

October 24, 2018

Q2FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		HOLD	
Target Price	350		350	
Sales (Rs. m)	595,322	656,677	592,568	640,185
% Chng.			0.5	2.6
EBITDA (Rs. m)	113,147	123,111	109,487	120,023
% Chng.			3.3	2.6
EPS (Rs.)	19.7	22.6	19.0	22.1
% Chng.			3.8	2.1

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	550	545	595	657
EBITDA (Rs. bn)	109	104	113	123
Margin (%)	19.8	19.1	19.0	18.7
PAT (Rs. bn)	85	80	89	102
EPS (Rs.)	17.5	17.6	19.7	22.6
Gr. (%)	(3.1)	1.0	11.9	14.5
DPS (Rs.)	1.5	1.0	1.6	1.8
Yield (%)	0.5	0.3	0.5	0.6
RoE (%)	17.1	15.8	17.0	16.7
RoCE (%)	14.2	13.2	14.2	14.2
EV/Sales (x)	2.3	2.3	2.0	1.7
EV/EBITDA (x)	11.8	11.9	10.3	8.8
PE (x)	17.7	17.5	15.7	13.7
P/BV (x)	2.9	2.9	2.5	2.1

Key Data

WIPRO.BO | WPRO IN

52-W High / Low	Rs.339 / Rs.254
Sensex / Nifty	34,034 / 10,225
Market Cap	Rs.1,397bn/ \$ 19,076m
Shares Outstanding	4,524m
3M Avg. Daily Value	Rs.2930.61m

Shareholding Pattern (%)

Promoter's	74.31
Foreign	8.53
Domestic Institution	7.28
Public & Others	9.88
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.2)	7.6	4.0
Relative	(1.0)	9.5	(0.3)

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Solid revenue beat, BFSI remains strong

Solid revenue and margin beat: Wipro delivered a strong set of results for 2QFY19 with a beat on USD revenues and IT Services EBIT margins. Revenues came at USD2041mn up 0.7% QoQ and above our estimates (USD2010mn). Constant currency growth for the quarter (Adjusted for Data Center Divestment) stood at 2.8% and above our estimates (vs our estimates of 1.5%). Organic constant currency growth for the quarter stood at 2.1% and rest owing to Alight Deal (one-month consolidation). Wipro has shown marked improvement in organic constant currency growth in 2QFY19 and this is the highest organic constant currency growth delivered by Wipro over the past 12 quarters. Among verticals, BFSI grew up 4.4% QoQ and 16% YoY in constant currency. Wipro has shown strong momentum in BFSI vertical over the past six consecutive quarters which is key positive. We note that barring HCL Tech, the other three Tier 1 IT vendors showed strong performance in BFSI vertical in 2QFY19. Consumer Business unit grew by 4.2% QoQ and 7.7% YoY in constant currency and also remained strong. Wipro continued to show steady traction in top accounts. Revenues from top 10 accounts grew 3.6% QoQ in constant currency in 2QFY19. Digital grew 13.4% QoQ and is now accounts 31.4% of our revenues.

Guidance remains steady: Wipro guided for 3QFY19 IT services revenues to grow at 1-3% (Based on new classification which excludes India PSU and government business). We note 3QFY19 will have additional two months' impact of Alight Deal revenues. Hence, guidance implies organic revenue growth of 0-2%. We classify Alight deal as Inorganic as Wipro has paid USD117mn upfront to take over the Indian Captive of Alight. IT Services Adjusted EBIT margin came at 18.1% up 90bps QoQ and above our estimates (PLe: 17.6%). Wipro had additional two-month headwind from wage hikes which were more than offset by INR depreciation and productivity gains. Headcount at end of quarter stood at 175,346 with net additions of 10680 employees QoQ (Alight deal has led to 9000 employees in the quarter).

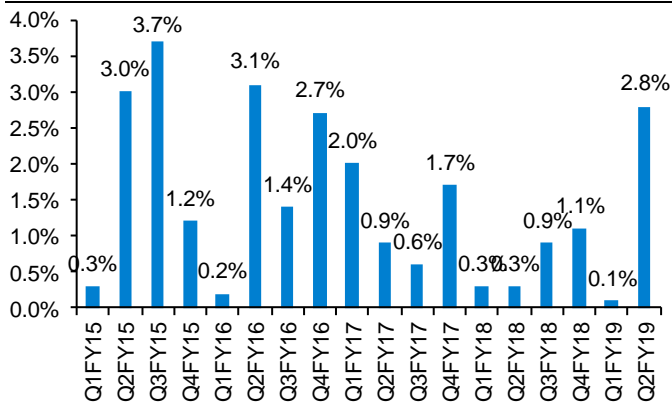
Valuation and View: Wipro has divested the Data Center business and also reclassified the Indian Government and PSU business (effective 3QFY19). Based on our assumptions (excluding Data Center and India business), Wipro IT services business would deliver organic growth of 3.3% in USD for FY19 (We excluded Data Center, India business for both FY18 and FY19 to derive at organic growth. We also removed Alight deal to derive at organic growth for FY19). We marginally raise EPS estimates by 3/2% to Rs19.7/22.7/sh for FY19/FY20E. Wipro trades at 13.7x FY20E EPS (TCS/Infosys trading at 19.5/15.5x FY20E respectively). Steady recovery in revenue growth and strong margin execution is positive. Scope for large Buyback announcement in January 2019 (Net cash on balance sheet at Rs213bn as on 2QFY19 which is 15% of Mcap) is another trigger. Wipro has done two Buybacks in FY17/FY18 spending Rs135bn and has reduced 8.6% equity count over the past two years with these buybacks. We expect another sizeable buyback in January 2019. Hence, Wipro is likely to see a directional reduction in sharecount. This is improving earnings and ROE trajectory as well and aiding re-rating for the stock. Upgrade Wipro to Accumulate (vs Hold earlier) owing to turnaround in performance and strong capital allocation. TP retained at Rs350/sh (15x Sep 20E EPS).

Exhibit 1: Q1FY19: Consolidated P&L

IFRS Consolidated (Rs m)	Q2FY19	Q1FY19	QoQ gr.	Q2FY18	YoY gr.	Ple	Var (Act Vs Ple)
IT Services Revenue (US\$ m)	2,041	2,027	0.7%	2,014	1.4%	2,010	1.6%
Combined IT Revenue (Rs m)	145,410	139,777	4.0%	134,234	8.3%	146,266	-0.6%
EBITDA (Rs m)	28,639	24,343	17.6%	27,788	3.1%	27,205	5.3%
<i>EBITDA Margins</i>	<i>19.7%</i>	<i>17.4%</i>	<i>228 bps</i>	<i>20.7%</i>	<i>-101 bps</i>	<i>18.6%</i>	<i>110 bps</i>
PAT (Rs m)	18,889	21,206	-10.9%	21,770	-13.2%	18,129	4.2%
Adjusted PAT	23,761	18,677	27.2%	21,770	9.1%	23,270	2.1%

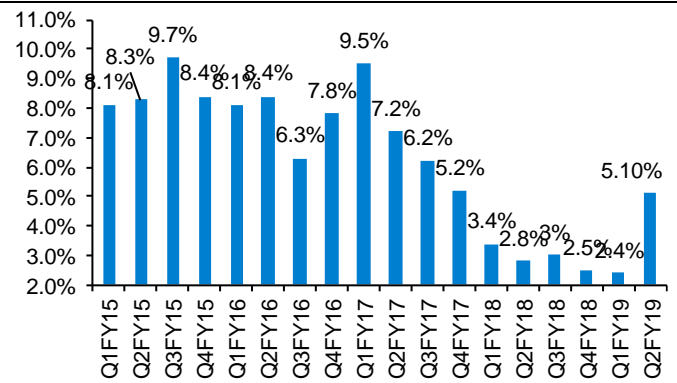
Source: Company, PL 1QFY19 had exceptional gain while 4QFY18 had exceptional loss which impacted reported PAT

Exhibit 2: Constant Currency Growth (QoQ)



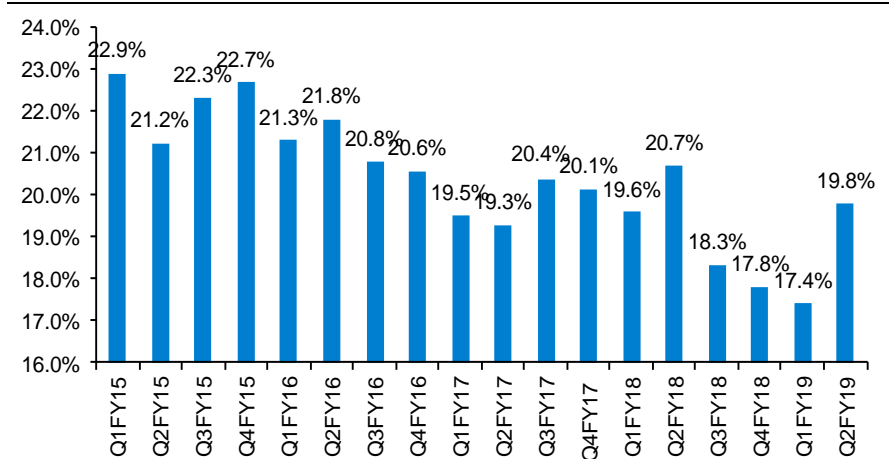
Source: Company, PL

Exhibit 3: Constant Currency Growth (YoY)



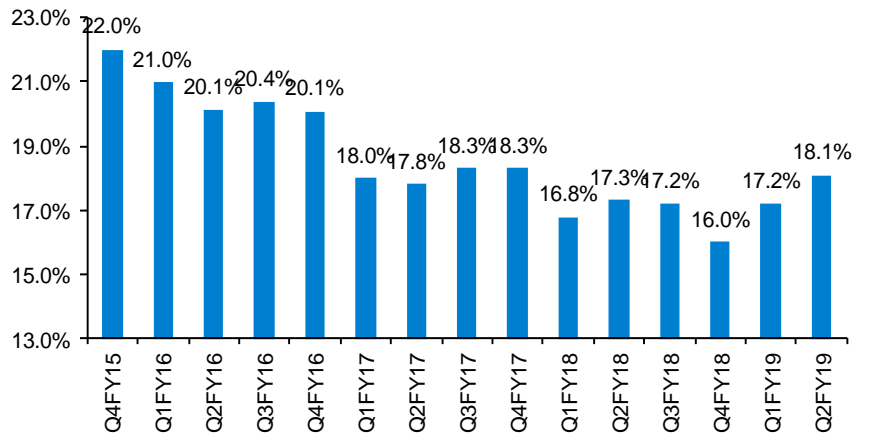
Source: Company, PL

Exhibit 4: Consolidated EBITDA Margin



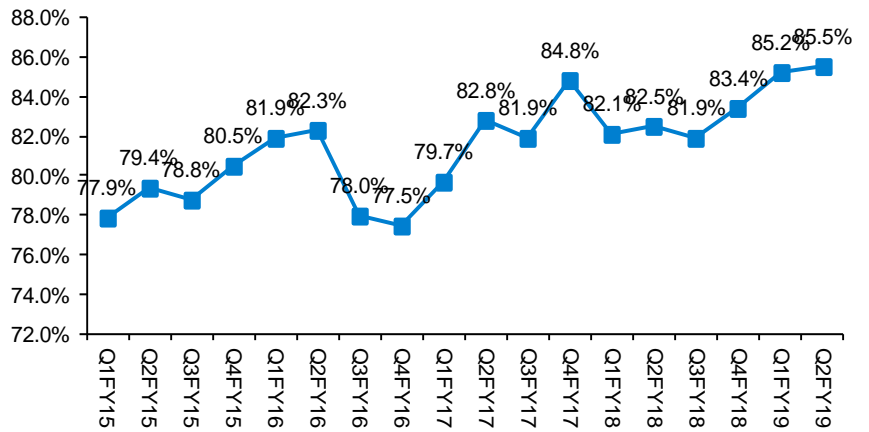
Source: Company, PL

Exhibit 5: IT Services EBIT Margin



Source: Company, PL *We present Adjusted EBIT margin for Wipro

Exhibit 6: Utilisation Rates



Source: Company, PL

- 2QFY19 Utilisation rate came at 85.5% up 30bps QoQ and up 300bps YoY.

Key Metrics:

Exhibit 7: Geography Mix of Revenues

Geography Mix(%)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Americas	53.5	54.8	55.5	54.9	54.5	53.6	53.1	52.7	54.9	55.2
Europe	25.4	24.0	23.6	24.4	24.2	25.1	25.9	27.0	25.6	25.3
APAC	10.7	10.8	10.9	10.8	10.9	11.4	11.0	10.9	10.9	11.4
India and Middle east	10.4	10.4	10.0	9.9	10.4	9.9	10.0	9.4	8.6	8.1

Source: Company, PL

Exhibit 8: Revenue by Geography and growth (%)

USD Mn	Q2FY19	Q1FY19	QoQ gr.	Q2FY18	YoY gr.
Americas	1,127	1,113	1.3%	1,079	4.4%
Europe	516	519	-0.5%	506	2.1%
APAC	233	221	5.3%	230	1.4%
India and Middle east	165	174	-5.1%	199	-17.1%
Total Revenues	2,041	2,027	0.7%	2,014	1.4%

Source: Company, PL

- Among Geographies, Revenues from North America were up 3.7% QoQ in cc. Europe were up 0.9% QoQ and APAC were up 7.9% QoQ. Revenues from India and Middle East remains tepid, down 2.8% QoQ and down 11.7% YoY in cc.

Exhibit 9: Vertical Mix of Revenues

Vertical Mix (%)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Communication	6.8	6.5	6.4	5.8	5.6	5.7
Consumer	15.8	15.9	16.0	15.6	16.0	16.3
Energy, Natural Resources and Utilities	13.4	13.5	12.4	12.5	12.5	12.6
Financial Solutions	26.7	27.6	28.5	29.2	30.0	30.7
Healthcare , Life Sciences	14.8	13.7	14.0	13.9	13.4	12.8
Manufacturing	9.0	8.7	8.6	8.7	8.3	8.2
Technology	13.5	14.1	14.1	14.3	14.2	13.7

Source: Company, PL

Exhibit 10: Revenues by Vertical and growth (%)

USD mn	Q2FY19	Q1FY19	QoQ gr.	Q2FY18	YoY gr.
Communication	116	113	2.5%	131	-11.1%
Consumer	333	324	2.6%	320	3.9%
Energy, Natural Resources and Utilities	257	253	1.5%	272	-5.4%
Financial Solutions	627	608	3.1%	556	12.8%
Healthcare , Life Sciences	261	272	-3.8%	276	-5.3%
Manufacturing	167	168	-0.5%	175	-4.5%
Technology	280	288	-2.8%	284	-1.5%
Total Revenues	2041	2027	0.7%	2014	1.4%

Source: Company, PL

Exhibit 11: Service Mix (%)

Service Mix (%)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Global Infrastructure	27.9	28.2	28.1	28.0	28.1	28.4	28.2	28.8	27.4	26.5
Wipro Analytics	7.4	7.3	7.0	6.9	7.1	7.1	7.0	7.0	7.1	7.8
Business Process	12.9	13.4	13.3	12.3	12.0	12.1	12.6	12.1	12.1	12.7
Product Engineering	7.1	7.3	7.2	7.1	7.0	6.9	6.9	7.3	7.3	7.3
Application Services	44.7	43.8	44.4	45.7	45.8	45.5	45.3	44.8	46.1	45.7

Source: Company, PL

Exhibit 12: Service Mix and growth (QoQ & YoY)

USD mn	Q2FY19	Q1FY19	QoQ gr.	Q2FY18	YoY gr.
Global Infrastructure	541	555	-2.6%	572	-5.4%
Wipro Analytics	159	145	10.0%	143	11.4%
Business Process	259	245	5.7%	244	6.4%
Product Engineering	149	148	0.7%	139	7.3%
Application Services	933	934	-0.1%	916	1.8%
Total	2041	2027	0.7%	2014	1.4%

Source: Company, PL

Exhibit 13: Customer concentration (%)

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Q2FY19
Top Customer	2.50%	2.60%	2.8%	2.9%	2.9%	3.1%	3.1%	3.5%	3.7%	3.6%
Top five customers	10.30%	10.10%	10.0%	10.0%	10.3%	11.0%	11.3%	11.9%	11.7%	12.1%
Top 10 customers	17.60%	17.50%	16.9%	16.9%	17.5%	18.0%	17.8%	18.4%	18.3%	18.8%

Source: Company, PL

Exhibit 14: Consolidated Model sheet of Wipro

	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenues (USD mn)	7082	7346	7705	8060	8269*	8788	9419
Growth (%)	7.0%	3.7%	4.9%	4.6%	2.6%	6.3%	7.2%
Average Exchange Rate (USD vs INR)	62.0	65.8	67.8	65.1	70.0	72.0	70.0
Revenues (Rs mn)	4,69,545	5,12,440	5,50,402	5,44,871	595,322	656,677	683,010
Growth (%)	8.1%	9.1%	7.4%	-1.0%	9.3%	10.3%	4.0%
EBIDTA	1,04,606	1,08,118	1,09,127	1,04,061	113,147	123,111	131,528
PAT	87,056	89,413	85,143	80,070	89,199	102,661	113,870
EBIDTA Margin(%)	22.3%	21.1%	19.8%	19.1%	19.0%	18.7%	19.3%
NPM(%)	18.5%	17.4%	15.5%	14.7%	15.0%	15.6%	16.7%
EPS	17.6	18.1	17.4	16.7	19.8	22.7	25.1
EPS Growth	11.0%	2.8%	-3.6%	-3.9%	18.2%	14.5%	10.9%
P/E	17.6	17.2	17.8	18.5	15.7	13.7	12.3
EV/EBIDTA	13.3	13.1	11.9	12.6	10.3	8.8	7.5
ROE(%)	23.2%	20.5%	17.3%	16.0%	17.0%	16.8%	16.1%
Consolidated Balance Sheet							
Net Cash on Balance Sheet	1,76,002	1,81,118	2,79,431	2,28,622	305,719	382,536	410,593
Net Cash per Share on Balance sheet	35.7	36.8	57.4	48.0	67.8	84.9	91.0
Net Cash as a % of stock prices	12.8%	13.1%	20.5%	17.1%	21.9%	27.4%	29.4%
Consolidated Cash Flows							
Operating cash flow (Include Interest Income)	93,405	98,097	1,09,032	98,802	105,494	107,111	129,031
Capex+ Acquisition Spend	24,235	53,324	54,461	28,522	20,000	20,000	20,000
FCF (Include Interest Income)	69,170	44,773	54,571	70,280	85,494	87,111	109,031
FCF/EBIDTA	51.6%	23.6%	35.1%	53.5%	65.4%	54.5%	64.0%

Source: Company, PL * IT services growth in FY19 is not comparable as FY19 revenues have only one quarter revenues from divested data center business and two quarter revenues from India Business

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	550,402	544,871	595,322	656,677
YoY gr. (%)	7.4	(1.0)	9.3	10.3
Employee Cost	368,437	364,320	401,205	439,974
Gross Profit	181,965	180,551	194,117	216,703
Margin (%)	33.1	33.1	32.6	33.0
SG&A Expenses	40,817	42,349	44,426	49,251
Other Expenses	32,021	34,141	36,543	44,341
EBITDA	109,127	104,061	113,147	123,111
YoY gr. (%)	0.9	(4.6)	8.7	8.8
Margin (%)	19.8	19.1	19.0	18.7
Depreciation and Amortization	23,107	21,255	17,543	18,218
EBIT	86,020	82,806	95,604	104,893
Margin (%)	15.6	15.2	16.1	16.0
Net Interest	5,183	5,629	5,618	4,810
Other Income	25,437	25,283	25,902	29,868
Profit Before Tax	110,356	102,460	113,545	129,951
Margin (%)	20.1	18.8	19.1	19.8
Total Tax	25,213	22,390	24,346	27,290
Effective tax rate (%)	22.8	21.9	21.4	21.0
Profit after tax	85,143	80,070	89,199	102,661
Minority interest	301	321	(63)	480
Share Profit from Associate	-	-	-	-
Adjusted PAT	84,842	79,749	89,262	102,181
YoY gr. (%)	(4.7)	(6.0)	11.9	14.5
Margin (%)	15.4	14.6	15.0	15.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	84,842	79,749	89,262	102,181
YoY gr. (%)	(4.7)	(6.0)	11.9	14.5
Margin (%)	15.4	14.6	15.0	15.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	84,842	79,749	89,262	102,181
Equity Shares O/s (m)	4,861	4,524	4,524	4,524
EPS (Rs)	17.5	17.6	19.7	22.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	183,349	166,052	186,052	206,052
Tangibles	156,542	132,915	148,915	164,915
Intangibles	26,807	33,137	37,137	41,137
Acc: Dep / Amortization	106,584	98,662	116,205	134,423
Tangibles	95,699	83,638	97,742	112,388
Intangibles	10,885	15,024	18,464	22,035
Net fixed assets	76,765	67,390	69,847	71,629
Tangibles	60,843	49,277	51,173	52,527
Intangibles	15,922	18,113	18,673	19,102
Capital Work In Progress	8,951	15,166	15,166	15,166
Goodwill	125,796	117,584	117,584	117,584
Non-Current Investments	19,217	27,264	27,264	27,264
Net Deferred tax assets	(3,516)	3,849	3,849	3,849
Other Non-Current Assets	16,793	15,726	17,127	17,127
Current Assets				
Investments	301,777	250,326	250,326	250,326
Inventories	3,915	3,370	3,370	3,370
Trade receivables	98,844	105,436	109,278	116,942
Cash & Bank Balance	52,710	44,925	121,822	199,039
Other Current Assets	40,555	64,059	64,059	64,059
Total Assets	793,516	760,640	849,187	938,665
Equity				
Equity Share Capital	4,861	9,048	9,048	9,048
Other Equity	517,834	476,298	556,963	649,251
Total Network	522,695	485,346	566,011	658,299
Non-Current Liabilities				
Long Term borrowings	19,611	45,268	45,268	45,268
Provisions	4	3	3	3
Other non current liabilities	5,502	4,237	4,237	4,237
Current Liabilities				
ST Debt / Current of LT Debt	122,801	92,991	92,991	92,991
Trade payables	65,486	68,129	72,947	78,147
Other current liabilities	41,256	52,387	52,497	43,016
Total Equity & Liabilities	793,516	760,640	849,187	938,665

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	110,356	102,474	113,608	129,471
Add. Depreciation	23,107	21,124	17,543	18,218
Add. Interest	(16,259)	(14,569)	(12,888)	(20,000)
Less Financial Other Income	25,437	25,283	25,902	29,868
Add. Other	(3,496)	4,245	-	-
Op. profit before WC changes	113,708	113,274	118,263	127,689
Net Changes-WC	4,541	(936)	(1,311)	(13,288)
Direct tax	(25,476)	(28,105)	(24,346)	(27,290)
Net cash from Op. activities	92,773	84,233	92,606	87,111
Capital expenditures	(53,254)	(27,351)	(20,000)	(20,000)
Interest / Dividend Income	17,380	14,956	12,888	20,000
Others	(80,409)	47,973	-	-
Net Cash from Invt. activities	(116,283)	35,578	(7,112)	-
Issue of share cap. / premium	(25,000)	(110,288)	-	-
Debt changes	13,119	(10,983)	-	-
Dividend paid	(8,872)	(5,420)	(8,597)	(9,894)
Interest paid	(1,999)	(3,123)	-	-
Others	-	(164)	-	-
Net cash from Fin. activities	(22,752)	(129,978)	(8,597)	(9,894)
Net change in cash	(46,262)	(10,167)	76,897	77,217
Free Cash Flow	71,920	62,363	72,606	67,111

Source: Company Data, PL Research

Key Financial Metrics

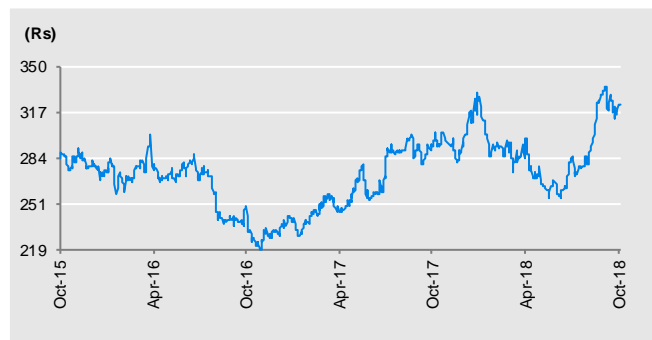
Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	17.5	17.6	19.7	22.6
CEPS	22.2	22.3	23.6	26.6
BVPS	107.5	107.3	125.1	145.5
FCF	14.8	13.8	16.0	14.8
DPS	1.5	1.0	1.6	1.8
Return Ratio(%)				
RoCE	14.2	13.2	14.2	14.2
ROIC	19.6	20.1	22.8	24.5
RoE	17.3	16.0	17.0	16.8
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.4)	(0.5)
Debtor (Days)	66	71	67	65
Valuation(x)				
PER	17.7	17.5	15.7	13.7
P/B	2.9	2.9	2.5	2.1
P/CEPS	20.9	21.0	22.2	25.1
EV/EBITDA	11.8	11.9	10.3	8.8
EV/Sales	2.3	2.3	2.0	1.7
Dividend Yield (%)	0.5	0.3	0.5	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	136,690	137,686	139,777	145,410
YoY gr. (%)	(0.1)	(1.6)	2.6	8.3
Employee Expenses	90,564	92,092	96,013	97,402
Gross Profit	46,126	45,594	43,764	48,008
Margin (%)	33.7	33.1	31.3	33.0
EBITDA	25,062	24,530	24,343	28,639
YoY gr. (%)	(9.8)	(2.1)	(0.8)	17.6
Margin (%)	18.3	17.8	17.4	19.7
Depreciation / Depletion	5,412	5,702	4,337	4,368
EBIT	19,650	18,828	20,006	24,271
Margin (%)	14.4	13.7	14.3	16.7
Net Interest	1,205	1,564	1,649	1,569
Other Income	6,259	5,357	5,915	6,373
Profit before Tax	24,704	22,621	24,272	29,075
Margin (%)	18.1	16.4	17.4	20.0
Total Tax	5,355	4,615	5,865	5,347
Effective tax rate (%)	21.7	20.4	24.2	18.4
Profit after Tax	19,349	18,006	18,407	23,728
Minority interest	120	22	(270)	(33)
Share Profit from Associates	-	-	-	-
Adjusted PAT	19,229	17,984	18,677	23,761
YoY gr. (%)	(8.8)	(2.9)	(10.1)	9.1
Margin (%)	14.1	13.1	13.4	16.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,229	17,984	18,677	23,761
YoY gr. (%)	(8.8)	(2.9)	(10.1)	9.1
Margin (%)	14.1	13.1	13.4	16.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,229	17,984	18,677	23,761
Avg. Shares O/s (m)	4,809	4,508	4,511	4,513
EPS (Rs)	4.0	4.0	4.1	5.3

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-18	Reduce	280	318
2	20-Jan-18	Reduce	310	328
3	13-Apr-18	Reduce	310	293
4	25-Apr-18	Reduce	290	293
5	10-Jul-18	Hold	290	262
6	22-Jul-18	Hold	300	283
7	5-Oct-18	Hold	350	325

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	810	669
2	HCL Technologies	BUY	1,255	952
3	Hexaware Technologies	Hold	475	409
4	Infosys	BUY	790	695
5	L&T Technology Services	Accumulate	1,780	1,651
6	Mindtree	BUY	1,140	978
7	Mphasis	Accumulate	1,220	1,068
8	NIIT Technologies	BUY	1,460	1,192
9	Persistent Systems	Accumulate	725	560
10	Redington (India)	BUY	140	92
11	Sonata Software	BUY	420	330
12	Tata Consultancy Services	Accumulate	2,300	1,980
13	TeamLease Services	Hold	2,740	2,219
14	Tech Mahindra	BUY	885	721
15	Wipro	Hold	350	325
16	Zensar Technologies	BUY	330	297

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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