

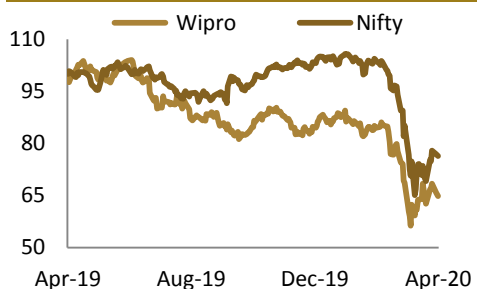
Market statistics

Current stock price (₹)	187
Shares O/S (cr.)	571.3
Mcap (₹ cr)	106,583
52W H/L (₹)	302/160
Bloomberg	WPRO.IN

Shareholding pattern

Promoters	74.04
Domestic Institution	7.03
Foreign Institution	8.45
Non-institution	10.49
of which more than 1%	

Infosys vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	17.4	15.0	14.2
EPS (₹)	17.1	15.7	17.1
CEPS (₹)	20.8	19.8	21.4
P/E (x)	11.5	11.9	10.9
P/BV (x)	2.0	1.7	1.5
EV/EBITDA (x)	8.3	8.2	6.5
Income growth (%)	4.2	(2.0)	4.3
EBITDA growth (%)	5.5	(6.5)	8.1
PAT growth (%)	5.4	(8.0)	8.7

Wipro reported a weak quarter with cc revenue growth of 0.4% QoQ and 2.6% YoY. Revenue growth was weak across all verticals with the exception of Healthcare, life sciences & services and Technology Business Unit. Due to the uncertainty on account of COVID-19 pandemic, WPRO did not have visibility into the extent to which it will disrupt operations, and hence decided to not provide revenue guidance for 1Q. Revenues from the top client (-1% QoQ and -19% YoY) continued to decline in the quarter. WPRO expects huge pressure on margins as revenue is expected to decline in the coming quarters. We maintain our Hold recommendation rating on the stock looking at relatively cheap valuations. WPRO remains our least preferred stock in Tier I IT space.

4QFY20 - Soft quarter: Revenue in 4Q was lower-than-our-estimates at US\$2,074mn, 0.4%/2.6% QoQ/YoY cc. Wipro highlighted that revenue impact was ~US\$14- \$16mn (0.7%-0.8% of revenue) owing to the Covid-19 outbreak. In terms of verticals, BFSI decreased 0.9% QoQ in cc terms with strong traction driven by Healthcare, life sciences & services and Technology Business Unit which increased 2.3%/3.2% QoQ respectively. Revenue growth was weak in Manufacturing BU as it declined by 1.3%. Among geographies, growth was led by Europe in cc terms (+3.4%), while Americas declined 0.7%. RoW grew 0.4% QoQ. IT services margin declined 80bps QoQ to 17.6%. Margin impact was on account of weak revenue trajectory helped partially by higher utilisation (+320bps QoQ), higher offshoring, automation, FPP and currency benefit. PAT came at Rs23.45bn, -4.8% QoQ impacted by higher ETR of 20.9% (vs. 20% in 3Q).

Company did not provide revenue guidance for Q1FY21 owing to high level of uncertainty: Wipro's management refrained from providing revenue guidance for Q1FY21 owing to lack of visibility due to business disruption on account of Covid-19. The management highlighted that the performance of its business was severely impacted in the month of March owing to material deterioration of demand environment (in key markets such as US, Europe and UK) and supply disruption (lockdown in India), though the company had responded quickly by moving 93% of its employees to work-from-home. It has also successfully changed the working arrangement of its support employees based in India to WFH. If the duration of pandemic goes beyond the June quarter, it will have a severe impact on the health of the enterprises across the globe which would lead to cascading impact on IT spends. The management has indicated that the pandemic is leading to budget reduction, cut in discretionary spends, request for temporary discounts, pricing pressure and restructuring of existing IT spends. Further, companies in troubled sectors such as retail, hospitality, airline, oil & gas and auto have been experiencing severe business disruptions.

Weak environment likely to provide consolidation opportunity: WPRO highlighted that it would focus on productivity efficiency and digital offerings to gain market share in its strategic accounts. It cited that the slowdown would likely provide a consolidation opportunity in the market. Though the decline in revenue during Q1FY21 would have significant pressure on margins, the management believes that cost efficiency measures (deferment of salary increase, cut in discretionary spends, tightening of subcontracting costs, etc.) would help the company to offset the pressure partially.

Valuation -Maintain Hold: We have revised downward our earnings estimates for FY21E/FY22E factoring in a miss in its margins and potential material deterioration in the demand environment. Cash flows have weakened during the quarter. The company's strong cash position in its books would provide cushion. At CMP, the stock is trading at 12x/11x of its FY21e/FY22 earnings estimates, which is justified due to the continued underperformance in revenue growth among its large peers. Wipro continues to remain our least preferred stock among the top-tier IT companies.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

**Exhibit 1: Quarterly details**

₹ mn	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	2,076	2,095	2,074	(1.0)	(0.1)	CC revenue growth of 0.4% QoQ and 2.6% YoY
Revenues	150,063	154,705	157,110	1.6	4.7	
- Operating costs	117,530	122,904	126,311	2.8	7.5	
EBITDA	32,533	31,801	30,799	(3.2)	(5.3)	IT services margin declined 80bps QoQ to 17.6%
EBITDA margin (%)	21.7	20.6	19.6	(95)bps	(208)bps	
- Depreciation	5,595	5,295	5,798	9.5	3.6	
+ Other income, net (incl forex)	4,997	4,287	4,655	8.6	(6.8)	
PBT	31,935	30,793	29,656	(3.7)	(7.1)	
- Taxes	7,064	6,164	6,205	0.7	(12.2)	
Effective tax rate (%)	22.1	20.0	20.9	91bps	(120)bps	Tax rate for FY21 to be 21-22%
PAT	24,871	24,629	23,451	(4.8)	(5.7)	
Minority interest	-	-	-	-	-	
Reported profits	24,937	24,629	23,451	(4.8)	(6.0)	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	9,228	8,189	(11.3)	9,812	8,541	(13.0)
Revenue	645,968	597,777	(7.5)	686,844	623,472	(9.2)
EBITDA margin (%)	20.6	19.1	(150)bps	20.8	19.8	(100)bps
EPS (₹)	18.0	15.7	(12.8)	19.3	17.1	(11.4)

Source: Trust Research

Geography wise Revenues: Among geographies, growth was led by Europe in cc terms (+3.4%), while Americas declined 0.7%. RoW grew 0.4% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Americas	56.0	56.1	57.1	58.2	58.7	59.6	59.2	59.1
Europe	26.1	25.7	25.5	24.6	24.6	23.5	23.7	24.1
RoW	17.9	18.2	17.4	17.2	16.7	16.9	17.1	16.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Revenue details at WPRO

Revenue Mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
FPP Revenue	58.7	58.9	58.9	59.8	60.0	61.6	61.9	62.6	63.2
Onsite revenue	52.7	52.9	52.8	52.2	51.1	52.3	53.3	53.2	51.8
Offshore revenue	47.3	47.1	47.2	47.8	48.5	47.7	46.7	46.8	48.2

Source: Company, Trust Research



Vertical wise Performance: In terms of verticals, BFSI decreased 0.9% QoQ in cc terms with strong traction driven by Healthcare, life sciences & services and Technology Business Unit which increased 2.3%/3.2% QoQ respectively. Revenue growth was weak in Manufacturing BU as it declined by 1.3%.

Exhibit 5: Vertical wise segmentation

Vertical Mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Finance solutions	29.8	30.5	31.4	31.5	31.6	31.3	30.9	30.4
Healthcare, life sciences & services	13.6	13.0	13.1	13.2	13.2	13.0	13.1	13.5
Energy & utilities	12.7	12.8	13.0	12.8	12.8	12.9	12.9	12.8
Manufacturing	8.4	8.3	8.1	8.0	7.9	8.1	8.2	8.2
Technology	14.5	13.9	13.0	12.6	13.0	13.0	12.3	12.8
Consumer	15.3	15.7	15.6	16.2	15.6	16.0	16.9	16.8
Communications	5.7	5.8	5.8	5.7	5.9	5.7	5.7	5.5
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

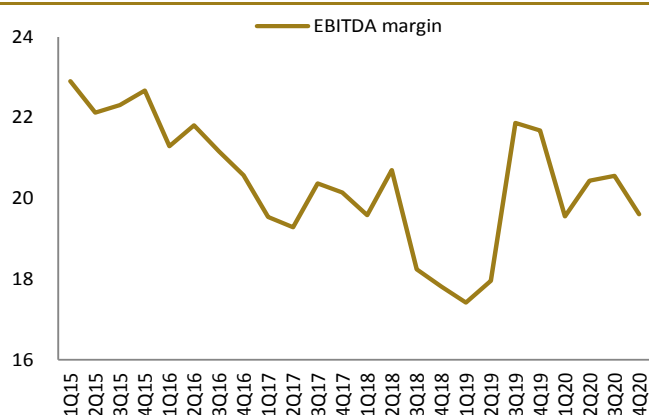
Client details: Number of US\$100mn clients increased by 1/5 on QoQ/YoY basis. WPRO added 4 (net) clients to take the total tally to 1,074.

Exhibit 6: Client details

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
>\$100m	8	9	10	10	13	13	14	15
>\$75m	19	19	19	22	23	23	22	22
>\$50m	40	39	41	41	41	41	41	40
\$20m	91	92	99	96	92	92	96	96
\$10m	171	177	171	172	166	165	169	166
\$5m	268	265	269	262	259	261	260	260
\$3m	359	348	339	339	340	341	344	341
\$1m	595	584	578	571	564	569	572	574
Number of new customers	75	76	57	63	41	57	77	65
Total number of active customers	1,184	1,131	1,132	1,115	1,060	1,027	1,070	1,074
Top customer contribution (%)	3.7	3.7	3.7	3.7	3.7	3.2	3.0	3.0
Top 5 contributions (%)	11.9	12.2	13.0	13.7	13.8	12.8	12.3	12.2
Top 10 contributions (%)	18.7	19.1	19.7	20.4	20.7	19.8	19.2	19.3

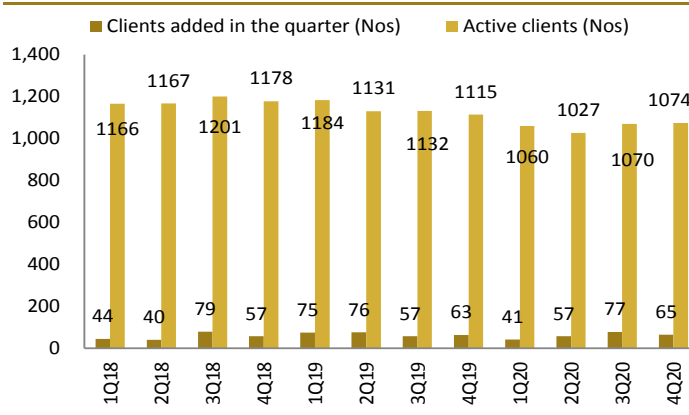
Source: Company

Exhibit 7: EBITDA margin was lower than expectation



Source: Company, Trust

Exhibit 8: Client additions were weak this quarter



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	544,871	585,845	610,232	597,777	623,472
Op. Expenses	440,941	469,928	487,953	483,465	499,890
EBITDA	103,930	115,917	122,279	114,312	123,582
Other Income	19,663	21,518	21,095	22,120	23,120
Depreciation	21,124	19,474	20,862	23,370	24,620
EBIT	102,469	117,961	122,512	113,062	122,082
Interest	-	-	-	-	-
PBT	102,469	117,961	122,512	113,062	122,082
Tax	22,390	25,242	24,799	23,178	24,416
PAT	80,079	92,719	97,713	89,884	97,666
Minority	41	-	-	-	-
Adj Pat	80,038	92,719	97,713	89,884	97,666

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	13.3	15.4	17.1	15.7	17.1
CEPS	16.8	18.6	20.8	19.8	21.4
BVPS	80.1	94.2	97.6	112.1	128.1
DPS	0.8	1.8	1.0	1.0	1.0
Payout (%)	6.6	13.3	6.8	7.4	6.8
Valuation (x)					
P/E	15.9	16.7	11.5	11.9	10.9
P/BV	2.6	2.7	2.0	1.7	1.5
EV/EBITDA	11.8	12.1	8.3	8.2	6.5
Dividend Yield (%)	0.4	0.7	0.5	0.5	0.5
Return ratio (%)					
EBITDA Margin	19.1	19.8	20.0	19.1	19.8
PAT Margin	14.7	15.8	16.0	15.0	15.7
ROAE	16.0	17.6	17.4	15.0	14.2
ROACE	15.4	17.1	17.4	14.9	14.1
Leverage Ratios (x)					
Total D/E	0.1	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio	1.4	1.8	1.7	1.9	2.2
Growth Ratios (%)					
Income growth	(1.0)	7.5	4.2	(2.0)	4.3
EBITDA growth	(4.8)	11.5	5.5	(6.5)	8.1
PAT growth	(5.8)	15.8	5.4	(8.0)	8.7
Turnover Ratios					
Inventory Days	8	8	8	12	15
Debtors Days	75	73	74	88	90
Payable days	65	64	60	61	61

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Equity Share Capital	9,048	12,068	11,427	11,427	11,427
Reserves & Surplus	476,298	558,685	547,906	631,105	722,086
Net Worth	485,346	570,753	559,333	642,532	733,513
Loan Funds	45,268	28,368	4,840	12,840	12,840
Deferred Tax Liability	(7,668)	(6,916)	(9,302)	(9,302)	(9,302)
Capital Employed	522,946	592,205	554,871	646,070	737,051
Application of Funds					
Net Block	64,443	70,601	81,120	81,811	82,191
Goodwill	101,864	101,864	101,864	101,864	101,864
Investments	267,207	234,478	205,997	213,997	218,997
Current Assets	291,237	423,363	420,357	514,059	615,842
Debtors	111,960	120,379	125,390	163,775	145,192
Inventory	11,942	12,840	13,375	24,566	25,622
Cash	44,925	158,529	144,499	161,944	291,295
Others	122,409	131,614	137,093	163,775	153,733
Current Liabilities	201,805	238,101	254,467	265,661	281,844
Creditors	61,907	66,851	70,531	71,930	74,380
Provisions	139,898	171,250	183,936	193,731	207,463
Net Current Asset	89,432	185,262	165,890	248,398	333,999
Misc Expenses	-	-	-	-	-
Total	522,946	592,205	554,871	646,070	737,051

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	102,469	117,961	122,512	113,062	122,082
Depreciation	20,559	20,226	18,476	23,370	24,620
Others	(41)	-	-	-	-
CF before W.cap	122,987	138,187	140,988	136,432	146,702
Inc/dec in W.cap	41,624	(17,774)	(5,342)	65,063	(43,751)
Op CF after W.cap	81,363	155,961	146,330	71,369	190,453
Less Taxes	22,390	25,242	24,799	23,178	24,416
Net CF From Operations	58,973	130,719	121,531	48,191	166,036
Inc/(dec) in F.A + CWIP	15,773	25,632	31,381	24,062	25,000
(Pur)/sale of Investments	(40,745)	(32,729)	(28,481)	8,000	5,000
CF from Invst Activities	24,972	7,097	(2,900)	(32,062)	(30,000)
Loan Raised/ (repaid)	25,657	(16,900)	(23,528)	8,000	-
Equity Raised	(112,095)	5,042	(102,449)	(0)	(0)
Dividend	5,292	12,354	6,684	6,685	6,685
CF from Fin Activities	(91,730)	(24,212)	(132,661)	1,315	(6,685)
Net inc/(dec) in cash	(7,785)	113,604	(14,030)	17,445	129,352
Op. bal of cash	52,710	44,925	158,529	144,499	161,944
Cl. balance of cash	44,925	158,529	144,499	161,944	291,295



DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.