

RESEARCH

Wipro | Target: Rs 240 | -7% | SELL

Tepid performance; soft outlook

BOB Economics Research | Trade

Non-oil imports decline as demand remains weak

L&T Infotech | Target: Rs 2,230 | +15% | BUY

Stellar show

SUMMARY

Wipro

Wipro (WPRO) reported an in-line operating performance in Q3FY20 with 1.8% QoQ CC revenue growth and 18.4% IT services EBIT margins. We find the growth profile disappointing as (1) only three of WPRO's seven verticals had consecutive growth quarters, and (2) revenue from the top 5 clients was weak. Q4FY20 guidance of 0-2% QoQ CC growth was also below expectations. We trim FY21/FY22 EPS by 1% each and cut our rating from REDUCE to SELL. Rolling forward, we have an unchanged Dec'20 TP of Rs 240.

[Click here for the full report.](#)

India Economics: Trade

India's trade deficit in Dec'19 narrowed to US\$ 11.3bn from US\$ 12.1bn in Nov'19 as imports fell by (-) 8.8% vis-à-vis (-) 1.8% decline in exports. Weak domestic demand resulted in (-) 12.2% decline in non-oil-non-gold imports. Capital goods imports fell by (-) 16.5% in Dec'19 and (-) 11.2% in FYTD20. With growth improving in FY21, non-oil-non-gold imports should stabilise. Exports too are likely to improve as global trade tensions ease. Given foreign inflows into India, we expect INR to remain stable.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.81	(3bps)	(1bps)	(90bps)
India 10Y yield (%)	6.67	7bps	(12bps)	(59bps)
USD/INR	70.88	0	(0.1)	0.2
Brent Crude (US\$/bbl)	64.49	0.5	(1.1)	6.3
Dow	28,940	0.1	2.9	20.3
Shanghai	3,107	(0.3)	4.7	20.9
Sensex	41,953	0.2	2.3	15.5
India FII (US\$ mn)	13 Jan	MTD	CYTD	FYTD
FII-D	(159.4)	(1,097.9)	(1,097.9)	1,846.3
FII-E	17.1	380.1	380.1	7,769.3

Source: Bank of Baroda Economics Research

BOBCAPS Research

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L&T Infotech

L&T Infotech (LTI) reported 8.3% QoQ CC revenue growth in Q3FY20, well ahead of estimates. Operating margins also bettered our expectations at 16.2%. Revenue growth was broad-based across verticals and marked a resurgence among top clients. LTI won two large deals with aggregate TCV of US\$ 75mn+. Impressive revenues and a track record of big deal wins position LTI well to reclaim its industry-wide growth leadership. We thus raise our P/E multiple to 20x from 19.3x; on rollover we have a new Mar'21 TP of Rs 2,230 (vs. Rs 2,010).

[Click here](#) for the full report.

SELL

TP: Rs 240 | ▼ 7%

WIPRO

| IT Services

| 15 January 2020

Tepid performance; soft outlook

Wipro (WPRO) reported an in-line operating performance in Q3FY20 with 1.8% QoQ CC revenue growth and 18.4% IT services EBIT margins. We find the growth profile disappointing as (1) only three of WPRO's seven verticals had consecutive growth quarters, and (2) revenue from the top 5 clients was weak. Q4FY20 guidance of 0-2% QoQ CC growth was also below expectations. We trim FY21/FY22 EPS by 1% each and cut our rating from REDUCE to SELL. Rolling forward, we have an unchanged Dec'20 TP of Rs 240.

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In-line operating performance: WPRO reported 1.8% QoQ CC revenue growth with 18.4% IT services EBIT margins, matching our expectations. We note that YoY CC growth of 3.3% in Q3 marks the second consecutive quarter of growth moderation. Above-expected other income and lower taxes took net profit 9% ahead of estimates at Rs 24.6bn (-3.8% QoQ, -2.2% YoY).

Erratic growth profile: Revenue growth for the quarter was broad-based across verticals (excepting technology which posted a 3.3% QoQ dollar revenue decline). However, growth trends remained volatile as only three of seven verticals had consecutive growth quarters. Also, revenue from the top clients, especially the top account and top 5 accounts, was weak with dollar revenue declines of 4.1% and 1.8% QoQ respectively.

Dull Mar'20 quarter outlook: Management's Q4FY20 revenue growth guidance at 0-2% QoQ CC was softer than our and street estimates of 1-3% QoQ and indicates no improvement in growth trajectory compared to Q4FY19 (when guidance was also at 0-2% QoQ).

Ticker/Price	WPRO IN/Rs 257
Market cap	US\$ 21.6bn
Shares o/s	5,950mn
3M ADV	US\$ 11.4mn
52wk high/low	Rs 302/Rs 232
Promoter/FPI/DII	74%/9%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,46,359	5,89,060	6,07,115	6,35,136	6,78,615
EBITDA (Rs mn)	1,05,418	1,21,661	1,25,428	1,32,162	1,41,428
Adj. net profit (Rs mn)	80,046	90,074	94,116	98,418	1,06,785
Adj. EPS (Rs)	13.3	14.9	15.8	16.5	17.9
Adj. EPS growth (%)	4.0	12.3	5.8	4.6	8.5
Adj. ROAE (%)	15.9	17.1	16.8	16.6	15.6
Adj. P/E (x)	19.3	17.2	16.3	15.5	14.3
EV/EBITDA (x)	15.1	13.3	12.3	11.4	10.6

Source: Company, BOBCAPS Research



TRADE

15 January 2020

Non-oil imports decline as demand remains weak

India's trade deficit in Dec'19 narrowed to US\$ 11.3bn from US\$ 12.1bn in Nov'19 as imports fell by (-) 8.8% vis-à-vis (-) 1.8% decline in exports. Weak domestic demand resulted in (-) 12.2% decline in non-oil-non-gold imports. Capital goods imports fell by (-) 16.5% in Dec'19 and (-) 11.2% in FYTD20. With growth improving in FY21, non-oil-non-gold imports should stabilise. Exports too are likely to improve as global trade tensions ease. Given foreign inflows into India, we expect INR to remain stable.

Sameer Narang

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Exports drop: Export growth in Dec'19 fell further to (-) 1.8% from (-) 0.3% in Nov'19. This was driven by sharp fall in exports of organic chemicals (-5.1% versus +2.5% in Nov'19), agriculture items (-3.4% versus 1.5%) and engineering goods (-1.2% versus 6.3%). Owing to higher oil prices (+13% YoY in Dec'19), contraction in oil exports eased to (-) 4.2% from (-) 13.1% in Nov'19. In FYTD20, exports have contracted by (-) 2% versus +10.2% in FYTD19. Region wise, exports to Asia-Pacific (ex-China) and Europe continue to contract. We expect exports to show a mild pick-up in FY21 compared with FY20.

Non-oil-non-gold imports contract sharply: Imports contracted for the 7th straight month at (-) 8.8% in Dec'19 compared with (-) 12.7% in Nov'19. The slower pace of contraction was led by oil imports which declined by (-) 0.8% in Dec'19 versus (-) 18.2% in Nov'19. Gold imports declined by (-) 3.9% in Dec'19 (6.6% in Nov'19). However, non-oil-non-gold imports fell by (-) 12.2%, sharpest decline in 44-months, versus (-) 12% in Nov'19. Within this, imports of pearls and precious metals (-12.0% versus +24.8% in Nov'19) and transport equipment (-30.1% versus -48.5%) contracted the most. However, imports of vegetable oils (16.2%), agricultural products (11.4%) and machinery (3%) rose.

Trade deficit narrows: India's trade deficit narrowed sequentially to US\$ 11.3bn from US\$ 12.1bn in Nov'19 despite higher oil prices as non-oil-non-gold imports contracted sharply. In FYTD20, trade deficit is now lower by US\$ 26.5bn compared with last year as non-oil-non-gold imports have contracted by (-) 7% compared with increase of 8% last year. Both exports and imports are likely to show a mild uptick as both global and domestic demand improves next year. However, trade deficit and CAD will remain well within limits. This along with foreign inflows implies INR will remain stable. Higher global oil prices due to geo-political tensions remain a key risk to this view.

KEY HIGHLIGHTS

- Exports fell by (-) 1.8% versus (-) 0.3% in Nov'19.
- Imports decline by (-) 8.8% compared with (-) 12.7% in Nov'19.
- Trade deficit narrows to US\$ 11.3bn versus US\$ 12.1bn in Nov'19.



BUY

TP: Rs 2,230 | ▲ 15%

L&T INFOTECH

| IT Services

| 15 January 2020

Stellar show

L&T Infotech (LTI) reported 8.3% QoQ CC revenue growth in Q3FY20, well ahead of estimates. Operating margins also bettered our expectations at 16.2%. Revenue growth was broad-based across verticals and marked a resurgence among top clients. LTI won two large deals with aggregate TCV of US\$ 75mn+. Impressive revenues and a track record of big deal wins position LTI well to reclaim its industry-wide growth leadership. We thus raise our P/E multiple to 20x from 19.3x; on rollover we have a new Mar'21 TP of Rs 2,230 (vs. Rs 2,010).

Ruchi Burde

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Stellar growth: LTI reported 8.3% QoQ CC revenue growth, well ahead of our (3.4%) and street estimates. Even excluding the ~2% contribution from pass-through and inorganic revenues, the Q3 revenue growth was impressive. EBITDA at Rs 5.3bn (+13.2% QoQ, +3.6% YoY) was ~7% ahead of our forecast. But below-expected other income and forex gains led to largely in-line net profits at Rs 3.8bn (+4.6% QoQ, +0.3% YoY).

Ticker/Price	LTI IN/Rs 1,934
Market cap	US\$ 4.8bn
Shares o/s	175mn
3M ADV	US\$ 3.8mn
52wk high/low	Rs 2,003/Rs 1,436
Promoter/FPI/DII	75%/8%/10%

Source: NSE

Revenues broad-based across verticals and clients: Revenue growth was broad-based across verticals and marked a resurgence among top clients. Dollar revenue from the top 5/top 10/top 20 clients increased by 12.2%/11.5%/9.5% QoQ. Similarly, dollar revenue growth rebounded in the BFS (+11.3% QoQ) and Technology & Media (+8.4%) verticals which were under stress in recent quarters. Both segments saw ramp-up of recently won deals while BFS also benefited from strong recovery in a top account.

STOCK PERFORMANCE



Source: NSE

Optimistic BFS outlook: In contrast to peers, LTI shared optimistic BFS commentary, including growth visibility at its large BFS client. The company is well on track to meeting its guidance of double-digit FY20 revenue growth (our forecast stands at 13.6% YoY CC). Management reiterated its net margin guidance range of 14-15% which appears slightly demanding in our view.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	73,064	94,458	1,07,103	1,22,099	1,36,908
EBITDA (Rs mn)	11,875	18,835	19,941	23,574	26,597
Adj. net profit (Rs mn)	11,124	15,157	14,971	17,837	19,538
Adj. EPS (Rs)	63.5	86.5	85.4	101.8	111.5
Adj. EPS growth (%)	(8.2)	36.1	(1.2)	19.1	9.5
Adj. ROAE (%)	31.8	34.6	28.1	28.4	26.6
Adj. P/E (x)	30.4	22.4	22.6	19.0	17.3
EV/EBITDA (x)	28.3	17.8	16.8	14.1	12.2

Source: Company, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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