

Industry
Bloomberg
BSE CODE

TECHNOLOGY
WPRO IN
507685

Uncertain demand environment, Wipro skips guidance

RATING	NEUTRAL
CMP	187
Price Target	218
Potential Upside	17%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	302/157
Mkt Capital (Rs Cr)	106,583
Free float (%)	26%
Avg. Vol 1M (,000)	244
No. of Shares (Crs)	571
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY18	FY19	FY20
Net Sales	54,487	59,019	61,138
EBITDA	10,387	11,617	12,342
EBIT	8,275	9,670	10,257
PAT	8,003	9,018	9,772
EPS (Rs)	13	15	17
EPS growth (%)	1%	13%	14%
ROE (%)	16%	17%	18%
ROCE (%)	16%	17%	18%
BV	79	94	96
P/B (X)	3	3	2
P/E (x)	16	17	11

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4QFY20 Result Update

- Wipro reported mixed set of numbers in its 4QFY20 result. IT service business posted a de-growth of 1%QoQ to USD2074 million (below our expectation of USD 2088 million) while PAT stood at Rs 2345, a decline of 4.8%QoQ (in line) primarily led by higher tax rate and Covid 19 impact .
- IT Services Revenues for the quarter was negatively impacted by COVID-19 by approximately USD14 -USD16 million (0.7%-0.8% of revenues) .
- IT product revenue improved 8.4%QoQ to Rs279 crore; resulting in overall revenue growth of 1.8%QoQ in 4QFY20 .
- Overall EBIT for the quarter stood at Rs 2540 crore, a de-growth of 4.2%QoQ. Ebit margin contracted 100 bps to 16.1% (vs our estimates 16.8%) mainly impacted by lower revenue. IT Services Margin for the quarter was at 17.6%, a decrease of 0.8% QoQ .
- Digital revenue for the company now stands upward of 40% (41.1% for the quarter), a growth of 4.9%QoQ .

Covid impact across verticals and geographies

Wipro reported weak growth for most of its verticals during the quarter. BFSI remained soft and declined 2.3% QoQ due to continued challenges in BFSI sector. Even Retail which has been a dragger for most peers barring wipro, posted a de-growth of 1.4%.QoQ. Communications declined 3.6% QoQ while Healthcare posted moderate growth 1.9%QoQ. Energy, Natural Resources& Utilities and Manufacturing saw a hit of covid and declined 2.1%/2%QoQ .

Among geographies, Europe posted a flat growth of 0.7% while America and Row saw a de growth of 1.2%/2.8%QoQ during the quarter.

Weak Demand environment, Suspends 1QFY21E guidance

Covid 19 crisis has impacted most of Wipro's customers. Thus impacting their business and earning in near term. The company is seeing instances of budget reduction, cut in discretionary spend, request for temporary discounts, pricing pressure and restructuring of interesting spends which will majorly impact the IT sector revenues for FY21.

Also Seeing the uncertainty in the environment and inability to predict the course of the health crisis, Wipro has decided to skip 1QFY21E revenue guidance.

View and valuation

Wipro ended the year with a weak quarter where revenue reported a de-growth of 1% during the quarter while margin contracted 100 bps due to economic turbulence caused by Covid 19. Going forward, we expect IT spend to see major impact and growth for most of the IT companies to be under pressure due reduction in discretionary spend and pricing pressure. We expect Wipro to continue to soften among its peers in FY21 as its major vertical whether its BFSI, energy, manufacturing all are seeing a major hit by Covid 19. Also on the margin front, Wipro major portion comes from fixed project type, thus it will impact the margins in near term .

Post result, seeing in line performance and weak demand environment we largely maintain our Neutral stance on the stock with target price of Rs 218.Neutral.

Key Risks to our rating and target

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

4QFY20 Results Mixed Quarter

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	15,161	14,786	15,131	15,471	15,751	3.9%	1.8%	59019	61138	3.6%
Other Income	754	781	745	610	590	-21.8%	-3.2%	2,614	2,725	4.3%
Employee Exp	7,739	7,748	8,127	8,238	8,545	10.4%	3.7%	29,977	32,657	8.9%
Other Expenses	3,832	3,816	3,628	3,784	3,772	-1.6%	-0.3%	16,085	15,000	-6.7%
EBITDA	3,260	2,947	3,096	3,180	3,120	-4.3%	-1.9%	11617	12342	6.2%
Depreciation	559	495	481	529	580	3.6%	9.5%	1,947	2,086	7.1%
EBIT	2,701	2,452	2,615	2,651	2,540	-6.0%	-4.2%	9,670	10,257	6.1%
Interest	253	158	225	184	165	-34.7%	-10.4%	738	733	-0.6%
PBT	3,202	3,074	3,135	3,076	2,965	-7.4%	-3.6%	11,547	12,249	6.1%
Tax	253	158	225	184	165	-34.7%	-10.4%	2,524	2,480	-1.8%
PAT	2,496	2,404	2,560	2,463	2,345	-6.0%	-4.8%	9,018	9,772	8.4%

Concall Highlights

• 4QFY20 performance

- The company revenue came within guided range of 0% to 2% in CC terms (0.4%QoQ cc). For full year FY20, the company grew at 3.9% in cc terms.
- IT Services Revenues for the quarter ended March 31, 2020 were negatively impacted by COVID-19 by approximately \$14-\$16 million (0.7%-0.8% of revenues).
- First two months were strong for order book, closure of large deals and ramps ups across all of the projects but in March with the Covid 19 crisis, the key markets like US, Europe, UK and lockdown in India clearly resulted in accelerated impact in the business.

• Response to Covid crisis

- AS the company realized the situation (early in China and then Philippines), they started with a global crisis task force.
- By early March the company managed to move most of its global employees to WFH.
- Today 93% of employees are approved to WFH by our client.
- Also 90% of the employees are actually engaged in delivering project globally and provide services to customers from WFH mode.

• Demand environment

- Though the company is very satisfied with actions of ensuring employee safety and at same time ramping up capabilities to service the customers, it still feels it is in the middle of a crisis and economic turbulence due to Covid 19.
- Based on various estimates, global GDP growth rates are expected to decline by at least 2% (assuming virus stays still 1Q). If the peak goes in July quarter, the decline in growth rate will remain more dramatic.
- This is creating a significant impact on Wipro's customers business and hence cascading impact on IT spends.
- The company is already seeing instances of budget reduction, cut in discretionary spend, request for temporary discounts, pricing pressure and restructuring of interesting spends. The company is getting near term postponement of spend.
- Sectors like retail, hospitality, Energy (especially oil & gas) and Auto segment in manufacturing are seeing deeper impact. On other hand, communication and utilities there is no major change. BFSI showing mix reaction as seeing both tightening of spends due to interest threat and mortality as well as seeing opportunities due to quick response of various government on fiscal stimulus which will be positive for banking sector.

- **Strategy:** The Company will focus proactively on their offerings (like modernization, cloud, automation, cybersecurity, analytic etc.) to gain market share in strategic accounts as well as take most consolidation opportunities.

- **Outlook:** Seeing the uncertainty in the environment and inability to predict the course of the health crisis, the company has decided to suspend the quarterly revenue guidance and will only resume with increase in certainty from the demand and supply side.

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- **Margin outlook:**
 - As the company expects revenue to reduce during the quarters, this will create significant impact in margins. The company will have trade off to make on hiring, on salary increases (which will due in this quarter), Discretionary spend done by the company, variable cost such subcontracting etc .
 - The company anticipated that its working capital requirement would increase in the near term.
- **Higher DSO:** The company higher DSo's in 4Q due to disruption on regular payment cycles as in the last two week most of the organizations were going through issues on payment. The company expects to catch up some of them in 1Q.

Revenues by Business Segments

MOST OF VERTICAL S REMAIN SOFT BARRING HEALTHCARE AND MANUFACTURING									
VERTICALS (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	QoQ% cc
Financial services	613	643	654	644	641	647	630	-2.6%	-0.9%
HLS	261	268	274	269	266	274	280	2.0%	2.3%
Consumer	315	319	336	318	328	354	348	-1.6%	-0.1%
E& U	257	266	266	261	264	270	265	-1.8%	-1.3%
Technology	279	266	262	265	266	258	265	3.0%	3.2%
Manufacturing	167	166	166	161	166	172	170	-1.0%	-1.3%
Communication	117	119	118	120	117	119	114	-4.5%	-0.2%

Revenues by Client Geography

GROWTH IN EUROPE WHILE US DECLINED DUE TO LOCKDOWN									
GEOGRAPHY (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	QoQ% cc
Americas	1,127	1,169	1,208	1,197	1,221	1,240	1,226	-1.2%	-0.7%
Europe	516	522	511	502	481	496	500	0.7%	3.4%
ROW	366	356	357	340	346	358	348	-2.7%	0.4%

Revenues by Offering

SOLID GROWTH ACROSS ANALYTICS BUSINESS, DIGITAL OPERATION REMAINED WEAK									
SERVICES (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	QoQ% cc
Analytics	157	156	158	151	150	151	160	5.9%	0.7%
Modern Application	918	933	936	909	918	926	927	0.1%	2.4%
Digital Operations	255	301	309	300	301	321	303	-5.5%	-5.3%
Cloud & Infrastructure	533	512	523	524	527	540	535	-1.0%	-0.1%
Industrial & Engg Services	147	145	149	155	154	157	160	1.6%	2.2%

Exhibit: Revenue trend

"IT service revenue remained soft amid covid 19 impact".

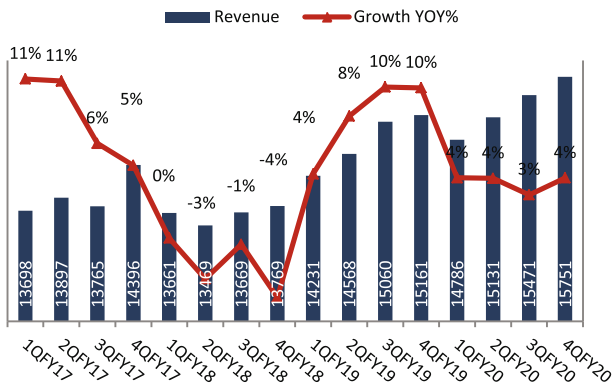


Exhibit: IT service and IT product Revenue

IT services revenue below estimates, while growth seen in IT product segment.

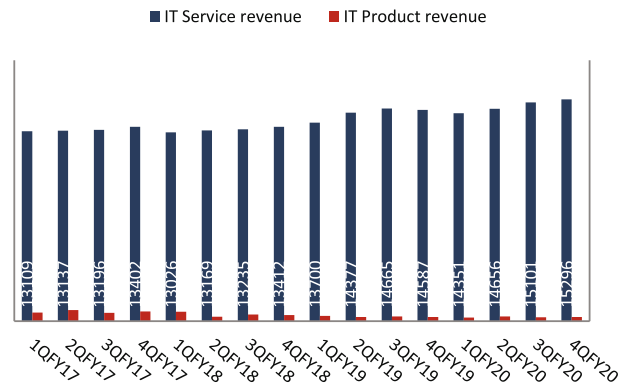


Exhibit: Margin Trend

Margin impacted due to lower revenue growth.

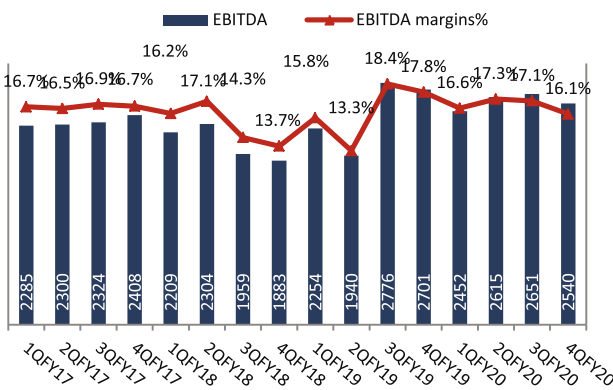


Exhibit: Utilization trend

Rise in Utilization.

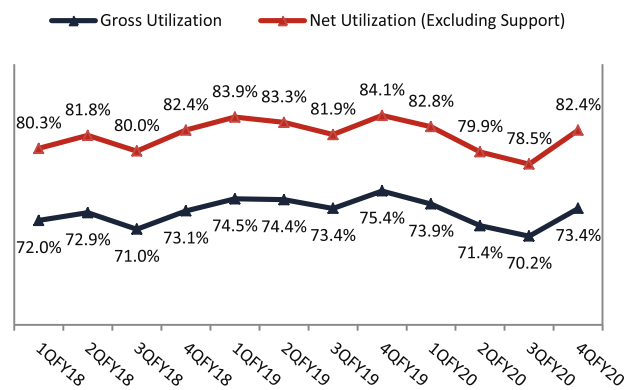
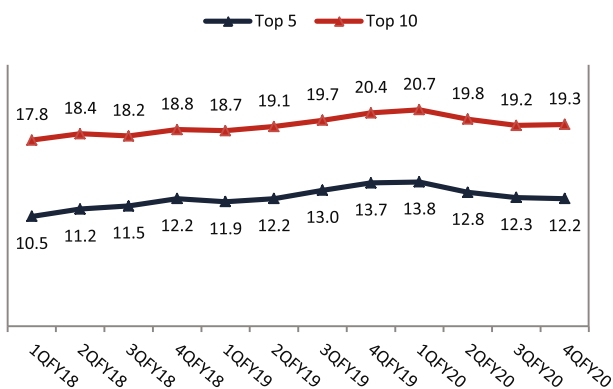


Exhibit: Top Client

Softness seen in top client due to volatile environment.



Operational Details

GEOGRAPHY %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
America	54.9%	55.2%	57.1%	58.2%	58.7%	59.6%	59.2%	59.1%
EMEA	19.5%	19.5%	17.4%	17.2%	16.7%	23.5%	23.7%	24.1%
RoW	25.6%	25.3%	25.5%	24.6%	24.6%	16.9%	17.1%	16.8%

SERVICE MIX	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Analytics	7.1%	7.8%	7.6%	7.6%	7.4%	7.3%	7.2%	7.7%
Modern Application Services	46.1%	45.7%	45.6%	45.1%	44.6%	44.8%	44.2%	44.7%
Digital Operations and Platforms	12.1%	12.7%	14.7%	14.9%	14.7%	14.7%	15.3%	14.6%
Digital Operations and Platforms	27.4%	26.5%	25.0%	25.2%	25.7%	25.7%	25.8%	25.8%
Product Engineering	7.3%	7.3%	7.1%	7.2%	7.6%	7.5%	7.5%	7.2%

TOP CLIENT MIX	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top 5	11.7%	12.1%	13.0%	13.7%	13.8%	12.8%	12.3%	12.2%
Top 10	18.3%	18.8%	19.7%	20.4%	20.7%	19.8%	19.2%	19.3%

CUSTOMERS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
\$100M	8	9	10	10	13	13	14	15
\$75M	19	19	19	22	23	23	22	22
\$50M	40	30	41	41	41	41	41	40
\$20M	91	93	99	96	92	92	96	96
\$10M	173	180	171	172	166	165	169	166
\$5M	278	274	269	262	259	261	260	260
\$3M	368	358	339	339	340	341	344	341
\$1M	624	612	578	571	564	569	572	574

UTILIZATION	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Gross Utilization	74.5%	74.4%	73.4%	75.4%	73.9%	71.4%	70.2%	73.4%
Net Utilization (Ex Support)	83.9%	83.3%	81.9%	84.1%	82.8%	79.9%	78.5%	82.4%
Net Utilization (Ex Trainees)	85.2%	85.5%	83.2%	85.4%	85.0%	82.1%	79.6%	82.6%

ATTRITION (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Voluntary TTM	17.1%	17.5%	17.9%	17.6%	17.6%	17%	15.7%	14.7%
Voluntary Quarterly Annualized	17.8%	18.5%	17.5%	16.6%	17.9%	16%	12.5%	12.6%
BPO - Quarterly	10.8%	12.3%	10.5%	11.8%	11.2%	11%	11%	11.8%
BPO - Post training	9.5%	11.2%	9.4%	10.8%	10.0%	9.9%	9.6%	10.8%

SEGMENT	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Banking, Financial Services and Insurance	29.8%	30.5%	31.4%	31.5%	31.6%	31.3%	30.9%	30.4%
Healthcare and Lifesciences	13.6%	13.0%	13.1%	13.2%	13.2%	13.0%	13.1%	13.5%
Consumer Business Unit	15.3%	15.7%	15.6%	16.2%	15.6%	16.0%	16.9%	16.8%
Energy, Natural Resources & Utilities	12.7%	12.8%	13.0%	12.8%	12.8%	12.9%	12.9%	12.8%
Technology	14.5%	13.9%	13.0%	12.6%	13.0%	13.0%	12.3%	12.8%
Manufacturing	8.4%	8.3%	8.1%	8.0%	7.9%	8.1%	8.2%	8.2%
Communications	5.7%	5.8%	5.8%	5.7%	5.9%	5.7%	5.7%	5.5%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Share Capital	492	493	494	494	486	905	1,207	1,142
Reserves	26,072	31,636	36,598	45,651	51,184	47,022	55,216	53,867
Networth	26,565	32,129	37,092	46,145	51,670	47,926	56,422	55,009
Debt	4,309	5,034	7,715	12,001	13,635	12,487	9,645	9,645
Minority interest	117	139	165	221	239	241	264	264
Other Non Current Liab	352	732	402	2,066	2,163	1,649	1,967	1,967
Total Capital Employed	31,342	38,034	45,373	60,433	67,708	62,924	68,305	66,885
Net Fixed Assets (incl CWIP)	4,975	5,177	5,428	7,820	8,397	8,220	8,415	6,766
Non Current Investments	-	271	340	491	710	767	692	692
Other Non Cur Asst	547	552	364	1,301	1,358	1,293	1,723	1,723
Non Current Assets	8,089	9,043	9,026	12,124	14,627	14,798	14,912	14,912
Current investments	6,765	5,875	5,192	20,424	29,203	24,909	22,072	22,072
Inventories	326	229	485	539	392	337	395	409
Debtors	7,670	8,547	9,155	14,789	13,994	14,348	15,206	16,054
Other current assets	4,208	5,223	6,050	2,302	2,212	2,317	2,309	2,391
Short-term loans and advances	2,611	3,351	5,719	2,324	2,818	1,492	1,492	1,492
Cash & Bank	8,484	11,420	16,619	9,905	5,271	4,493	15,853	15,939
Current Assets	30,064	34,645	43,219	50,283	53,890	50,616	57,167	57,711
Creditors	4,836	5,216	5,849	4,902	4,867	5,120	6,266	6,491
Other current liabilities	4,043	2,729	2,949	712	641	666	763	790
Short term provisions	3,453	3,710	4,206	711	754	970	1,106	1,145
Derivative liabilities	-	-	-	234	271	221	131	131
Other financial liabilities	-	-	-	2,518	2,316	3,137	2,930	2,930
Unearned revenues	-	-	-	1,808	1,615	1,714	2,477	2,477
Current tax liabilities	-	-	-	702	810	942	954	954
Curr Liabilities	12,332	11,655	13,004	11,586	11,274	13,391	14,627	14,919
Net Curr Assets	16,840	17,732	22,990	30,215	38,696	42,615	35,126	42,540
Total Assets	43,674	49,688	58,377	72,019	78,982	75,693	82,932	81,803

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	37430	43424	46951	51244	55448	54487	59019	61138
Change (%)	1%	16%	8%	9%	8%	-2%	8%	4%
EBITDA	7,657	9,635	10,299	10,796	11,321	10,387	11,617	12,342
Change (%)	9%	26%	7%	5%	5%	-8%	12%	6%
Margin (%)	20%	22%	22%	21%	20%	19%	20%	20%
Depr & Amor.	940	1,059	1,175	1,496	2,310	2,112	1,947	2,086
EBIT	6,718	8,576	9,124	9,300	9,011	8,275	9,670	10,257
Int. & other fin. Cost	289	383	350	558	594	583	738	733
Other Income	1,441	1,922	2,450	2,752	2,622	2,549	2,614	2,725
EBT	7,869	10,114	11,224	11,494	11,039	10,241	11,547	12,249
Exp Item	-	-	-	-	-	-	-	-
Tax	1,687	2,123	2,510	2,537	2,521	2,239	2,524	2,480
Minority Int & P/L share of Ass.	32	44	53	-	-	-	-	-
Reported PAT	6,182	7,991	8,714	8,957	8,518	8,002	9,022	9,769
Adjusted PAT	6,150	7,947	8,661	8,957	8,518	8,003	9,018	9,772
Change (%)	8%	29%	9%	3%	-5%	-6%	13%	8%
Margin(%)	16%	18%	18%	17%	15%	15%	15%	16%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
ROE	23%	27%	25%	22%	17%	16%	17%	18%
ROCE	24%	29%	25%	22%	18%	16%	17%	18%
Asset Turnover	7	9	9	8	7	7	7	8
Current Ratio	2	3	3	4	5	4	4	4
Debtor Days	75	72	71	71	62	68	62	62
Book Value Per Share	40	49	56	70	80	79	94	96
Payable Days	47	44	45	35	32	34	39	39
Earnings Per Share	9	12	13	14	13	13	15	17
P/E	17	17	18	16	15	16	17	11
Price / Book Value	4	4	4	3	2	3	3	2
EV/EBITDA	14	13	14	13	12	13	13	8
EV/Sales	3	3	3	3	2	2	2	2

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PBT	7,869	10114	11224	8957	8518	8003	9,018	9,772
(inc)/Dec in Working Capital	76	-1013	-723	-599	451	-88	2,717	(166)
Non Cash Op Exp	107	-138	-234	2223	2856	3318	2,412	2,086
Int Paid (+)	-	0	0	0	0	0	-	-
Tax Paid	(1,658)	-2173	-2427	-2694	-2548	-2811	(2,515)	-
others	-	0	0	0	0	0	-	-
CF from Op. Activities	6,394	6790	7840	7887	9277	8423	11,632	11,687
(inc)/Dec in FA & CWIP	(875)	-889	-1285	-1395	-2085	-2187	(2,278)	(437)
Free Cashflow	5,519	5901	6556	6492	7192	6236	9,354	11,250
(Pur)/Sale of Inv	(3,615)	773	1030	-93496	-81344	-78248	-93061	-
others	(109)	-161	-2341	81075	71801	83992	97,742	-
CF from Inv. Activities	(4,598)	-277	-2596	-13816	-11628	3558	5,013	(437)
inc/(dec) in NW	-	0	0	0	0	2	0	-
inc/(dec) in Debt	651	-1148	2111	3525	1312	-1098	(3,888)	-
Int. Paid	(85)	-94	-92	-135	-200	-312	(480)	-
Div Paid (inc tax)	(1,707)	-2329	-2949	-3549	-873	-542	(543)	(685)
others	1	1	101	0	-2514	-11048	-26.5	-10478
CF from Fin. Activities	(1,140)	-3570	-830	-159	-2275	-12998	-4937	-11163
Inc(Dec) in Cash	656	2943	4415	-6087	-4626	-1017	11,707	86
Add: Opening Balance	7,828	8477	11479	15926	9698	5109	4,145	15,853
Closing Balance	8,484	11420	15894	9839	5072	4093	15,853	15,939

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

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