

WIPRO LTD.

Industry IT Consulting & Software
 Bloomberg WPRO:IN
 BSE Code 507685
 NSE Code WIPRO

Friday, September 14, 2018

RATING	NEUTRAL
CMP	329
Price Target	319
Previous Target	
Potential Upside	-3%

52wk Range H/L	335/253
Mkt Capital (Rs Cr)	148,682
Free float (%)	26%
Avg. Vol 1M (,000)	
No. of Shares (Crore)	442.0
Promoters Pledged %	0%

Revival expected in FY19 with biggest deal wins.

Key Highlights:

- Wipro won a new deal from Alight Solutions in September 2018. This deal will result in revenues of USD \$1.5 to \$1.6 billion for Wipro over the tenure.
- Management guided its IT Service business revenue to rise by 0.3-2.3% QoQ in 2QFY19.
- Margins are expected to be impacted by wage hike, restructuring of India business and weakness in HPS, however the management expects IT Service margins to be in 16% range.

Recent Developments:

Wipro wins over \$1.5 billion deal from Alight Solutions.

Wipro Ltd on September got its biggest order in last four years' worth of more than \$1.5 billion from Alight Solutions. It is a 10-year engagement to provide a comprehensive suite of solutions and services to Lincolnshire, Illinois-based Alight Solutions LLC, a leader in technology-enabled health, wealth, HR and finance solutions. This deal will result in revenues of USD 1.5 to 1.6 billion for Wipro over the tenure of the deal. The deal will be closed in September and this mega order win will ensure better performance in FY19 than last year.

New partnership with Anaplan.

Wipro and Anaplan (a pioneer in Connected Planning) announced a partnership to deliver cloud-based Enterprise Performance Management solutions that will simplify and automate core enterprise. Collaboration with Anaplan will result in benefit for the client as the solution will help them to identify emerging opportunities faster, strategize their investments and resource allocation more effectively.

View and Valuation:

Despite facing lot of ongoing industry-specific and client-specific issues, Wipro started the year with green shoots in some verticals like BFSI (30% of revenue), and Retail. But revenue continued to be impacted in verticals like manufacturing (decline of 4%), utilities (decline of 2%); and HPS (decline of 5.7%) due to ongoing challenges led by closure of one large project and client bankruptcy. Going forward, we expect 2QFY19 to see softness as uncertainty continues in Health business, utilities will continue to face pressure and continued restructuring process in the India/Middle East business. However, Mild recovery in Communications is expected in 2QFY19. Even the management has given a weak guidance of revenue growth in IT service to be in range of 0.3-2.3% QoQ in CC terms in 2QFY19. Margins are expected to be impacted by wage hike, and weakness in HPS. However, we still expect FY19 to see the revival in overall revenue on the back of deal wins, healthy order book and strength in Digital. Even recent deal wins from alight (USD 1.5 billion deal) also give us a confidence of improved performance in FY19. We have not yet factored in settlement of the lawsuit filed by National Grid US that will result in approx. 500 crore impact in its July-September results.

Thus we are optimistic in long run but due to near term uncertainties and we are cautious and remain NEUTRAL on this stock with the target price of Rs. 319(15x FY20 EPS).

KEY FINANCIAL/VALUATIONS	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	46,951	51,244	55,448	54,487	57,281	62,256
EBITDA	10,299	10,796	11,321	10,387	11,082	12,400
EBIT	9,124	9,300	9,011	8,275	9,179	10,308
PAT	8,661	8,957	8,518	8,003	8,565	9,619
EPS (Rs)	18	18	18	18	19	21
EPS growth (%)	9%	3%	-3%	1%	7%	12%
ROE (%)	25%	22%	17%	16%	16%	16%
ROCE (%)	25%	22%	18%	16%	16%	16%
BV	75	93	106	106	124	144
P/E (X)	18	16	15	16	17	15
P/B (x)	4	3	2	3	3	2

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1Q FY 19 Results

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	13,661	13,469	13,669	13,769	14,231	4%	3%	55,040	54,487	-1%
Other Income	620	666	626	536	597	-4%	11%	2,622	2,549	-3%
Employee Cost	6,744	6,761	6,741	6,976	7,204	7%	3%	26,808	27,222	2%
Other Expenses	1,513	1,442	1,827	1,759	1,677	11%	-5%	1,077	1,378	28%
EBITDA	2,704	2,824	2,487	2,453	2,687	-1%	10%	11,321	10,387	-8%
Depreciation	494	520	528	570	434	-12%	-24%	2,310	2,112	-9%
EBIT	2,209	2,304	1,959	1,883	2,254	2%	20%	9,011	8,275	-8%
Interest	147	139	121	156	165	12%	6%	583	660	13%
PBT	2,682	2,832	2,465	2,263	2,686	0%	19%	10,241	10,965	7%
Tax	599	643	536	462	587	-2%	27%	2,239	2,395	7%
Exceptional	-	-	-	-	-			-	-	
PAT	2,077	2,192	1,929	1,801	2,094	1%	16%	8,518	8,003	-6%

BFSI and Retail led the growth in 1QFY19:

WIPRO showed stable set of numbers in revenue and margins. Revenue for the quarter stood at Rs 14231 crore (growth of 3%QoQ) mainly due to growth in IT services. Digital revenue grew by 6.2% sequentially in constant currency term and now contributes 28% of the overall revenues.

Segmental performance:

VERTICALS(in usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	QoQ%
BFSI	504	543	574	600	607	1.2%
HLS	276	269	281	286	269	-5.7%
RCTG	296	314	323	323	325	0.6%
ENU	252	266	250	258	254	-1.3%
MFG	423	449	457	475	456	-4.0%
GMT	127	128	128	121	114	-5.3%
Total of IT Services	1,971	2,013	2,081	2,126	2,079	-2.2%

BFSI vertical has delivered, the sixth consecutive quarter of steady performance with 1% QoQ growth. Consumer vertical (16% of total revenues) has shown stable performance with 0.7% QoQ growth. Communication vertical showed tepid performance over past few quarters impacted by Bankruptcy of a large client in India and declined 5% QoQ. Healthcare vertical performance was also tepid (-5% QoQ) owing to weak performance of acquired entity (Health plan) and uncertainty in Affordable care act.

Weakness in Infrastructure and Engineering:

Service	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	QoQ%
Analytics	140	143	146	149	148	-0.8%
BusinessApplication Services	903	916	943	953	958	0.6%
Business Process Services	237	244	262	257	252	-2.2%
Global Infrastructure Services	554	572	587	612	570	-7.0%
Product Engineering	138	139	144	155	152	-2.2%

One off gain led the Margin rise to 17.2%:

IT services margin for the quarter came at 17.2%, up 120bps QoQ. However, this includes an exceptional gain of Rs 253 crore from the sale of data center business. Excluding this one off gain, IT services EBIT margin is at 15.8%.

Utilization reached an all-time high of 85.2% and the composition of Fixed Price Projects too reached its highest at 58.9%. PAT stood at Rs 2094 crore (a growth of 16%) aided by exceptional gain from data center business.

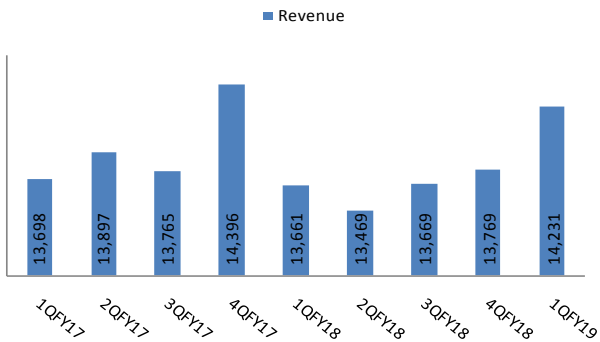
Guidance for Revenue and Margins in FY19:

The management expects revenue growth of 0.3-2.3% QoQ in CC terms in 2QFY19 (excluding the impact of divestment of its hosted data center business in 1QFY19).

Margins are expected to return to 16% levels going forward.

Exhibit: Revenue trend.

The management expects revenue growth of 0.3-2.3% QoQ in CC terms in 2QFY19.



IT Service Revenue & IT Product.

Revival expected in IT service segments

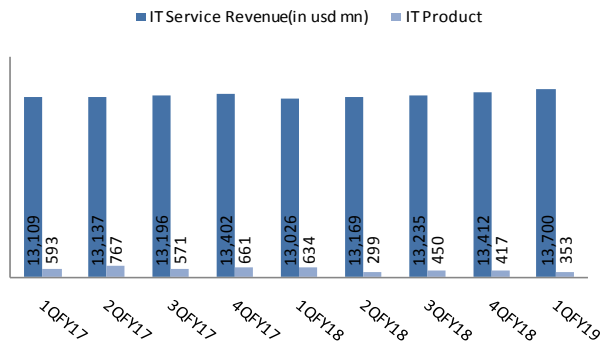


Exhibit: EBIT Margin.

Margins are expected to return to 16% levels going forward.

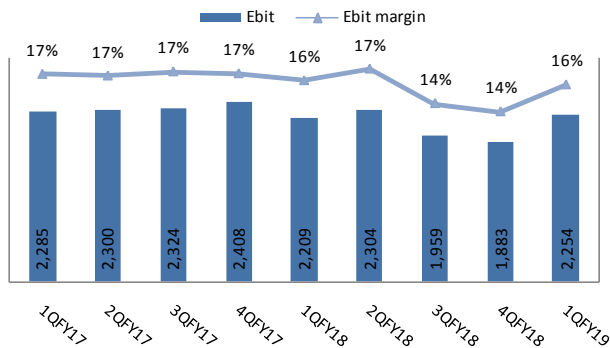


Exhibit: Utilization.

Utilization reached an all-time high of 85.2%.

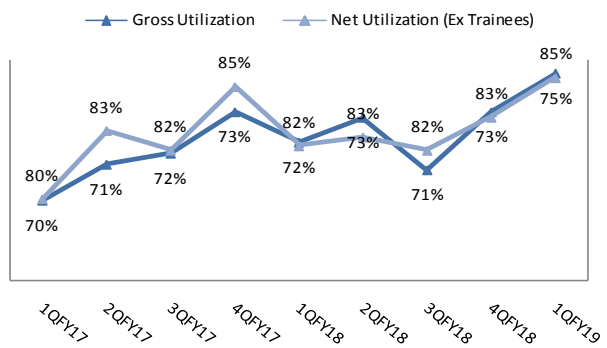


Exhibit: Top Client.

Top client contribution continued to rise in 1QFY19 too.

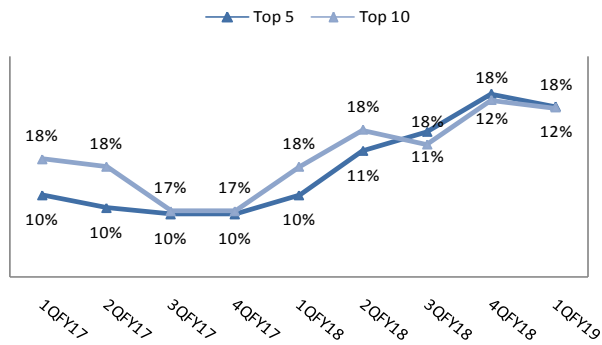
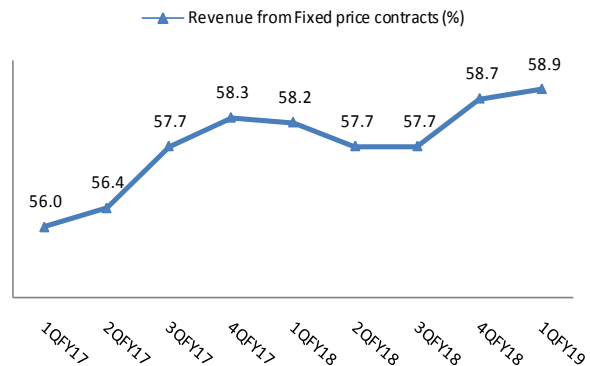


Exhibit: Revenue from Fixed Price Contract.

Lever of Fixed Price Project continues to play.



Operational Metrics:

<i>By Geography</i>	<i>1QFY17</i>	<i>2QFY17</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>
Americas	54%	55%	56%	55%	55%	54%	53%	53%	55%
APAC	11%	11%	11%	11%	11%	11%	11%	11%	11%
Europe	25%	24%	24%	24%	24%	25%	26%	27%	26%
India	10%	10%	10%	10%	10%	10%	10%	9%	9%

<i>Service Type</i>	<i>1QFY17</i>	<i>2QFY17</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>
Analytics	7%	7%	7%	7%	7%	7%	7%	7%	7%
Application Services	45%	44%	44%	46%	46%	46%	45%	45%	46%
BPO	13%	13%	13%	12%	12%	12%	13%	12%	12%
Infrastructure Services	28%	28%	28%	28%	28%	28%	28%	29%	27%
Product Engineering	7%	7%	7%	7%	7%	7%	7%	7%	7%

<i>Strategic Business Units</i>	<i>1QFY17</i>	<i>2QFY17</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>
Communications	8%	8%	7%	7%	7%	7%	6%	6%	6%
Consumer Business Unit	16%	16%	16%	16%	16%	16%	16%	16%	16%
Energy, Natural Resources &	13%	13%	13%	13%	13%	14%	12%	13%	13%
Banking, Financial Services and	26%	26%	26%	26%	27%	28%	29%	29%	30%
Healthcare and Lifesciences	15%	16%	16%	15%	15%	14%	14%	14%	13%
Manufacturing & Technology	23%	22%	22%	23%	23%	23%	23%	23%	23%

<i>Customer Relationships</i>	<i>1QFY17</i>	<i>2QFY17</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>
\$100M	9	9	9	9	9	9	9	8	8
\$75M	19	19	17	18	18	16	17	20	19
\$50M	33	33	33	34	36	39	41	39	40
\$20M	91	91	90	91	90	90	90	95	91
\$10M	170	171	170	163	163	170	167	171	173
\$5M	252	258	264	268	262	270	272	277	278
\$3M	336	341	349	354	357	370	364	369	368
\$1M	565	571	576	602	624	627	635	631	624

<i>Client</i>	<i>1QFY17</i>	<i>2QFY17</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>
Top 5	10%	10%	10%	10%	10%	11%	11%	12%	12%
Top 10	18%	18%	17%	17%	18%	18%	18%	18%	18%

<i>Utilization</i>	<i>1QFY17</i>	<i>2QFY17</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>
Gross Utilization	70%	71%	72%	73%	72%	73%	71%	73%	75%
Net Utilization (Ex Support)	79%	80%	80%	82%	80%	82%	80%	82%	84%
Net Utilization (Ex Trainees)	80%	83%	82%	85%	82%	83%	82%	83%	85%

<i>Service delivery</i>	<i>1QFY17</i>	<i>2QFY17</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>
Onsite Revenue	54%	54%	54%	53%	54%	53%	54%	53%	53%
Off shore Revenue	46%	46%	47%	47%	46%	47%	47%	47%	47%

Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	492	493	494	494	486	905	905	905
Reserves	26,072	31,636	36,598	45,651	51,184	47,022	55,044	64,120
Networth	26,565	32,129	37,092	46,145	51,670	47,926	55,949	65,025
Debt	4,309	5,034	7,715	12,001	13,635	12,487	12,487	12,487
Other Non Cur Liab	352	732	402	2,066	2,163	1,649	1,649	1,649
Total Capital Employed	31,342	38,034	45,373	60,433	67,708	62,924	70,325	79,401
Net Fixed Assets (incl CWIP)	4,975	5,177	5,428	7,820	8,397	8,220	8,697	9,059
Non Cur Investments	-	271	340	491	710	767	767	767
Other Non Cur Asst	547	552	364	1,301	1,358	1,293	1,293	1,293
Non Curr Assets	8,089	9,043	9,026	12,124	14,627	14,798	14,798	14,798
Current investment	6,765	5,875	5,192	20,424	29,203	24,909	31,574	35,657
Inventories	326	229	485	539	392	337	354	385
Trade receivables	7,670	8,547	9,155	9,961	9,485	10,099	10,617	11,539
Other current assets	4,208	5,223	6,050	2,302	2,212	2,317	2,435	2,647
Cash and cash equivalents	8,484	11,420	16,619	9,905	5,271	4,493	7,165	11,248
Current asset	30,064	34,645	43,219	50,283	53,890	50,616	57,887	67,218
Trade payables	4,836	5,216	5,849	4,902	4,867	5,120	5,383	5,850
Other current liabilities	4,043	2,729	2,949	712	641	666	700	761
Short term provisions	3,453	3,710	4,206	711	754	970	1,020	1,109
Curr Liabilities	12,332	11,655	13,004	11,586	11,274	13,391	13,116	13,733
Net Curr Assets	(17,732)	(22,990)	(30,215)	(38,696)	(42,615)	(35,126)	(44,771)	(53,485)
Total Assets	43,674	49,688	58,377	72,019	78,982	75,693	83,441	93,134

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	37,430	43,424	46,951	51,244	55,448	54,487	57,281	62,256
Change (%)	0	16%	8%	9%	8%	-2%	5%	9%
Other Operating Income	-	-	-	-	-	-	-	-
EBITDA	7,657	9,635	10,299	10,796	11,321	10,387	11,082	12,400
Change (%)	9%	26%	7%	5%	5%	-8%	7%	12%
Margin (%)	20%	22%	22%	21%	20%	19%	19%	20%
Depr & Amor.	940	1,059	1,175	1,496	2,310	2,112	1,903	2,092
EBIT	6,718	8,576	9,124	9,300	9,011	8,275	9,179	10,308
Int. & other fin. Cost	289	383	350	558	594	583	660	660
Other Income	1,441	1,922	2,450	2,752	2,622	2,549	2,446	2,658
EBT	7,869	10,114	11,224	11,494	11,039	10,241	10,965	12,307
Exp Item	-	-	-	-	-	-	-	-
Tax	1,687	2,123	2,510	2,537	2,521	2,239	2,395	2,688
Minority Int & P/L share of Ass.	32	44	53	-	-	-	-	-
Reported PAT	6,182	7,991	8,714	8,957	8,518	8,002	8,570	9,619
Adjusted PAT	6,150	7,947	8,661	8,957	8,518	8,003	8,565	9,619
Change (%)	8%	29%	9%	3%	-5%	-6%	7%	12%
Margin(%)	16%	18%	18%	17%	15%	15%	15%	15%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Fixed Asset turnover ratio	7	9	9	8	7	7	7	7
Creditors (Days)	47	44	45	35	32	34	34	34
Debtor (Days)	75	72	71	71	62	68	68	68
Current Ratio	2	3	3.3	4.3	4.8	3.8	4.4	4.9
Debt/Equity	0	0	0.2	0.3	0.3	0.3	0.2	0.2
RoE	23%	27%	25%	22%	17%	16%	16%	16%
RoCE	24%	29%	25%	22%	18%	16%	16%	16%
DPS	12	12	16.1	17.5	18.1	17.5	17.7	18.9
Earnings Per Share	12	16	18	18	18	18	19	21
Book Value Per Share	54	65	75	93	106	106	124	144
EV/Sales	3	3	3.1	2.8	2.4	2.5	2.7	2.4
M-cap/Sales	3	3	3.3	2.7	2.3	2.3	2.6	2.4
EV/EBITDA	14	13	14.2	13.1	11.8	13.0	13.9	12.1
P/BV	4	4	4	3	2	3	3	2
P/E	17	17	18	16	15	16	17	15
EPS GROWTH	115%	29%	9%	3%	-3%	1%	7%	12%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PAT	7,869	10,114	11,224	8,957	8,518	8,003	8,565	9,619
(inc)/Dec in Working Capital	76	(1,013)	(723)	(599)	451	(88)	(307)	(548)
Non Cash Op Exp	107	(138)	(234)	2,223	2,856	3,318	1,903	2,092
Int Paid (+)	-	-	-	-	-	-	-	-
Tax Paid	(1,658)	(2,173)	(2,427)	(2,694)	(2,548)	(2,811)	-	-
others	-	-	-	-	-	-	-	-
CF from Op. Activities	6,394	6,790	7,840	7,887	9,277	8,423	10,161	11,163
(inc)/Dec in FA & CWIP	(875)	(889)	(1,285)	(1,395)	(2,085)	(2,187)	(2,379)	(2,454)
Free Cashflow	5,519	5,901	6,556	6,492	7,192	6,236	7,781	8,709
(Pur)/Sale of Inv	(3,615)	773	1,030	(93,496)	(81,344)	(78,248)	(6,665)	(4,083)
others	(109)	(161)	(2,341)	81,075	71,801	83,992	2,099	-
CF from Inv. Activitie	(4,598)	(277)	(2,596)	(13,816)	(11,628)	3,558	(6,945)	(6,537)
inc/(dec) in NW	-	-	-	0	-	2	-	-
inc/(dec) in Debt	651	(1,148)	2,111	3,525	1,312	(1,098)	-	-
Int. Paid	(85)	(94)	(92)	(135)	(200)	(312)	2,099	-
Div Paid (inc tax)	(1,707)	(2,329)	(2,949)	(3,549)	(873)	(542)	(543)	(543)
others	1	1	101	-	(2,514)	(11,048)	-	-
CF from Fin. Activities	(1,140)	(3,570)	(830)	(159)	(2,275)	(12,998)	(543)	(543)
Inc(Dec) in Cas	656	2,943	4,415	(6,087)	(4,626)	(1,017)	2,672	4,083
Add: Opening Balance	7,828	8,477	11,479	15,926	9,698	5,109	4,493	7,165
Closing Balance	8,484	11,420	15,894	9,839	5,072	4,093	7,165	11,248

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