

Stock Update

Stable quarter, maintain Buy

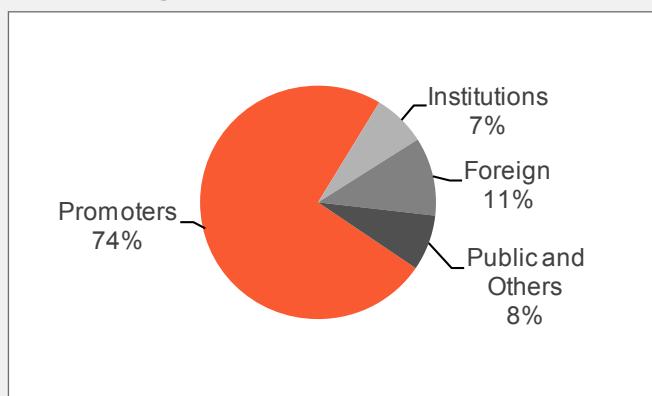
Wipro

Reco: Buy | CMP: Rs346

Company details

Price target:	Rs390
Market cap:	Rs156,658 cr
52-week high/low:	Rs348/253
NSE volume: (No of shares)	42.5 lakh
BSE code:	507685
NSE code:	WIPRO
Sharekhan code:	WIPRO
Free float: (No of shares)	116.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.2	3.8	18.1	3.3
Relative to Sensex	-1.6	-1.0	18.0	-1.6

Key points

- Broadly in-line revenue, margins surprised positively:** Wipro delivered in-line revenue performance in Q3FY2019, with a constant currency (CC) revenue growth of 2.4% q-o-q (within the revenue guidance range) and 7% y-o-y. The growth was driven by its continued impressive performance in the BFSI segment (5.3% q-o-q and 17.5% y-o-y in CC), consumer business (1.4% q-o-q and 10% y-o-y CC) and energy and utilities (4.6% q-o-q and 9.8% y-o-y CC) verticals. On a reported basis, USD revenue increased by 1.8% q-o-q to \$2,046.5 million, ahead of our estimates. EBIT margin for IT services stood at 19.8%, above our estimates, showing an improvement of 480 bps q-o-q led by operational efficiencies and lower-than-expected SG&A expenses (recovery in doubtful debt). Improved profitability along with higher-than-expected FX gain and lower tax rate resulted in net profit beat. Net profit during the quarter increased by 32.9% q-o-q to Rs. 2,510 crore. Wipro announced bonus shares issue to the shareholders in the ratio of 1:3.

- Expect sustainability of margin performance:** Wipro's margin performance has improved after multiple quarters of disappointment, helped by automation initiatives, higher digital revenues and lower SG&A. The management harbors hopes of sustainability of margins on account of improvement in the cost of delivery. The company provided Q4FY2019 CC revenue growth guidance of 0-2%, below our expectation. The management cited that the muted revenue growth guidance has baked in the impacts of (1) lower enrollment (down 10% y-o-y) in HPS business, (2) uncertainty around macro-economic environment and (3) higher number contract renewals. However, the management hopes the pace of execution to continue given strong deal wins, healthy deal pipeline, and traction for its digital offerings. Digital business grew 6.4% q-o-q during the quarter led by traction in HOLMES that now contributes to around 33.2% of total revenues.

- Expect headwinds in healthcare and India business to recede going forward:** The management highlighted that the healthcare business would remain soft owing to lower enrolment and it will take some more time to back on growth. Similarly, India business revenue

would remain volatile for next few quarters on account of transformation and restructuring activities. Barring technology and manufacturing, all other verticals reported strong CC revenue growth on sequential basis during the quarter. The management highlighted that client specific issues are behind in communication vertical.

- ♦ **Maintain Buy with PT of Rs390:** We have broadly maintained our earnings estimates for

FY2019E/FY2020E/FY2021E. Focusing on client mining (15% y-o-y growth in top-5 accounts), restructuring initiatives and increasing deal wins are expected to translate into decent growth over the next two years. The stock is currently trading at 15x its FY2020 EPS estimates, which is a significant discount to its leading peers. Thus, we maintain our Buy rating on Wipro with the unchanged price target (PT) of Rs 390.

Valuation

Particulars	FY18	FY19	FY20E	FY21E	Rs cr
Net sales	54,487.1	58,705.4	64,062.0	68,837.6	
EBIT margin (%)	15.8	16.2	17.4	17.8	
Net profit	8,008.1	8,987.6	10,231.1	11,177.5	
EPS (Rs)	17.7	19.3	22.6	24.7	
P/E (x)	19.6	17.9	15.3	14.0	
EV/EBIDTA (x)	8.7	8.1	6.6	5.7	
RoCE (%)	13.8	14.7	16.3	16.9	
RoE (%)	16.7	16.6	17.6	17.5	

Results

Particulars (IFRS)	Q3FY19	Q3FY18	Q2FY19	YoY (%)	QoQ (%)	Rs cr
Revenues (\$ mn)	2,046.5	2,013.0	2,041.2	1.7	0.3	
Net sales	15,059.5	13,669.0	14,567.9	10.2	3.4	
Direct costs	10,397.1	9,597.6	10,177.0	8.3	2.2	
Gross profit	4,915.3	4,071.4	4,643.8	20.7	5.8	
SG&A	1,886.7	2,093.9	2,329.3	-9.9	-19.0	
EBIT	3,028.6	1,977.5	2,314.5	53.2	30.9	
Net other income	373.5	492.9	356.7	-24.2	4.7	
PBT	3,402.1	2,470.4	2,671.2	37.7	27.4	
Tax provision	696.6	535.5	534.7	30.1	30.3	
Net profit	2,510.3	1,936.1	1,888.9	29.7	32.9	
EPS (Rs)	5.6	4.3	4.2	29.6	32.9	
Margin (%)				BPS	BPS	
EBIT margins (Blended)	20.1	14.5	15.9	564	422	
EBIT margin (IT Services)	19.8	14.8	15.0	496	480	
NPM	16.7	14.2	13.0	251	370	

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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