in vertical like consumer, EN&U and Communication and increase in digital business (up by ~29%YoY) . Also moderate guidance of 0.8% to 2.8% QoQ in cc terms despite uncertain macro is giving further sense for improved growth .However slowdown in client spend around BFSI segment cannot be overlooked as it has been key driver for company in past. Also continued investment in big bets(Building capabilities in digital , cloud, Engineering and cyber security &risk services) will hold the margin in near term .Post result , we have marginally curtailed our margin for FY20/FY21 by 10bps/30bps.Thus we reduce our target price from Rs283 to Rs 278 and Recommend Accumulate.

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2QFY20 Results

Mixed quarter

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	14,568	15,060	15,161	14,786	15,131	3.9%	2.3%	54487	59018	8.3%
Other Income	635	627	754	781	745	17.2%	-4.6%	2,549	2,614	250.9%
Employee Exp	7,422	7,613	7,739	7,748	8,127	9.5%	4.9%	27,222	29,977	10.1%
Other Expenses	4,463	3,868	3,832	3,816	3,628	-18.7%	-4.9%	14,984	16,085	7.3%
EBITDA	2,377	3,293	3,260	2,947	3,096	30.2%	5.1%	10387	11617	11.8%
Depreciation	437	517	559	495	481	10.2%	-2.8%	2,112	1,947	-7.8%
EBIT	1,940	2,776	2,701	2,452	2,615	34.8%	6.6%	8,275	9,670	16.9%
Interest	157	163	253	158	225	43.2%	41.9%	583	738	26.5%
PBT	2,419	3,241	3,202	3,074	3,135	29.6%	2.0%	10,241	11,547	12.7%
Tax	157	163	253	158	225	43.2%	41.9%	2,239	2,524	12.7%
PAT	1,886	2,544	2,496	2,404	2,560	35.7%	6.5%	8,003	9,018	12.7%

Concall Highlights

- Margin performance:** Margin during the quarter was managed to within the narrow range of 18% to 18.5% mainly driven by cost optimization from lower marketing and sales expenses, better collection, and benefit from cost line improved the margin (1.2% improvement), however it was offset by investment made by company on bench, two months impact of wage hike and continued investment in digital, cloud, engineering (adversely impacted 1.1%). Going ahead, as the company priority is towards growth, the company will continue to remain invested in commitment made on big bets as well as remain committed to some of work done on building right capabilities. The company will not hesitate to invest if needed.
- Top client performance:** As the company top client happens to the bank and company is doing digital work for them. However given the current macro uncertainty as some projected got over in digital, the company saw softness in top client performance. Also company is seeing slowness in renewal of those project and thus remain uncertain for 3QFY20 outlook.
- ETR rate:** Due to tax changes during the course of this quarter whereby the ETR was 18.3% however going forward company expects ETR to be in 20% to 21% band.
- Localization:** Reached 68% in US, up from 65% in the last quarter. The company is continued to do campus hiring, deepening employee engagement and continue to make significant investment in training and reskilling the employees.
- Automation:** HOLMES is now in 350+ clients. Bots contributed 16.5% of FPP compared to 15.1% in 4QFY19.
- Vertical performance**
 - BFSI:** The Company had strong set of offerings and robust pipeline of digital deals. The growth however has decelerated in 2Q due to softness in spend by banking and capital market clients and completion of large digital transformation projects. For 3QFY20 due to furlough, the company will continue to see same or slightly more worse performance from BFSI segment (Challenges in capital market in Europe). Hopeful of uptick once the IT budget is decided.
 - Consumer:** In line with expectation of the company the consumer vertical grew well on back of good deal win. Despite challenges the company is confident of strong growth in this segment and does not see any headwinds coming in near term.
 - Communication:** The global business in communication grew in double digit during the quarter while the India business which contributes to large portion in communication remained volatile impacting the overall growth of this segment. The company is seeing traction to continue in this segment.
 - Healthcare:** Outside of HPS, the company is winning well in the rest of the business and expects to continue to see growth in this vertical.
 - Manufacturing:** the company going through restructuring and see strong pipeline. Hopeful of turnaround however expects to improve in couple of quarters.
- Demand Environment:** The demand environment remained unchanged, though there continues to be overhang of macro uncertainty in certain sectors. US growth is pretty strong while Europe continued to be weak. The company continues to see robust pipeline and momentum of order book in 2Q (net new wins like ICICI bank and from US mid tier banks) has been better than 1Q and some deal that the company has mention of delayed in 1Q, has been signed in 2Q.

• **Investment on big bets:**

- Digital: The company global investment in digital has created requisite presence, experience and scale to support transformation not to just core market but helping in the emerging markets. The company is getting transformation deals in Canada, Australia, and APAC and also continuing to win deals in UK and US. Digital for company grew by 7% sequentially and now it contributes just under ~40% of company's revenue.
- Engineering services: The company has revamped and re-launched its engineering services with WIPRO Engineering NEXT. Historically the company practiced was focused around tech vertical however with engineering NEXT the company is expanding their services across many more verticals where company is seeing strong tractions.
- Cyber security: The cyber security as offering grew 16.6% YoY in 2Q for the company. The Company had made various wipro ventures which are all leveraged to provide this services.

- **Outlook:** Despite the current macro environment, the company continues to see and improve quarterly growth trajectory which is reflected in 2Q and 3Q guidance. The company has given guidance of 0.8% to 2.8% QoQ in cc terms for 3QFY20 factoring in 0.3% growth coming from ITI acquisition.

Revenues by Business Segments

GROWTH IN BFSI SOFTENS, WHILE CONSUMER AND MANUFACTURING LED THE GROWTH

VERTICALS (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	QoQ% cc
Financial services	579	593	613	643	654	644	641	-0.5%	-0.1%
HLS	287	270	261	268	274	269	266	-1.0%	-0.6%
Consumer	303	304	315	319	336	318	328	3.1%	4.1%
E& U	256	253	257	266	266	261	264	1.3%	2.3%
Technology	295	288	279	266	262	265	266	0.5%	1.3%
Manufacturing	180	167	167	166	166	161	166	3.0%	3.3%
Communication	119	113	117	119	118	120	117	-2.9%	-2.4%

Revenues by Client Geography

GROWTH IN US WHILE EUROPE DECLINES

GEOGRAPHY (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	QoQ% cc
Americas	1,064	1,114	1,127	1,169	1,208	1,197	1,221	2.0%	2.1%
Europe	545	519	516	522	511	502	481	-4.0%	-1.9%
ROW	410	356	366	356	357	340	346	1.7%	2.1%

Revenues by Offering

MARGINAL GROWTH ACROSS SERVICE LINES

SERVICES (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	QoQ% cc
Analytics	141	141	157	156	158	151	150	-0.9%	-0.2%
Modern Application	905	917	918	933	936	909	918	0.9%	1.3%
Digital Operations	244	241	255	301	309	300	301	0.5%	1.2%
Cloud & Infrastructure	581	545	533	512	523	524	527	0.5%	1.1%
Industrial & Engg Services	147	145	147	145	149	155	154	-0.8%	0.4%

Exhibit: Revenue trend

Vertical-specific problems now bottoming out for IT services; while 2Qbeats was led It product segment

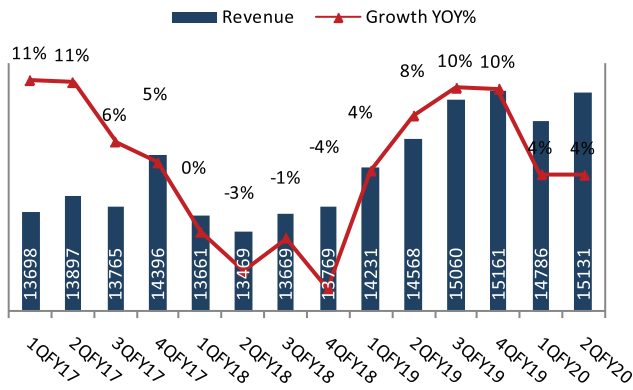


Exhibit: IT service and IT product Revenue

IT services revenue in line, while strong growth came in from IT product segment .

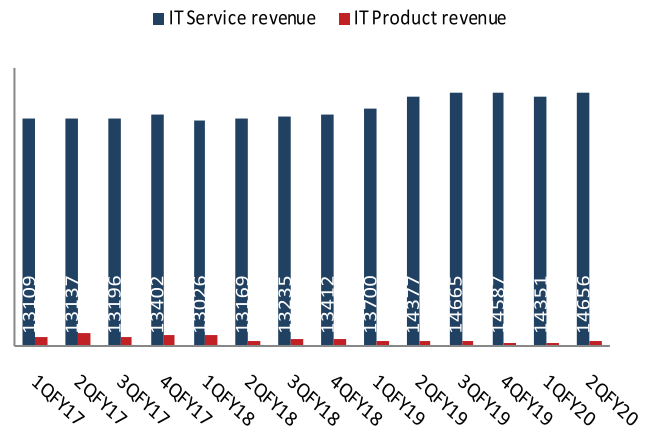


Exhibit: Margin Trend

Margin expansion due to better operational execution and tightness in overall cost

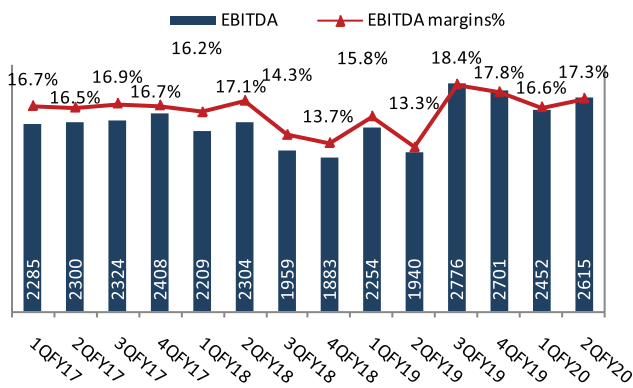


Exhibit: Utilization trend

Steep decline in Utilization

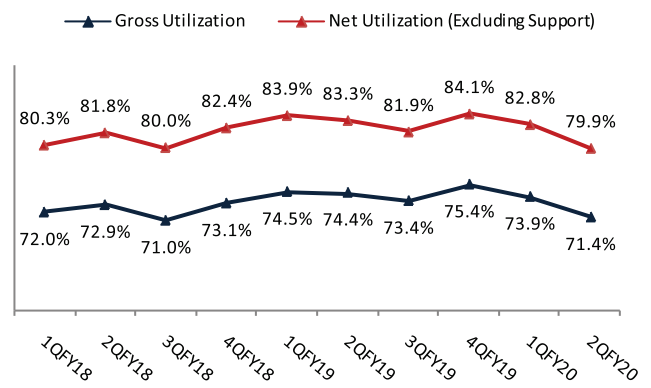
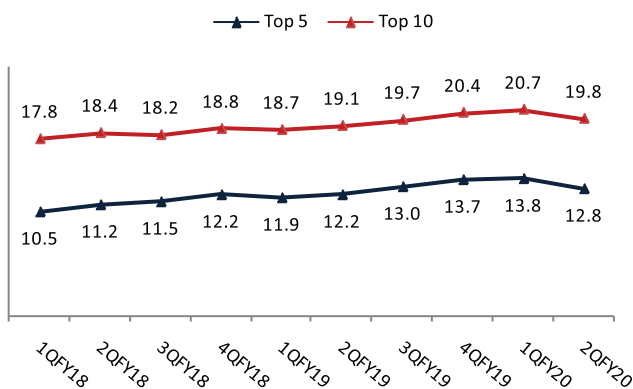


Exhibit: Top Client

Softness seen in top client due to volatile environment .



Operational Details

GEOGRAPHY %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
America	53.1%	52.7%	54.9%	55.2%	57.1%	58.2%	58.7%	59.6%
EMEA	25.9%	27.0%	25.6%	25.3%	25.5%	24.6%	24.6%	16.9%
RoW	21.0%	20.3%	19.5%	19.5%	17.4%	17.2%	16.7%	23.5%

SERVICE MIX	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Analytics	7.0%	7.0%	7.1%	7.8%	7.6%	7.6%	7.4%	7.3%
Modern Application Services	45.3%	44.8%	46.1%	45.7%	45.6%	45.1%	44.6%	44.8%
Digital Operations and Platforms	12.6%	12.1%	12.1%	12.7%	14.7%	14.9%	14.7%	14.7%
Digital Operations and Platforms	28.2%	28.8%	27.4%	26.5%	25.0%	25.2%	25.7%	25.7%
Product Engineering	6.9%	7.3%	7.3%	7.3%	7.1%	7.2%	7.6%	7.5%

TOP CLIENT MIX	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 5	11.3%	11.9%	11.7%	12.1%	13.0%	13.7%	13.8%	12.8%
Top 10	17.8%	18.4%	18.3%	18.8%	19.7%	20.4%	20.7%	19.8%

CUSTOMERS	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
\$100M	9	8	8	9	10	10	13	13
\$75M	17	20	19	19	19	22	23	23
\$50M	41	39	40	30	41	41	41	41
\$20M	90	95	91	93	99	96	92	92
\$10M	167	171	173	180	171	172	166	165
\$5M	272	277	278	274	269	262	259	261
\$3M	364	369	368	358	339	339	340	341
\$1M	635	631	624	612	578	571	564	569

UTILIZATION	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Gross Utilization	71.0%	73.1%	74.5%	74.4%	73.4%	75.4%	73.9%	71.4%
Net Utilization (Ex Support)	80.0%	82.4%	83.9%	83.3%	81.9%	84.1%	82.8%	79.9%
Net Utilization (Ex Trainees)	81.9%	83.4%	85.2%	85.5%	83.2%	85.4%	85.0%	82.1%

ATTRITION(%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Voluntary TTM	16.1%	16.8%	17.1%	17.5%	17.9%	17.6%	17.6%	17.0%
Voluntary Quarterly Annualized	16.2%	17.7%	17.8%	18.5%	17.5%	16.6%	17.9%	16.0%
BPO - Quarterly	12.8%	11.3%	10.8%	12.3%	10.5%	11.8%	11.2%	11.0%
BPO - Post training	11.1%	9.8%	9.5%	11.2%	9.4%	10.8%	10.0%	9.9%

SEGMENT	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Banking, Financial Services and Insurance	28.3%	28.7%	29.8%	30.5%	31.4%	31.5%	31.6%	31.3%
Healthcare and Lifesciences	14.3%	14.2%	13.6%	13.0%	13.1%	13.2%	13.2%	13.0%
Consumer Business Unit	15.1%	15.0%	15.3%	15.7%	15.6%	16.2%	15.6%	16.0%
Energy, Natural Resources & Utilities	12.7%	12.7%	12.7%	12.8%	13.0%	12.8%	12.8%	12.9%
Technology	14.3%	14.6%	14.5%	13.9%	13.0%	12.6%	13.0%	13.0%
Manufacturing	8.8%	8.9%	8.4%	8.3%	8.1%	8.0%	7.9%	8.1%
Communications	6.5%	5.9%	5.7%	5.8%	5.8%	5.7%	5.9%	5.7%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	493	494	494	486	905	1,207	1,142	1,142
Reserves	31,636	36,598	45,651	51,184	47,022	55,216	53,587	62,813
Networth	32,129	37,092	46,145	51,670	47,926	56,422	54,729	63,955
Debt	5,034	7,715	12,001	13,635	12,487	9,645	9,645	9,645
Minority interest	139	165	221	239	241	264	264	264
Other Non Current Liab	732	402	2,066	2,163	1,649	1,967	1,967	1,967
Total Capital Employed	38,034	45,373	60,433	67,708	62,924	68,305	66,605	75,831
Net Fixed Assets (incl CWIP)	5,177	5,428	7,820	8,397	8,220	8,415	6,768	5,805
Non Current Investments	271	340	491	710	767	692	692	692
Other Non Cur Asst	552	364	1,301	1,358	1,293	1,723	1,723	1,723
Non Current Assets	9,043	9,026	12,124	14,627	14,798	14,912	14,912	14,912
Current investments	5,875	5,192	20,424	29,203	24,909	22,072	22,072	22,072
Inventories	229	485	539	392	337	395	404	428
Debtors	8,547	9,155	14,789	13,994	14,348	15,206	16,054	16,054
Other current assets	5,223	6,050	2,302	2,212	2,317	2,309	2,360	2,499
Short-term loans and advances	3,351	5,719	2,324	2,818	1,492	1,492	1,492	1,492
Cash & Bank	11,420	16,619	9,905	5,271	4,493	15,853	15,721	25,632
Current Assets	34,645	43,219	50,283	53,890	50,616	57,167	57,317	67,997
Creditors	5,216	5,849	4,902	4,867	5,120	6,266	6,405	6,782
Other current liabilities	2,729	2,949	712	641	666	763	780	826
Short term provisions	3,710	4,206	711	754	970	1,106	1,130	1,197
Derivative liabilities	-	-	234	271	221	131	131	131
Other financial liabilities	-	-	2,518	2,316	3,137	2,930	2,930	2,930
Unearned revenues	-	-	1,808	1,615	1,714	2,477	2,477	2,477
Current tax liabilities	-	-	702	810	942	954	954	954
Curr Liabilities	11,655	13,004	11,586	11,274	13,391	14,627	14,807	15,297
Net Curr Assets	17,732	22,990	30,215	38,696	42,615	35,126	42,540	42,510
Total Assets	49,688	58,377	72,019	78,982	75,693	82,932	81,412	91,128

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	43424	46951	51244	55448	54487	59019	60326	63881
Change (%)	16%	8%	9%	8%	-2%	8%	2%	6%
EBITDA	9,635	10,299	10,796	11,321	10,387	11,617	12,019	12,495
Change (%)	26%	7%	5%	5%	-8%	12%	3%	4%
Margin (%)	22%	22%	21%	20%	19%	20%	20%	20%
Depr & Amor.	1,059	1,175	1,496	2,310	2,112	1,947	1,986	2,056
EBIT	8,576	9,124	9,300	9,011	8,275	9,670	10,033	10,439
Int. & other fin. Cost	383	350	558	594	583	738	833	858
Other Income	1,922	2,450	2,752	2,622	2,549	2,614	2,818	3,004
EBT	10,114	11,224	11,494	11,039	10,241	11,547	12,019	12,584
Exp Item	-	-	-	-	-	-	-	-
Tax	2,123	2,510	2,537	2,521	2,239	2,524	2,527	2,673
Minority Int & P/L share of Ass.	44	53	-	-	-	-	-	-
Reported PAT	7,991	8,714	8,957	8,518	8,002	9,022	9,492	9,911
Adjusted PAT	7,947	8,661	8,957	8,518	8,003	9,018	9,492	9,911
Change (%)	29%	9%	3%	-5%	-6%	13%	5%	4%
Margin(%)	18%	18%	17%	15%	15%	15%	16%	16%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	27%	25%	22%	17%	16%	17%	17%	17%
ROCE	29%	25%	22%	18%	16%	17%	17%	17%
Asset Turnover	9	9	8	7	7	7	8	10
Current Ratio	3	3	4	5	4	4	4	4
Debtor Days	72	71	71	62	68	62	62	62
Book Value Per Share	49	56	70	80	79	94	96	112
Payable Days	44	45	35	32	34	39	39	39
Earnings Per Share	12	13	14	13	13	15	17	17
P/E	17	18	16	15	16	17	15	14
Price / Book Value	4	4	3	2	3	3	3	2
EV/EBITDA	13	14	13	12	13	13	11	10
EV/Sales	3	3	3	2	2	2	2	2

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	10114	11224	8957	8518	8003	9018	9492	9911
(inc)/Dec in Working Capital	-1013	-723	-599	451	-88	2717	-102	-278
Non Cash Op Exp	-138	-234	2223	2856	3318	2412	1986	2056
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-2173	-2427	-2694	-2548	-2811	-2515	0	0
others	0	0	0	0	0	0	0	0
CF from Op. Activities	6790	7840	7887	9277	8423	11632	11370	11689
(inc)/Dec in FA & CWIP	-889	-1285	-1395	-2085	-2187	-2278	-340	-1092
Free Cashflow	5901	6556	6492	7192	6236	9354	11031	10597
(Pur)/Sale of Inv	773	1030	-93496	-81344	-78248	-93061	0	0
others	-161	-2341	81075	71801	83992	97742	0	0
CF from Inv. Activities	-277	-2596	-13816	-11628	3558	5013	-340	-1092
inc/(dec) in NW	0	0	0	0	2	0	0	0
inc/(dec) in Debt	-1148	2111	3525	1312	-1098	-3888	0	0
Int. Paid	-94	-92	-135	-200	-312	-480	0	0
Div Paid (inc tax)	-2329	-2949	-3549	-873	-542	-543	-685	-685
others	1	101	0	-2514	-11048	-27	-10478	0
CF from Fin. Activities	-3570	-830	-159	-2275	-12998	-4937	-11163	-685
Inc(Dec) in Cash	2943	4415	-6087	-4626	-1017	11707	-132	9912
Add: Opening Balance	8477	11479	15926	9698	5109	4145	15853	15721
Closing Balance	11420	15894	9839.2	5071.8	4092.6	15853	15721	25632

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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