

Greatness remains elusive

We downgrade WIPRO to SELL (from Neutral), post the insipid 4QFY19 show and weak guidance. Revenue growth remains challenged and margins are peaking. The recent security breach raises questions about client's data security and is a setback to Wipro's reputation. The much awaited buyback (5.4% of equity at Rs 325/sh, 16% premium to CMP) kicks up FY21E EPS by ~2%. At 14x FY21E EPS, our TP is Rs 250 (~11% downside from CMP).

HIGHLIGHTS of the QUARTER

- Revenue (USD 2,076mn, +1.3/6.9 QoQ/YoY CC) missed estimates. BFSI (32% of mix) was driving growth, but slowed down (+1.3% CC QoQ vs 3.1% 4-qtr CQGR) with the completion of large projects in the Europe geography (-2.2% QoQ).
- Revenue guidance of -1% to +1% CC growth for 1QFY20E was a key dampener. It builds in slowdown in BFSI, delays in client decision making and seasonality. We sense growth challenges for Wipro will persist, led by client specific issues, weakness in communication, manufacturing and HPS business.
- Digital growth was healthy at 6.3% QoQ, but the pressure on legacy business (1.0% QoQ decline) is higher vs peers (TCS +1.5% QoQ). Wipro has

significantly lagged Tier-1 on revenue growth for five years now.

- IT services EBIT margin at 19.2% (-60bps QoQ) was impacted by wage hike and currency appreciation offset by higher utilisation (+220 bps). Margin challenges are likely considering upcoming wage hikes, the tight labour market and higher localisation cost.

STANCE: Buyback trade over, UPF on the cards

Wipro has grown the slowest (2.9% YoY in FY19) in the Tier-1 IT pack. The key revenue driver for FY19 (BFSI) is easing. Challenges in Communications (client specific) and Healthcare (HPS) seem sticky. The soft guidance for 1QFY20 tells us that the lag is entrenched. Margin recovery and buyback drove recent outperformance (+16% vs NIFTY IT +8% in 6m).

Focus will now shift to growth and margin sustainability. We expect USD revenue growth of 5.2/5.4% and IT services EBIT% at 18.4/18.5% for FY20/21E. Wipro trades at 17x FY20E EPS (in-line with Tier-1 average), which is rich considering its growth profile. Our SELL stance is driven by the weakness in core growth metrics and execution challenges. Risk to our thesis include improved US/Europe macro and INR depreciation.

Financial Summary

YE March (Rs bn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	150.06	137.69	9.0	150.60	(0.4)	550.40	544.87	585.85	617.02	649.76
EBIT	25.46	18.83	35.2	27.76	(8.3)	86.02	82.81	92.62	104.48	111.79
APAT	23.63	18.03	31.1	25.10	(5.9)	80.81	82.57	90.86	94.27	101.81
Diluted EPS (Rs)	4.1	3.2	31.1	4.4	(5.9)	14.2	14.5	15.9	16.5	17.9
P/E (x)						19.8	19.4	17.6	17.0	15.7
EV / EBITDA (x)						12.8	13.9	11.8	10.8	9.3
RoE (%)						16.4	16.5	17.3	16.9	17.0

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
CMP (as on 16 Apr 2019)	Rs 281
Target Price	Rs 250
Nifty	11,787
Sensex	39,276

KEY STOCK DATA	
Bloomberg	WPRO IN
No. of Shares (mn)	6,034
MCap (Rs bn) / (\$ mn)	1,695/24,337
6m avg traded value (Rs mn)	1,923

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 297/190		
	3M	6M	12M
Absolute (%)	11.3	17.4	29.2
Relative (%)	3.2	5.7	14.7

SHAREHOLDING PATTERN (%)		
	Dec-18	Mar-19
Promoters	74.30	74.29
FIs & Local MFs	6.77	6.47
FPIs	8.45	8.62
Public & Others	10.48	10.62
Pledged Shares	0.00	0.00

Source : BSE

Amit Chandra
 amit.chandra@hdfcsec.com
 +91-22-6171-7345

Apurva Prasad
 apurva.prasad@hdfcsec.com
 +91-22-6171-7327

Akshay Ramnani
 akshay.ramnani@hdfcsec.com
 +91-22-6171-7334

IT services (excluding ISRE business) grew 1.4% QoQ and 2.8% YoY (lower than double digit for TCS and Infosys in CC terms)

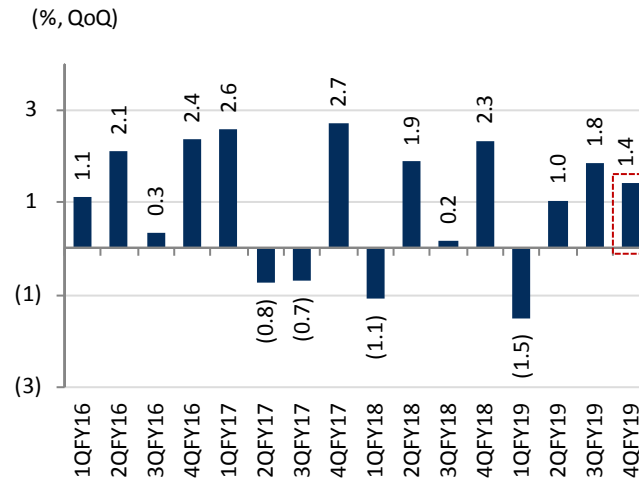
Lowered revenue growth guidance range to -1 to +1% CC QoQ taking clients specific slowdown despite strong order bookings

Growth can accelerate in 2Q based on the current order bookings but still will be behind peers

IT Services EBIT margin came at 19.2% after sharp recovery in the past two quarters

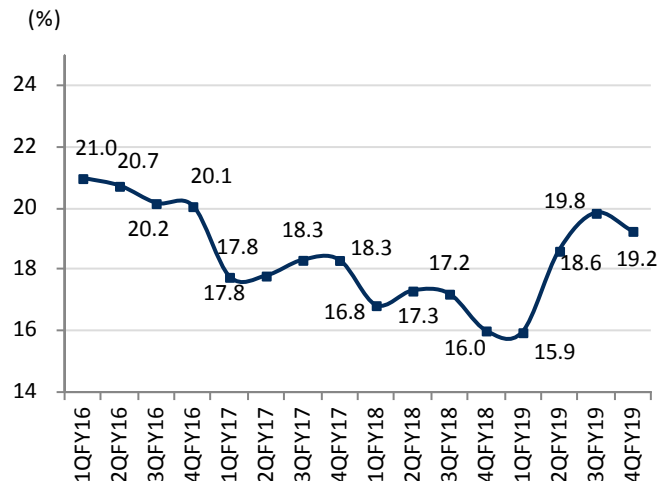
HOLMES (Automation platform) has been deployed across 350 clients (vs 320 last quarter)

QoQ USD Revenue Growth



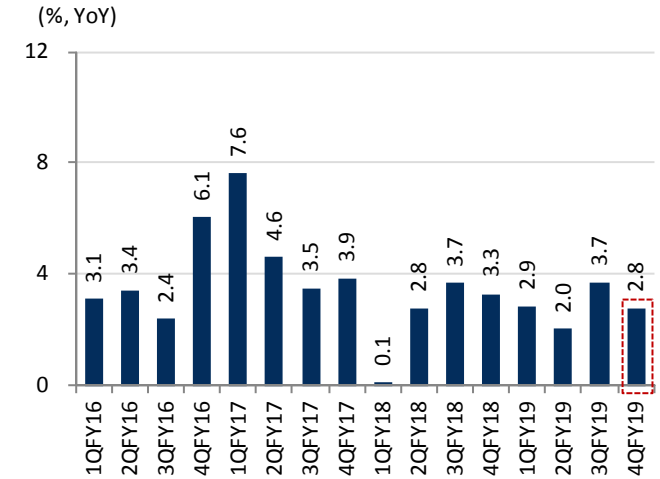
Source: Company, HDFC sec Inst Research

IT Services EBIT Margin Trend (Adjusted)



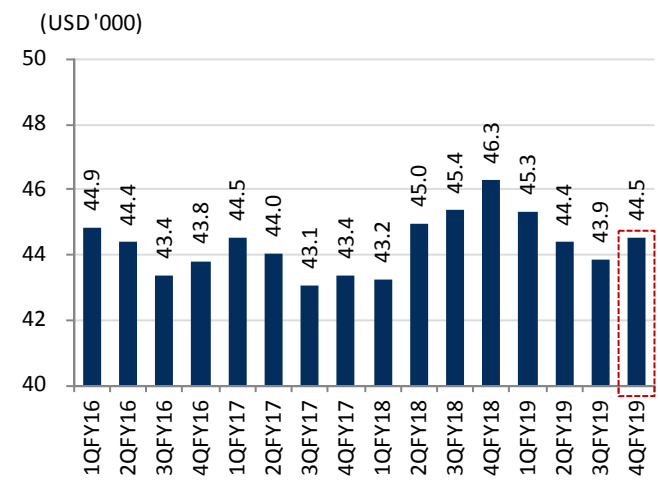
Source: Company, HDFC sec Inst Research

YoY USD Revenue Growth



Source: Company, HDFC sec Inst Research

Revenue/Employee Trend



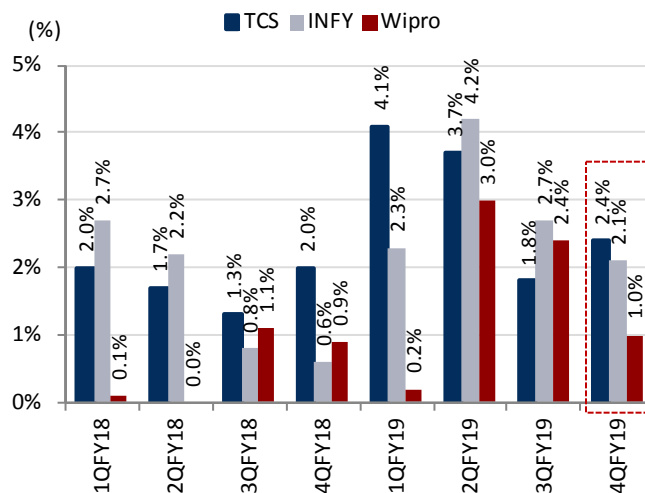
Source: Company, HDFC sec Inst Research

Wipro is clearly lagging the in terms of growth both in CC QoQ and YoY terms

EBIT Margins have recovered but still below TCS and TCS

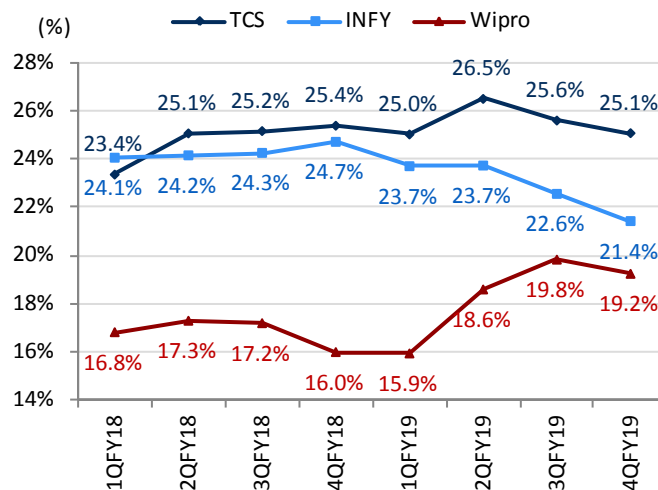
Attrition trend for Wipro has been inching upwards but is lower than Infosys

QoQ CC Revenue Growth Trend For Top-3 IT



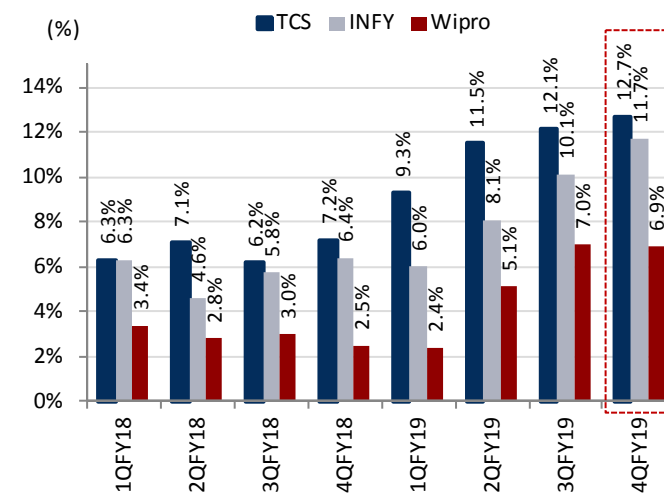
Source: Company, HDFC sec Inst Research

EBIT Margin Trend, TCS Is The Leader



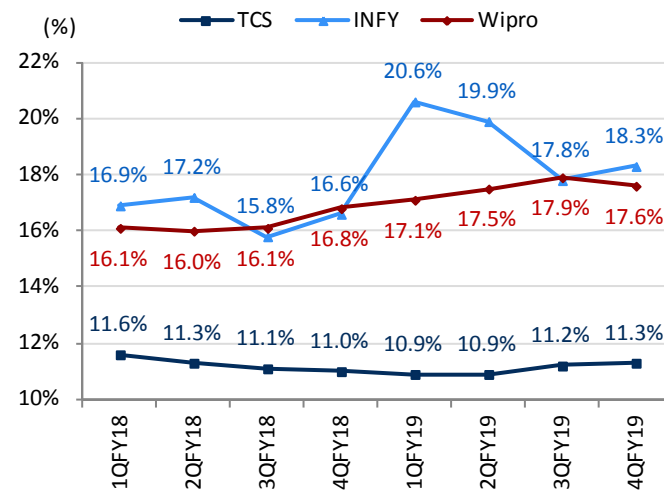
Source: Company, HDFC sec Inst Research

YoY CC Revenue Growth Trend For Top-3 IT



Source: Company, HDFC sec Inst Research

Attrition Trend For Top-3 IT



Source: Company, HDFC sec Inst Research

Revenue in INR was down 0.4% QoQ led by rupee appreciation

Consolidated EBIT margin was down 147 bps QoQ to 17.0% due to IT services (-60 bps) and loss in ISRE (-43.4%) and Products business (-5.2%)

Other income includes one-time income of Rs 1.55bn from the sale of Workday and Cornerstone business units to Alight

IT services EBIT margin will face wage hike headwind in 1QFY20 and Utilisation is at peak levels (84.8%)

APAT stood at Rs 23.36bn (-5.9% QoQ), lower than our estimate of Rs 25bn, led by lower margin offset by higher other income

Quarterly Consolidated Financials Snapshot

YE March (Rs bn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
IT Services Revenues (USD bn)	2.08	2.02	2.8	2.05	1.4
Total Revenues	150.06	137.69	9.0	150.60	-0.4
Operating Expenses	119.01	113.16	5.2	117.67	1.1
EBITDA	31.05	24.53	26.6	32.93	-5.7
Depreciation	5.60	5.70	-1.9	5.17	8.2
EBIT	25.46	18.83	35.2	27.76	-8.3
Other Income	8.76	4.80	82.4	5.37	63.1
Interest costs	2.53	1.56	61.8	1.63	55.5
Forex gain/(loss)	0.32	0.56	-43.3	0.91	-65.3
PBT	32.00	22.62	41.5	32.41	-1.3
Minority Interest	0.10	(0.02)	NM	0.34	-69.5
Tax	7.06	4.62	53.1	6.97	1.4
RPAT	24.83	18.03	37.7	25.10	-1.1
E/o (adj for tax)	1.20	0.00	NM	0.00	NM
APAT	23.63	18.03	31.1	25.10	-5.9

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)
Operating Expenses % Net Revenues	79.3	82.2	(288)	78.1	117
EBITDA Margin (%)	20.7	17.8	288	21.9	(117)
EBIT Margin (%)	17.0	13.7	329	18.4	(147)
IT Services EBIT Margin (%)	19.2	16.0	325	19.8	(60)
Tax Rate (%)	22.1	20.4	167	21.5	58
APAT Margin (%)	16.5	13.1	345	16.7	(12)

Source: Company, HDFC sec Inst Research

BFSI has registered strong growth in the past two years but has started to slowdown, 4Qtr CQGR of 3.1%

Growth moderation expected in BFSI (impacted by macros), order booking is strong but growth will be lower than FY19

Communication and Technology vertical will see some uptick, while Healthcare and Manufacturing growth will be muted in 1H

Manufacturing is in pressure with renewals happening at lower rates

Healthcare ex-HPS is registering growth, HPS is yet to stabilise

Energy growth has slipped after two strong quarters

Vertical Revenue Break-up (IT Services ex ISRE)

Verticals (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19
BFSI	514	544	558	579	2,195	593	613	643	654	2,509
QoQ %	NA	5.7%	2.7%	3.8%		2.3%	3.4%	4.8%	1.7%	
YoY %	NA	NA	NA	NA	NA	15.2%	12.7%	15.1%	12.8%	14.3%
% of Rev	26.6%	27.6%	28.3%	28.7%	27.8%	29.8%	30.5%	31.4%	31.5%	30.9%
Communications	133	130	128	119	513	113	117	119	118	463
QoQ %	NA	-2.6%	-1.4%	-7.1%		-4.8%	2.8%	1.8%	-0.3%	
YoY %	NA	NA	NA	NA	NA	-15.0%	-10.3%	-7.4%	-0.7%	-9.8%
% of Rev	6.9%	6.6%	6.5%	5.9%	6.5%	5.7%	5.8%	5.8%	5.7%	5.7%
Consumer	290	297	298	303	1,184	304	315	319	336	1,275
QoQ %	NA	2.6%	0.2%	1.7%		0.5%	3.7%	1.2%	5.3%	
YoY %	NA	NA	NA	NA	NA	4.9%	6.1%	7.2%	11.0%	7.7%
% of Rev	15.0%	15.1%	15.1%	15.0%	15.0%	15.3%	15.7%	15.6%	16.2%	15.7%
ENU	261	266	251	256	1,034	253	257	266	266	1,039
QoQ %	NA	1.9%	-5.8%	2.3%		-1.5%	1.8%	3.4%	-0.1%	
YoY %	NA	NA	NA	NA	NA	-3.2%	-3.3%	6.2%	3.6%	0.5%
% of Rev	13.5%	13.5%	12.7%	12.7%	13.1%	12.7%	12.8%	13.0%	12.8%	12.8%
Healthcare	292	276	282	287	1,137	270	261	268	274	1,072
QoQ %	NA	-5.5%	2.3%	1.6%		-5.7%	-3.4%	2.6%	2.2%	
YoY %	NA	NA	NA	NA	NA	-7.4%	-5.3%	-5.0%	-4.4%	-5.7%
% of Rev	15.1%	14.0%	14.3%	14.2%	14.4%	13.6%	13.0%	13.1%	13.2%	13.2%
Manufacturing	176	175	174	180	703	167	167	166	166	666
QoQ %	NA	-0.4%	-1.0%	3.5%		-7.0%	-0.2%	-0.6%	0.2%	
YoY %	NA	NA	NA	NA	NA	-5.0%	-4.9%	-4.5%	-7.6%	-5.2%
% of Rev	9.1%	8.9%	8.8%	8.9%	8.9%	8.4%	8.3%	8.1%	8.0%	8.2%
Technology	267	282	282	295	1,129	288	279	266	262	1,096
QoQ %	NA	5.6%	0.2%	4.5%		-2.2%	-3.1%	-4.8%	-1.7%	
YoY %	NA	NA	NA	NA	NA	8.1%	-0.8%	-5.7%	-11.3%	-2.9%
% of Rev	13.8%	14.3%	14.3%	14.6%	14.3%	14.5%	13.9%	13.0%	12.6%	13.5%
Total Revenue (IT Services)	1,933	1,970	1,973	2,019	7,895	1,989	2,010	2,047	2,076	8,120
QoQ %	NA	1.9%	0.2%	2.3%		-1.5%	1.0%	1.8%	1.4%	
YoY %	NA	NA	NA	NA	NA	2.9%	2.0%	3.7%	2.8%	2.9%

Source: Company, HDFC sec Inst Research

Growth was led by Digital, Operations and Platforms (BPO) at 2.8% QoQ

Growth was evenly spread across services lines

Order booking momentum has remained strong with double digit growth YoY, however some delays in project is seen with few customers

Market size of technology is increasing, Technology spending is more front ended compared to back office functions earlier

Service Line Break-Up (IT Services ex ISRE)

Services Mix (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19
Digital Operations and Platforms	238	244	255	250	987	247	259	301	309	1,112
QoQ %	NA	2.7%	4.2%	-1.6%		-1.5%	5.1%	16.1%	2.8%	
YoY %	NA	NA	NA	NA	NA	3.7%	6.1%	18.2%	23.5%	12.7%
% of Rev	12.3%	12.4%	12.9%	12.4%	12.5%	12.4%	12.9%	14.7%	14.9%	13.7%
Cloud and Infrastructure	526	536	539	557	2,155	523	514	512	523	2,071
QoQ %	NA	1.9%	0.5%	3.5%		-6.1%	-1.6%	-0.5%	2.2%	
YoY %	NA	NA	NA	NA	NA	-0.5%	-4.0%	-5.0%	-6.1%	-3.9%
% of Rev	27.2%	27.2%	27.3%	27.6%	27.3%	26.3%	25.6%	25.0%	25.2%	25.5%
Data, Analytics and AI	141	142	140	143	568	143	157	156	158	617
QoQ %	NA	0.5%	-1.2%	2.3%		-0.1%	9.5%	-0.8%	1.4%	
YoY %	NA	NA	NA	NA	NA	1.5%	10.5%	11.0%	10.0%	8.6%
% of Rev	7.3%	7.2%	7.1%	7.1%	7.2%	7.2%	7.8%	7.6%	7.6%	7.6%
Modern Application Services	891	908	902	919	3,616	929	930	933	936	3,727
QoQ %	NA	1.9%	-0.7%	1.9%		1.1%	0.2%	0.3%	0.3%	
YoY %	NA	NA	NA	NA	NA	4.2%	2.5%	3.5%	1.9%	3.1%
% of Rev	46.1%	46.1%	45.7%	45.5%	45.8%	46.7%	46.3%	45.6%	45.1%	45.9%
Industrial & Engineering Services	137	140	138	149	568	147	149	145	149	593
QoQ %	NA	1.9%	-1.2%	8.2%		-1.5%	1.0%	-2.3%	2.8%	
YoY %	NA	NA	NA	NA	NA	7.2%	6.3%	5.2%	0.0%	4.3%
% of Rev	7.1%	7.1%	7.0%	7.4%	7.2%	7.4%	7.4%	7.1%	7.2%	7.3%
Total Revenue (IT Services)	1,933	1,970	1,973	2,019	7,895	1,989	2,010	2,047	2,076	8,120
QoQ %	NA	1.9%	0.2%	2.3%		-1.5%	1.0%	1.8%	1.4%	
YoY %	NA	NA	NA	NA	NA	2.9%	2.0%	3.7%	2.8%	2.9%

Source: Company, HDFC sec Inst Research

America's growth since last four quarters is strong while Europe continue to face pressure (INFY TCS registering strong traction in Europe)

Wipro's growth challenge in Europe is client specific rather than macro issues

RoW is expected to remain volatile due to India restructuring

Offshoring has increased despite rise in Digital revenue, reflecting offshoring opportunities in digital contracts which can be a margin lever

Geographic Revenue Break-up (IT Services ex ISRE)

Geography Mix (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19
US	1,075	1,079	1,067	1,086	4,311	1,114	1,127	1,169	1,208	4,612
QoQ %	NA	0.4%	-1.1%	1.8%		2.5%	1.2%	3.7%	3.4%	
YoY %	NA	NA	NA	NA	NA	3.6%	4.4%	9.5%	11.2%	7.0%
% of Rev	55.6%	54.8%	54.1%	53.8%	54.6%	56.0%	56.1%	57.1%	58.2%	56.8%
Europe	478	504	523	555	2,061	519	516	522	511	2,071
QoQ %	NA	5.6%	3.7%	6.2%		-6.5%	-0.5%	1.0%	-2.2%	
YoY %	NA	NA	NA	NA	NA	8.7%	2.4%	-0.2%	-8.0%	0.5%
% of Rev	24.7%	25.6%	26.5%	27.5%	26.1%	26.1%	25.7%	25.5%	24.6%	25.5%
Row	381	386	383	378	1,524	356	366	356	357	1,437
QoQ %	NA	1.4%	-0.9%	-1.4%		-5.7%	2.7%	-2.6%	0.3%	
YoY %	NA	NA	NA	NA	NA	-6.5%	-5.3%	-7.0%	-5.5%	-5.7%
% of Rev	19.7%	19.6%	19.4%	18.7%	19.3%	17.9%	18.2%	17.4%	17.2%	17.7%
Total Revenue (IT Services)	1,933	1,970	1,973	2,019	7,895	1,989	2,010	2,047	2,076	8,120
QoQ %	NA	1.9%	0.2%	2.3%		-1.5%	1.0%	1.8%	1.4%	
YoY %	NA	NA	NA	NA	NA	2.9%	2.0%	3.7%	2.8%	2.9%

Source: Company, HDFC sec Inst Research

Onsite-offshore Split (IT Services ex ISRE)

Onsite Offshore Revenue (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19
Onsite	1,036	1,048	1,056	1,064	4,200	1,052	1,061	1,068	1,069	4,247
QoQ %	NA	1.1%	0.7%	0.8%		-1.1%	0.8%	0.7%	0.1%	
YoY %	NA	NA	NA	NA	NA	1.5%	1.3%	1.2%	0.5%	1.1%
% of Rev	53.6%	53.2%	53.5%	52.7%	53.2%	52.9%	52.8%	52.2%	51.5%	52.3%
Offshore	897	922	917	955	3,695	937	948	978	1,007	3,873
QoQ %	NA	2.8%	-0.5%	4.1%		-1.9%	1.3%	3.1%	2.9%	
YoY %	NA	NA	NA	NA	NA	4.4%	2.9%	6.6%	5.4%	4.8%
% of Rev	46.4%	46.8%	46.5%	47.3%	46.8%	47.1%	47.2%	47.8%	48.5%	47.7%
Total Revenue (IT Services)	1,933	1,970	1,973	2,019	7,895	1,989	2,010	2,047	2,076	8,120
QoQ %	NA	1.9%	0.2%	2.3%		-1.5%	1.0%	1.8%	1.4%	
YoY %	NA	NA	NA	NA	NA	2.9%	2.0%	3.7%	2.8%	2.9%

Source: Company, HDFC sec Inst Research

Wipro's Top-5/10 clients performance has been impressive led by BFSI

Utilisation has bounced back strong led by automation and rationalization of workforce

Attrition is higher in 5 years plus experience profile

Achieved 64% localization in US with increased local hiring

Client Performance (IT Services ex ISRE)

Clients Revenue Metric (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19
Top customer	56	63	63	73	253	74	74	76	77	300
QoQ %	NA	12.4%	0.2%	15.1%		1.2%	1.0%	1.8%	1.4%	
YoY %	NA	NA	NA	NA	NA	31.2%	18.0%	19.9%	5.6%	18.9%
% of Rev	2.9%	3.2%	3.2%	3.6%	3.2%	3.7%	3.7%	3.7%	3.7%	3.7%
Top 2-5	147	158	164	174	647	163	171	190	208	731
QoQ %	NA	7.2%	3.9%	6.0%		-6.1%	4.7%	11.4%	9.1%	
YoY %	NA	NA	NA	NA	NA	11.0%	8.4%	16.2%	19.5%	12.9%
% of Rev	7.6%	8.0%	8.3%	8.6%	8.2%	8.2%	8.5%	9.3%	10.0%	9.0%
Top 5	203	221	227	246	900	237	245	266	284	1,031
QoQ %	NA	8.7%	2.9%	8.6%		-3.9%	3.6%	8.5%	6.9%	
YoY %	NA	NA	NA	NA	NA	16.6%	11.1%	17.3%	15.4%	14.6%
% of Rev	10.5%	11.2%	11.5%	12.2%	11.4%	11.9%	12.2%	13.0%	13.7%	12.7%
Top 6-10	141	142	132	133	545	135	139	137	139	552
QoQ %	NA	0.5%	-6.8%	0.8%		1.5%	2.5%	-1.1%	1.4%	
YoY %	NA	NA	NA	NA	NA	-4.2%	-2.2%	3.7%	4.4%	1.4%
% of Rev	7.3%	7.2%	6.7%	6.6%	6.9%	6.8%	6.9%	6.7%	6.7%	6.8%
Top 10	344	362	359	380	1,445	372	384	403	423	1,583
QoQ %	NA	5.3%	-0.9%	5.7%		-2.0%	3.2%	5.0%	5.0%	
YoY %	NA	NA	NA	NA	NA	8.1%	5.9%	12.3%	11.5%	9.6%
% of Rev	17.8%	18.4%	18.2%	18.8%	18.3%	18.7%	19.1%	19.7%	20.4%	19.5%
Non top 10	1,589	1,607	1,614	1,640	6,450	1,617	1,626	1,643	1,652	6,537
QoQ %	NA	1.1%	0.4%	1.6%		-1.4%	0.5%	1.1%	0.5%	
YoY %	NA	NA	NA	NA	NA	1.7%	1.1%	1.8%	0.8%	1.3%
% of Rev	82.2%	81.6%	81.8%	81.2%	81.7%	81.3%	80.9%	80.3%	79.6%	80.5%

Headcount, Attrition and Utilisation Data

(Nos.)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19
Total headcount	161,439	159,300	158,865	159,923	159,923	160,846	171,451	172,379	171,425	171,425
Net additions		(2,139)	(435)	1,058		923	10,605	928	(954)	11,502
Voluntary TTM attrition (%)	16.1%	16.0%	16.1%	16.8%	16.8%	17.1%	17.5%	17.9%	17.6%	17.6%
Gross Utilisation (%)	72.0%	72.9%	71.0%	73.1%	72.2%	74.5%	74.4%	73.4%	75.4%	74.4%
Utilisation ex-trainees (%)	82.1%	82.5%	81.9%	83.4%	82.5%	85.2%	85.5%	83.2%	85.4%	84.8%

Source: Company, HDFC sec Inst Research

Legacy impacted by business restructuring, down 7.0% YoY in FY19

Digital is showing strong deal bookings and will continue to drive growth

Business Mix

Segments (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19
Digital	441	475	493	537	1,946	557	631	679	722	2,590
QoQ %	NA	7.7%	3.9%	8.9%		3.7%	13.3%	7.7%	6.3%	
YoY %	NA	NA	NA	NA	NA	26.3%	32.9%	37.7%	34.5%	33.1%
% of Rev	22.8%	24.1%	25.0%	26.6%	24.6%	28.0%	31.4%	33.2%	34.8%	31.9%
Legacy (Non Digital)	1,493	1,495	1,480	1,482	5,949	1,432	1,379	1,367	1,353	5,531
QoQ %	NA	0.2%	-1.0%	0.2%		-3.4%	-3.7%	-0.8%	-1.0%	
YoY %	NA	NA	NA	NA	NA	-4.1%	-7.8%	-7.6%	-8.7%	-7.0%
% of Rev	77.2%	75.9%	75.0%	73.4%	75.4%	72.0%	68.6%	66.8%	65.2%	68.1%

Source: HDFC sec Inst Research

Key Assumptions

Particulars	FY17	FY18	FY19	FY20E	FY21E
IT Services Growth (USD) %	4.9	2.5	2.9	5.2	5.4
USD/INR rate	68.0	66.4	70.3	70.5	70.5
Products Growth (INR) %	(4.6)	(28.3)	(28.5)	0.0	1.0
IT Services EBIT Margin* %	18.2	16.8	18.4	18.4	18.5
Consolidated EBIT margin (%)	15.6	15.2	17.1	16.9	17.2

Source: Company, HDFC sec Inst Research * Adjusted

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
IT revenue (USD bn)	8.58	8.55	(0.4)
Net revenue (Rs bn)	619.82	617.02	(0.5)
Cons. EBIT (Rs bn)	106.96	104.48	(2.3)
EBIT margin (%)	17.3	16.9	(32) bps
EPS (Rs)	16.4	16.5	0.5
FY21E			
IT revenue (USD bn)	9.08	9.01	(0.8)
Net revenue (Rs bn)	654.88	649.76	(0.8)
Cons. EBIT (Rs bn)	114.03	111.79	(2.0)
EBIT margin (%)	17.4	17.2	(21) bps
EPS (Rs)	17.4	17.9	2.5

Source: HDFC sec Inst Research

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
TCS	7,999	2,132	2,410	BUY	68.8	83.9	90.4	100.5	31.0	25.4	23.6	21.2	30.1	36.1	37.1	39.1
Infosys	3,150	724	755	NEU	33.8	36.4	37.5	41.9	21.4	19.9	19.3	17.3	24.5	23.7	23.2	23.6
Wipro	1,691	281	250	SELL	14.5	15.9	16.5	17.9	19.4	17.6	17.0	15.7	16.5	17.3	16.9	17.0
HCL Tech	1,541	1,107	1,210	BUY	64.7	73.9	78.7	86.5	17.1	15.0	14.1	12.8	25.3	26.0	24.5	23.8
TechM	714	798	850	BUY	42.5	48.5	51.6	56.6	18.8	16.5	15.5	14.1	21.5	21.4	20.0	19.4
Tier-1 IT Median									19.4	17.6	16.5	15.1	24.5	23.7	23.2	23.6
LTI	281	1,633	2,145	BUY	67.0	88.8	95.0	107.3	24.4	18.4	17.2	15.2	33.2	35.8	31.5	29.8
Mphasis	190	981	1,370	BUY	45.4	56.9	64.9	76.2	21.6	17.2	15.1	12.9	14.6	20.1	22.4	23.0
LTTS	173	1,665	1,845	BUY	45.7	65.6	70.5	92.1	36.4	25.4	23.6	18.1	27.7	31.6	28.3	30.8
Mindtree	159	972	1,015	NEU	32.3	42.5	48.0	56.3	30.1	22.9	20.3	17.3	21.4	24.7	23.4	23.9
Hexaware *	102	345	430	BUY	16.8	19.6	20.7	25.9	20.5	17.6	16.7	13.3	26.6	26.5	24.8	27.6
Cyient	66	587	735	BUY	38.6	37.3	41.8	46.0	15.2	15.7	14.0	12.8	18.1	17.1	17.4	17.5
Tata Elxsi	61	983	875	NR	38.5	45.6	46.8	54.6	25.5	21.6	21.0	18.0	37.0	34.2	28.8	28.0
Zensar	55	241	294	BUY	10.6	13.4	15.8	18.4	22.7	18.0	15.2	13.1	15.1	16.7	17.3	17.5
Persistent	49	616	605	NEU	40.4	42.5	40.6	46.6	15.3	14.5	15.2	13.2	16.0	15.2	13.5	14.1
eClerx	44	1,131	1,005	SELL	70.8	57.7	67.2	77.3	16.0	19.6	16.8	14.6	24.1	18.0	19.9	21.6
Sonata	35	338	465	BUY	18.6	23.8	26.0	29.0	18.2	14.2	13.0	11.6	31.0	35.5	34.2	33.9
Intellect	29	229	310	BUY	3.7	7.1	10.2	15.0	NM	32.3	22.4	15.3	6.5	9.8	12.4	15.8
Majesco	14	498	720	BUY	(1.5)	22.1	28.2	33.5	NM	22.6	17.6	14.9	(1.1)	11.2	14.0	17.2
HGS	14	658	770	NR	96.5	72.5	86.4	96.4	6.8	9.1	7.6	6.8	14.3	9.8	10.7	10.9
Mastek	11	468	657	BUY	27.8	40.6	44.7	52.2	16.8	11.5	10.5	9.0	13.7	16.1	14.8	15.4
Tier-2 IT Median									20.5	18.0	16.7	13.3	18.1	18.0	19.9	21.6

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Accenture	115	179	NA	NR	5.6	6.5	7.3	8.0	32.2	27.8	24.5	22.5	41.7	42.0	39.9	36.7
Cognizant	43	74	NA	NR	2.5	3.6	4.4	4.9	29.3	20.6	16.8	15.2	14.1	19.0	20.9	20.6
Capgemini^	21	112	NA	NR	4.9	4.4	6.5	7.1	23.0	25.7	17.2	15.7	11.5	10.1	13.1	13.3
Global IT Median									29.3	25.7	17.2	15.7	14.1	19.0	20.9	20.6

Source: HDFC sec Inst Research, Bloomberg, *Dec YE, ^CMP and EPS in EUR terms

Consolidated Income Statement

YE March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
IT Services Net Revenues (USD bn)	7.70	7.90	8.12	8.55	9.01
Growth (%)	4.9	2.5	2.9	5.2	5.4
Net Revenues	550.40	544.87	585.85	617.02	649.76
Growth (%)	7.4	(1.0)	7.5	5.3	5.3
Operating Expenses	441.28	440.94	473.75	492.91	516.35
EBITDA	109.13	103.93	112.09	124.11	133.41
EBITDA (%)	19.8	19.1	19.1	20.1	20.5
EBITDA Growth (%)	1.0	(4.8)	7.9	10.7	7.5
Depreciation	23.11	21.12	19.47	19.63	21.62
EBIT	86.02	82.81	92.62	104.48	111.79
Other Income	21.66	23.86	26.96	20.59	22.92
Interest	5.18	5.68	7.38	6.27	6.02
Forex gains/(losses)	3.78	1.49	3.22	2.25	2.38
PBT	106.27	102.47	115.42	121.06	131.07
Tax (incl deferred)	25.21	22.39	25.24	26.63	29.10
Minority Interest and associate profit	-0.25	-0.00	-0.14	-0.15	-0.16
RPAT	84.90	80.08	90.03	94.27	101.81
EO (Loss) / Profit (Net Of Tax)	4.08	-2.49	-0.82	0.00	0.00
APAT	80.81	82.57	90.86	94.27	101.81
APAT Growth (%)	(9.2)	2.2	10.0	3.8	8.0
EPS	14.2	14.5	15.9	16.5	17.9
EPS Growth (%)	(9.2)	2.2	10.0	3.8	8.0

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	4.86	9.05	12.07	11.42	11.42
Reserves	515.44	473.89	556.05	539.29	633.75
Total Shareholders' Funds	520.30	482.94	568.12	550.71	645.17
Minority Interest	2.39	2.41	2.64	2.79	2.95
Total Debt	142.41	138.26	99.47	99.47	99.47
Net Deferred Taxes	3.52	-3.85	-2.19	-2.19	-2.19
Long Term Provisions & Others	15.05	19.67	16.28	16.28	16.28
TOTAL SOURCES OF FUNDS	683.68	639.43	684.32	667.06	761.68
APPLICATION OF FUNDS					
Net Block	60.84	49.28	47.83	40.54	31.91
CWIP	8.95	15.17	22.77	22.77	22.77
Goodwill & Other Intangible Assets	141.72	135.70	130.74	130.74	130.74
LT Loans & Advances, Others	40.01	74.64	54.56	54.56	54.56
Total Non Current Assets	251.52	274.78	255.90	248.61	239.98
Inventories	3.92	3.37	3.95	4.32	4.55
Debtors	94.85	100.99	100.49	106.50	112.15
Cash & Equivalents	344.74	294.02	379.25	356.82	457.14
Other Current Assets	95.40	80.58	87.98	98.72	103.96
Total Current Assets	538.90	478.96	571.67	566.36	677.81
Creditors	65.49	68.13	88.30	92.11	95.88
Other Current Liabilities & Provns	41.26	46.18	54.95	55.80	60.23
Total Current Liabilities	106.74	114.30	143.25	147.91	156.10
Net Current Assets	432.16	364.65	428.42	418.45	521.70
TOTAL APPLICATION OF FUNDS	683.68	639.43	684.32	667.06	761.68

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	106.27	102.47	115.42	121.06	131.07
Non-operating & EO items	(19.76)	(10.32)	(20.63)	(20.59)	(22.92)
Interest expenses	5.18	5.68	7.38	6.27	6.02
Depreciation	23.11	21.12	19.47	19.63	21.62
Working Capital Change	4.54	(0.94)	27.17	(12.46)	(2.93)
Tax paid	(25.48)	(28.11)	(25.15)	(26.63)	(29.10)
OPERATING CASH FLOW (a)	93.87	89.91	123.65	87.27	103.77
Capex	(53.25)	(27.35)	(20.84)	(12.34)	(13.00)
<i>Free cash flow (FCF)</i>	<i>40.62</i>	<i>62.56</i>	<i>102.81</i>	<i>74.93</i>	<i>90.78</i>
Investments	(0.23)	0.00	0.00	0.00	0.00
Non-operating income	17.38	14.96	20.52	20.59	22.92
INVESTING CASH FLOW (b)	(36.10)	(12.40)	(0.32)	8.25	9.92
Debt Issuance	12.98	(11.15)	(39.14)	0.00	0.00
Interest expenses	(5.18)	(5.68)	(4.80)	(6.27)	(6.02)
<i>FCFE</i>	<i>48.42</i>	<i>45.74</i>	<i>58.87</i>	<i>68.66</i>	<i>84.76</i>
Share capital Issuance/Buyback	(25.00)	(110.29)	0.00	(105.00)	0.00
Dividend	(8.73)	(5.42)	(5.43)	(6.68)	(7.35)
FINANCING CASH FLOW (c)	(25.94)	(132.53)	(49.37)	(117.95)	(13.37)
NET CASH FLOW (a+b+c)	31.84	(55.02)	73.96	(22.43)	100.32
Non-operating and EO items	9.61	4.30	11.26	0.00	0.00
Closing Cash & Equivalents	344.74	294.02	379.25	356.82	457.14

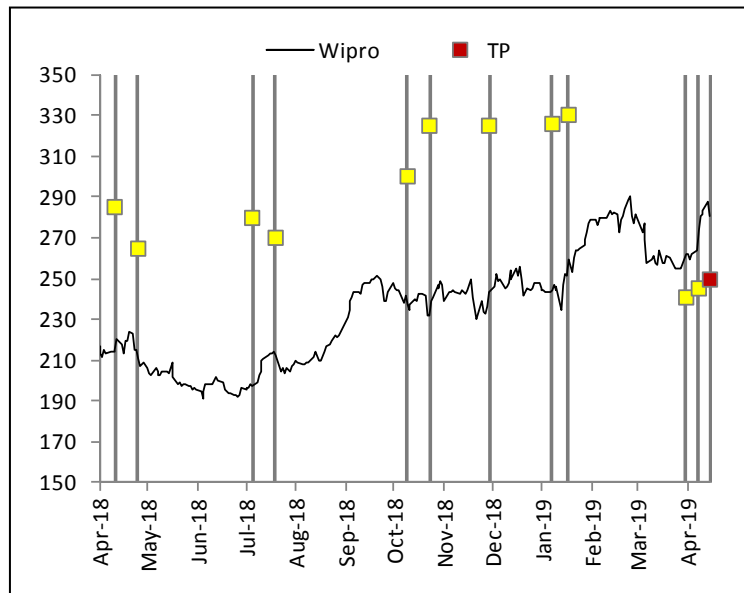
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
EBITDA Margin	19.8	19.1	19.1	20.1	20.5
APAT Margin	14.7	15.2	15.5	15.3	15.7
RoE	16.4	16.5	17.3	16.9	17.0
RoIC or Core RoCE	19.6	18.7	23.7	26.3	28.6
RoCE	11.2	11.2	12.1	12.0	12.2
EFFICIENCY					
Tax Rate (%)	22.1	22.8	21.8	21.9	22.0
Fixed Asset Turnover (x)	3.5	4.1	4.2	4.0	3.9
Debtors (days)	63	68	63	63	63
Other Current Assets (days)	63	54	55	58	58
Payables (days)	43	46	55	54	54
Other Current Liability (days)	27	31	34	33	34
Cash Conversion Cycle (days)	55	45	28	34	34
Net Debt/EBITDA (x)	(1.9)	(1.5)	(2.5)	(2.1)	(2.7)
Net Debt/Equity (x)	(0.4)	(0.3)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	16.6	14.6	12.6	16.7	18.6
PER SHARE DATA					
EPS (Rs/sh)	14.2	14.5	15.9	16.5	17.9
CEPS (Rs/sh)	18.9	17.8	19.2	20.0	21.7
DPS (Rs/sh)	1.5	1.0	1.0	1.2	1.3
BV (Rs/sh)	91.3	84.7	99.7	96.6	113.2
VALUATION					
P/E	19.8	19.4	17.6	17.0	15.7
P/BV	3.1	3.3	2.8	2.9	2.5
EV/EBITDA	12.8	13.9	11.8	10.8	9.3
OCF/EV (%)	6.7	6.2	9.4	6.5	8.4
FCF/EV (%)	2.9	4.3	7.8	5.6	7.3
FCFE/mkt cap (%)	3.0	2.9	3.7	4.3	5.3
Dividend Yield (%)	0.5	0.3	0.3	0.4	0.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
12-Apr-18	215	NEU	214
27-Apr-18	211	NEU	199
6-Jul-18	197	NEU	210
21-Jul-18	212	NEU	203
10-Oct-18	238	NEU	225
25-Oct-18	232	NEU	244
30-Nov-18	236	NEU	244
8-Jan-19	245	NEU	244
19-Jan-19	260	NEU	245
1-Apr-19	255	NEU	241
9-Apr-19	264	NEU	245
17-Apr-19	281	SELL	250

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Amit Chandra, MBA, Apurva Prasad, MBA & Akshay Ramnani, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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