

**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).

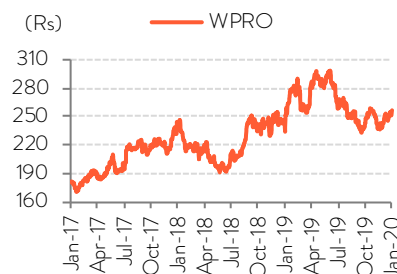
**Erratic growth profile:** Revenue growth for the quarter was broad-based across verticals (excepting technology which posted a 3.3% QoQ dollar revenue decline). However, growth trends remained volatile as only three of seven verticals had consecutive growth quarters. Also, revenue from the top clients, 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

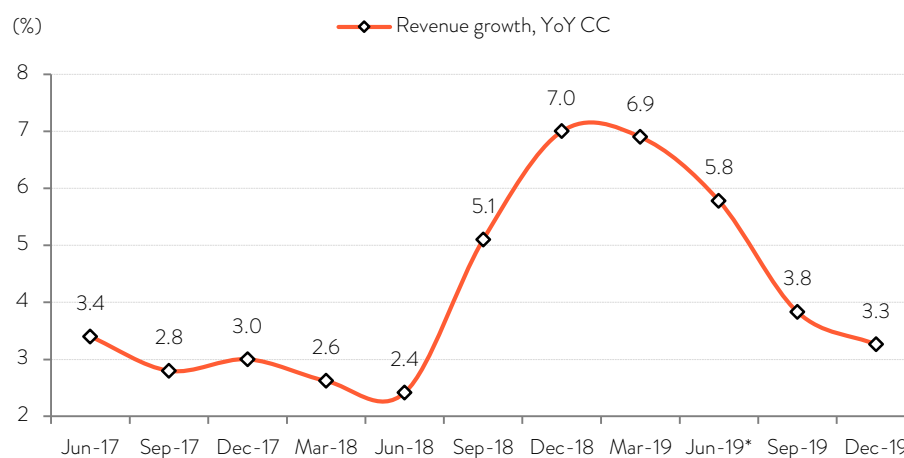
Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,46,359	5,89,060	6,07,115	6,35,136	6,78,615
EBITDA (Rs mn)	1,05,418	1,21,661	1,25,428	1,32,162	1,41,428
Adj. net profit (Rs mn)	80,046	90,074	94,116	98,418	1,06,785
Adj. EPS (Rs)	13.3	14.9	15.8	16.5	17.9
Adj. EPS growth (%)	4.0	12.3	5.8	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

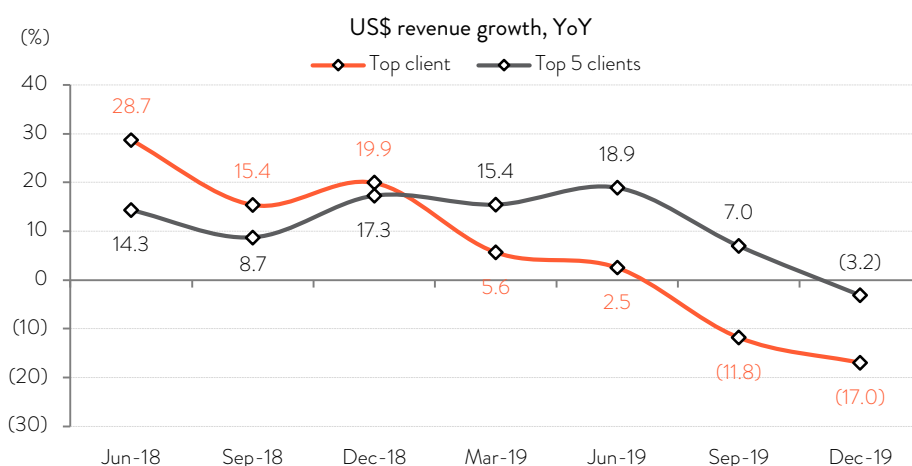
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Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – 3.3% YOY CC GROWTH IN DEC'19 QUARTER MARKS SECOND CONSECUTIVE QUARTER OF GROWTH MODERATION**


Source: Company, BOBCAPS Research | \*From Jun'19 quarter, above data refers to IT Services excluding India State Run Enterprise revenue

**FIG 2 – PERFORMANCE OF TOP CLIENTS CONTINUES TO LOSE STEAM**


Source: Company, BOBCAPS Research

**FIG 3 – DEC'19 QUARTER PERFORMANCE**

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>US\$ revenues (IT Services excluding ISRE)*</b>	<b>1,989</b>	<b>2,010</b>	<b>2,047</b>	<b>2,076</b>	<b>2,039</b>	<b>2,049</b>	<b>2,095</b>	<b>2.4</b>	<b>2.2</b>	<b>6,183</b>	<b>6,045</b>	<b>2.3</b>
<b>Total Revenue</b>	<b>1,40,548</b>	<b>1,46,627</b>	<b>1,51,506</b>	<b>1,50,379</b>	<b>1,48,019</b>	<b>1,51,847</b>	<b>1,55,432</b>	<b>2.6</b>	<b>2.4</b>	<b>4,55,298</b>	<b>4,38,681</b>	<b>3.8</b>
Operating Expenditure	1,19,771	1,21,139	1,22,838	1,23,125	1,23,345	1,25,162	1,28,199	4.4	2.4	3,76,706	3,63,748	3.6
Cost of revenues	1,00,350	1,01,770	1,03,971	1,05,462	1,04,273	1,08,006	1,09,673	5.5	1.5	3,21,952	3,06,091	5.2
as % of sales	71.4	69.4	68.6	70.1	70.4	71.1	70.6	-	-	70.7	69.8	-
SG&A expenses	19,421	19,369	18,867	17,663	19,072	17,156	18,526	(1.8)	8.0	54,754	57,657	(5.0)
as % of sales	13.8	13.2	12.5	11.7	12.9	11.3	11.9	-	-	12.0	13.1	-
<b>EBIT</b>	<b>20,777</b>	<b>25,488</b>	<b>28,668</b>	<b>27,254</b>	<b>24,674</b>	<b>26,685</b>	<b>27,233</b>	<b>(5.0)</b>	<b>2.1</b>	<b>78,592</b>	<b>74,933</b>	<b>4.9</b>
Other Income	6,024	(1,285)	3,742	4,747	6,045	4,658	3,560	(4.9)	(23.6)	14,263	8,481	68.2
PBT	26,801	24,203	32,410	32,001	30,719	31,343	30,793	(5.0)	(1.8)	92,855	83,414	11.3
Total Tax	5,865	5,347	6,966	7,064	6,699	5,731	6,164	(11.5)	7.6	18,594	18,178	2.3
<b>Adjusted PAT</b>	<b>20,936</b>	<b>18,856</b>	<b>25,444</b>	<b>24,937</b>	<b>24,020</b>	<b>25,612</b>	<b>24,629</b>	<b>(3.2)</b>	<b>(3.8)</b>	<b>74,261</b>	<b>65,236</b>	<b>13.8</b>

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
(Profit)/loss from JV's/Ass/MI	270	33	(341)	(104)	(147)	(86)	(71)	-	-	(304)	(38)	-
APAT after MI	21,206	18,889	25,103	24,833	23,873	25,526	24,558	(2.2)	(3.8)	73,957	65,198	13.4
Extra ordinary items	0	0	0	0	0	0	0	-	-	0	0	-
<b>Reported PAT</b>	<b>21,206</b>	<b>18,889</b>	<b>25,103</b>	<b>24,833</b>	<b>23,873</b>	<b>25,526</b>	<b>24,558</b>	<b>(2.2)</b>	<b>(3.8)</b>	<b>73,957</b>	<b>65,198</b>	<b>13.4</b>
Reported EPS	3.5	3.1	4.2	4.1	4.0	4.3	4.1	(1.0)	(3.8)	12	11	14.2
<b>Margins (%)</b>								<b>(bps)</b>	<b>(bps)</b>			
EBIT margin-IT Services (excluding ISRE)	17.6	18.4	19.8	19.2	18.0	18.1	18.4	(150)	30	18.8	17.4	140
EBIT	14.8	17.4	18.9	18.1	16.7	17.6	17.5	(140)	(10)	17.3	17.1	20
EBT	19.1	16.5	21.4	21.3	20.8	20.6	19.8	(160)	(80)	20.4	19.0	140
PAT	15.1	12.9	16.6	16.5	16.1	16.8	15.8	(80)	(100)	16.2	14.9	140
Effective Tax rate	21.9	22.1	21.5	22.1	21.8	18.3	20.0	(150)	170	20.0	21.8	(180)

Source: Company, BOBCAPS Research | \*Refer to India State Run Enterprises.

#### FIG 4 – DEC'19 QUARTER OPERATING METRICS

Particulars (in US\$ terms)	Q3FY20	Growth	
	(% Contr. to Revenue)	QoQ (%)	YoY (%)
Digital Revenues	39.8	2.6	22.8
<b>Revenue by Practice</b>			
Technology Infrastructure Services	25.8	2.4	5.7
Analytics	7.2	0.7	2.4
BPO	15.3	6.2	6.6
Product Engg and Mobility	7.5	2.1	2.4
Application Services	44.2	0.7	(0.7)
<b>Revenue by Vertical</b>			
Global Media & Telecom	5.7	2.2	0.6
Finance Solutions	30.9	0.9	0.7
Manufacturing & Hitech	8.2	3.5	3.6
Healthcare, Life Sciences & Services	13.1	3.0	2.4
Retail & Transportation	16.9	8.0	10.9
Energy & Utilities	12.9	2.2	1.6
Technology	12.3	(3.3)	(3.2)
<b>Revenue by Geography</b>			
US	59.2	1.6	6.1
Europe	23.7	3.1	(4.9)
ROW	17.1	3.5	0.6
<b>Customer Concentration</b>			
Top customer	3.0	(4.1)	(17.0)
Top 5 customers	12.3	(1.8)	(3.2)
Top 10 customers	19.2	(0.9)	(0.2)
Non-Top 10	80.8	3.0	3.0
<b>(%)</b>	<b>Q3FY20</b>	<b>Q2FY20</b>	<b>Q3FY19</b>
<b>Utilisation</b>			
Global IT Services ex IFOX-Gross	70.2	71.4	73.4
Global IT Services ex IFOX-Net	78.5	79.9	81.9
Global IT Services ex IFOX-Net ex trainees	79.6	82.1	83.2
<b>Attrition</b>			
Voluntary Attrition TTM	15.7	17.0	17.9
Global IT Services-Voluntary	12.5	16.0	17.5

Source: Company, BOBCAPS Research

## Valuation methodology

Despite several strategic interventions, WPRO has underperformed its tier-I IT service peers in terms of revenues and earnings over the past seven years. While we acknowledge that the company's strategic moves are steps in the right direction, we believe patchy, inconsistent execution will remain a drag on growth.

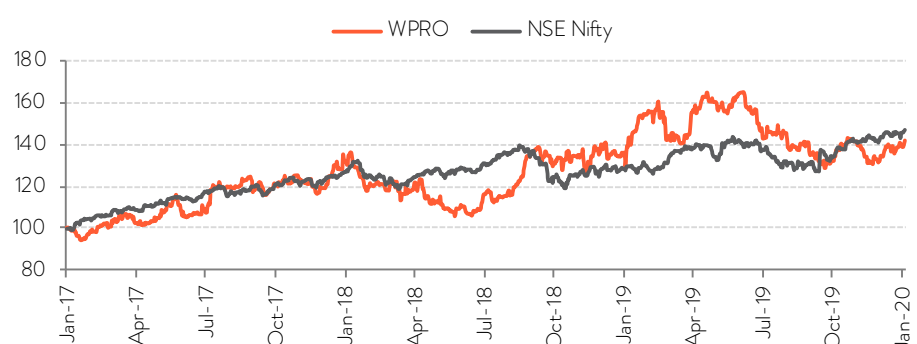
We trim FY21/FY22 EPS estimates by 1% each to factor in the soft growth outlook and downgrade our rating to SELL (vs. REDUCE earlier). On rolling valuations forward, our Dec'20 target price remains at Rs 240, based on an unchanged one-year forward P/E multiple of 13.5x.

**FIG 5 – REVISED ESTIMATES**

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
IT Services revenues (excluding ISRE, in US\$ mn)	8,309	8,298	(0.1)	8,900	8,816	(0.9)	9,548	9,440	(1.1)
IT Services revenues (excluding ISRE, in US\$ mn), YoY growth (%)	2.3	2.2	-	7.1	6.2	-	7.3	7.1	-
Company-wide Revenues	6,03,029	6,07,115	0.7	6,39,994	6,35,136	(0.8)	6,85,737	6,78,615	(1.0)
EBIT	1,06,173	1,05,646	(0.5)	1,12,209	1,11,202	(0.9)	1,20,308	1,19,033	(1.1)
EBIT margins (%)	17.6	17.4	-	17.5	17.5	-	17.5	17.5	-
Net profits	92,590	94,116	1.6	99,250	98,418	(0.8)	1,07,779	1,06,785	(0.9)
EPS (Rs)	15.6	15.8	1.6	16.7	16.5	(0.8)	18.1	17.9	(0.9)

Source: BOBCAPS Research

**FIG 6 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Upside risks to our estimates include:

- a sharper recovery in demand than expected,
- stronger-than-estimated large deal wins, and
- sharp, favourable currency movements.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>5,46,359</b>	<b>5,89,060</b>	<b>6,07,115</b>	<b>6,35,136</b>	<b>6,78,615</b>
EBITDA	1,05,418	1,21,661	1,25,428	1,32,162	1,41,428
Depreciation	21,124	19,474	19,782	20,959	22,394
EBIT	84,294	1,02,187	1,05,646	1,11,202	1,19,033
Net interest income/(expenses)	18,169	15,548	14,666	13,667	18,165
Other income/(expenses)	0	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	1,02,463	1,15,458	1,19,563	1,24,869	1,37,198
Income taxes	22,390	25,242	25,093	26,251	30,214
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	27	142	354	200	200
<b>Reported net profit</b>	<b>80,046</b>	<b>90,074</b>	<b>94,116</b>	<b>98,418</b>	<b>1,06,785</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>80,046</b>	<b>90,074</b>	<b>94,116</b>	<b>98,418</b>	<b>1,06,785</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	0	0	0	0	0
Other current liabilities	1,33,177	1,58,894	1,34,730	1,40,948	1,50,597
Provisions	799	640	1,497	1,566	1,673
Debt funds	1,38,259	99,467	99,467	99,467	99,467
Other liabilities	3,059	3,417	3,417	3,417	3,417
Equity capital	9,048	12,068	12,068	12,068	12,068
Reserves & surplus	4,76,298	5,58,685	5,36,828	6,23,602	7,17,735
Shareholders' fund	4,85,346	5,70,753	5,48,896	6,35,670	7,29,803
<b>Total liabilities and equities</b>	<b>7,60,640</b>	<b>8,33,171</b>	<b>7,88,007</b>	<b>8,81,068</b>	<b>9,84,957</b>
Cash and cash eq.	44,925	1,58,529	94,375	1,71,919	2,55,394
Accounts receivables	1,00,990	1,00,489	1,09,780	1,14,846	1,22,708
Inventories	3,370	3,951	4,990	5,220	5,578
Other current assets	1,45,107	1,29,457	1,33,898	1,40,078	1,49,667
Investments	2,59,200	2,33,798	2,33,798	2,33,798	2,33,798
Net fixed assets	64,443	70,601	74,819	78,860	81,465
CWIP	15,166	0	0	0	0
Intangible assets	1,35,697	1,30,742	1,30,742	1,30,742	1,30,742
Deferred tax assets, net	6,908	5,604	5,604	5,604	5,604
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>7,60,640</b>	<b>8,33,171</b>	<b>7,88,006</b>	<b>8,81,067</b>	<b>9,84,956</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	73,043	1,09,690	1,14,252	1,19,578	1,29,379
Interest expenses	0	(15,548)	(14,666)	(13,667)	(18,165)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(877)	41,128	(38,078)	(5,190)	(8,053)
Other operating cash flows	12,067	14,424	0	0	0
<b>Cash flow from operations</b>	<b>84,233</b>	<b>1,49,694</b>	<b>61,508</b>	<b>1,00,721</b>	<b>1,03,162</b>
Capital expenditures	(20,699)	(40,798)	(24,000)	(25,000)	(25,000)
Change in investments	47,973	0	0	0	0
Other investing cash flows	8,679	15,548	14,666	13,667	18,165
<b>Cash flow from investing</b>	<b>35,953</b>	<b>(25,250)</b>	<b>(9,334)</b>	<b>(11,333)</b>	<b>(6,835)</b>
Equities issued/Others	(1,21,435)	0	(1,05,000)	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(3,123)	0	0	0	0
Dividends paid	(5,420)	(10,840)	(11,327)	(11,845)	(12,852)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(1,29,978)</b>	<b>(10,840)</b>	<b>(1,16,327)</b>	<b>(11,845)</b>	<b>(12,852)</b>
<b>Changes in cash and cash eq.</b>	<b>(9,792)</b>	<b>1,13,604</b>	<b>(64,153)</b>	<b>77,543</b>	<b>83,475</b>
<b>Closing cash and cash eq.</b>	<b>44,925</b>	<b>1,58,529</b>	<b>94,375</b>	<b>1,71,919</b>	<b>2,55,394</b>

### Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	13.3	14.9	15.8	16.5	17.9
Adjusted EPS	13.3	14.9	15.8	16.5	17.9
Dividend per share	1.0	1.5	1.6	1.7	1.8
Book value per share	80.7	94.7	92.2	106.8	122.7

### Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.9	2.8	2.5	2.4	2.2
EV/EBITDA	15.1	13.3	12.3	11.4	10.6
Adjusted P/E	19.3	17.2	16.3	15.5	14.3
P/BV	3.2	2.7	2.8	2.4	2.1

### DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	78.1	78.0	78.7	78.8	77.8
Interest burden (PBT/EBIT)	121.6	113.0	113.2	112.3	115.3
EBIT margin (EBIT/Revenue)	15.4	17.3	17.4	17.5	17.5
Asset turnover (Revenue/Avg TA)	70.3	73.9	74.9	76.1	72.7
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.4	1.4
Adjusted ROAE	15.9	17.1	16.8	16.6	15.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	(1.4)	7.8	3.1	4.6	6.8
EBITDA	(6.6)	15.4	3.1	5.4	7.0
Adjusted EPS	4.0	12.3	5.8	4.6	8.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	19.3	20.7	20.7	20.8	20.8
EBIT margin	15.4	17.3	17.4	17.5	17.5
Adjusted profit margin	14.7	15.3	15.5	15.5	15.7
Adjusted ROAE	15.9	17.1	16.8	16.6	15.6
ROCE	14.0	18.6	19.7	19.7	20.8
<b>Working capital days (days)</b>					
Receivables	67	62	63	65	64
Inventory	3	3	3	4	4
Payables	100	109	107	96	95
<b>Ratios (x)</b>					
Gross asset turnover	8.1	8.7	8.3	8.3	8.5
Current ratio	2.2	2.5	2.5	3.0	3.5
Net interest coverage ratio	4.6	6.6	7.2	8.1	6.6
Adjusted debt/equity	0.2	(0.1)	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

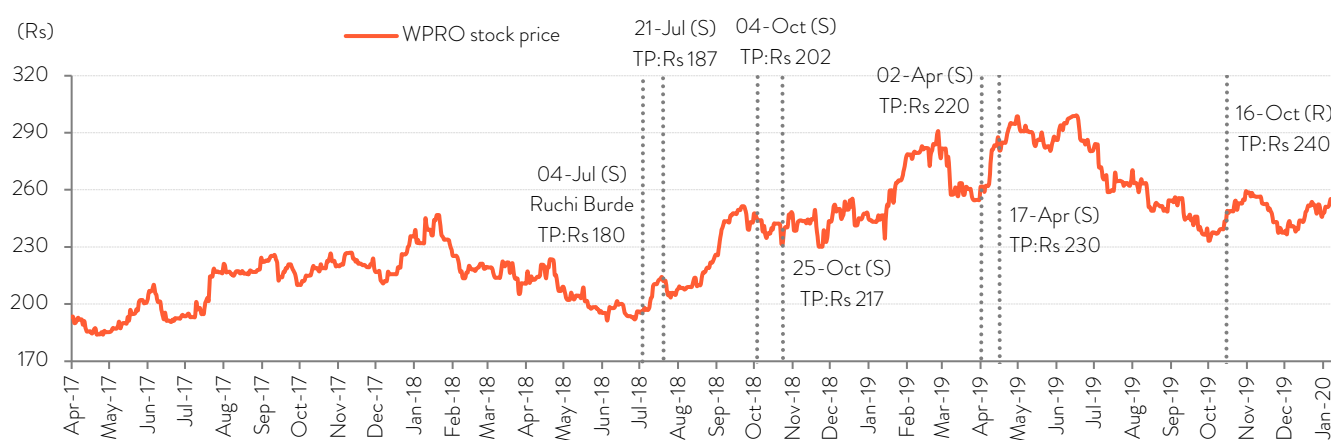
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: WIPRO (WPRO IN)



B – Buy, A – Add, R – Reduce, S – Sell

### Rating distribution

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