

## Wipro Ltd (WIPRO)

₹ 304

### Looking to match industry growth rates...

#### Continues stand on matching industry growth rate by Q4FY18...

As indicated in the Q2FY18 earnings commentary, the management is firm on its expectation of reaching industry growth rates by Q4FY18. The confidence of catching up is on the back of better client mining, increasing contribution towards digital and demand across certain business segments. Furthermore, adapting to changing industry trends, the company has embarked on its transformational journey by directing its strategy into six themes -Digital, non-linearity, partner eco-system, integrated services, hyper automation and localization. In this direction, Wipro has invested over US\$1 billion in acquisitions in the last 18 months with digital now contributing 24.1% to revenues. Early signs on this front are visible with top 10 clients growing at 8.1% YoY in Q2FY18 on top of 1.5% YoY growth in Q1FY18 and after consistent negative growth from Q3FY15 to Q4FY17. On the demand side, the management sees strength in the BFSI vertical and stability in demand in the consumer verticals as these two verticals are adopting digital ahead of the industry.

#### Expects steady improvement in IT service margins...

On the margin front, Wipro's IT services EBIT margin has declined from 23-24% range in FY14 to the ~17% range currently on account of subdued growth and acquisitions. However, with a revival in growth in topline and restructuring in India and Middle East operations, we expect margins to witness gradual improvement. Wipro expects its FY18 margins to remain in a narrow band of FY17 level on a constant currency basis. Wipro reported IT service EBIT margin of 17.3% in Q2FY18. We expect IT services EBIT margin at 17.0%, 17.5%, 18% in FY18E, FY19E, FY20E, respectively.

#### Early signs of recovery visible; upgrade to BUY...

The management commentary is turning positive on an incremental basis on the back of strength in the BFSI segment, improving client metrics and digital capabilities. With early signs of recovery visible on these fronts, the management has maintained its stance of matching industry growth by Q4FY18. At the CMP, the stock is trading at attractive valuation of 13x FY20E EPS and offers FCF yield of 4%. Historically, Wipro has traded at 35% discount to TCS due to its weak performance compared to its peers. Given its transformation journey directed into the digital and non-linear path and better client mining, the discount has narrowed down to 18%. Going ahead, Wipro is expected to match industry growth. Consequently, we upgrade our recommendation on the stock to **BUY**. We roll our estimates on FY20E and value Wipro at ₹ 350 (15x FY20E EPS).

#### Exhibit 1: Financial Performance

Financials	FY17	FY18E	FY19E	FY20E
Net Sales	55,040	54,694	59,518	64,040
EBITDA	11,458	11,110	12,398	13,563
Net Profit	8,490	8,626	9,339	10,606
EPS (₹)	17.5	19.1	20.7	23.5
P/E	17.6	16.1	14.9	13.1
RoNW (%)	16.3	17.8	16.5	16.3
RoCE (%)	16.8	18.1	17.2	17.2

Source: Company, ICICIdirect.com Research

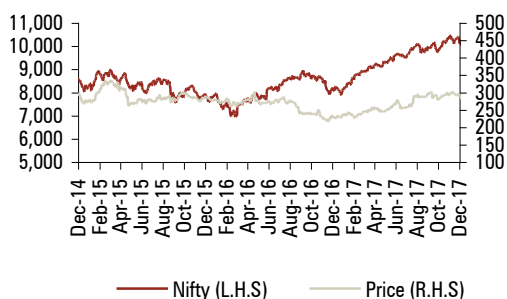
Rating matrix	
Rating	: Buy
Target	: ₹ 350
Target Period	: 12 months
Potential Upside	: 15%

What's Changed?	
Target	Changed from ₹ 300 to ₹ 350
EPS FY18E	Changed from ₹ 19 to ₹ 19.1
EPS FY19E	Changed from ₹ 20.1 to ₹ 20.7
EPS FY20E	Introduced at ₹ 23.5
Rating	Changed from Hold to Buy

Key Financials				
₹ Crore	FY17	FY18E	FY19E	FY20E
Net Sales	55,040	54,694	59,518	64,040
EBITDA	11,458	11,110	12,398	13,563
Net Profit	8,490	8,626	9,339	10,606
EPS (₹)	17.5	19.1	20.7	23.5

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	17.6	16.1	14.9	13.1
Target P/E	20.0	18.3	16.9	14.9
EV / EBITDA	11.4	12.2	10.3	8.9
P/BV	2.9	2.9	2.5	2.1
RoNW (%)	16.3	17.8	16.5	16.3
RoCE (%)	16.8	18.1	17.2	17.2

#### Price Chart



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## Financial summary

Profit and loss statement		₹ Crore			
	FY17	FY18E	FY19E	FY20E	
Total Revenues	55,040	54,694	59,518	64,040	
Growth (%)	7.4	(0.6)	8.8	7.6	
COGS	39,154	38,641	41,788	44,658	
Other Expenditure	5,214	5,010	5,399	5,885	
EBITDA	11,458	11,110	12,398	13,563	
Growth (%)	2.6	(3.0)	11.6	9.4	
Depreciation	2,070	1,914	2,083	2,177	
Other Income	2,166	2,617	2,424	3,001	
Exchange difference	28	28	28	28	
Net interest expense	(518)	(577)	(577)	(577)	
Pft. from associates	-	-	-	-	
PBT	11,036	11,235	12,162	13,810	
Growth (%)	(3.8)	1.8	8.3	13.6	
Tax	2,521	2,584	2,797	3,176	
PAT before Minority int.	8,514	8,651	9,365	10,634	
Minority int.	25	25	26	27	
PAT	8,490	8,626	9,339	10,606	
EPS	17.5	19.1	20.7	23.5	
EPS (Growth %)	(22.7)	9.6	8.3	13.6	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
	FY17	FY18E	FY19E	FY20E	
PAT before minority int.	8,514	8,651	9,365	10,634	
Depreciation	2,311	1,914	2,083	2,177	
(inc)/dec in Current Assets	1,269	(954)	(1,921)	(1,186)	
(inc)/dec in current Liabilities	(815)	(489)	2,771	775	
Taxes paid	(2,548)	(2,584)	(2,797)	(3,176)	
CF from operations	9,277	7,083	10,451	9,976	
Other Investments	(10,014)	2,617	2,424	5,426	
(Purchase)/Sale of Fixed Assets	(1,965)	(2,072)	(2,255)	(2,434)	
CF from investing Activities	(11,628)	545	169	568	
Inc / (Dec) in Equity Capital	-	-	-	-	
Inc / (Dec) in sec.loan Funds	1,312	-	-	-	
Dividend & Dividend tax	(1,073)	(1,636)	(1,978)	(4,676)	
CF from Financial Activities	(2,275)	(12,636)	(1,978)	(2,698)	
Exchange rate differences	(141)	-	-	-	
Opening cash balance	9,905	5,271	262	8,905	
Closing cash	5,271	262	8,905	16,750	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
	FY17	FY18E	FY19E	FY20E	
<b>Liabilities</b>					
Equity	486	452	452	452	
Reserves & Surplus	51,544	48,146	56,084	64,569	
Networth	52,030	48,598	56,536	65,021	
Minority Interest	239	264	290	317	
Debt - long term	1,961	1,961	1,961	1,961	
Debt - short term	12,280	12,203	13,279	14,288	
Deferred Tax Liability	661	661	661	661	
Other liabilities & provisions	1,505	1,514	1,514	1,514	
Source of funds	68,677	65,201	74,241	83,763	
<b>Assets</b>					
Goodwill	12,580	12,589	12,589	12,589	
Intangible Assets	1,592	1,603	1,615	1,633	
PPE	6,979	7,126	7,286	7,524	
O.non current assets	3,201	3,200	3,200	3,201	
Investments	710	710	710	710	
Debtors	9,884	10,495	11,682	12,180	
Cash & Cash equivalents	5,271	262	8,905	16,750	
Investments - short term	30,178	30,178	30,178	30,178	
O.current assets	8,957	9,300	10,034	10,722	
Trade Payable	6,549	6,155	7,583	7,099	
OCL & Provisions	4,126	4,106	4,373	4,623	
Application of funds	68,677	65,201	74,241	83,763	

Source: Company, ICICIdirect.com Research

Key ratios		FY17	FY18E	FY19E	FY20E
<b>Per share data (₹)</b>					
EPS		17.5	19.1	20.7	23.5
BV		107.0	107.6	125.2	143.9
DPS		2.0	2.0	2.0	2.0
<b>Operating Ratios</b>					
EBIT Margin		17.1	16.8	17.3	17.8
PAT Margin		15.4	15.8	15.7	16.6
Debtor days		66	70	72	69
Creditor days		43	41	47	40
<b>Return Ratios (%)</b>					
RoE		16.3	17.8	16.5	16.3
RoCE		16.8	18.1	17.2	17.2
RoIC		53.8	48.5	53.2	54.1
<b>Valuation Ratios (x)</b>					
P/E		17.6	16.1	14.9	13.1
EV / EBITDA		11.4	12.2	10.3	8.9
EV / Net Sales		2.4	2.5	2.1	1.9
Market Cap / Sales		2.8	2.8	2.5	2.4
Price to Book Value		2.9	2.9	2.5	2.1
<b>Solvency Ratios</b>					
Debt/EBITDA		1.2	1.3	1.2	1.2
Debt / Equity		0.3	0.3	0.3	0.2
Current Ratio		1.8	1.9	1.8	2.0
Quick Ratio		1.8	1.9	1.8	2.0

Source: Company, ICICIdirect.com Research

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Sell: -10% or more;



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