

Sector: IT & ITES  
Result Update

|                              | Change |
|------------------------------|--------|
| Reco: <b>Hold</b>            | ↔      |
| CMP: <b>Rs. 257</b>          |        |
| Price Target: <b>Rs. 285</b> | ↔      |

↑ Upgrade  
 ↔ No change  
 ↓ Downgrade

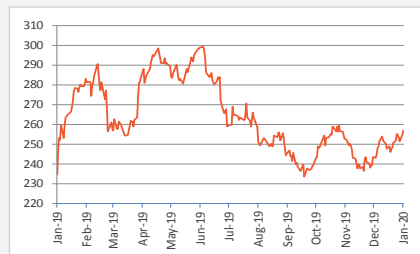
## Company details

|                            |                 |
|----------------------------|-----------------|
| Market cap:                | Rs. 1,46,911 cr |
| 52-week high/low:          | Rs. 301 / 232   |
| NSE volume: (No of shares) | 38.5 lakh       |
| BSE code:                  | 507685          |
| NSE code:                  | WIPRO           |
| Sharekhan code:            | WIPRO           |
| Free float: (No of shares) | 148.3 cr        |

## Shareholding (%)

|           |      |
|-----------|------|
| Promoters | 74.0 |
| FII       | 11.4 |
| DII       | 7.8  |
| Others    | 6.7  |

## Price chart



## Price performance

| (%)                | 1m  | 3m   | 6m   | 12m   |
|--------------------|-----|------|------|-------|
| Absolute           | 4.5 | 6.4  | -1.6 | 3.6   |
| Relative to Sensex | 2.4 | -3.2 | -9.4 | -11.8 |

Sharekhan Research, Bloomberg

Wipro delivered mixed set of numbers in Q3FY2020. The company delivered in-line revenue performance, while margins performance remained marginally ahead of our expectations. Constant currency (CC) revenue grew by 1.8% q-o-q (mid-point of its guidance), driven by strong performance in consumer verticals and 0.3% revenue contribution from its ITI acquisition. EBIT margin for IT services improved 30bps q-o-q to 18.4%, led by rupee depreciation and cross-currency tailwinds. Top accounts continued to decline on q-o-q basis owing to continued softness in the BFSI and technology vertical. The management has guided revenue growth guidance of 0%-2% for Q4FY2020E, baking in deferment of renewals of certain digital projects, weakness in BFSI and macro uncertainties. As most of Wipro's top accounts are in the BFSI and technology space (witnessing macro impact), we expect Wipro to remain in the bottom quartile in terms of revenue growth among top five companies in the medium-term.

## Key positives

- Strong cash conversion as free cash flow to net profit remained at 101% (vs 84% in Q2FY2020).
- Order size and deal conversion of deal funnels are higher compared to beginning of last year
- Localisation remains above 70% in the USA

## Key negatives

- Top client and top 5 clients revenue declined of 4% and 2% on q-o-q basis, respectively
- Softness continues in the BFSI vertical.
- Digital growth moderated to 22.8% y-o-y versus 29% in Q2FY2020

## Our Call

**Valuation – Maintain Hold with a PT of Rs. 285:** We have tweaked our earnings estimates for FY2020E/FY2021E factoring in continued decline in top accounts. We believe that Wipro's revenue growth would continue to remain in the bottom quartile among the top-five IT companies owing to the weakness in BFSI and technology vertical. However, the company has been reporting steady execution in margins over last three quarters despite slower revenue growth. At CMP, the stock is trading at 15x/14x of its FY2020/FY2021 earnings estimates, which is justified due to continued underperformance in revenue growth. Wipro continues to remain our least preferred stock among the top-tier companies. Hence, we maintain Hold with a PT of Rs. 285.

## Key Risks

Rupee appreciation and/or adverse cross-currency movements; constraint in local talent supply in the U.S.; and stringent visa regime to adversely impact earnings.

|                    | Rs cr    |          |          |          |          |
|--------------------|----------|----------|----------|----------|----------|
| Valuation          |          |          |          |          |          |
| Particulars        | FY17     | FY18     | FY19     | FY20E    | FY21E    |
| Revenue            | 55,040.2 | 54,487.1 | 58,906.0 | 61,053.2 | 65,795.3 |
| OPM (%)            | 20.6     | 19.7     | 19.5     | 20.5     | 20.9     |
| Adjusted PAT       | 8,489.5  | 8,329.3  | 8,984.5  | 9,815.3  | 10,399.2 |
| % YoY growth       | -4.7     | -1.9     | 7.9      | 9.2      | 5.9      |
| Adjusted EPS (Rs.) | 14.1     | 13.8     | 14.9     | 16.8     | 18.3     |
| P/E (x)            | 18.3     | 18.6     | 17.3     | 15.3     | 14.1     |
| P/B (x)            | 1.3      | 2.6      | 3.1      | 3.2      | 2.9      |
| EV/EBITDA (x)      | 6.4      | 6.7      | 5.0      | 4.8      | 4.0      |
| RoNW (%)           | 16.4     | 17.4     | 15.2     | 17.8     | 17.2     |
| RoCE (%)           | 13.1     | 13.8     | 14.6     | 16.4     | 16.9     |

Source: Company; Sharekhan research

**Revenue in-line, margin ahead of estimates:** Wipro delivered a mixed set of numbers in Q3FY2020, with in-line revenue and EBIT margins (IT services) marginally ahead of our estimates. Constant currency (CC) revenue grew by 1.8% q-o-q (in-line with our estimates), driven by strong performance in consumer verticals and 0.3% revenue contribution from ITI acquisition. On YTD basis, CC revenue growth remained at 4.3% y-o-y. On a reported basis, USD revenue grew by 2.2% q-o-q to \$2,094.8 million against our estimates of \$2,095 million. EBIT margin for IT services improved 30bps q-o-q to 18.4%, led by rupee depreciation and cross-currency tailwinds. Net profit of Rs. 2,455.8 crore (-2.2% y-o-y, -3.8% q-o-q) was in-line with our estimates.

**Soft Q4 guidance, management hopes higher funnel size to drive growth in FY2021E:** Wipro's management has guided for soft revenue growth of 0% to 2% for Q4FY2020E, on the expected lines, owing to weakness in BFSI and technology vertical (that together contribute towards 43.2% of revenues), deferment of renewals of certain digital projects in financial space and macro uncertainties. Management has also indicated that there are no major changes in the demand environment. However, the order backlog as well as funnel sizes are higher compared to the beginning of last year. Further, it sees improvement in demand environment of manufacturing and traction in digital offerings especially in the consumer vertical. Further, the management expects to convert a funnel of large deals in Q4FY2020E. Therefore, we believe that FY2021E revenue growth would be better compared to FY2020E. However, Wipro is expected to lag in terms of revenue growth among large peers as its top accounts (mostly constitute of banking and technology) have been reporting sluggish performance owing to lower tech spending. On the margin front, the management highlighted that there would be a steady improvement in margins led by cost optimisation measures and anticipated higher growth.

**Soft performance except consumer vertical:** Though growth in financial vertical continued to remain weak owing to the macroeconomic environment, the management remains confident on new deal wins in the pipeline by leveraging its strong digital capabilities. The performance in consumer business vertical remained healthy (12.1% y-o-y on CC), driven by a ramp-up of deals won earlier. Growth in energy & utilities and communications vertical remained moderate, while recovery was witnessed in the manufacturing vertical. Healthcare vertical saw a seasonal uptick owing to HPS (opening of enrollment in the US), while the technology business vertical was impacted owing to furlough and slowdown in spends.

### Key highlights from earnings call

- ♦ **Management guidance:** The management guided for IT services revenues to be in the range of \$2,095 million - \$2,137 million for the Mar 2020 quarter. This translates to a sequential growth in the range of 0-2% in CC terms.
- ♦ **Strong cash conversion:** Cash conversion remained robust as operating cash flow was 124% of net income and free cash flow was 101% of net income.
- ♦ **No of large client metrics unchanged:** The number of client providing revenue in excess of \$100 million was increased by one to 14, while the number of clients in \$75 million/\$50 million/\$20 million bracket remained at 22/41/92. Management highlighted that one client in \$75 million bucket moved to \$100 million bucket during the quarter.
- ♦ **Slowdown in large clients:** The revenues from top client, top 5 clients and top 10 clients witnessed a decline of 4%, 2% and 1% on q-o-q basis and accounted for 3%, 12.3% and 19.2% of the overall revenues as against 3.2%, 12.8% and 19.8% during Q2FY2020.
- ♦ Digital revenue grew by 22.8% y-o-y during the quarter and contributed 40% to overall revenues.
- ♦ Localisation now stands at 70% of workforce in the USA. This mitigates the risk of visa rejection and talent crunch. Attrition level has reduced to 15.7% from 17% in Q2FY2020.

## Results

| Particulars (IFRS)        | Rs cr    |          |          |         |         |
|---------------------------|----------|----------|----------|---------|---------|
|                           | Q3FY20   | Q3FY19   | Q2FY20   | YoY (%) | QoQ (%) |
| Revenues (\$ mn)          | 2,094.8  | 2,046.5  | 2,048.9  | 2.4     | 2.2     |
| Net sales                 | 15,470.5 | 15,059.5 | 15,125.6 | 2.7     | 2.3     |
| Direct costs              | 10,967.3 | 10,397.1 | 10,800.6 | 5.5     | 1.5     |
| Gross profit              | 4,756.1  | 4,662.4  | 4,577.9  | 2.0     | 3.9     |
| SG&A                      | 1,852.6  | 1,886.7  | 1,715.6  | -1.8    | 8.0     |
| EBIT                      | 2,903.5  | 2,775.7  | 2,862.3  | 4.6     | 1.4     |
| Net other income          | 352.6    | 373.5    | 461.0    | -5.6    | -23.5   |
| PBT                       | 3,256.1  | 3,149.2  | 3,323.3  | 3.4     | -2.0    |
| Tax provision             | 616.4    | 696.6    | 573.1    | -11.5   | 7.6     |
| Net profit                | 2,455.8  | 2,510.3  | 2,552.6  | -2.2    | -3.8    |
| EPS (Rs.)                 | 4.3      | 4.2      | 4.3      | 3.6     | 0.5     |
| Margin (%)                |          |          |          | BPS     | BPS     |
| EBIT margins (Blended)    | 18.8     | 18.4     | 18.9     | 34      | -16     |
| EBIT margin (IT Services) | 18.4     | 19.8     | 18.1     | -147    | 28      |
| NPM                       | 15.9     | 16.7     | 16.9     | -80     | -100    |

Source: Company; Sharekhan Research

## Revenue mix: Geographies, industry verticals and other operating metrics

| Particulars                       | Revenues | Contribution | \$ Growth (%) |       | CC growth (%) |       |
|-----------------------------------|----------|--------------|---------------|-------|---------------|-------|
|                                   | (\$ mn)  | (%)          | q-o-q         | y-o-y | q-o-q         | y-o-y |
| Revenues (\$ mn)                  | 2,095    | 100          | 2.2           | 2.4   | 1.8           | 3.3   |
| Geographic mix                    |          |              |               |       |               |       |
| Americas                          | 1,240    | 59.2         | 1.6           | 6.1   | 1.5           | 7.2   |
| Europe                            | 496      | 23.7         | 3.1           | -4.9  | 1.0           | -4.3  |
| APAC & others                     | 358      | 17.1         | 3.5           | 0.6   | 4.1           | 2.0   |
| Industry verticals                |          |              |               |       |               |       |
| BFSI                              | 647      | 30.9         | 0.9           | 0.7   | 0.4           | 1.0   |
| Consumer                          | 354      | 16.9         | 8.0           | 10.9  | 7.0           | 12.1  |
| Technology                        | 258      | 12.3         | -3.3          | -3.2  | -3.7          | -1.7  |
| Healthcare                        | 274      | 13.1         | 3.0           | 2.4   | 3.4           | 4.2   |
| Energy & utilities                | 270      | 12.9         | 2.2           | 1.6   | 1.2           | 2.6   |
| Manufacturing                     | 172      | 8.2          | 3.5           | 3.6   | 4.4           | 4.9   |
| Communications                    | 119      | 5.7          | 2.2           | 0.6   | 1.5           | 1.3   |
| Service line                      |          |              |               |       |               |       |
| Application services              | 926      | 44.2         | 0.9           | -0.8  | 0.4           | 0.8   |
| Cloud and infrastructure services | 540      | 25.8         | 2.6           | 5.6   | 2.5           | 6.7   |
| Digital operations and platform   | 321      | 15.3         | 6.4           | 6.5   | 5.7           | 6.4   |
| Product engineering               | 157      | 7.5          | 2.2           | 2.4   | 1.8           | 3.1   |
| Data, analytics and AI            | 151      | 7.2          | 0.8           | 2.4   | 0.1           | 1.9   |
| Client's Contribution             |          |              |               |       |               |       |
| Top client                        | 63       | 3.0          | -4.1          | -17.0 | -             | -     |
| Top 5                             | 258      | 12.3         | -1.8          | -3.2  | -             | -     |
| Top 10                            | 402      | 19.2         | -0.9          | -0.2  | -             | -     |

Source: Company; Sharekhan Research

## Revenue mix: Geographies, industry verticals and other operating metrics

| Particulars          | Revenues | Contribution (%) |        | Margin (%) |        |
|----------------------|----------|------------------|--------|------------|--------|
|                      | (\$ mn)  | Q3FY19           | Q3FY20 | Q3FY19     | Q3FY20 |
| BFSI                 | 647      | 31.4             | 30.9   | 19.8       | 17.7   |
| Consumer             | 354      | 15.6             | 16.9   | 23.1       | 18.6   |
| Technology           | 258      | 13.0             | 12.3   | 21.9       | 17.5   |
| Healthcare           | 274      | 13.1             | 13.1   | 10.3       | 16.1   |
| Energy and utilities | 270      | 13.0             | 12.9   | 19.0       | 16.0   |
| Manufacturing        | 172      | 8.1              | 8.2    | 20.0       | 19.2   |
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Source: Company; Sharekhan Research

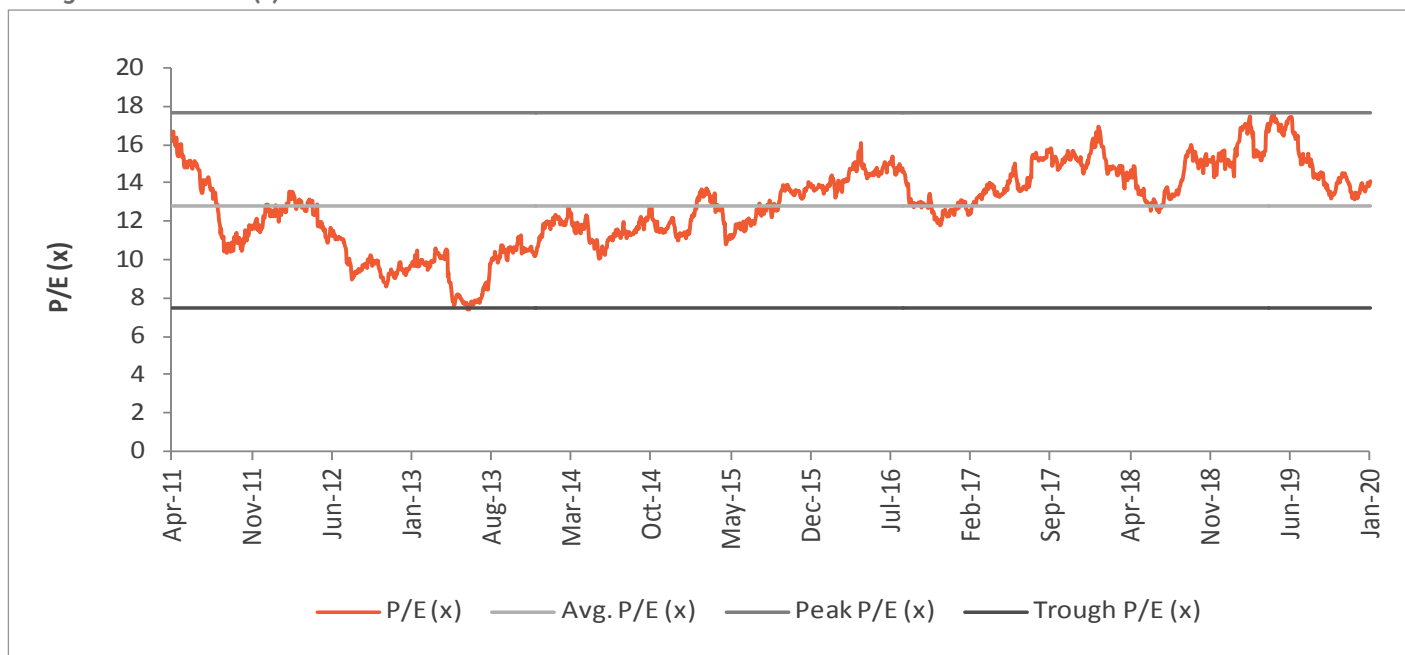
## Outlook

Growth for Indian IT is expected to accelerate from 6-7% currently as demand for digital services is growing rapidly. India will continue to remain the preferred destination for talent supply and would create a gradual shift of digital business from onsite. Wipro's CEO, Mr. Abidali has laid out six strategic themes to drive business growth, with investments in creating digital capabilities, training and incentivising employees and acquiring businesses. Though the long track record of underperformance implies execution issues, the company has been focusing on higher client mining and increasing deal wins momentum to catch up the industry's average growth rate. The company aims to maintain its margin performance going ahead, with improved revenue growth rate.

## Valuation

We have tweaked our earnings estimates for FY2020E/FY2021E factoring in continued decline in top accounts. We believe that Wipro's revenue growth would continue to remain in the bottom quartile among the top-five IT companies owing to weakness in BFSI and technology verticals. However, the company has been reporting steady execution in margins over last three quarters despite slower revenue growth. At CMP, the stock is trading at 15x/14x of its FY2020/FY2021 earnings estimates, which is justified due to continued underperformance in revenue growth. Wipro continues to remain our least preferred stock among top-tier companies. Hence, we maintain Hold with a PT of Rs. 285.

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Wipro is the leading global IT services company with business interests in export of IT, consulting and BPO services. The company offers the widest range of IT and ITeS services, including digital strategy advisory, client-centric design, technology consulting, IT consulting, systems integration, software application development and maintenance, package implementation, and R&D services. Wipro develops and integrates innovative solutions that enable its clients to leverage IT to achieve their business objectives at competitive costs. The company generates revenue from the BFSI, manufacturing, retail, utilities and telecom verticals. Wipro has more than 1.6 lakh employees.

## Investment theme

With six strategic themes and higher client-mining strategy, Wipro has been focusing on driving business growth. Though Wipro has been active on the investment front, including building digital capabilities, training and incentivising employees and acquiring businesses, it has been underperforming the large peers in terms of overall growth owing to execution challenges and account-specific issues. The company hopes that its growth trajectory would catch up with the industry's average growth rates, led by increasing deal wins, continued growth momentum in BFSI, receding of concerns in certain industry pockets and higher growth in the digital business. Higher revenue growth would help the company to report margin improvement going ahead.

## Key Risks

1) Any hostile regulatory visa norms could impact employee expenses; 2) prolonged weakness in healthcare/manufacturing verticals; 3) rupee appreciation and/or adverse cross-currency movements; 4) softness in top accounts; 5) any further client-related/portfolio-related issues impacting sales/margins; and 6) any major macro issues in developed markets, especially in the U.S. and Europe.

## Additional Data

### Key management personnel

|                     |  |
|---------------------|--|
| Abidali Neemuchwala | CEO  |
| Bhanumurthy B. M.   | President & Chief Operating Officer        |
| Jatin Dalal         | Chief Financial Officer                    |
| Anand Padmanabhan   | President, energy, utilities& construction |
| Ankur Prakash       | Senior Vice President, Communications      |

Source: Company Website

### Top 10 shareholders

| Sr. No. | Holder Name                           | Holding (%) |
|---------|---------------------------------------|-------------|
| 1       | Life Insurance Corp of India          | 4.85        |
| 2       | Black Rock Inc                        | 0.85        |
| 3       | Vanguard Group Inc                    | 0.59        |
| 4       | Norges Bank                           | 0.51        |
| 5       | ICICI Prudential Asset Management     | 0.51        |
| 6       | Dimensional Fund Advisors LP          | 0.38        |
| 7       | Azim Premji Philanthropic Initiatives | 0.36        |
| 8       | SBI Funds Management Pvt Ltd          | 0.35        |
| 9       | AZIM PREMJI PHILANTHROPIC             | 0.35        |
| 10      | PineBridge Investments LP             | 0.24        |

Source: Bloomberg

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