

Industry
Bloomberg
BSE CODE

TECHNOLOGY
WPRO IN
507685

Deal wins improving ;4QFY20 guidance remained weak

RATING	ACCUMULATE
CMP	249
Price Target	282
Potential Upside	13%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	302/232
Mkt Capital (Rs Cr)	141,398
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	60,826	64,536
EBITDA	11,617	12,275	12,860
EBIT	47,402	48,550	51,676
PAT	9,018	9,809	10,117
EPS (Rs)	15	17	18
EPS growth (%)	13%	15%	3%
ROE (%)	17%	18%	17%
ROCE (%)	17%	18%	17%
BV	94	96	113
P/B (X)	3	3	2
P/E (x)	17	14	14

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3QFY20 Result Update

- Wipro reported in line set of numbers in 3QFY20 result. IT services posted a revenue growth of 1.8%QoQ in cc terms. Also PAT stood at Rs 2463, a decline of 3.8%QoQ (in line with our estimates of Rs 2465) primarily led by higher tax rate.
- IT product revenue declined 20.3%QoQ to Rs258 crore; resulting in overall revenue growth of 2.4%QoQ in 3QFY20.
- Overall EBIT for the quarter stood at Rs 2651 crore, a growth of 1.4%QoQ. Ebit margin expanded 10 bps to 20.6% (vs our estimates 20.7%) mainly aided by depreciation of rupee and some favorable movement of cross currency.
- IT services margins came at 18.4%, an expansion of 30bps QoQ (in line). The company has been managing the margin within 18% to 18.5% for last few quarters range despite continued investment in big bets and mainly led by cost optimizations.
- Digital revenue for the company now stands upward of 40% vs 39.6% last quarter, a growth of 22.8% YoY.

Growth led by consumer, manufacturing while BFSI continue to disappoint

Wipro reported single digit growth on YoY basis for most of its verticals during the quarter. BFSI remained impacted due to furlough and weakness in top client and grew 1%YoY in cc terms while remained muted sequentially (grew 0.4% QoQ). Retail which dragged the growth for most of peers, remained strong for Wipro and grew 12.1%YoY and 7%QoQ due to deal ramp ups. Communications/Health grew 1.3%/4.2%YoY while Healthcare posted moderate growth QoQ owing to open enrollment period (3.4%QoQ in cc terms). Energy, Natural Resources & Utilities and Manufacturing continued to drive growth by growing 2.6%/4.9%YoY. While Technology business saw softness (decline by 1.7% YoY) due to both furloughs and slow down in spend in semiconductor verticals. Going ahead, the management believes 4QFY20 will continue to see challenges for technology segment due to macro issue however remain confident to see growth from segments in FY21. Healthcare and communications, will continue to remain volatile.

Improved TCV growth in 3Q while Lower than expected 4Q guidance

Wipro witnessed a strong order booking in 3QFY20 especially in BFSI segment. The management is seeing strong pipeline with combination large deal and as well as average size deals entering the new calendar year, However the Company has guided for 0 to 2% QoQ in cc terms which is lower than our forecast. The guidance has baked in softness in renewals. But we expect to see growth coming in FY21.

View and valuation

Despite being among the major player in the IT space, Wipro has always lack growth among the peers either due to healthcare dragging growth (ACA part in portfolio) or some company specific issue impacting growth, thus resulting in Wipro clocking low single digits organic growth as compared to high single digits for Infosys and TCS in past. However 3QFY20 showed some positive trend with improvement in the TCV wins and robust pipeline (better than last quarter). Going forward we expect Wipro to improve its growth in FY21 owing to deal ramp up and continued growth in digital business (now upward of 40% of revenue). We expect retail segment to be differentiator for the company with continued growth in coming quarter however 4QFY20 will continue to remain challenging due to uncertainty regarding geopolitical risks (lower than expected guidance given for 4Q, ie 0% to 2%). Also weakness in top client around BFSI segment cannot be overlooked as it has been key driver for company in past.

Post result, in line performance has largely kept our estimates unchanged. We expect some growth to kick in from next year with deal ramp ups and better renewal visibility, Thus we largely maintain our target price of Rs 282 and recommend Accumulate.

Key Risks to our rating and target

- Slow down in deal ramp ups
- Further Deterioration of demand environment

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3QFY20 Results

In line

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	15,060	15,161	14,786	15,131	15,471	2.7%	2.2%	54487	59019	8.3%
Other Income	627	754	781	745	610	-2.8%	-18.1%	2,549	2,614	2.6%
Employee Exp	7,613	7,739	7,748	8,127	8,238	8.2%	1.4%	27,222	29,977	10.1%
Other Expenses	3,868	3,832	3,816	3,628	3,784	-2.2%	4.3%	14,984	16,085	7.3%
EBITDA	3,293	3,260	2,947	3,096	3,180	-3.4%	2.7%	10387	11617	11.8%
Depreciation	517	559	495	481	529	2.4%	10.0%	2,112	1,947	-7.8%
EBIT	2,776	2,701	2,452	2,615	2,651	-4.5%	1.4%	8,275	9,670	16.9%
Interest	163	253	158	225	184	13.3%	-17.9%	583	738	26.5%
PBT	3,241	3,202	3,074	3,135	3,076	-5.1%	-1.9%	10,241	11,547	12.7%
Tax	163	253	158	225	184	13.3%	-17.9%	2,239	2,524	12.7%
PAT	2,544	2,496	2,404	2,560	2,463	-3.2%	-3.8%	8,003	9,018	12.7%

Concall Highlights

• Vertical update

- **Soft financial service performance:** Financial service segment reported a slowdown in QoQ growth rate due to continued softness driven by macroeconomic environment and weakness in digital revenue .Also Some client in capital market space is in sourcing and furlough impacted the segment .However the management remains confident on winning the new deals by leveraging its strong digital capabilities and expects to see growth coming in next year with strong funnel size increase than last year.4QFY20 to see some challenges
- **Consumer:** In consumer vertical, the company grew 12.1%YoY in cc terms led by sustainable deals wins. However the mana.gement expects the retail industry to continue to be choppy and volatile but the company will continue to focus on the where the customers are investing and focus on technology transformation.
- **E&U and communication** continue grow moderately .The company sees recovery in manufacturing and is encouraged by the order book and pipeline.
- **Healthcare** vertical saw a seasonal uptick in HPS business as 3QFY20 saw open enrollment period While technology business saw softness by both furloughs and slow down in spend in semiconductor verticals. In healthcare business, ACA continue to remain the area of uncertainty going ahead. Technology to remain soft in 4QFY20 , however uptick will start to see from next year.
- **Commentary on demand:** The overall demand environment has neither improved nor deteriorated during the quarter The management continue to see same level of uncertainty due to the various geopolitical risks at play. No extended time in deal closure has marginally change from 2019 to 2020 calendar year .However company is seeing large deal sizes increasing entering the new calendar year with majorly coming from digital.
- **Deal Funnel:** The company feels that the funnel is better with large deal and as well as average size deals .
- **Healthy margins:** the company operating a stable margin at 18.4%, an expansion of 30 bps aided by depreciation of rupee and some favorable movement of cross currency. The company affects saving in fixed price project has now improved to 17.8% vs 16.5%. The company continues to remain investment to get growth.

• Strategy update

- **Digital business:** In digital the revenue grew 22.8%YoY and now contributes over 40% of revenues. The company is seeing digital deals becoming larger and coming across various vertical for the company. However 3QFY20 saw some softness but the management believe its to be short term phenomena and digital growth to continue
- **Cloud studio:** The company investment in cloud studio are continue to pay off. The company has accelerated a cloud journey for the customers by migrating more than 39000 work load and 2900 applications.
- **Connected intelligence:** The strategy on connected intelligence which covers data analytics, AI and engineering is delivering good result for the company .The company will continue to invest in engineering next set of offerings

- **On acquisition:** the company completed the ITI acquisition in this quarter. Thus acquisition will help Wipro to build momentum in Industry 4.0 and IoT offerings and will enable the company with new set of client to create differentiated value. The contributes from acquisition in current quarter was 0.3%.
- **Wipro HOMES:** The rapid adoption of Wipro HOMES continues delivering significant service improvement in IT run services, testing as well digital operations business. The company won a contract from large based UK client in financial market data and infrastructure by leveraging the capabilities of Wipro HOMES.
- **Localization:** The Company continues to derive localization and now US workforce contributes over 70% local Wipro has been investing on campus hiring, deepening employee engagement and making significant investment in training and skill development in all the markets.
- **Guidance for 4Q:** The Company has guided for 0 to 2% QoQ in cc terms building softness in renewals.

Revenues by Business Segments

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

VERTICALS (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	QoQ% cc
Financial services	593	613	643	654	644	641	647	0.9%	0.4%
HLS	270	261	268	274	269	266	274	3.0%	3.4%
Consumer	304	315	319	336	318	328	354	8.0%	7.0%
E& U	253	257	266	266	261	264	270	2.2%	1.2%
Technology	288	279	266	262	265	266	258	-3.3%	-3.7%
Manufacturing	167	167	166	166	161	166	172	3.5%	4.4%
Communication	113	117	119	118	120	117	119	2.2%	1.5%

Revenues by Client Geography

GROWTH IN EUROPE WHILE US MODERATED

GEOGRAPHY (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	QoQ% cc
Americas	1,114	1,127	1,169	1,208	1,197	1,221	1,240	1.6%	1.5%
Europe	519	516	522	511	502	481	496	3.1%	1.0%
ROW	356	366	356	357	340	346	358	3.5%	4.1%

Revenues by Offering

SOLID GROWTH ACROSS DIGITAL BUSINESS

SERVICES (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	QoQ% cc
Analytics	141	157	156	158	151	150	151	0.8%	0.1%
Modern Application	917	918	933	936	909	918	926	0.9%	0.4%
Digital Operations	241	255	301	309	300	301	321	6.4%	5.7%
Cloud & Infrastructure	545	533	512	523	524	527	540	2.6%	2.5%
Industrial & Engg Services	145	147	145	149	155	154	157	2.2%	1.8%

Exhibit: Revenue trend

Vertical-specific problems now bottoming out for IT services;

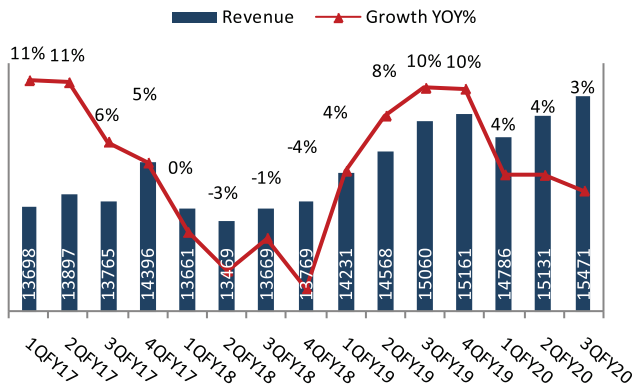


Exhibit: IT service and IT product Revenue

IT services revenue in line, while growth decline in IT product segment.

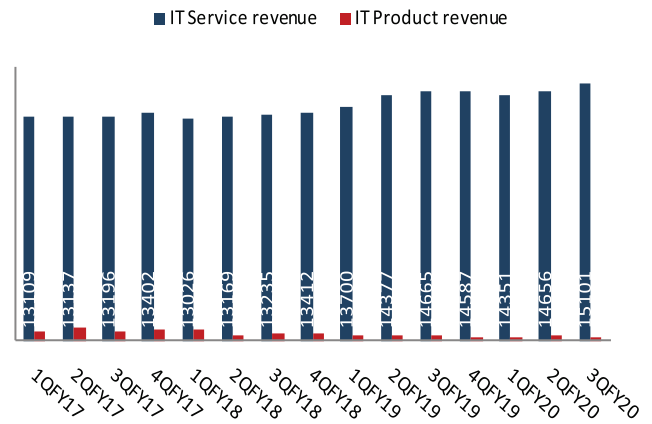


Exhibit: Margin Trend

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

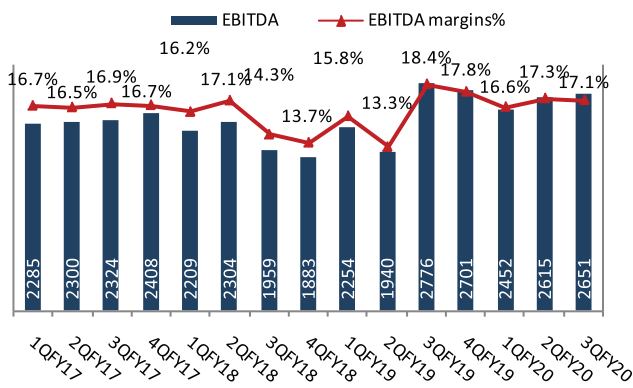


Exhibit: Utilization trend

Steep decline in Utilization

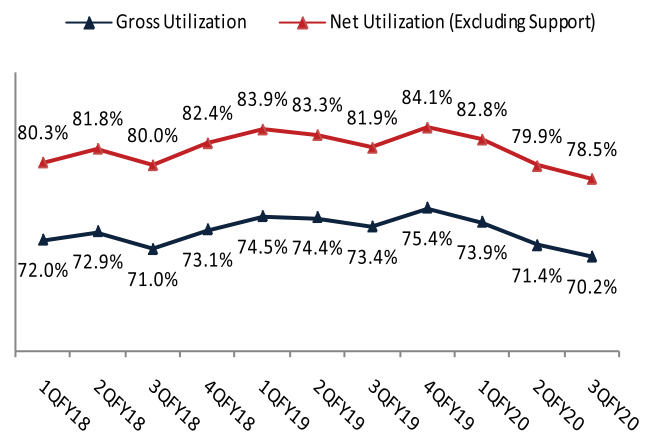
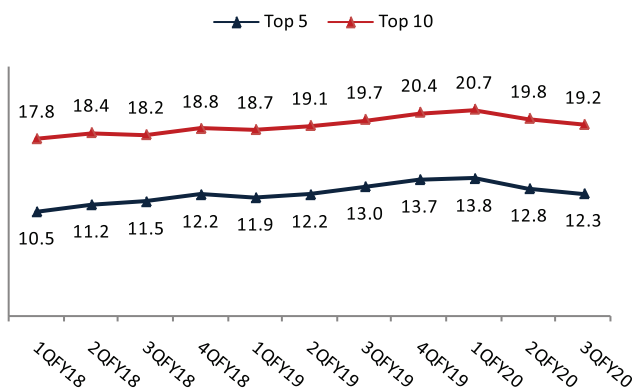


Exhibit: Top Client

Softness seen in top client due to volatile environment.



Operational Details

GEOGRAPHY %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
America	52.7%	54.9%	55.2%	57.1%	58.2%	58.7%	59.6%	59.2%
EMEA	27.0%	25.6%	25.3%	25.5%	24.6%	24.6%	23.5%	23.7%
RoW	20.3%	19.5%	19.5%	17.4%	17.2%	16.7%	16.9%	17.1%

SERVICE MIX	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Analytics	7.0%	7.1%	7.8%	7.6%	7.6%	7.4%	7.3%	7.2%
Modern Application Services	44.8%	46.1%	45.7%	45.6%	45.1%	44.6%	44.8%	44.2%
Digital Operations and Platforms	12.1%	12.1%	12.7%	14.7%	14.9%	14.7%	14.7%	15.3%
Digital Operations and Platforms	28.8%	27.4%	26.5%	25.0%	25.2%	25.7%	25.7%	25.8%
Product Engineering	7.3%	7.3%	7.3%	7.1%	7.2%	7.6%	7.5%	7.5%

TOP CLIENT MIX	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Top 5	11.9%	11.7%	12.1%	13.0%	13.7%	13.8%	12.8%	12.3%
Top 10	18.4%	18.3%	18.8%	19.7%	20.4%	20.7%	19.8%	19.2%

CUSTOMERS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
\$100M	8	8	9	10	10	13	13	14
\$75M	20	19	19	19	22	23	23	22
\$50M	39	40	30	41	41	41	41	41
\$20M	95	91	93	99	96	92	92	96
\$10M	171	173	180	171	172	166	165	169
\$5M	277	278	274	269	262	259	261	260
\$3M	369	368	358	339	339	340	341	344
\$1M	631	624	612	578	571	564	569	572

UTILIZATION	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Gross Utilization	73.1%	74.5%	74.4%	73.4%	75.4%	73.9%	71.4%	70.2%
Net Utilization (Ex Support)	82.4%	83.9%	83.3%	81.9%	84.1%	82.8%	79.9%	78.5%
Net Utilization (Ex Trainees)	83.4%	85.2%	85.5%	83.2%	85.4%	85.0%	82.1%	79.6%

ATTRITION (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Voluntary TTM	16.8%	17.1%	17.5%	17.9%	17.6%	17.6%	17%	15.7%
Voluntary Quarterly Annualized	17.7%	17.8%	18.5%	17.5%	16.6%	17.9%	16%	12.5%
BPO - Quarterly	11.3%	10.8%	12.3%	10.5%	11.8%	11.2%	11%	11%
BPO - Post training	9.8%	9.5%	11.2%	9.4%	10.8%	10.0%	9.9%	9.6%

SEGMENT	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Banking, Financial Services and Insurance	28.7%	29.8%	30.5%	31.4%	31.5%	31.6%	31.3%	30.9%
Healthcare and Lifesciences	14.2%	13.6%	13.0%	13.1%	13.2%	13.2%	13.0%	13.1%
Consumer Business Unit	15.0%	15.3%	15.7%	15.6%	16.2%	15.6%	16.0%	16.9%
Energy, Natural Resources & Utilities	12.7%	12.7%	12.8%	13.0%	12.8%	12.8%	12.9%	12.9%
Technology	14.6%	14.5%	13.9%	13.0%	12.6%	13.0%	13.0%	12.3%
Manufacturing	8.9%	8.4%	8.3%	8.1%	8.0%	7.9%	8.1%	8.2%
Communications	5.9%	5.7%	5.8%	5.8%	5.7%	5.9%	5.7%	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	53,904	63,336
Networth	32,129	37,092	46,145	51,670	47,926	56,422	55,046	64,478
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	66,921	76,354
Net Fixed Assets (incl CWIP)	5,177	5,428	7,820	8,397	8,220	8,415	6,784	5,839
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	407	432
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	2,379	2,524
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	15,983	26,069
Current Assets	34,645	43,219	50,283	53,890	50,616	57,167	57,687	68,575
Creditors	5,216	5,849	4,902	4,867	5,120	6,266	6,458	6,852
Other current liabilities	2,729	2,949	712	641	666	763	786	834
Short term provisions	3,710	4,206	711	754	970	1,106	1,140	1,209
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	14,876	15,387
Net Curr Assets	17,732	22,990	30,215	38,696	42,615	35,126	42,540	42,811
Total Assets	49,688	58,377	72,019	78,982	75,693	82,932	81,797	91,741

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	60826	64536
Change (%)	16%	8%	9%	8%	-2%	8%	3%	6%
EBITDA	9,635	10,299	10,796	11,321	10,387	11,617	12,275	12,860
Change (%)	26%	7%	5%	5%	-8%	12%	6%	5%
Margin (%)	22%	22%	21%	20%	19%	20%	20%	20%
Depr & Amor.	1,059	1,175	1,496	2,310	2,112	1,947	2,011	2,057
EBIT	8,576	9,124	9,300	9,011	8,275	9,670	10,265	10,803
Int. & other fin. Cost	383	350	558	594	583	738	752	737
Other Income	1,922	2,450	2,752	2,622	2,549	2,614	2,753	2,741
EBT	10,114	11,224	11,494	11,039	10,241	11,547	12,265	12,807
Exp Item	-	-	-	-	-	-	-	-
Tax	2,123	2,510	2,537	2,521	2,239	2,524	2,457	2,689
Minority Int & P/L share of Ass.	44	53	-	-	-	-	-	-
Reported PAT	7,991	8,714	8,957	8,518	8,002	9,022	9,809	10,117
Adjusted PAT	7,947	8,661	8,957	8,518	8,003	9,018	9,809	10,117
Change (%)	29%	9%	3%	-5%	-6%	13%	9%	3%
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%	18%	17%
ROCE	29%	25%	22%	18%	16%	17%	18%	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	113
Payable Days	44	45	35	32	34	39	39	39
Earnings Per Share	12	13	14	13	13	15	17	18
P/E	17	18	16	15	16	17	14	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	9,809	10,117
(inc)/Dec in Working Capital	-1013	-723	-599	451	-88	2717	-141	-290
Non Cash Op Exp	-138	-234	2223	2856	3318	2412	2,011	2,057
Int Paid (+)	0	0	0	0	0	0	-	-
Tax Paid	-2173	-2427	-2694	-2548	-2811	-2515	-	-
others	0	0	0	0	0	0	-	-
CF from Op. Activities	6790	7840	7887	9277	8423	11632	11,673	11,884
(inc)/Dec in FA & CWIP	-889	-1285	-1395	-2085	-2187	-2278	-380	-1,112
Free Cashflow	5901	6556	6492	7192	6236	9354	11,293	10,772
(Pur)/Sale of Inv	773	1030	-93496	-81344	-78248	-93061	-	-
others	-161	-2341	81075	71801	83992	97742	-	-
CF from Inv. Activities	-277	-2596	-13816	-11628	3558	5013	-380	-1,112
inc/(dec) in NW	0	0	0	0	2	0	-	-
inc/(dec) in Debt	-1148	2111	3525	1312	-1098	-3888	-	-
Int. Paid	-94	-92	-135	-200	-312	-480	-	-
Div Paid (inc tax)	-2329	-2949	-3549	-873	-542	-543	-685	-685
others	1	101	0	-2514	-11048	-27	-10478	-
CF from Fin. Activities	-3570	-830	-159	-2275	-12998	-4937	-11163	-685
Inc(Dec) in Cash	2943	4415	-6087	-4626	-1017	11707	130	10,086
Add: Opening Balance	8477	11479	15926	9698	5109	4145	15,853	15,983
Closing Balance	11420	15894	9839.2	5071.8	4092.6	15853	15,983	26,069

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Disclosure of Interest Statement-

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