

Another round of muted outlook

Summary

Wipro's (WPRO) IT Services and consolidated revenue growth in Q4FY19 was in-line with our forecast. However, EBIT margin decline of ~150bps QoQ to 17% missed our forecast. EPS of Rs4.1, -1%/+38% QoQ/YoY was in-line with our forecast aided by higher treasury income.

Q1FY20 guidance of IT services revenue growth of -1.4% to +0.6% is a miss. However, share buyback of Rs105 bn for 323.1mn shares (5.4% of equity capital) is positive and especially the buyback extremely attractive.

We factor weak EBIT margin in Q4FY19 and muted guidance for Q1FY20. However, it would be more than offset by benefit of share buyback, resulting in a 2.9% increase in our FY20E EPS. We introduce FY21E financials. We forecast IT services revenue (in US\$) and EPS CAGR of 6.1% and 4.9% respectively over FY19-21E. We roll-over to FY21E and maintain REDUCE with new TP of Rs260 (vs. Rs228 earlier) based on PER of 15x FY21E.

Key Highlights and Investment Rationale

■ Q4FY19 – IT services revenue growth of 1% QoQ in CC within the guidance

- WPRO had guided for a CC growth of 0% to 2%. Q4 saw cross-currency benefit of ~40bps QoQ. Consumer business unit (16.2% of revenue) grew the fastest at 5.3%/14.8% QoQ/YoY in CC. BFSI vertical (31.5% of revenue) continued its growth momentum and grew by 1.3%/15.9% QoQ/YoY in CC. Amongst geographies, the US (58.2% of revenue) outperformed with 3.1% QoQ growth in CC.
- WPRO's \$75mn+ clients grew by 3 QoQ to 22.
- EBIT margin declined by ~150bps QoQ to 17% vs. our forecast of 18.3%.
- Q1FY20 IT services revenue growth guidance of -1.4% to +0.6% is a miss (-1% to +1% adjusted for divestiture of Workday and Cornerstone on demand business). WPRO attributed this muted outlook to completion of few large projects and delay in ramp-up of few other ones.

■ Share buyback – A Big positive

WPRO has announced share buyback of 323mn shares (5.4% of share capital) at Rs325/sh aggregating to Rs105 bn. We believe that the buyback price Rs325/sh is extremely attractive as it is at implied PER of 18.5x FY21E vs. one-year forward PER range of 12x-17x in the last 2 years. We recommend tendering in the buyback.

TP	Rs260	
CMP	Rs281	
Potential upside / downside	-8%	
Previous Rating	REDUCE	
V/s Consensus		
EPS (Rs)	FY20E	FY21E
IDBI Capital	16.6	17.3
Consensus	16.6	17.7
% difference	0.2	(2.4)

Shareholding Pattern (%)

Promoters	74.3
FII	8.6
DII	6.5
Public	10.6

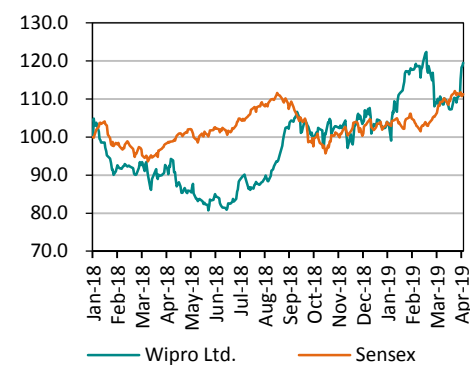
Price Performance (%)

	-1m	-3m	-12m
Absolute	7.0	13.2	27.8
Rel to Sensex	3.7	5.1	12.9

Key Stock Data

Bloomberg/Reuters	WPRO IN/WIPR.BO
Sector	IT Services
Shares o/s (mn)	5,711
Market cap. (Rs mn)	1,696,139
Market cap. (US\$ mn)	24,348
3-m daily avg Trd value (Rs mn)	4,835.1
52-week high / low	Rs297 / 190
Sensex / Nifty	39,276 / 11,787

Relative to Sensex (%)



Financial snapshot

Year	FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E
Revenue	550,402	544,871	585,845	613,047	655,447
EBITDA	109,127	103,940	116,966	120,956	132,851
EBITDA Margin (%)	19.8	19.1	20.0	19.7	20.3
Adj. PAT	84,895	80,081	90,031	94,819	99,037
EPS (Rs)	13.1	13.3	14.9	16.6	17.3
EPS Growth (%)	(3.0)	1.4	12.4	11.3	4.4
PE (x)	21.5	21.2	18.8	16.9	16.2
Dividend Yield (%)	0.7	0.4	0.4	4.3	5.3
EV/EBITDA (x)	14.8	14.8	12.1	11.5	10.6
RoE (%)	17.2	16.0	17.1	18.2	20.9
RoCE (%)	13.7	12.6	14.8	15.6	18.5

Source: Company; IDBI Capital Research

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY19	Q3FY19	QoQ (%)	Q4FY18	YoY (%)
Revenues	150,063	150,595	(0.4)	137,686	9.0
COGS	101,347	98,799	2.6	92,092	10.0
Gross profit	48,716	51,796	(5.9)	45,594	6.8
SG&A	17,663	18,867	(6.4)	21,064	(16.1)
EBITDA	31,053	32,929	(5.7)	24,530	26.6
Depreciation & amortization	5,595	5,172	8.2	5,702	(1.9)
EBIT	25,458	27,757	(8.3)	18,828	35.2
Other income	6,560	4,646	41.2	3,796	72.8
PBT	32,018	32,403	(1.2)	22,624	41.5
Tax	7,064	6,966	1.4	4,615	53.1
Minority interest	(121)	(334)	(63.8)	19	(736.8)
Adjusted net profit	24,833	25,103	(1.1)	18,028	37.7
Extraordinary items	0	0	n.m.	0	n.m.
Reported net profit	24,833	25,103	(1.1)	18,028	37.7
Recurring EPS (Rs)	4.1	4.2	(1.1)	3.0	37.6
As % of net revenue					
Gross profit	32.5	34.4		33.1	
SG&A	11.8	12.5		15.3	
EBITDA	20.7	21.9		17.8	
EBIT	17.0	18.4		13.7	
Reported net profit	16.5	16.7		13.1	
Tax rate	22.1	21.5		20.4	

Source: Company; IDBI Capital Research

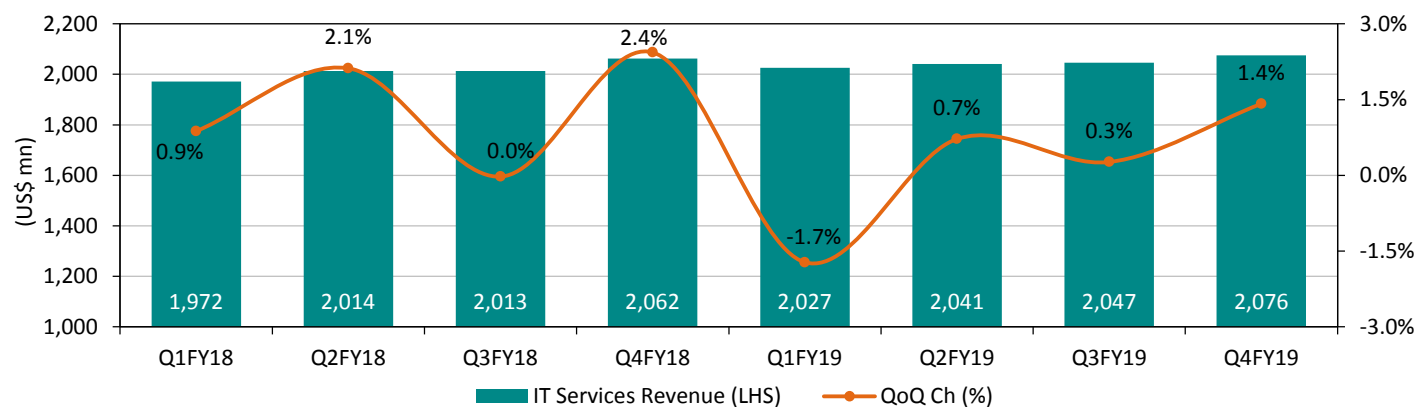
IT Services revenue grew by 1% QoQ in CC in-line with our forecast of +1.5%.

Consolidated EBIT margin saw a sharp decline of 150bps QoQ to 17% missing our forecast.

Exhibit 2: Actual vs. estimates

Year-end: March	Q4FY19	Q4FY19E	Variance (%)
IT Services revenue (US\$m)	2,076	2,085	(0.5)
Revenue (Rs mn)	150,063	149,058	0.7
EBIT (Rs mn)	25,458	27,208	(6.4)
EBIT margin (%)	17.0	18.3	(129)bps
Recurring PAT (Rs mn)	24,833	25,560	(2.8)
Recurring PAT margin (%)	16.5	17.1	(60)bps
Recurring EPS (Rs)	4.1	4.3	(2.9)

Source: Company; IDBI Capital Research

Exhibit 3: Q4FY19 IT services revenue was in-line with our forecast


Source: Company; IDBI Capital Research

Exhibit 4: Growth in large clients was mixed

Year-end: March	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
US\$100M+	9	9	9	8	8	9	10	10
US\$75M+	18	16	17	20	19	19	19	22
US\$50M+	36	39	41	39	40	39	41	41
US\$20M+	90	90	90	95	91	93	99	96
US\$10M+	163	170	167	171	173	180	171	172
US\$5M+	262	270	272	277	278	274	269	262
US\$3M+	357	370	364	369	368	358	339	339
US\$1M+	624	627	635	631	624	612	578	571

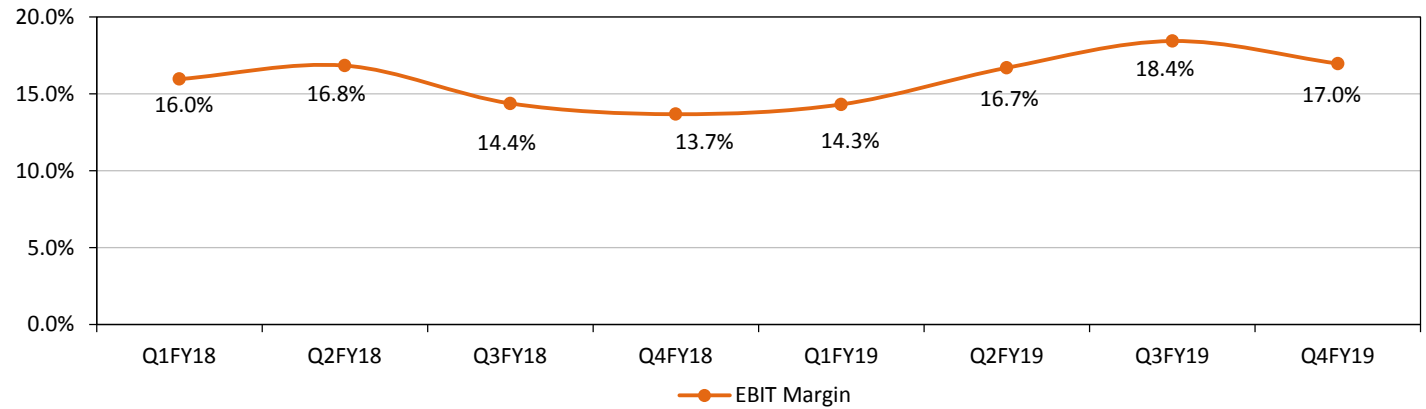
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth across various segments (%)

Parameters	% of revenue	CC growth (QoQ)
IT revenue growth		1.0
Geography		CC growth (QoQ)
US	58.2	3.1
Europe	24.6	(3.0)
ROW	17.2	0.3
Verticals		CC growth (QoQ)
Communications	5.7	(1.2)
BFSI	31.5	1.3
Manufacturing	8.0	(0.7)
Technology	12.6	(2.0)
Health business unit	13.2	2.1
Consumer business unit	16.2	5.3
Energy, Natural Resources & Utilities	12.8	(0.7)

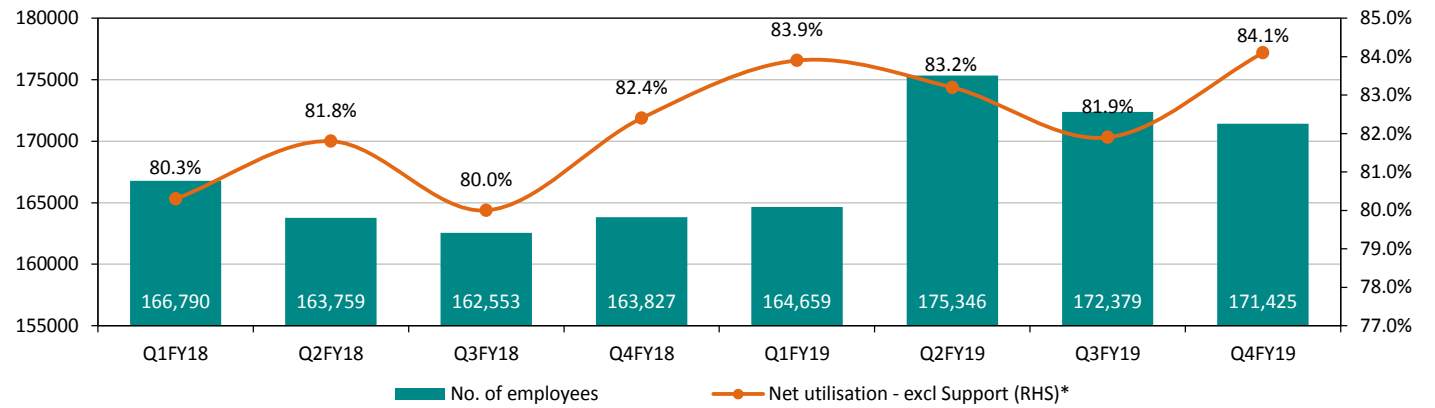
Source: Company; IDBI Capital Research

Exhibit 6: Q3FY19 EBIT margin was a beat to our forecast



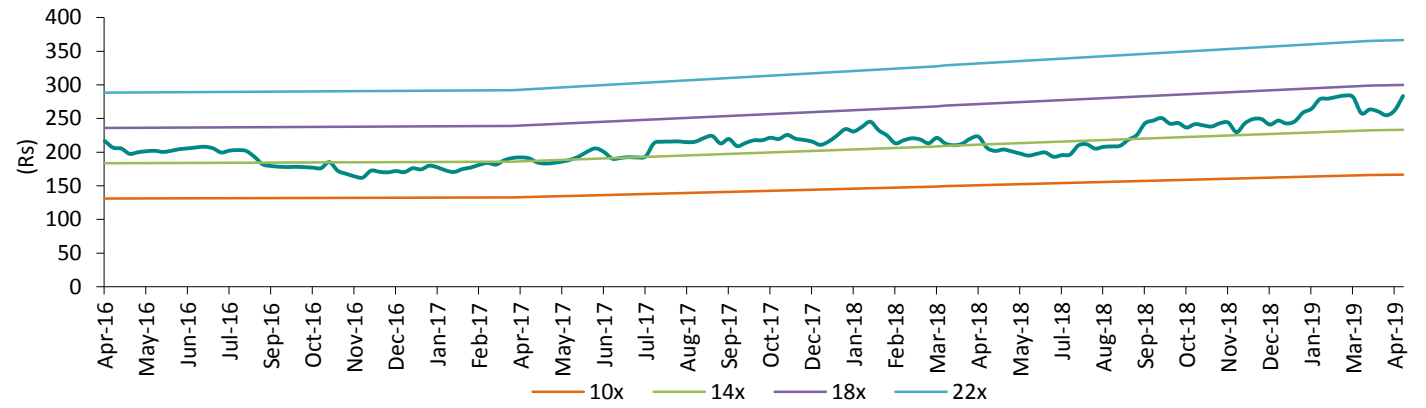
Source: Company; IDBI Capital Research

Exhibit 7: Headcount saw QoQ moderation



Source: Company; IDBI Capital Research

Exhibit 8: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net sales	544,871	585,845	613,047	655,447
<i>Growth (%)</i>	<i>(1.0)</i>	<i>7.5</i>	<i>4.6</i>	<i>6.9</i>
Operating expenses	(440,931)	(468,879)	(492,090)	(522,596)
EBITDA	103,940	116,966	120,956	132,851
<i>Growth (%)</i>	<i>(4.8)</i>	<i>12.5</i>	<i>3.4</i>	<i>9.8</i>
Depreciation	(21,124)	(19,474)	(21,326)	(23,526)
EBIT	82,816	97,492	99,630	109,325
Interest paid	(5,629)	(7,375)	(5,968)	(5,968)
Other income	25,286	30,482	28,685	24,433
Pre-tax profit	102,473	120,599	122,347	127,790
Tax	(22,390)	(25,242)	(27,528)	(28,753)
<i>Effective tax rate (%)</i>	<i>21.8</i>	<i>20.9</i>	<i>22.5</i>	<i>22.5</i>
Minority Interest	(2.0)	(185.0)	-	-
Net profit	80,081	95,172	94,819	99,037
Exceptional items	-	5,141	-	-
Adjusted net profit	80,081	90,031	94,819	99,037
<i>Growth (%)</i>	<i>(5.7)</i>	<i>12.4</i>	<i>5.3</i>	<i>4.4</i>
<i>Shares o/s (mn nos)</i>	<i>6,032</i>	<i>6,034</i>	<i>5,711</i>	<i>5,711</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Pre-tax profit	102,473	120,599	122,347	127,790
Depreciation	(7,922)	13,623	79,262	23,526
Tax paid	(29,755)	(23,580)	(27,528)	(28,753)
Chg in working capital	3,730	48,507	(44,382)	(2,672)
Other operating activities	(23,064)	(7,325)	(6,124)	(8,191)
Cash flow from operations (a)	45,462	151,824	123,574	111,701
Capital expenditure	19,294	(14,826)	(4,227)	(20,000)
Chg in investments	(565)	752	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	18,729	(14,074)	(4,227)	(20,000)
Equity raised/(repaid)	(110,000)	(263)	(105,000)	-
Debt raised/(repaid)	(4,153)	(38,792)	-	-
Dividend (incl. tax)	(209)	(13,511)	(80,429)	(102,291)
Chg in minorities	17	42	(80)	(80)
Other financing activities	-	-	-	-
Cash flow from financing (c)	(114,912)	(52,524)	(186,155)	(102,371)
Net chg in cash (a+b+c)	(50,721)	85,226	(66,808)	(10,670)

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	200,140	201,343	126,308	122,782
Investments	7,668	6,916	6,916	6,916
Other non-curr assets	39,768	47,402	49,044	52,436
Current assets	506,156	571,906	539,180	544,193
Inventories	3,370	3,951	5,039	5,387
Sundry Debtors	100,990	100,489	109,173	116,724
Cash and Bank	294,019	379,245	312,437	301,767
Loans and advances	42,486	22,880	41,989	44,894
Total assets	753,732	827,567	721,448	726,326
Shareholders' funds	482,936	568,116	475,496	471,475
Share capital	12,064	12,068	11,422	11,422
Reserves & surplus	470,872	556,048	464,075	460,053
Total Debt	138,259	99,467	99,467	99,467
Secured loans	-	-	-	-
Unsecured loans	138,259	99,467	99,467	99,467
Other liabilities	9,611	14,096	14,096	14,096
Curr Liab & prov	120,516	143,251	129,832	138,811
Current liabilities	120,516	143,251	129,832	138,811
Provisions	-	-	-	-
Total liabilities	268,386	256,814	243,395	252,374
Total equity & liabilities	753,732	827,567	721,448	726,326
Book Value (Rs)	80	94	83	83

Source: Company; IDBI Capital Research

Financial Ratio

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	13.3	14.9	16.6	17.3
Adj. EPS growth (%)	1.4	12.4	11.3	4.4
EBITDA margin (%)	19.1	20.0	19.7	20.3
Pre-tax margin (%)	18.8	20.6	20.0	19.5
ROE (%)	16.0	17.1	18.2	20.9
ROCE (%)	12.6	14.8	15.6	18.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.7	0.8	0.9
Leverage factor (x)	1.5	1.5	1.5	1.5
Net margin (%)	14.7	15.4	15.5	15.1
Net Debt/Equity (x)	(0.3)	(0.5)	(0.4)	(0.4)
Working Capital & Liquidity ratio				
Inventory days	2	2	3	3
Receivable days	68	63	65	65
Payable days	56	69	56	56

Valuation

Year-end: March	FY18	FY19	FY20E	FY21E
P/E (x)	21.2	18.8	16.9	16.2
Price / Book value (x)	3.5	3.0	3.4	3.4
PCE (x)	16.8	15.5	13.8	13.1
EV / Net sales (x)	2.8	2.4	2.3	2.1
EV / EBITDA (x)	14.8	12.1	11.5	10.6
Dividend Yield (%)	0.4	0.4	4.3	5.3



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cufee Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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Compliance Officer: Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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