

April 18, 2019

Wipro Limited

Q4FY19 Result Update

Wipro (WPRO) Ltd. reported net revenue at INR 1,51,609 Mn up 1% QoQ and 10% YoY. Wipro's dollar revenue improved 9% YoY to \$2.2 billion in Q4 FY19. Wipro's guidance indicates a weak start to FY20E; revenue growth guidance for Q1FY20E (-1% to +1%) on a sequential basis. According to the management, some large projects it has won require time to ramp-up. Besides, the healthcare and manufacturing business verticals, which generate 1/5th of Wipro's revenue, are struggling for growth and are impacting overall growth rates.

Wipro's revenue from clients in banking, financial services and insurance (BFSI), comprised 31.5% of overall revenue, compared to 28.7% YoY, in constant currency terms. BFSI showed a flat growth of 1.3% QoQ CC, healthcare grew by 2% & energy grew by just 0.7%. In this quarter, growth was led by consumer business unit which added 60% of incremental revenue in Q4FY19. US and Europe accounted for majority of the revenues in Q4. The company's headcount fell to 1,71,425 down from 1,72,379 QoQ.

The management approved a buyback proposal for purchase by the company of up to 323.1 million equity shares of INR 2 each (representing 5.35% of total paid up equity capital). The buyback price is INR 325 (\$4.71)/ share. Further, the Company, in Q4 FY19 allotted bonus equity shares of INR 2/- each in the ratio of 1:3.

Weak guidance dampens confidence:

WPRO guided for revenue growth between -1% and +1% QoQ CC for Q1 FY20. While there is no change in demand trends, WPRO's guidance bakes in the potential impact from the on-going macro uncertainties in the US and Europe. Health business unit and technology are expected to remain flattish in H1FY20 as well.

Uptick in consumer business to drive growth:

Wipro's consumer business vertical grew 5.3% QoQ basis. Health business unit (up 2.1% QoQ cc) and BFSI (up 1.3%) also showed good performance. Among other segments, revenue from communications (down 1.2%), manufacturing (down 0.7%) and technology (down 2%).

Amongst geographies, Americas continued to do well (up 13.5% YoY in cc), while Europe and RoW continued to struggle (down 8% and 5%, respectively). While Wipro is showing growth in its consumer business, weakness in other businesses is dragging overall growth which we believe will persist in Q1FY20.

(INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	5,44,871	5,90,189	6,31,122	6,73,067
EBIDTA	1,03,871	1,16,169	1,28,275	1,31,528
EBIDTA Margin	19.1%	19.7%	20.3%	19.5%
PAT	79,941	89,888	96,096	99,499
PAT Margin	14.7%	15.3%	15.2%	14.8%
P/E	18.2x	19.1x	16.9x	16.3x
EV/ EBITDA	11.9x	11.9x	11.0x	9.9x

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

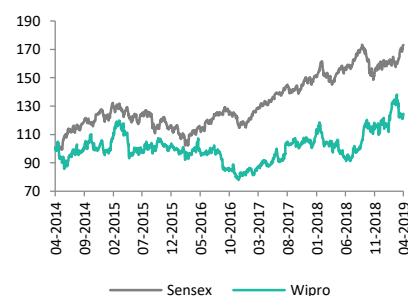
BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	285	298	
		5% ▲	

Market Data	
Industry	IT
Sensex	39,140
Nifty	11,753
Bloomberg Code	WPRO:IN
Face Value (INR)	2
52-w H/L	297/ 190
Market Cap (INR Mn)	17,18,530

Valuation Data	FY19	FY20E	FY21E
P/E (x)	19.1	16.9	16.3
EV/ EBITDA (x)	11.9	11.0	9.9

Wipro Ltd. Vs SENSEX



	Shareholding Pattern		
	Mar'18	Dec'18	Sep'18
Promoters	74.29	74.3	74.31
FIs	15.8	15.8	16.05
DIs	8.61	8.45	8.53
Others/ Retail	10.63	9.56	9.88



(INR Mn)	Mar-19	Dec-18	QoQ	Mar-18	YoY
Sales	1,51,609	1,50,595	1%	1,37,686	10%
Expenses	1,19,027	1,17,658	1%	1,13,159	5%
EBITDA	32,582	32,937	-1%	24,527	33%
EBITDA margin	21%	22%	-	18%	-
Other Income	7,544	6,273	20%	5,360	41%
Depreciation	5,593	5,171	8%	5,700	-2%
EBIT	34,533	34,039	1%	24,187	43%
Interest	2,530	1,627	56%	1,564	62%
Profit before tax	32,003	32,412	-1%	22,623	41%
Tax	7,064	6,967	1%	4,615	53%
PAT	24,939	25,445	-2%	18,008	38%
PAT Margin	16%	17%	-	13%	-

Source: Company, NSPL Research

Valuation:

Wipro has realigned client facing profiles and is focusing on mining strategic accounts to grow its business. With new leadership, company is investing especially in Manufacturing and expects to recover in 2HFY20.

Management cited strong deal momentum with robust order booking with addition of 3 new customers in USD75mn+. As growth bounces back it will lead to a significant margin expansion owing to current lower utilisation levels which will get a kicker as volume growth increases. India will continue to remain the hotbed for talent supply en masse, making a case for increasing shift of Digital business from onsite.

At CMP of INR 284.8, the company is trading at 16.3x FY21E EPS. We value the company using P.E. multiple methodology. We have given an exit multiple of 17.5x for PE to arrive at a target price of INR 298 which is an upside of 5%.

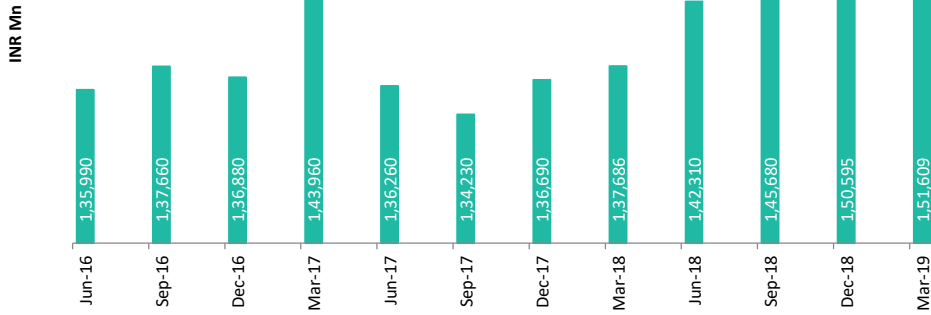


Conference call highlights:

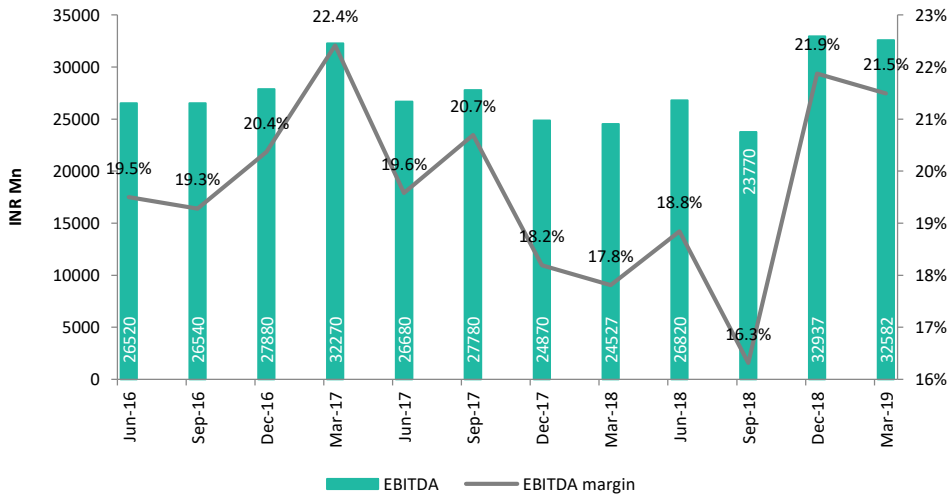
- The management mentioned that the company has been active on the investment front, with spending aimed towards building capabilities, training and incentivizing people, acquiring businesses, and investing in strategic accounts. This had dragged margins up until FY18, but WPRO has executed on the operational efficiencies to claw back some of the lost margins.
- On weak guidance management cited that Q1 is seasonally soft quarter and there is some delay in start of fresh project which is factored.
- Revenue from BFSI and CBU verticals grew in the excess of 10% YoY in CC terms.
- The management mentioned that 1QFY20E margin could see headwinds owing to wage hikes, apart from regular business investments, potential INR appreciation and lack of major scope for utilisation increase.
- Wipro added 63 clients during the quarter (57 in Q3FY19). Active client count stands at 1,115 (1,132 in previous quarter).
- Management cited that shift to modern application and portfolios will drive growth especially in Europe with restructuring expects recovery in 2HFY20.



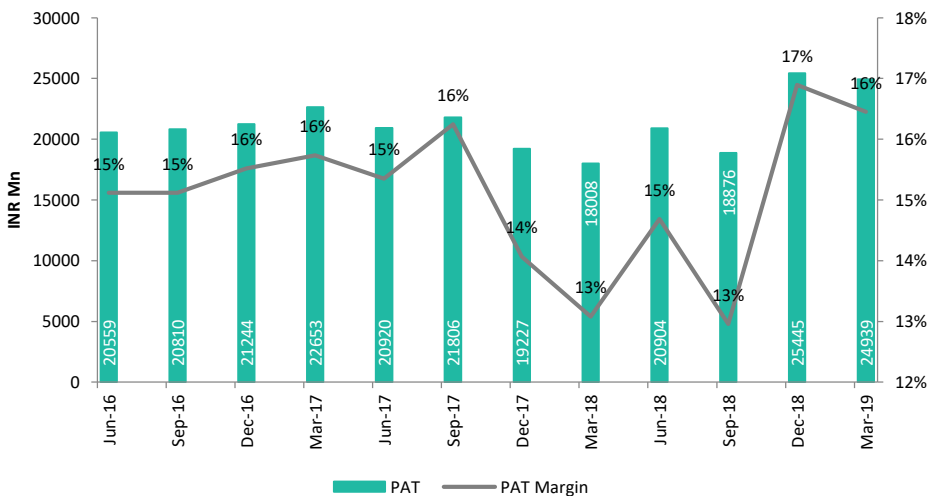
Sales



EBITDA & EBITDA Margin



PAT & PAT Margin



Source: Company, NSPL Research



(INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	5,44,871	5,90,189	6,31,122	6,73,067
Operating Expenditure	4,41,000	4,74,020	5,02,847	5,41,539
Operating Profit	1,03,871	1,16,169	1,28,275	1,31,528
Interest Paid	5,830	7,375	8,113	8,924
Depreciation	21,117	19,467	21,229	20,604
Non-operating Income	25,487	26,138	24,428	25,351
Profit Before Tax	1,02,422	1,15,422	1,23,362	1,27,351
Tax	22,391	25,243	26,979	27,852
Profit After Tax	79,941	89,888	96,096	99,499

(INR Mn)	FY18	FY19	FY20E	FY21E
Liabilities :				
Equity Capital	9,048	12,068	11,422	11,422
Profit & Loss Account	4,73,888	5,56,048	6,06,059	7,05,558
Share Premium	2,410	2,637	2,637	2,637
Net Worth	4,85,346	5,70,753	6,20,764	7,20,263
Total Loans	1,57,931	1,15,750	1,12,413	1,18,034
Deferred Tax Liability (Net)	(10,111)	(9,622)	(9,622)	(9,622)
Capital Employed	6,33,166	6,76,881	7,27,757	8,31,142
Assets	-	-	-	-
Net Block	49,277	47,828	51,000	53,421
Capital WIP	15,166	15,166	22,773	22,774
Goodwill & Intangible Assets	1,35,697	1,30,742	1,30,742	1,30,742
Current assets:	-	-	-	-
Inventories	3,370	3,951	6,311	6,942
Sundry Debtors	1,43,476	1,23,369	1,27,953	1,40,749
Cash and Bank Balance	3,73,602	4,52,154	3,30,306	4,46,826
Loans and Advances:	98,797	1,05,312	1,83,025	2,01,328
Others:	27,353	29,627	31,682	34,851
Total Current Assets	5,47,800	6,09,102	6,76,811	7,93,378
Sundry Creditors	67,917	73,757	73,258	80,584
Total Current Liabilities	1,14,774	1,25,957	1,56,036	1,71,640
Net Current Assets	4,33,026	4,83,145	5,20,775	6,21,738
Capital Applied	6,33,166	6,76,881	7,27,757	8,31,142

Source: Company, NSPL Research



(INR Mn)	FY18	FY19	FY20E	FY21E
PBT	1,02,422	1,15,422	1,23,362	1,27,351
Depreciation	21,117	19,467	21,229	20,604
Cash Flow from Operating	1,23,539	1,34,889	1,44,591	1,47,956
Cash Flow from Investing	-10,920	-16,874	-70,578	20,147
Cash Flow from Financing	-40,459	-39,463	-1,95,861	-51,583
Incr/(Decr) in Balance Sheet Cash	72,124	78,552	-1,21,848	1,16,520
Cash at the Start of the Year	3,01,478	3,73,602	4,52,154	3,30,306
Cash at the End of the Year	3,73,602	4,52,154	3,30,306	4,46,826

Y/E March	FY18	FY19	FY20E	FY21E
P/E (x)	18.2	19.1	16.9	16.3
P/BV (x)	3.0	3.0	2.6	2.3
EV/EBITDA (x)	11.9	11.9	11.0	9.9
EPS	17.7	14.9	16.8	17.4
RoCE (%)	12.9	14.3	14.2	13.9
RoE (%)	16.2	16.3	15	14.9

Services Composition (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
IMS	27.2	27.3	27.6	26.3	25.6	25	25.2
BPO	12.4	12.9	12.4	12.4	12.9	14.7	14.9
Product Engg and Mobility	7.1	7	7.4	7.4	7.4	7.1	7.2
Wipro Analytics	7.2	7.1	7.1	7.2	7.8	7.6	7.6
Application Services	46.1	45.7	45.5	46.7	46.3	45.6	45.1

Verticals (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Finance Solutions	27.6	28.3	28.7	29.8	30.5	31.4	31.5
Manufacturing	8.9	8.8	8.9	8.4	8.3	8.1	8
Healthcare & Lifescience	14	14.3	14.2	13.6	13	13.1	13.2
Energy, Natural Resources & Utilities	13.5	12.7	12.7	12.7	12.8	13	12.8
Communications	6.6	6.5	5.9	5.7	5.8	5.8	5.82
Consumer	15.1	15.1	15	15.3	15.7	15.6	16.2
Technology	14.3	14.3	14.6	14.5	13.9	13	12.6

Geography (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Americas	54.8	54.1	53.8	56	56.1	57.1	58.2
Europe	25.6	36.5	27.5	26.1	25.7	25.5	24.6
ROW	19.6	19.4	18.7	17.9	18.2	17.4	17.2

Customer Concentration (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Top customer	3.2	3.2	3.6	3.7	3.7	3.7	3.7
Top 5	11.2	11.5	12.2	11.9	12.2	13	13.7
Top 10	18.4	18.2	18.8	18.7	19.1	19.7	20.4

Source: Company, NSPL Research

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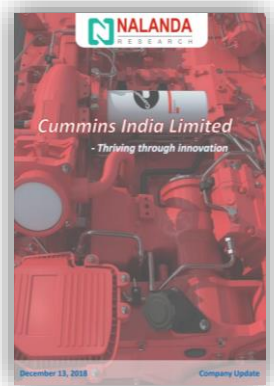
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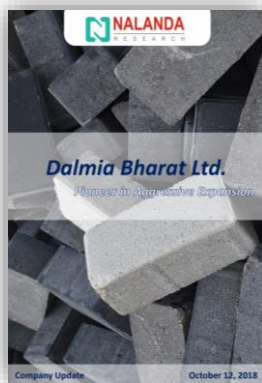
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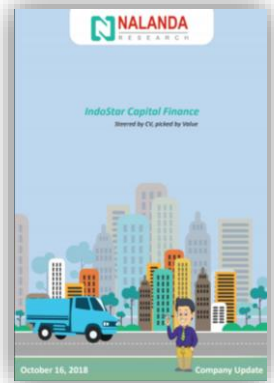
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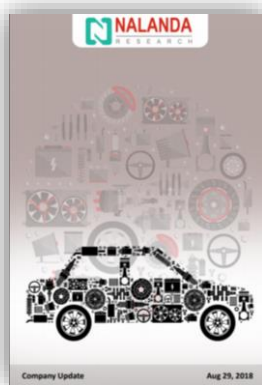
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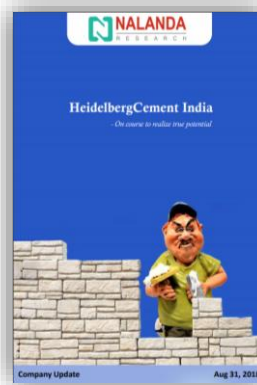
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Date	Wipro Limited			Rating Legend	
	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
April 18, 2019	285	298	Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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