



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY18 Result Update@ Dalal & Broacha

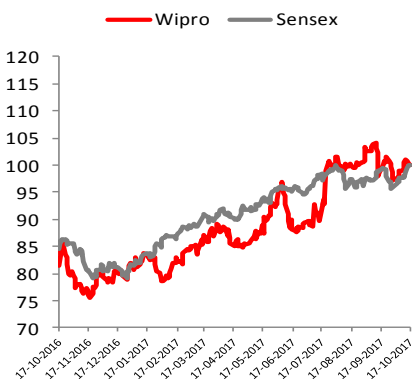
ACCUMULATE

Current Price	295
Target	295
Upside	0%
52 Week Range	204-303

Key Share Data

Market Cap (Rs.bn)	1,434
Market Cap (US\$ mn)	22,061
No of o/s shares (mn)	4,853
Face Value	2
Monthly Avg.	
Vol(BSE+NSE)Nos	1,993,500
BSE Code	507685
NSE Code	WIPRO
Bloomberg	WPRO IN

Price performance



% Shareholding	Sep-17	June-17
Promoters	73.18	73.18
Public	26.26	26.25
Others	0.56	0.56
Total	100	100

Wipro outperforms on the profitability front

- Wipro reported USD revenue of \$2,014 Mn which was in-line with our estimate of \$2,015 Mn and up 2.1% qoq. Top-line growth was mainly aided by cross-currency tailwinds and marginal growth in billing rate.
- Rupee revenue of INR 134,234 Mn, which was in-line with our estimate of INR 135,942 Mn.
- EBIT stood at INR 23,041 Mn, 2% above our estimate of INR 22,585 Mn and translated into an EBIT margin of 17.2%, up by 95 bps from the previous quarter.
- PAT stood at INR 21,917 Mn, 2.3% above our estimate of INR 21,428 Mn

Performance in BFSI vertical drove growth in Q2

- BFSI vertical (28% of revenues in Q2) grew 5.6% qoq and led the pack followed by Manufacturing & Hi-Tech (23% of revenue) which grew 3.5% and well above the company average. Healthcare & Lifesciences (14% of revenues) was a clear laggard and management expects further clarity on the continuity of the Affordable Care Act and direction of incumbents in the US Insurance Industry only post Q3FY18.
- In terms of Services Global Infrastructure Services (28% of revenue) grew 3.2% qoq followed by Business Processes (12% of revenues) which grew 3% qoq and Application Services (46% of revenues) which grew 1.5% qoq.
- Geographically, Europe and Other Emerging Markets outperformed with a 5.9% and 6.8% qoq growth respectively while US reported flattish growth.

Key Concall Takeaways

- Performance of Cloud was robust and crossed the \$1 Bn milestone
- Energy & Utilities (14% of revenues) underperformed due to lumpiness in projects holidays in the Middle Eastern region to which Wipro has a commendable exposure. However, vertical has bottomed out after stability in Oil prices and expect a bounceback in Q4
- Management guided for an industry level growth guidance in Q4 on the back of strong delivery in BFSI segment and turnaround in Energy & Utilities vertical
- Communications segment (7% of revenues) underperformed due to ramp-downs at customer levels in certain regions, however management believes that the worst is behind us
- Management is particularly positive on the prospects of the BFSI segment which is a positive surprise compared to other peers which have released results
- Strong deployment of HOLMES across customers, the platform continues to grow and evolve
- Wipro now has over 1000 patents filed and granted in the AI and Automation space
- All in all management gave a very strong commentary due to strong mining performance in the US and digital initiatives

Valuation & Outlook:

Stock is currently trading at 15.6x and 14x FY18E and FY19E EPS. We have a NEUTRAL rating on the stock with a target price of INR 295.

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT (%)	PAT	% Growth	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	512,440	9.1%	97,021	18.9%	88,922	2.8%	36.0	8.0x	19.6%	16.6%
FY17	550,402	7.4%	89,797	16.3%	80,813	-9.1%	32.7	8.9x	16.2%	13.2%
FY18E	552,560	0.4%	98,795	17.9%	91,794	13.6%	18.6	15.6x	16.1%	13.6%
FY19E	592,401	7.2%	112,091	18.9%	101,854	11.0%	20.7	14.0x	16.0%	14.2%

Source: Company, Dalal&Broacha Research

Difference in FY18 and FY19 EPS and PE (x) due to Bonus Issue


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YE March (Rs. mn)	Q2 FY18	Q1 FY18	Q-o-Q change %	Q2 FY17	Y-o-Y change %	Q2 FY18 Estimate	Deviation %
Net Sales (\$ Mn)	2,014	1,972	2.1%	1,916	5.1%	2,015	-0.1%
Net Sales (INR Mn)	134,234	136,261	-1.5%	137,657	-2.5%	135,942	-1.3%
Cost of sales	94,694	97,111	-2.5%	97,808	-3.2%	95,358	-0.7%
Gross profit	39,540	39,150	1.0%	39,849	-0.8%	40,584	-2.6%
Operating expenses:							
Selling and marketing expenses	9,867	10,146	-2.7%	9,614	2.6%	10,196	
General and administrative expenses	7,085	7,264	-2.5%	8,545	-17.1%	8,157	
Foreign exchange (gains)/losses, net	-453	-353	28.3%	-1,281	-64.6%	-353	
Total operating expenses	16,499	17,057	-3.3%	16,878	-2.2%	17,999	-8.3%
Operating Profit	23,041	22,093	4.3%	22,971	0.3%	22,585	2.0%
Depreciation	5,200	4,941		4,847		5,410	
EBITDA	28,241	27,034	4.5%	27,818	1.5%	27,995	0.9%
Interest Paid	1,386	1,474	-6.0%	1,428	-2.9%	1,134	
Non-operating Income	6,666	6,199	7.5%	5,105	30.6%	6,324	
Profit Before Tax	28,321	26,818	5.6%	26,648	6.3%	27,775	2.0%
Less: Total Tax	6,426	5,994	7.2%	5,909	8.7%	6,208	
Non-controlling interest	-22	59	-137.3%	67	-132.8%	139	
PAT	21,917	20,765	5.5%	20,672	6.0%	21,428	2.3%
Diluted EPS (Rs.)	4.5	8.4	-46.4%	8.5	-47.0%	4.4	3.6%
Diluted Shares Outstanding (mn)	4,853	2,463		2,427		4,915	
Margin Analysis(%)			Change in bps	Change in bps		Change in bps	
Operating Profit Margin	17.2%	16.2%	95	16.7%	48	16.6%	55
PBT Margin	21.1%	19.7%	142	19.4%	174	20.4%	67
NPM	16.3%	15.2%	109	15.0%	131	15.8%	56
Effective Tax Rate(%)	22.7%	22.4%	34	22.2%	52	22.4%	34
Cost Analysis %			Change in bps	Change in bps		Change in bps	
Cost of sales / Total Sales	70.5%	71.3%	-72	71.1%	-51	70.1%	40
Selling and marketing expenses/Total Sales	7.4%	7.4%	-10	7.0%	37	7.5%	-15

- EBIT stood at INR 23,041 Mn in Q2FY18 up 4.3% qoq and 0.3% yoy. EBIT margins stood at 17.2%, 55 bps above our estimates and up by 95 bps qoq and 48 bps qoq. EBIT outperformed mainly due to lower Cost of Services, lower S&M and lower General & Administrative Expenses



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Profit & Loss A/c					
YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Total Revenue	469,545	512,440	550,402	552,560	592,401
Personnel	321,283	356,724	391,544	383,362	405,292
Selling, General & Administrative Expenses	56,476	62,562	72,838	72,159	77,012
Foreign exchange (gains)/losses, net	(3,637)	(3,867)	(3,777)	(1,755)	(1,994)
Total Operating Expenditure	374,122	415,419	460,605	453,765	480,310
EBIDTA	108,246	109,844	112,900	126,502	149,733
<i>EBITDA Growth %</i>	7.8%	1.5%	2.8%	12.0%	18.4%
Less: Depreciation	12,823	12,823	23,103	27,708	37,642
EBIT	95,423	97,021	89,797	98,795	112,091
<i>EBIT Growth %</i>	6.8%	1.7%	-7.4%	10.0%	13.5%
Interest Paid	3,599	5,582	5,183	5,236	4,549
Non-operating Income	19,859	23,280	21,660	25,520	25,063
Profit Before tax	111,683	114,719	106,274	119,079	132,605
Tax	24,624	25,305	25,213	26,928	30,088
Minority Interest	531	492	248	357	663
Net Profit	86,528	88,922	80,813	91,794	101,854
Net Profit Excl. extra-ordinaries	86,528	88,922	80,813	91,794	101,854

Balance Sheet					
YE March(Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Equity Capital	4,937	4,941	4,861	9,856	9,856
Reserves & Surplus	403,045	461,137	515,443	574,708	639,039
Equity	407,982	466,078	520,304	584,565	648,895
Net Worth	407,982	466,078	520,304	584,565	648,895
Minority Interest	1,646	2,224	2,391	1,659	1,845
Total Loans	78,913	125,221	142,412	105,221	95,221
Capital Employed	491,781	598,631	671,721	698,058	752,575
Assets					
Gross Block	121,322	144,068	156,542	168,068	180,068
Less: Depreciation	72,587	85,327	95,699	123,407	161,049
Net Block	48,735	58,741	60,843	44,661	19,019
Capital WIP	5,471	6,211	8,951	8,951	8,951
Investments	53,908	132,944	299,133	299,133	299,133
Intangible Assets	76,009	117,832	141,718	141,718	141,718
Others - A	12,145	12,011	12,114	12,114	12,114
Current Assets					
Inventories	4,849	5,390	3,915	5,526	5,924
Sundry Debtors	91,531	102,380	94,846	112,026	120,103
Cash and Bank Balance	165,561	102,269	92,840	25,527	94,466
Loans and Advances	114,276	155,941	57,997	143,666	154,024
Total Current Assets	402,074	391,688	259,345	314,483	404,256
Less: Current Liabilities & Provisions					
Sundry Creditors	58,745	68,187	65,486	69,320	73,286
Provisions	33,626	37,057	37,782	39,315	43,928
Other Current Liabilities	14,190	15,552	7,115	14,367	15,402
Total Current Liabilities & Provisions	106,561	120,796	110,383	123,002	132,617
Capital Applied	491,781	598,631	671,721	698,058	752,575



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Key Ratios					
YE March	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin (%)	23.1%	21.4%	20.5%	22.9%	25.3%
Tax / PBT (%)	22.0%	22.1%	23.7%	22.6%	22.7%
Net Profit Margin (%)	18.4%	17.4%	14.7%	16.6%	17.2%
RoE (%)	22.2%	19.6%	16.2%	16.1%	16.0%
RoCE (%)	19.4%	16.6%	13.2%	13.6%	14.2%
Return on Optg. Assets (%)	52.7%	39.5%	22.5%	19.9%	22.6%
Debt/ Equity (X)	0.2x	0.3x	0.3x	0.2x	0.1x
Interest Coverage (x)	30.1x	19.7x	21.8x	24.2x	32.9x
Interest / Debt (%)	5.5%	5.5%	3.9%	4.2%	4.5%
Growth in Gross Block (%)	6.9%	18.7%	8.7%	7.4%	7.1%
Sales Growth (%)	8.1%	9.1%	7.4%	0.4%	7.2%
Operating (EBITDA) Profit Growth (%)	7.8%	1.5%	2.8%	12.0%	18.4%
Net Profit Growth (%)	11.0%	2.8%	(9.1%)	13.6%	11.0%
Debtors (Days of net sales)	71	73	63	74	74
Creditors (Days of Raw Materials)	57	60	52	56	56
Inventory (Days of Optg. Costs)	5	5	3	4	5
Current Ratio (x)	3.8x	3.2x	2.3x	2.6x	3.0x
Fully Diluted EPS Excl. extraordinary (Rs.)	35.1	36.0	32.7	18.6	20.7
Book Value Per Share (Rs.)	165.6	188.9	210.7	118.5	131.6



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms. Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma/Healthcare
Mr. Avinash Kumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
Mr Mayank Babla	Mayank.babla@dalal-broacha.com	02267141412	IT/Media & Telecom
Ms. Richa Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com