

Retail Equity Research

Wipro Limited

IT Services

BSE CODE: 507685

NSE CODE: WIPRO

Bloomberg CODE: WPRO:IN

SENSEX: 39,298

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs 249 TARGET Rs 266 RETURN 7%

(Closing: 18-10-19)



KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Flat topline growth on weak demand

Wipro is a leading information technology, consulting and business process services company. The company had a dedicated work force of over 180,000 serving clients across 6 continents.

- Revenue for Q2FY20 rose to Rs. 15,126cr (4.0% YoY), beating the street estimates by 1.6% despite delay in renewal of major contracts.
- Operating margin expands 350bps YoY to 17.7% resilient to decline in IT services margins to 18.1% (vs. 18.4% in Q1FY20).
- Net profit of the quarter surged to Rs. 2,553cr (35.8% YoY), driven mainly by lower tax-rate for the quarter of 18.3% (vs. 22.1% in Q2FY19).
- We reiterate our HOLD rating on the stock with a revised target of Rs. 266 based on 15.5x FY21E EPS

Revenue beats estimates by a modest 1.6%

Revenue for Q2FY20 witnessed slow growth both YoY and sequentially (4.0% YoY/2.8% QoQ) in contrast to last quarter's topline performance. Though being the strongest performer historically, BFSI's revenue this quarter was below expectations with a muted revenue growth of 3.6% YoY. The management highlighted that it was mainly due to macroeconomic conditions and lower spending by banking and capital market clients and completion of large digital projects. Energy and Utilities segment grew by 3.6% YoY (6.3% CC) while Health Business Unit had a positive revenue growth of 3.36% YoY (0.58% QoQ), which was in contrast to last quarter's performance. Geographical revenue from both Europe (-6.7% YoY/-1.9% CC) and Rest of the world (-5.5%/2.2% CC) remained subdued as opposed to U.S (9.3%/21% CC) which witnessed strong growth aided by positive foreign exchange impact. Amongst the various services, Digital operation and platform (12.6% YoY) and Cloud and Infrastructure Services (2.7% YoY) had positive results.

Key concall highlights

- The management has guided for 0.8%-2.8% QoQ growth in Q3FY20
- Wipro Ltd. received \$300 million worth contract from ICICI bank to provide digital technology led services.
- Wipro Ltd. concluded the buyback of 32.3cr equity share with a total outflow of Rs. 10.5cr
- Company's quarterly annualized attrition rate dropped from 17.9% to 16% and 3,200 freshers were on-boarded this quarter
- Acquisition of International TechneGroup Incorporated (ITI) was completed on 3rd Oct, 2019

Resilient margin growth despite flat topline performance

Operating profit for Q2FY20 stood at Rs. 2,674 cr which surged 29.7%, owing to effective cost optimization by the company. However, IT services margins were affected by a combination of various factors such as salary increase (-110bps), non-recurrent one-time benefit in Q1FY20 (-50bps) and cost optimization (120bps) leading to sequential drop in constant currency margins from 18.4% to 18.1%. The effective tax rate of the company was 18.3% which impacted net profit positively (35.8% YoY).

Valuation

The company faces an adverse economic environment and muted growth prospects for the current year, while we believe Wipro's cost optimization strategy and strong client relationships will help the company gain lost ground in the long term. We maintain HOLD rating on the stock with share price of Rs. 266 based on 15.5x FY21E.

Company Data

Market Cap (cr)	Rs. 147,543
Enterprise Value (cr)	Rs. 134,433
Outstanding Shares (cr)	594.8
Free Float	26.0%
Dividend Yield	0.4%
52 week high	Rs.302
52 week low	Rs.221
6m average volume(lakh)	2.9
Beta	0.3
Face value	Rs.2

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	73.9	73.8	74.04
FII's	8.9	8.2	8.4
MFs/Insti	7.0	6.8	7.4
Public	7.4	9.1	8.1
Others	2.9	2.1	2.1
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-4.5%	-11.8%	2.8%
Absolute Sensex	-0.4%	-0.6%	12.3%
Relative Return*	-4.1%	-11.2%	-9.5%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	58,585	61,300	64,302
Growth (%)	7.5	4.6	4.9
EBITDA	11,938	12,661	13,039
EBITDA Margin (%)	20.4	20.7	20.3
Adj. PAT	9,003	9,914	10,202
Growth (%)	12.4	10.1	2.9
Adj. EPS	14.9	16.7	17.2
Growth (%)	18.4	11.5	2.9
P/E	17.0	14.9	14.5
P/B	2.7	2.2	1.9
EV/EBITDA	12.4	10.6	9.7
ROE (%)	15.8	15.0	13.5
D/E	0.2	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	15,126	14,541	4.0	14,716	2.8	29,842	28,519	4.6
EBITDA	3,155	2,499	26.3	3,033	4.0	6,188	5,263	17.6
EBITDA margins	20.9	17.2	370bps	20.6	30bps	20.7	18.5	220bps
Depreciation	481	437	10.2	496	(2.8)	977	871	12.2
EBIT	2,674	2,062	29.7	2,537	5.4	5,211	4,392	18.6
Interest	(461)	(357)	29.2	(536)	(14.0)	(997)	(712)	40.2
Other Income/(costs)	(0)	2	n.m.	(2)	(87.5)	(2)	(3)	(45.5)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	3,134	2,420	29.5	3,072	2.0	6,206	5,100	21.7
Tax	573	535	7.2	670	(14.4)	1,243	1,121	10.9
Share of profit from Associate	(0)	2	n.m.	(2)	(87.5)	(2)	(3)	(45.5)
Minority Interest	9	(3)	n.m.	15	(41.5)	23	(30)	n.m.
Reported PAT	2,553	1,889	35.1	2,387	6.9	4,940	4,010	23.2
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	2,553	1,889	35.1	2,387	6.9	4,940	4,010	23.2
No. of shares	594.8	451.4	31.8	602.5	(1.3)	594.8	451.4	31.8
EPS (Rs)	4.3	4.2	2.5	4.0	8.3	8.3	8.9	(6.5)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	63,518	67,562	61,300	64,302	(3.5)	(4.8)
EBITDA	12,551	13,440	12,661	13,039	0.9	(3.0)
Margins (%)	19.8	19.9	20.7	20.3	90bps	40bps
Adj. PAT	10,095	10,788	9,914	10,202	(1.8)	(5.4)
EPS	16.8	17.9	16.7	17.2	(0.6)	(4.2)

PROFIT & LOSS

Y.E. March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	55,040	54,487	58,585	61,300	64,302
% change	7.4	(1.0)	7.5	4.6	4.9
EBITDA	11,699	10,542	11,938	12,661	13,039
% change	4.5	(9.9)	13.2	6.1	3.0
Depreciation	2,311	2,112	1,947	1,990	2,083
EBIT	9,388	8,429	9,991	10,671	10,956
Interest	(1,648)	(1,817)	(1,555)	(1,592)	(1,902)
Other Income/(costs)	0	1	(4)	(4)	(4)
PBT	11,036	10,247	11,542	12,259	12,853
% change	(3.8)	(7.1)	12.6	6.2	4.8
Tax	2,521	2,239	2,524	2,329	2,635
Tax Rate (%)	22.8	21.8	21.9	19.0	20.5
Reported PAT	8,490	8,008	9,003	9,914	10,202
Adj*	-	-	-	-	-
Adj PAT	8,490	8,008	9,003	9,914	10,202
% change	(4.5)	(5.7)	12.4	10.1	2.9
No. of shares (cr)	649.5	634.4	602.2	594.8	594.8
Adj EPS (Rs)	13.1	12.6	14.9	16.7	17.2
% change	(63.8)	(3.4)	18.4	11.5	2.9
DPS (Rs)	2.0	1.0	1.0	1.0	1.0
CEPS (Rs)	16.6	16.0	18.2	20.0	20.7

CASH FLOW

Y.E. March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	10,800	10,121	10,951	11,904	12,285
Non-cash adj.	(2,005)	(778)	599	(1,070)	(1,116)
Changes in W.C	482	(919)	83	(487)	(535)
C.F. Operation	9,277	8,423	11,632	10,348	10,634
Capital exp.	(1,965)	(2,070)	(2,084)	(2,384)	(2,500)
Change in inv.	(8,368)	4,797	5,044	-	-
Other invest.CF	(1,295)	830	2,052	-	-
C.F - Investment	(11,628)	3,558	5,013	(2,384)	(2,500)
Issue of equity	(2,500)	(11,029)	0	-	-
Issue/repay debt	1,312	(1,098)	(3,888)	-	-
Dividends paid	(873)	(542)	(543)	(572)	(589)
Other finance.CF	(214)	(329)	(506)	-	-
C.F - Finance	(2,275)	(12,998)	(4,937)	(572)	(589)
Chg. in cash	(4,626)	(1,017)	11,707	7,391	7,545
Closing cash	5,271	4,493	15,853	23,306	30,851

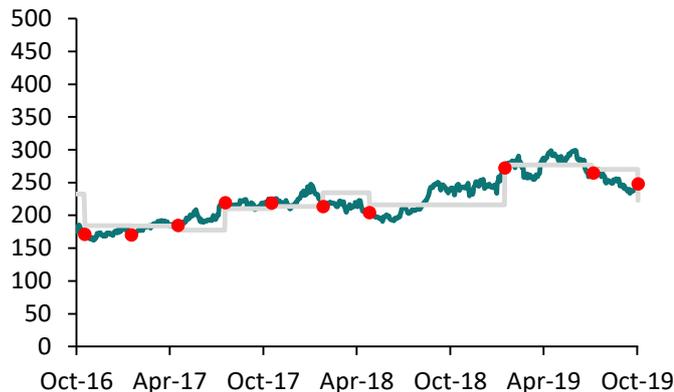
BALANCE SHEET

Y.E. March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	5,271	4,493	15,853	23,306	30,851
Accounts Receivable	9,485	10,099	10,049	10,515	11,030
Inventories	392	337	395	416	437
Other Cur. Assets	38,743	35,687	30,894	30,984	31,084
Investments	710	887	815	2,548	4,281
Gross Fixed Assets	15,654	13,292	14,101	16,484	18,985
Net Fixed Assets	6,084	4,876	4,783	5,176	5,594
CWIP	895	1,568	2,277	2,277	2,277
Intangible Assets	14,172	13,570	13,074	13,074	13,074
Def. Tax (Net)	310	691	560	517	585
Other Assets	3,291	3,856	4,617	4,617	4,617
Total Assets	79,352	76,064	83,317	93,432	103,830
Current Liabilities	10,674	12,052	14,325	15,042	15,766
Provisions	0	0	0	0	0
Debt Funds	14,241	13,826	9,947	9,947	9,947
Other Liabilities	2,166	1,652	1,970	1,943	1,985
Equity Capital	486	905	1,207	1,207	1,207
Reserves & Surplus	51,544	47,389	55,605	65,013	74,630
Shareholder's Fund	52,030	48,294	56,812	66,219	75,837
Minority Interest	239	241	264	279	295
Total Liabilities	79,352	76,064	83,317	93,432	103,830
BVPS (Rs)	80	76	94	111	127

RATIOS

Y.E. March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	21.3	19.3	20.4	20.7	20.3
EBIT margin (%)	17.1	15.5	17.1	17.4	17.0
Net profit mgn.(%)	15.4	14.7	15.4	16.2	15.9
ROE (%)	16.3	16.6	15.8	15.0	13.5
ROCE (%)	14.1	13.5	14.9	14.0	12.7
W.C & Liquidity					
Receivables (days)	62.9	67.7	62.6	62.6	62.6
Inventory (days)	3.6	3.2	3.5	3.5	3.5
Payables (days)	61.0	64.5	78.0	78.0	78.0
Current ratio (x)	2.3	2.4	2.7	2.9	3.2
Quick ratio (x)	1.9	1.9	2.2	2.5	2.8
Turnover & Leverage					
Gross asset T.O (x)	3.7	3.8	4.3	4.0	3.6
Total asset T.O (x)	0.7	0.7	0.7	0.7	0.7
Int. covge. ratio (x)	16.8	16.3	17.1	14.5	13.9
Adj. debt/equity (x)	0.3	0.3	0.2	0.1	0.1
Valuation					
EV/Sales (x)	2.6	3.1	2.5	2.2	2.0
EV/EBITDA (x)	12.5	16.3	12.4	10.6	9.7
P/E (x)	16.1	20.2	17.0	14.9	14.5
P/BV (x)	2.6	3.4	2.7	2.2	1.9

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
12-Jan-16	BUY	248
23-Feb-16	BUY	233
1-Nov-16	HOLD	185
31-Jan-17	HOLD	184
2-May-17	HOLD	178
2-Aug-17	HOLD	210
1-Nov-17	REDUCE	214
9-Feb-18	HOLD	235
11-May-18	HOLD	216
30-Jan-19	HOLD	277
22-Jul-19	HOLD	270
18-Oct-19	HOLD	266

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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