Wipro

SELL

Challenges persist

We maintain SELL on WIPRO, post weak 1QFY20 and tepid guidance for 2Q. Wipro's revenue growth remains the lowest in tier-1 IT. In view of growth challenges, peaking margins and taxation on buyback we further cut our target multiple. Our TP of Rs 220 is based on 12x (vs. 14x earlier) Jun-21E EPS.

HIGHLIGHTS OF THE QUARTER

- Revenue (USD 2,039mn, -1.8/2.5 QoQ/YoY) missed estimates. BFSI (32% of mix) slowed down (-0.6% CC QoQ vs +2.1% 4-qtr CQGR) due to softness and delays in decision making (capital markets and large European banks).
- Revenue guidance of 0% to +2% CC growth in 2QFY20E is below expectation. It builds in slowdown in BFSI, delays in client decision making and completion of some large engagements. We sense growth challenges for Wipro will persist, led by client specific issues, weakness in consumer, manufacturing, HPS and continued legacy drag.
- Digital growth was healthy at 5.6% QoQ, but the pressure on legacy business (-5.7% QoQ decline) is higher vs peers (TCS/INFY -0.1/-0.6% QoQ). Wipro has significantly lagged Tier-1 IT on revenue growth for more than five years now.
- IT services EBIT margin at 18.5% (-77bps QoQ) was impacted by wage hike (one month), currency and visa cost. Ind AS 116 impact was minuscule (~0.1%). Margin challenges are likely considering wage hikes, tight labour market, localisation cost and peaking utilisation rate (85% ex-trainees).

STANCE: Growth concerns elevate, guidance weak

Wipro is struggling to grow (+2.9% YoY in FY19) whereas larger peers are clocking double digit growth rate. BFSI, which was the key revenue driver for Wipro is witnessing slowdown. Issues such as (1) Completion of large projects (Consumer), (2) Delay in decision making (BFSI, Manufacturing) and (3) Deferral in ramp-up of large projects is impacting growth. The soft guidance for 2QFY20 indicates that the lag is entrenched. Margin expansion is difficult and the buyback trade is over. Wipro has underperformed in last 3M (-8% vs NIFTY IT -3%) and the trend will continue unless growth revives.

We expect USD revenue growth of 3.0/5.4% and IT services EBIT% at 18.1/18.3% for FY20/21E. Wipro trades at 14.7x FY21E EPS (in-line with Tier-1 median), 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)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	147.16	139.78	5.3	150.06	(1.9)	544.87	585.85	599.72	629.20	666.11
EBIT	23.82	20.01	19.0	25.46	(6.4)	82.81	92.62	98.80	107.14	120.53
APAT	23.87	19.23	24.1	23.63	1.0	82.57	90.86	94.61	100.73	111.40
Diluted EPS (Rs)	4.2	3.4	24.1	4.1	1.0	14.5	15.9	16.6	17.7	19.5
P/E (x)						17.9	16.3	15.6	14.7	13.3
EV / EBITDA (x)						12.7	10.7	10.2	8.7	7.1
RoE (%)						16.5	17.3	16.9	16.9	16.0

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
CMP *(as on 17 Jul 2019)*	Rs 260
Target Price	Rs 220
Nifty	11,688
Sensex	39,216
KEY STOCK DATA	
Bloomberg	WPRO IN
No. of Shares (mn)	6,035
MCap (Rs bn) / ($ mn)	1,567/22,749
6m avg traded value (Rs mn)	2,290

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 302/198		
	3M	6M	12M
Absolute (%)	(7.6)	3.2	21.9
Relative (%)	(7.4)	(4.6)	14.5

SHAREHOLDING PATTERN (%)	Mar-19	June-19
Promoters	74.29	73.45
FIs & Local MFs	6.47	6.49
FPIs	8.62	8.94
Public & Others	10.62	11.12
Pledged Shares	0.00	0.00

Source : BSE

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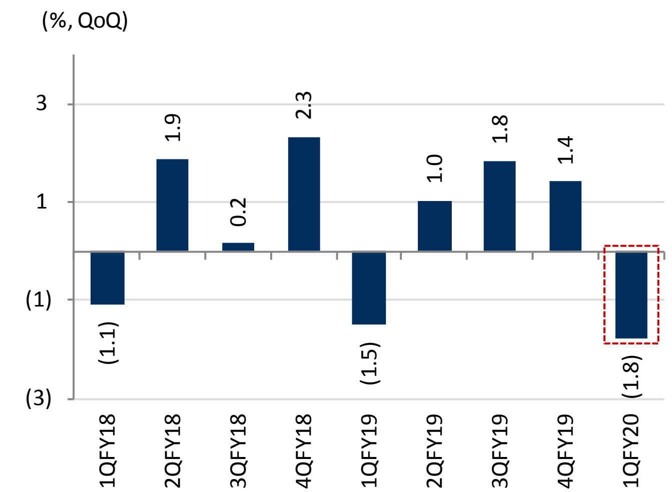
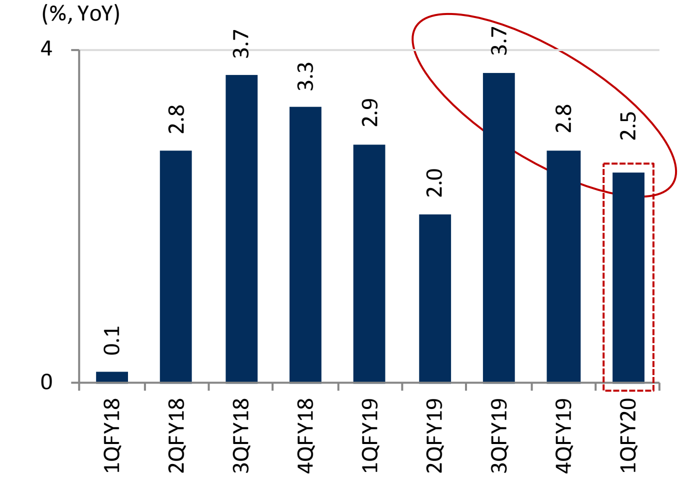
IT services (excluding ISRE business) grew -1.8/+2.5% QoQ/YoY, adjusting for impact of divested business growth was -1.3/4.3% QoQ/YoY

QoQ USD Revenue Growth



Source: Company, HDFC sec Inst Research

YoY USD Revenue Growth

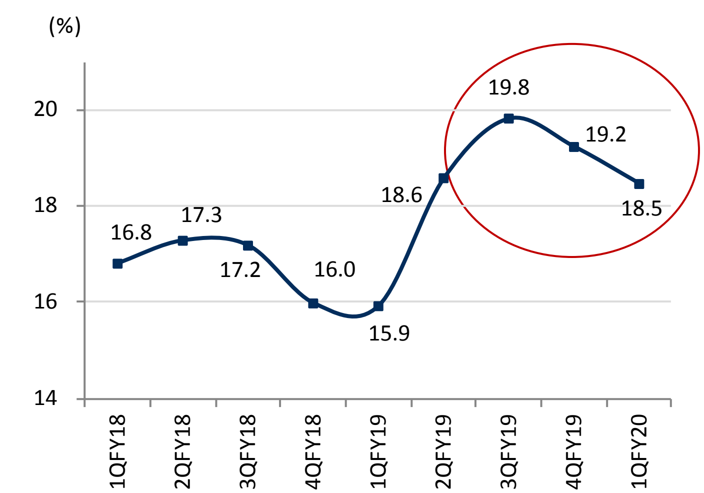


Source: Company, HDFC sec Inst Research

Growth guidance of 0-2%CC for 2QFY20 is lower than expectations and reflects ongoing growth challenges in BFSI and consumer verticals

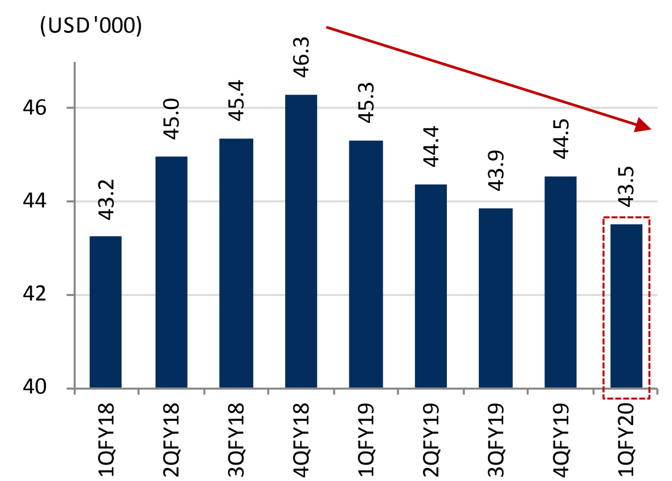
IT Services EBIT margin dipped to 18.5% after a sharp recovery from 1QFY19

IT Services EBIT Margin Trend (Adjusted)



Source: Company, HDFC sec Inst Research

Revenue/Employee Trend



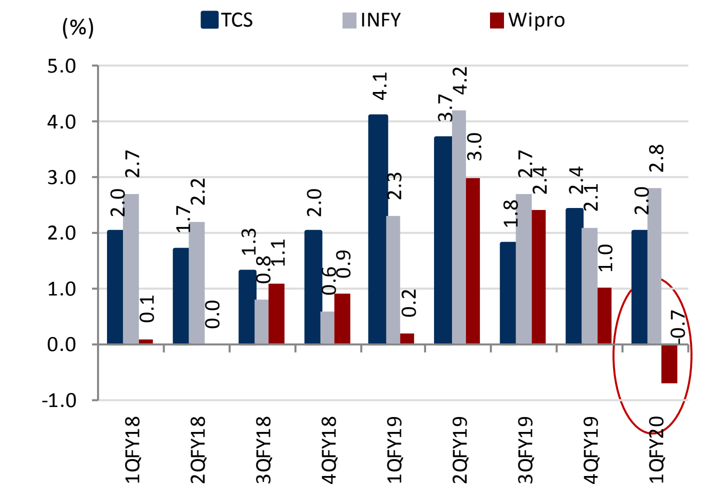
Source: Company, HDFC sec Inst Research

Wipro has been constantly lagging in terms of growth both in CC QoQ and YoY terms

EBIT Margins for Wipro have recovered but are still below TCS and INFY

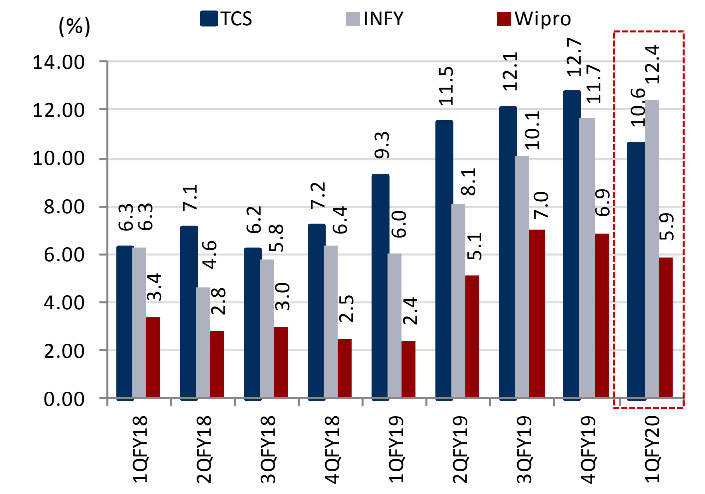
Attrition trend for Wipro has been stable for the past two qtrs and is lower than INFY

QoQ CC Revenue Growth Trend For Top-3 IT



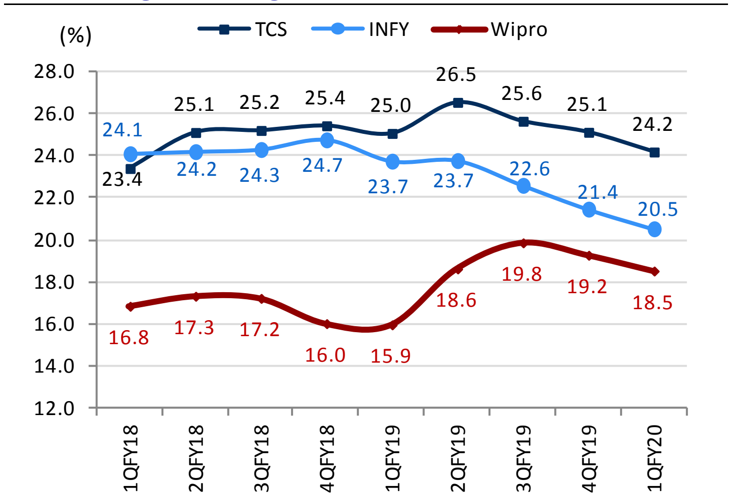
Source: Company, HDFC sec Inst Research

YoY CC Revenue Growth Trend For Top-3 IT



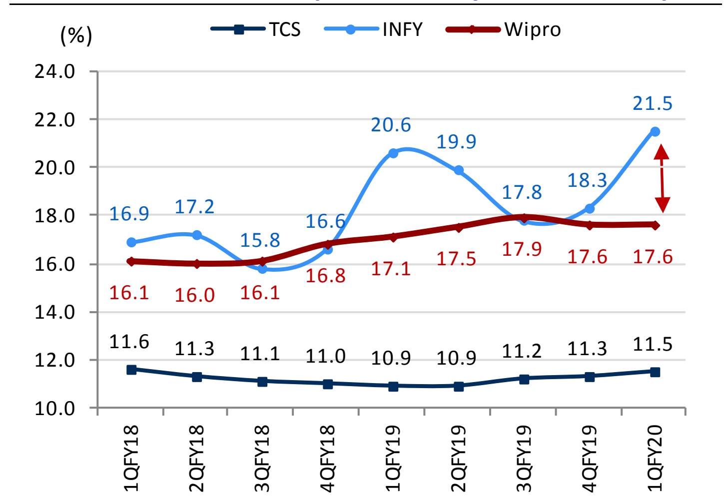
Source: Company, HDFC sec Inst Research

EBIT Margin Inching Downwards For The Sector



Source: Company, HDFC sec Inst Research

Attrition Trend For Top-3 IT, Infosys Is At The Top



Source: Company, HDFC sec Inst Research

Revenue came at USD 2.04bn -0.7/+5.9% QoQ/YoY in CC terms

Consolidated EBIT margin was down 78bps QoQ to 16.2% largely impacted by revenue decline

IT services EBIT margin was 18.5% down 77bps QoQ impacted by lower margins in Communications and Energy verticals

Quarterly Consolidated Financials Snapshot

YE March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
IT Services Revenues (USD bn)	**2.04**	**1.99**	***2.5***	**2.08**	***-1.8***
Total Revenues	**147.16**	**139.78**	***5.3***	**150.06**	***-1.9***
Operating Expenses	118.39	115.43	*2.6*	119.01	*-0.5*
EBITDA	**28.77**	**24.34**	***18.2***	**31.05**	***-7.3***
Depreciation	4.96	4.34	*14.2*	5.60	*-11.4*
EBIT	**23.82**	**20.01**	***19.0***	**25.46**	***-6.4***
Other Income	7.63	7.67	*-0.6*	8.76	*-12.9*
Interest costs	1.58	1.65	*-3.9*	2.53	*-37.4*
Forex gain/(loss)	0.86	0.77	*11.3*	0.32	*171.5*
PBT	**30.72**	**26.80**	***14.6***	**32.00**	***-4.0***
Minority Interest	0.15	(0.27)	*NM*	0.10	*41.3*
Tax	6.70	5.87	*14.2*	7.06	*-5.2*
RPAT	**23.87**	**21.21**	***12.6***	**24.83**	***-3.9***
E/o (adj for tax)	0.00	1.98	*NM*	1.20	*NM*
APAT	**23.87**	**19.23**	***24.1***	**23.63**	***1.0***

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Operating Expenses % Net Revenues	80.4	82.6	*(214)*	79.3	*114*
EBITDA Margin (%)	19.6	17.4	*214*	20.7	*(114)*
EBIT Margin (%)	**16.2**	**14.3**	***187***	**17.0**	***(78)***
IT Services EBIT Margin (%)	21.8	21.9	*(8)*	22.1	*(27)*
Tax Rate (%)	16.2	15.2	*105*	16.5	*(33)*
APAT Margin (%)	80.4	82.6	*(214)*	79.3	*114*

Source: Company, HDFC sec Inst Research

Wipro was gaining market share in BFSI for the past two years but BFSI has started slowing down, challenges in BFSI include Capital markets and European Banking segment

Communications and Healthcare verticals witnessed stability, growth recovered on a YoY basis

ENU vertical witnessed de-growth for two consecutive qtrs impacted by delayed decision making

Manufacturing de-grew 3.0% QoQ impacted by European Manufacturing (Autos)

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	1Q FY20
BFSI	**514**	**544**	**558**	**579**	**2,195**	**593**	**613**	**643**	**654**	**2,509**	**644**
QoQ %	*NA*	*5.7%*	*2.7%*	*3.8%*		*2.3%*	*3.4%*	*4.8%*	*1.7%*		*-1.5%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*15.2%*	*12.7%*	*15.1%*	*12.8%*	*14.3%*	*8.7%*
% of Rev	26.6%	27.6%	28.3%	28.7%	27.8%	29.8%	30.5%	31.4%	31.5%	30.9%	31.6%
Communications	**133**	**130**	**128**	**119**	**513**	**113**	**117**	**119**	**118**	**463**	**120**
QoQ %	*NA*	*-2.6%*	*-1.4%*	*-7.1%*		*-4.8%*	*2.8%*	*1.8%*	*-0.3%*		*1.7%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*-15.0%*	*-10.3%*	*-7.4%*	*-0.7%*	*-9.8%*	*6.1%*
% of Rev	6.9%	6.6%	6.5%	5.9%	6.5%	5.7%	5.8%	5.8%	5.7%	5.7%	5.9%
Consumer	**290**	**297**	**298**	**303**	**1,184**	**304**	**315**	**319**	**336**	**1,275**	**318**
QoQ %	*NA*	*2.6%*	*0.2%*	*1.7%*		*0.5%*	*3.7%*	*1.2%*	*5.3%*		*-5.4%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*4.9%*	*6.1%*	*7.2%*	*11.0%*	*7.7%*	*4.5%*
% of Rev	15.0%	15.1%	15.1%	15.0%	15.0%	15.3%	15.7%	15.6%	16.2%	15.7%	15.6%
ENU	**261**	**266**	**251**	**256**	**1,034**	**253**	**257**	**266**	**266**	**1,039**	**261**
QoQ %	*NA*	*1.9%*	*-5.8%*	*2.3%*		*-1.5%*	*1.8%*	*3.4%*	*-0.1%*		*-1.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*-3.2%*	*-3.3%*	*6.2%*	*3.6%*	*0.5%*	*3.3%*
% of Rev	13.5%	13.5%	12.7%	12.7%	13.1%	12.7%	12.8%	13.0%	12.8%	12.8%	12.8%
Healthcare	**292**	**276**	**282**	**287**	**1,137**	**270**	**261**	**268**	**274**	**1,072**	**269**
QoQ %	*NA*	*-5.5%*	*2.3%*	*1.6%*		*-5.7%*	*-3.4%*	*2.6%*	*2.2%*		*-1.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*-7.4%*	*-5.3%*	*-5.0%*	*-4.4%*	*-5.7%*	*-0.5%*
% of Rev	15.1%	14.0%	14.3%	14.2%	14.4%	13.6%	13.0%	13.1%	13.2%	13.2%	13.2%
Manufacturing	**176**	**175**	**174**	**180**	**703**	**167**	**167**	**166**	**166**	**666**	**161**
QoQ %	*NA*	*-0.4%*	*-1.0%*	*3.5%*		*-7.0%*	*-0.2%*	*-0.6%*	*0.2%*		*-3.0%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*-5.0%*	*-4.9%*	*-4.5%*	*-7.6%*	*-5.2%*	*-3.6%*
% of Rev	9.1%	8.9%	8.8%	8.9%	8.9%	8.4%	8.3%	8.1%	8.0%	8.2%	7.9%
Technology	**267**	**282**	**282**	**295**	**1,129**	**288**	**279**	**266**	**262**	**1,096**	**265**
QoQ %	*NA*	*5.6%*	*0.2%*	*4.5%*		*-2.2%*	*-3.1%*	*-4.8%*	*-1.7%*		*1.4%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*8.1%*	*-0.8%*	*-5.7%*	*-11.3%*	*-2.9%*	*-8.1%*
% of Rev	13.8%	14.3%	14.3%	14.6%	14.3%	14.5%	13.9%	13.0%	12.6%	13.5%	13.0%
Total Revenue (IT Services)	**1,933**	**1,970**	**1,973**	**2,019**	**7,895**	**1,989**	**2,010**	**2,047**	**2,076**	**8,120**	**2,039**
QoQ %	*NA*	*1.9%*	*0.2%*	*2.3%*		*-1.5%*	*1.0%*	*1.8%*	*1.4%*		*-1.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*2.9%*	*2.0%*	*3.7%*	*2.8%*	*2.9%*	*2.5%*

Source: Company, HDFC sec Inst Research

Industrial & Engineering Services at 3.7% QoQ was strong for the second consecutive quarter

Softness was present across service lines with Data, Analytics & AI and Digital Operations & Platforms down 4.4% and 3.1% respectively

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	1Q FY20
Digital Operations and Platforms	**238**	**244**	**255**	**250**	**987**	**247**	**259**	**301**	**309**	**1,112**	**300**
QoQ %	*NA*	*2.7%*	*4.2%*	*-1.6%*		*-1.5%*	*5.1%*	*16.1%*	*2.8%*		*-3.1%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*3.7%*	*6.1%*	*18.2%*	*23.5%*	*12.7%*	*21.5%*
% of Rev	12.3%	12.4%	12.9%	12.4%	12.5%	12.4%	12.9%	14.7%	14.9%	13.7%	14.7%
Cloud and Infrastructure	**526**	**536**	**539**	**557**	**2,155**	**523**	**514**	**512**	**523**	**2,071**	**524**
QoQ %	*NA*	*1.9%*	*0.5%*	*3.5%*		*-6.1%*	*-1.6%*	*-0.5%*	*2.2%*		*0.2%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*-0.5%*	*-4.0%*	*-5.0%*	*-6.1%*	*-3.9%*	*0.2%*
% of Rev	27.2%	27.2%	27.3%	27.6%	27.3%	26.3%	25.6%	25.0%	25.2%	25.5%	25.7%
Data, Analytics and AI	**141**	**142**	**140**	**143**	**568**	**143**	**157**	**156**	**158**	**617**	**151**
QoQ %	*NA*	*0.5%*	*-1.2%*	*2.3%*		*-0.1%*	*9.5%*	*-0.8%*	*1.4%*		*-4.4%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*1.5%*	*10.5%*	*11.0%*	*10.0%*	*8.6%*	*5.4%*
% of Rev	7.3%	7.2%	7.1%	7.1%	7.2%	7.2%	7.8%	7.6%	7.6%	7.6%	7.4%
Modern Application Services	**891**	**908**	**902**	**919**	**3,616**	**929**	**930**	**933**	**936**	**3,727**	**909**
QoQ %	*NA*	*1.9%*	*-0.7%*	*1.9%*		*1.1%*	*0.2%*	*0.3%*	*0.3%*		*-2.9%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*4.2%*	*2.5%*	*3.5%*	*1.9%*	*3.1%*	*-2.1%*
% of Rev	46.1%	46.1%	45.7%	45.5%	45.8%	46.7%	46.3%	45.6%	45.1%	45.9%	44.6%
Industrial & Engineering Services	**137**	**140**	**138**	**149**	**568**	**147**	**149**	**145**	**149**	**593**	**155**
QoQ %	*NA*	*1.9%*	*-1.2%*	*8.2%*		*-1.5%*	*1.0%*	*-2.3%*	*2.8%*		*3.7%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*7.2%*	*6.3%*	*5.2%*	*0.0%*	*4.3%*	*5.3%*
% of Rev	7.1%	7.1%	7.0%	7.4%	7.2%	7.4%	7.4%	7.1%	7.2%	7.3%	7.6%
Total Revenue (IT Services)	**1,933**	**1,970**	**1,973**	**2,019**	**7,895**	**1,989**	**2,010**	**2,047**	**2,076**	**8,120**	**2,039**
QoQ %	*NA*	*1.9%*	*0.2%*	*2.3%*		*-1.5%*	*1.0%*	*1.8%*	*1.4%*		*-1.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*2.9%*	*2.0%*	*3.7%*	*2.8%*	*2.9%*	*2.5%*

Source: Company, HDFC sec Inst Research

America's growth cooled down after four consecutive quarters of growth

Europe has been soft for Wipro for the past 5-qtrs, European Banking and Manufacturing verticals are facing challenges

Wipro has been able to increase share of offshore in the revenue which has partly contributed to the margin expansion

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	1Q FY20
US	**1,075**	**1,079**	**1,067**	**1,086**	**4,311**	**1,114**	**1,127**	**1,169**	**1,208**	**4,612**	**1,197**
QoQ %	*NA*	*0.4%*	*-1.1%*	*1.8%*		*2.5%*	*1.2%*	*3.7%*	*3.4%*		*-0.9%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*3.6%*	*4.4%*	*9.5%*	*11.2%*	*7.0%*	*7.5%*
% of Rev	55.6%	54.8%	54.1%	53.8%	54.6%	56.0%	56.1%	57.1%	58.2%	56.8%	58.7%
Europe	**478**	**504**	**523**	**555**	**2,061**	**519**	**516**	**522**	**511**	**2,071**	**502**
QoQ %	*NA*	*5.6%*	*3.7%*	*6.2%*		*-6.5%*	*-0.5%*	*1.0%*	*-2.2%*		*-1.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*8.7%*	*2.4%*	*-0.2%*	*-8.0%*	*0.5%*	*-3.4%*
% of Rev	24.7%	25.6%	26.5%	27.5%	26.1%	26.1%	25.7%	25.5%	24.6%	25.5%	24.6%
Row	**381**	**386**	**383**	**378**	**1,524**	**356**	**366**	**356**	**357**	**1,437**	**340**
QoQ %	*NA*	*1.4%*	*-0.9%*	*-1.4%*		*-5.7%*	*2.7%*	*-2.6%*	*0.3%*		*-4.6%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*-6.5%*	*-5.3%*	*-7.0%*	*-5.5%*	*-5.7%*	*-4.4%*
% of Rev	19.7%	19.6%	19.4%	18.7%	19.3%	17.9%	18.2%	17.4%	17.2%	17.7%	16.7%
Total Revenue (IT Services)	**1,933**	**1,970**	**1,973**	**2,019**	**7,895**	**1,989**	**2,010**	**2,047**	**2,076**	**8,120**	**2,039**
QoQ %	*NA*	*1.9%*	*0.2%*	*2.3%*		*-1.5%*	*1.0%*	*1.8%*	*1.4%*		*-1.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*2.9%*	*2.0%*	*3.7%*	*2.8%*	*2.9%*	*2.5%*

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	1Q FY20
Onsite	**1,036**	**1,048**	**1,056**	**1,064**	**4,200**	**1,052**	**1,061**	**1,068**	**1,069**	**4,247**	**1,066**
QoQ %	*NA*	*1.1%*	*0.7%*	*0.8%*		*-1.1%*	*0.8%*	*0.7%*	*0.1%*		*-0.2%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*1.5%*	*1.3%*	*1.2%*	*0.5%*	*1.1%*	*1.4%*
% of Rev	53.6%	53.2%	53.5%	52.7%	53.2%	52.9%	52.8%	52.2%	51.5%	52.3%	52.3%
Offshore	**897**	**922**	**917**	**955**	**3,695**	**937**	**948**	**978**	**1,007**	**3,873**	**973**
QoQ %	*NA*	*2.8%*	*-0.5%*	*4.1%*		*-1.9%*	*1.3%*	*3.1%*	*2.9%*		*-3.4%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*4.4%*	*2.9%*	*6.6%*	*5.4%*	*4.8%*	*3.8%*
% of Rev	46.4%	46.8%	46.5%	47.3%	46.8%	47.1%	47.2%	47.8%	48.5%	47.7%	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**	**2,039**
QoQ %	*NA*	*1.9%*	*0.2%*	*2.3%*		*-1.5%*	*1.0%*	*1.8%*	*1.4%*		*-1.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*2.9%*	*2.0%*	*3.7%*	*2.8%*	*2.9%*	*2.5%*

Source: Company, HDFC sec Inst Research

Top customer de-grew 1.8% QoQ, in-line with company revenue

Wipro's Top-5 clients' performance has been impressive for the past 5 qtrs

Utilisation dipped 150bps impacted by higher net-additions

Achieved 65% localization in US (vs. 64% in 4Q) 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	1Q FY20
Top customer	**56**	**63**	**63**	**73**	**253**	**74**	**74**	**76**	**77**	**300**	**75**
QoQ %	*NA*	*12.4%*	*0.2%*	*15.1%*		*1.2%*	*1.0%*	*1.8%*	*1.4%*		*-1.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*31.2%*	*18.0%*	*19.9%*	*5.6%*	*18.9%*	*2.5%*
% of Rev	2.9%	3.2%	3.2%	3.6%	3.2%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Top 2-5	**147**	**158**	**164**	**174**	**647**	**163**	**171**	**190**	**208**	**731**	**206**
QoQ %	*NA*	*7.2%*	*3.9%*	*6.0%*		*-6.1%*	*4.7%*	*11.4%*	*9.1%*		*-0.8%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*11.0%*	*8.4%*	*16.2%*	*19.5%*	*12.9%*	*26.3%*
% of Rev	7.6%	8.0%	8.3%	8.6%	8.2%	8.2%	8.5%	9.3%	10.0%	9.0%	10.1%
Top 5	**203**	**221**	**227**	**246**	**900**	**237**	**245**	**266**	**284**	**1,031**	**281**
QoQ %	*NA*	*8.7%*	*2.9%*	*8.6%*		*-3.9%*	*3.6%*	*8.5%*	*6.9%*		*-1.1%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*16.6%*	*11.1%*	*17.3%*	*15.4%*	*14.6%*	*18.9%*
% of Rev	10.5%	11.2%	11.5%	12.2%	11.4%	11.9%	12.2%	13.0%	13.7%	12.7%	13.8%
Top 6-10	**141**	**142**	**132**	**133**	**545**	**135**	**139**	**137**	**139**	**552**	**141**
QoQ %	*NA*	*0.5%*	*-6.8%*	*0.8%*		*1.5%*	*2.5%*	*-1.1%*	*1.4%*		*1.2%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*-4.2%*	*-2.2%*	*3.7%*	*4.4%*	*1.4%*	*4.0%*
% of Rev	7.3%	7.2%	6.7%	6.6%	6.9%	6.8%	6.9%	6.7%	6.7%	6.8%	6.9%
Top 10	**344**	**362**	**359**	**380**	**1,445**	**372**	**384**	**403**	**423**	**1,583**	**422**
QoQ %	*NA*	*5.3%*	*-0.9%*	*5.7%*		*-2.0%*	*3.2%*	*5.0%*	*5.0%*		*-0.3%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*8.1%*	*5.9%*	*12.3%*	*11.5%*	*9.6%*	*13.5%*
% of Rev	17.8%	18.4%	18.2%	18.8%	18.3%	18.7%	19.1%	19.7%	20.4%	19.5%	20.7%
Non top 10	**1,589**	**1,607**	**1,614**	**1,640**	**6,450**	**1,617**	**1,626**	**1,643**	**1,652**	**6,537**	**1,617**
QoQ %	*NA*	*1.1%*	*0.4%*	*1.6%*		*-1.4%*	*0.5%*	*1.1%*	*0.5%*		*-2.1%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*1.7%*	*1.1%*	*1.8%*	*0.8%*	*1.3%*	*0.0%*
% of Rev	82.2%	81.6%	81.8%	81.2%	81.7%	81.3%	80.9%	80.3%	79.6%	80.5%	79.3%

Headcount, Attrition and Utilisation Data

(Nos.)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Total headcount	**161,439**	**159,300**	**158,865**	**159,923**	**159,923**	**160,846**	**171,451**	**172,379**	**171,425**	**171,425**	**174,850**
Net additions		*(2,139)*	*(435)*	*1,058*		*923*	*10,605*	*928*	*(954)*	*11,502*	*3,425*
Voluntary TTM attrition (%)	16.1%	16.0%	16.1%	16.8%	16.8%	17.1%	17.5%	17.9%	17.6%	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%	73.9%
Utilisation ex-trainees (%)	82.1%	82.5%	81.9%	83.4%	82.5%	85.2%	85.5%	83.2%	85.4%	84.8%	85.0%

Source: Company, HDFC sec Inst Research

Steady acceleration of growth in Digital offset by steady acceleration of de-growth in Legacy

Digital growth is broad based now (vs. led by B2C verticals earlier)

Decline in Legacy is due to closure and non-renewal of legacy contracts and productivity benefits passed via pricing to customers

Business Mix

Segments (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Digital	**441**	**475**	**493**	**537**	**1,946**	**557**	**631**	**679**	**722**	**2,590**	**763**
QoQ %	*NA*	*7.7%*	*3.9%*	*8.9%*		*3.7%*	*13.3%*	*7.7%*	*6.3%*		*5.6%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*26.3%*	*32.9%*	*37.7%*	*34.5%*	*33.1%*	*36.9%*
% of Rev	22.8%	24.1%	25.0%	26.6%	24.6%	28.0%	31.4%	33.2%	34.8%	31.9%	37.4%
Legacy (Non Digital)	**1,493**	**1,495**	**1,480**	**1,482**	**5,949**	**1,432**	**1,379**	**1,367**	**1,353**	**5,531**	**1,276**
QoQ %	*NA*	*0.2%*	*-1.0%*	*0.2%*		*-3.4%*	*-3.7%*	*-0.8%*	*-1.0%*		*-5.7%*
YoY %	*NA*	*NA*	*NA*	*NA*	*NA*	*-4.1%*	*-7.8%*	*-7.6%*	*-8.7%*	*-7.0%*	*-10.9%*
% of Rev	77.2%	75.9%	75.0%	73.4%	75.4%	72.0%	68.6%	66.8%	65.2%	68.1%	62.6%

Source: HDFC sec Inst Research

Key Assumptions

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
IT Services Growth (USD) %	4.9	2.5	2.9	3.0	5.4	6.0
USD/INR rate	68.0	66.4	70.3	70.2	70.0	70.0
Products Growth (INR) %	(4.6)	(28.3)	(28.5)	(13.7)	(2.0)	(1.0)
IT Services EBIT Margin* %	18.2	16.8	18.4	18.1	18.3	18.5
Consolidated EBIT margin (%)	15.6	15.2	17.1	16.5	17.0	18.1

Source: Company, HDFC sec Inst Research * Adjusted

Change In Estimates

Particulars	Earlier estimates	Revised estimates	*% change*
FY20E			
IT revenue (USD bn)	8.50	8.36	*(1.6)*
Net revenue (Rs bn)	607.92	599.72	*(1.3)*
Cons. EBIT (Rs bn)	103.27	98.80	*(4.3)*
EBIT margin (%)	*17.0*	16.5	*(51)bps*
EPS (Rs)	16.7	16.6	*(0.4)*
FY21E			
IT revenue (USD bn)	8.96	8.81	*(1.7)*
Net revenue (Rs bn)	641.23	629.20	*(1.9)*
Cons. EBIT (Rs bn)	111.12	107.14	*(3.6)*
EBIT margin (%)	*17.3*	17.0	*(30)bps*
EPS (Rs)	17.9	17.7	*(1.2)*

Source: HDFC sec Inst Research

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
TCS	7,945	2,117	2,420	BUY	68.8	83.9	87.9	98.4	30.8	25.2	24.1	21.5	30.1	36.1	36.1	38.5
Infosys	3,455	794	770	NEU	34.2	36.7	36.9	41.5	23.2	21.6	21.5	19.1	22.0	24.4	24.8	27.2
Wipro	**1,567**	**260**	**220**	**SELL**	**14.0**	**15.8**	**16.6**	**17.7**	**18.5**	**16.4**	**15.6**	**14.7**	**16.5**	**17.3**	**16.9**	**16.9**
HCL Tech	1,449	1,041	1,305	BUY	64.7	74.6	78.2	89.9	16.1	13.9	13.3	11.6	25.3	26.0	24.0	24.3
TechM	608	691	650	SELL	43.2	48.9	48.1	53.1	16.0	14.1	14.4	13.0	21.5	22.0	20.4	20.7
Tier-1 IT Median									**18.5**	**16.4**	**15.6**	**14.7**	**22.0**	**24.4**	**24.0**	**24.3**
LTI	281	1,619	2,171	BUY	66.9	87.3	88.5	105.6	24.2	18.5	18.3	15.3	33.2	34.6	28.8	29.1
Mphasis	171	919	1,360	BUY	45.4	57.7	60.5	73.0	20.2	15.9	15.2	12.6	14.6	20.0	20.3	21.7
LTTS	173	1,667	2,020	BUY	45.5	68.0	74.8	96.7	36.6	24.5	22.3	17.2	27.7	32.0	28.6	30.7
Mindtree	**123**	**751**	**705**	**NEU**	**32.3**	**44.2**	**36.5**	**48.1**	**23.2**	**17.0**	**20.6**	**15.6**	**20.0**	**24.0**	**18.4**	**23.0**
Hexaware *	107	359	440	BUY	16.8	19.6	20.9	26.0	21.4	18.3	17.2	13.8	26.6	26.5	24.3	26.1
Cyient	61	545	605	NEU	38.6	43.6	48.2	51.2	14.1	12.5	11.3	10.6	18.1	19.5	19.9	18.9
Zensar	56	245	315	BUY	10.6	13.8	15.8	19.1	23.1	17.7	15.5	12.8	15.1	17.0	16.9	17.8
Tata Elxsi	46	742	990	NR	38.5	46.6	45.8	52.4	19.3	15.9	16.2	14.2	37.0	34.5	27.6	26.5
Persistent	49	611	655	NEU	40.6	45.9	44.9	48.5	15.1	13.3	13.6	12.6	16.0	15.7	14.5	14.3
Sonata	37	352	495	BUY	18.6	24.0	27.0	30.2	19.0	14.7	13.0	11.7	31.0	35.1	34.3	34.0
Intellect	34	272	325	BUY	3.7	8.1	10.6	15.0	NM	33.7	25.6	18.1	6.7	11.1	12.3	15.0
eClerx	26	680	750	NEU	74.1	61.7	60.9	67.3	9.2	11.0	11.2	10.1	24.1	17.6	16.5	18.3
Majesco	15	549	730	BUY	(1.5)	18.3	26.3	34.4	NM	29.9	20.9	16.0	NM	8.4	10.4	12.2
HGS	13	630	900	NR	96.5	84.6	106.2	120.7	6.5	7.4	5.9	5.2	14.3	11.3	12.7	13.0
Mastek	11	459	635	BUY	27.8	40.6	43.8	49.8	16.5	11.3	10.5	9.2	13.7	16.1	14.6	14.8
Tier-2 IT Median									**19.3**	**15.9**	**15.5**	**12.8**	**19.8**	**19.5**	**18.4**	**18.9**

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

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									**25.8**	**25.9**	**17.4**	**15.9**	**14.1**	**19.0**	**16.7**	**19.3**

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

Consolidated Income Statement

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
IT Services Net Revenues (US $bn)	**7.90**	**8.12**	**8.36**	**8.81**	**9.34**
Growth (%)	***2.5***	***2.9***	***3.0***	***5.4***	***6.0***
Net Revenues	**544.87**	**585.85**	**599.72**	**629.20**	**666.11**
Growth (%)	***(1.0)***	***7.5***	***2.4***	***4.9***	***5.9***
Operating Expenses	440.94	473.75	480.81	500.86	523.73
EBITDA	**103.93**	**112.09**	**118.90**	**128.34**	**142.38**
Depreciation	21.12	19.47	20.10	21.19	21.86
EBIT	**82.81**	**92.62**	**98.80**	**107.14**	**120.53**
EBIT (%)	***15.2***	***15.8***	***16.5***	***17.0***	***18.1***
EBIT Growth (%)	***(3.7)***	***11.9***	***6.7***	***8.4***	***12.5***
Other Income	23.86	26.96	25.96	26.00	26.18
Interest	5.68	7.38	6.37	6.57	6.57
Forex gains/(losses)	1.49	3.22	3.16	3.10	3.26
PBT	**102.47**	**115.42**	**121.55**	**129.67**	**143.40**
Tax (incl deferred)	22.39	25.24	26.68	28.79	31.84
Minority Interest and associate profit	-0.00	-0.14	-0.26	-0.16	-0.17
RPAT	**80.08**	**90.03**	**94.61**	**100.73**	**111.40**
EO (Loss) / Profit (Net Of Tax)	-2.49	-0.82	0.00	0.00	0.00
APAT	**82.57**	**90.86**	**94.61**	**100.73**	**111.40**
APAT Growth (%)	***2.2***	***10.0***	***4.1***	***6.5***	***10.6***
EPS	**14.5**	**15.9**	**16.6**	**17.7**	**19.5**
EPS Growth (%)	**2.2**	**10.0**	**4.1**	**6.5**	**10.6**

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	9.05	12.07	11.42	11.42	11.42
Reserves	473.89	556.05	539.62	633.00	737.04
Total Shareholders' Funds	**482.94**	**568.12**	**551.04**	**644.42**	**748.47**
Minority Interest	2.41	2.64	2.90	3.05	3.22
Total Debt	**138.26**	**99.47**	**99.47**	**99.47**	**99.47**
Net Deferred Taxes	(3.85)	(2.19)	(2.19)	(2.19)	(2.19)
Long Term Provisions & Others	19.67	16.28	16.28	16.28	16.28
TOTAL SOURCES OF FUNDS	**639.43**	**684.32**	**667.50**	**761.03**	**865.25**
APPLICATION OF FUNDS					
Net Block	49.28	47.83	39.72	31.11	22.57
CWIP	15.17	22.77	22.77	22.77	22.77
Goodwill & Other Intangible Assets	135.70	130.74	130.74	130.74	130.74
LT Loans & Advances, Others	74.64	54.56	54.56	54.56	54.56
Total Non Current Assets	**274.78**	**255.90**	**247.79**	**239.18**	**230.65**
Cash & Equivalents	**294.02**	**379.25**	**360.75**	**460.23**	**569.63**
Debtors	100.99	100.49	103.51	108.60	114.97
Inventories	3.37	3.95	4.20	4.40	4.66
Other Current Assets	80.58	87.98	95.95	100.67	106.58
Total Current Assets	**184.94**	**192.42**	**203.67**	**213.68**	**226.21**
Creditors	68.13	88.30	89.36	92.88	96.69
Other Current Liabilities & Provns	46.18	54.95	55.35	59.18	64.55
Total Current Liabilities	**114.30**	**143.25**	**144.71**	**152.05**	**161.24**
Net Current Assets	**70.63**	**49.17**	**58.96**	**61.62**	**64.97**
TOTAL APPLICATION OF FUNDS	**639.43**	**684.32**	**667.50**	**761.03**	**865.25**

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	102.47	115.42	121.55	129.67	143.40
Non-operating & EO items	(10.32)	(20.63)	(25.96)	(26.00)	(26.18)
Interest expenses	5.68	7.38	6.37	6.57	6.57
Depreciation	21.12	19.47	20.10	21.19	21.86
Working Capital Change	(0.94)	27.17	(9.79)	(2.67)	(3.35)
Tax paid	(28.11)	(25.15)	(26.68)	(28.79)	(31.84)
OPERATING CASH FLOW (a)	**89.91**	**123.65**	**85.59**	**99.98**	**110.46**
Capex	(27.35)	(20.84)	(11.99)	(12.58)	(13.32)
Free cash flow (FCF)	*62.56*	*102.81*	*73.60*	*87.40*	*97.14*
Investments	0.00	0.00	0.00	0.00	0.00
Non-operating income	14.96	20.52	25.96	26.00	26.18
INVESTING CASH FLOW (b)	**(12.40)**	**(0.32)**	**13.97**	**13.42**	**12.86**
Debt Issuance	(11.15)	(39.14)	0.00	0.00	0.00
Interest expenses	(5.68)	(4.80)	(6.37)	(6.57)	(6.57)
FCFE	*45.74*	*58.87*	*67.23*	*80.83*	*90.57*
Share capital Issuance/Buyback	(110.29)	0.00	(105.00)	0.00	0.00
Dividend	(5.42)	(5.43)	(6.68)	(7.35)	(7.35)
FINANCING CASH FLOW (c)	**(132.53)**	**(49.37)**	**(118.06)**	**(13.92)**	**(13.92)**
NET CASH FLOW (a+b+c)	**(55.02)**	**73.96**	**(18.50)**	**99.48**	**109.40**
Non-operating and EO items	4.30	11.26	0.00	0.00	0.00
Closing Cash & Equivalents	294.02	379.25	360.75	460.23	569.63

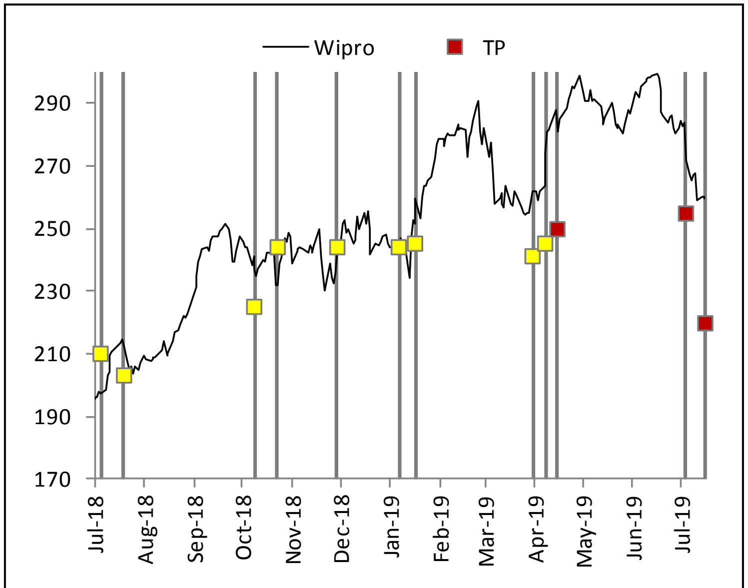
Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
EBITDA Margin	19.1	19.1	19.8	20.4	21.4
APAT Margin	15.2	15.5	15.8	16.0	16.7
RoE	16.5	17.3	16.9	16.9	16.0
RoIC or Core RoCE	18.7	23.7	25.1	27.7	31.7
RoCE	11.2	12.1	12.1	12.2	11.9
EFFICIENCY					
Tax Rate (%)	22.8	21.8	21.9	22.0	22.2
Fixed Asset Turnover (x)	4.1	4.2	3.9	3.8	3.7
Debtors (days)	68	63	63	63	63
Other Current Assets (days)	54	55	58	58	58
Payables (days)	46	55	54	54	53
Other Current Liability (days)	31	34	34	34	35
Cash Conversion Cycle (days)	45	28	33	33	33
Net Debt/EBITDA (x)	(1.5)	(2.5)	(2.2)	(2.8)	(3.3)
Net Debt/Equity (x)	(0.3)	(0.5)	(0.5)	(0.6)	(0.6)
Interest Coverage (x)	14.6	12.6	15.5	16.3	18.4
PER SHARE DATA					
EPS (Rs/sh)	14.5	15.9	16.6	17.7	19.5
CEPS (Rs/sh)	17.7	19.2	20.1	21.4	23.4
DPS (Rs/sh)	1.0	1.0	1.2	1.3	1.3
BV (Rs/sh)	84.7	99.6	96.6	113.0	131.3
VALUATION					
P/E	17.9	16.3	15.6	14.7	13.3
P/BV	3.1	2.6	2.7	2.3	2.0
EV/EBITDA	12.7	10.7	10.2	8.7	7.1
OCF/EV (%)	6.8	10.3	7.0	9.0	11.0
FCF/EV (%)	4.7	8.6	6.1	7.8	9.7
FCFE/mkt cap (%)	3.1	4.0	4.6	5.5	6.1
Dividend Yield (%)	0.3	0.3	0.4	0.4	0.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
5-Jul-19	272	SELL	255
18-Jul-19	260	SELL	220

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

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