



Wipro

Sector: Technology

1QFY17 Result Update

CMP: ₹ 549

Disappointing outlook, margin decline negative, Hold

Recommendation: Hold

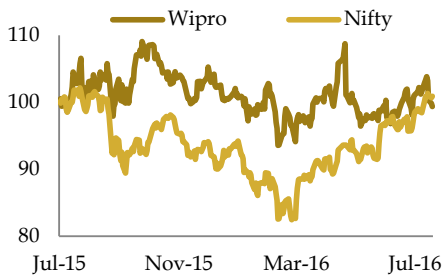
Market statistics

Current stock price (₹)	549
Shares O/S (cr.)	247.1
Mcap (₹ cr)	135,704
52W H/L (₹)	613/508
6m avg. volume	1,546,392
Bloomberg	WPRO.IN

Shareholding pattern

Promoters	73.34
Domestic Institution	5.25
Foreign Institution	10.93
Non-institution	10.48
of which more than 1%	
JP Morgan Chase Bank	1.97

Wipro vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	20.5	17.1	17.2
EPS (₹)	36.2	34.0	38.0
CEPS (₹)	42.3	41.8	46.5
P/E (x)	15.6	16.1	14.5
P/BV (x)	3.0	2.6	2.4
EV/EBITDA (x)	11.0	10.5	9.0
Income growth (%)	8.8	6.6	8.3
EBITDA growth (%)	2.5	(2.1)	11.8
PAT growth (%)	3.3	(5.9)	11.7

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

Wipro' 1QFY17 IT Services revenues at US\$1,931m grew 2% QoQ in constant currency terms, up 2.6% QoQ in US\$ terms and in the upper end of US\$1,912-1,950mn after adjusting for cross currency movement in the quarter. Overall EBIT margin was 16.1%, (down 131bps QoQ). PAT stood at ₹20.56bn, down 8% QoQ. Guidance for 1QFY17 came in at 0% to 1% which was lower-than our expectation. 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.

Weak quarter on the margin front: IT services US\$ revenue came in at US\$1,931mn (up 2.6% QoQ, up 2% in constant currency terms. IT Services EBIT margins were lower-than-expectations despite decent revenue trajectory on account of higher SG&A investments. The management indicated that margins in 1QFY17 would decline further on account of wage hike cycle kicking in from Jun'16 and investment in capabilities and talent acquisition.

Guidance for 2QFY17, lower-than-expectation: WPRO guided for US\$ revenue growth of 0% to 1% QoQ in 2QFY17. In Q2FY17, operating margins will have headwinds from wage revision (2 months). Wipro called off the agreement to acquire Viteos Group, a back office services provider it had agreed to acquire in December 2015 for a consideration of US\$130mn.

Geographies, Verticals performance - mixed bag: Europe was up 0.5% QoQ in cc terms and Americas (4.2%) were growth drivers for the quarter while India & Middle East (down 2.6%). APAC was down 0.4%. Growth drivers for the quarter were Healthcare, Life Sciences & Services (up in 17.7% QoQ in cc terms) and Finance Solutions (up 2.9%). Energy, Natural Resources & Utilities (was down 4.1%), Consumer Business Unit (down 1.6%), Manufacturing and Technology (was down 0.9%) while Communication (down 0.4% QoQ) remain muted.

US\$15bn revenue ambition and 6 themes: Management shared 6 themes to achieve its ambitious target of US\$15bn revenues by 2020 with EBIT margins of ~23%. These are (1) Digital technologies (2) Clients mining (3) Focus on growth markets (4) Non-linear revenues (5) Hyper Automation and (6) Leveraging partner ecosystem. In our view these six themes mimics the industry trend and are not differentiators from growth strategies of peers. As per management, revamped leadership, new organization structure and investment commitment made by company would help company in achieving the aggressive target.

Digital Technologies being betted upon, seems some time before it could bear fruits: Wipro was one of the first to invest in new technologies. It has already launched its artificial intelligence (AI) platform called HOLMES. The company has been using the platform to improve efficiencies. It has carved a separate business unit called Wipro Digital, which sits across technology stacks, for increased focus emerging technologies. It has been focusing on augmenting its design and engineering capabilities. We believe, sizeable revenue from Digital Technologies is going to take a long time, and in the current scenario would not be able to stem the slowing commoditized IT outsourcing revenue growth in the near-to-medium term.

Valuation & Outlook: We expect Wipro to grow USD revenue at a CAGR of 8.5% and EPS to grow at a CAGR of 2.4% over FY16-18E. Valuations are at 16.1x FY17E and 14.5x FY18E EPS. We maintain our Hold rating on the stock, and would get constructive after looking at the sustainability of revenue growth and margin resilience. Wipro's underperformance to peers TCS and Infosys in key areas—US, Europe, BFSI, HCLS, IMS and ADM—remains a cause for concern. Overall, the company needs to accelerate growth to reduce underperformance to peers, which is long awaited by investors.



Exhibit 1: Quarterly details

₹ mn	1QFY16	4QFY16	1QFY17	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	1,794	1,882	1,931	2.6	7.6	US\$ revenue was up 2.6% QoQ, up 2% in cc terms.
Revenues	122,376	136,324	135,992	(0.2)	11.1	
- Operating costs	96,317	108,277	109,424	1.1	13.6	
EBITDA	26,059	28,047	26,568	(5.3)	2.0	
EBITDA margin (%)	21.3	20.6	19.5	(104)	(176)	IT Services EBIT margins were lower-than expectations even after decent revenue trajectory on account of higher SG&A investments.
- Depreciation	3,367	4,304	4,665	8.4	38.6	
+ Other income, net (incl forex)	5,286	5,426	4,848	(10.7)	(8.3)	
PBT	27,978	29,169	26,751	(8.3)	(4.4)	
- Taxes	5,945	6,626	6,122	(7.6)	3.0	
Effective tax rate (%)	21.2	22.7	22.9	17	164	Effective tax rate for FY17 to be between 22-23%
PAT	22,033	22,543	20,629	(8.5)	(6.4)	
Minority interest	156	193	71	NA	NA	
Reported profits	21,877	22,350	20,558	(8.0)	(6.0)	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,667	8,299	(4.2)	9,622	9,104	(5.4)
Revenue	563,347	546,468	(3.0)	625,440	591,781	(5.4)
EBITDA margin (%)	20.5	19.4	(85)bps	20.9	20.1	(75)bps
EPS (₹)	38.3	34.0	(11.2)	42.7	38.0	(11.0)

Source: Trust Research

Geography wise Revenues: Europe was up 0.5% QoQ in cc terms and Americas (4.2%) were growth drivers for the quarter while India & Middle East (down 2.6%). APAC was down 0.4%. Geographical wise Performance

Geographical mix	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Americas	49.8	51.0	51.4	51.7	52.5	53.0	52.8	52.5	53.5
Europe	29.6	27.8	27.6	26.3	25.6	25.2	24.8	25.6	25.4
India & ME businesses	9.1	9.2	9.6	10.7	10.6	10.6	11.0	11.0	10.4
APAC & Other EM's	11.5	12.0	11.4	11.3	11.3	11.2	11.4	10.9	10.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Vertical wise Performance: Growth drivers for the quarter were Healthcare, Life Sciences & Services (up in 17.7% QoQ in cc terms) and Finance Solutions (up 2.9%). Energy, Natural Resources & Utilities (was down 4.1%), Consumer Business Unit (down 1.6%), Manufacturing and Technology (was down 0.9%) while Communication (down 0.4% QoQ) remain muted.



Exhibit 3: Vertical wise segmentation

Vertical Mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Finance solutions	26.8	26.7	26.2	25.4	25.6
Healthcare, lifesciences & services	11.2	11.4	12.0	13.3	15.3
Energy & utilities	15.2	14.7	14.4	14.0	13.2
Manufacturing & Technology	23.2	23.4	23.2	23.2	22.5
Consumer	16.2	16.2	16.5	16.4	15.8
Communications	7.4	7.6	7.7	7.7	7.6
Total revenue	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: Headcount addition stood at net employee addition of 951 taking total headcount to 173,863 (9 quarter low net addition).

Exhibit 4: Employee strength at WPRO

	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Headcount IT Services	147,452	154,297	156,866	158,217	161,789	168,396	170,664	172,912	173,863
Revenue Mix									
FPP Revenue	52.1	53.1	55.1	55.5	54.5	53.4	55.9	56.9	56.0
Onsite revenue	54.3	53.7	54.3	53.7	54.6	53.9	53.8	54.2	54.4
Offshore revenue	45.7	46.3	45.7	46.3	45.4	46.1	46.2	45.8	45.6

Source: Company, Trust Research

Client details: There was some improvement in client metrics (no of US\$75mn+/US\$20mn+ clients increased by 1, 2 QoQ), growth within top client continues to be lackluster (the client has declined in 5 of the past 7 quarters with revenues down by 5% QoQ in the Jun'16 quarter).

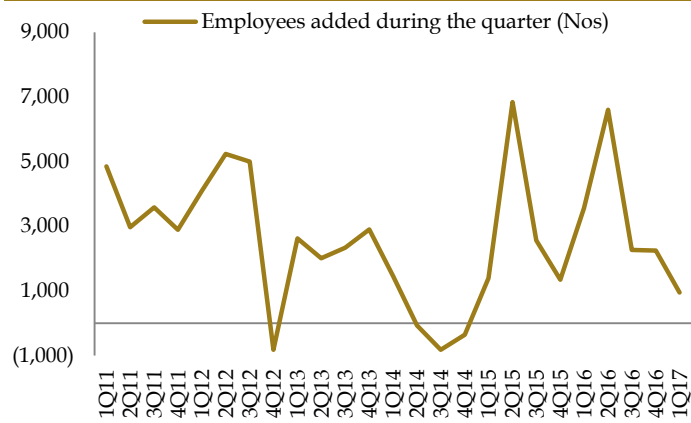
Exhibit 5: Client details

	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
>\$100m	10	10	10	11	10	10	9	9	9
>\$75m	14	15	16	15	17	17	17	18	19
>\$50m	29	30	31	31	30	31	32	33	33
\$20m	84	85	84	86	86	85	85	89	91
\$10m	143	150	153	150	151	154	154	160	170
\$5m	224	225	226	231	244	244	247	248	252
\$3m	293	292	300	311	314	321	325	331	336
\$1m	511	524	526	542	537	533	536	550	565
Number of new customers	35	50	44	65	36	67	39	119	50
Total number of active customers	1,022	1,018	1,018	1,054	1,071	1,100	1,105	1,223	1,208
Top customer contribution (%)	3.7	3.5	3.8	3.8	3.3	3.1	3.2	2.7	2.5
Top 5 contributions (%)	13.4	12.9	12.7	12.6	12.2	11.7	11.5	11.0	10.3
Top 10 contributions (%)	21.8	21.5	21.0	20.6	20.1	19.8	19.3	18.2	17.6

Source: Company

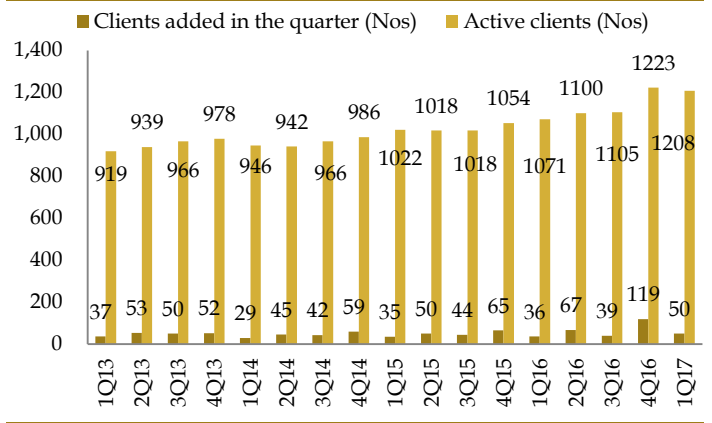


Exhibit 6: Addition was low with net addition at 951



Source: Company, Trust

Exhibit 7: Client additions weakened this quarter



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Revenues	437,024	470,868	512,440	546,468	591,781
Op. Expenses	337,170	364,937	403,829	440,185	472,904
EBITDA	99,854	105,931	108,611	106,283	118,877
Other Income	12,257	18,574	21,565	21,473	24,531
Depreciation	11,106	12,823	14,965	19,272	20,442
EBIT	101,005	111,682	115,211	108,484	122,965
Interest	-	-	-	-	-
PBT	101,005	111,682	115,211	108,484	122,965
Tax	22,601	24,624	25,305	24,103	28,282
PAT	78,404	87,058	89,906	84,381	94,683
Minority	334	531	492	284	284
Adj Pat	78,070	86,527	89,414	84,097	94,399

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	31.7	35.0	36.2	34.0	38.0
CEPS	36.2	40.2	42.3	41.8	46.5
BVPS	139.3	165.2	188.7	209.6	231.0
DPS	8.0	12.0	6.0	12.0	14.0
Payout (%)	29.6	40.1	19.4	41.2	43.1
Valuation (x)					
P/E	16.9	17.8	15.6	16.1	14.5
P/BV	3.9	3.8	3.0	2.6	2.4
EV/EBITDA	11.5	12.5	11.0	10.5	9.0
Dividend Yield (%)	1.5	1.9	1.1	2.2	2.6
Return ratio (%)					
EBITDA Margin	22.8	22.5	21.2	19.4	20.1
PAT Margin	17.9	18.4	17.4	15.4	15.9
ROAE	24.9	23.0	20.5	17.1	17.2
ROACE	27.7	23.9	20.6	17.0	17.3
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Current ratio	2.2	2.6	2.0	1.7	1.9
Growth Ratios (%)					
Income growth	0.8	7.7	8.8	6.6	8.3
EBITDA growth	16.1	6.1	2.5	(2.1)	11.8
PAT growth	17.6	10.8	3.3	(5.9)	11.7
Turnover Ratios					
Inventory Days	2.3	4.9	7.7	7.8	7.7
Debtors Days	67.7	70.6	79.5	75.5	72.1
Payable days	62.8	59.1	63.7	60.2	57.6

Balance Sheet (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Sources of Funds					
Equity Share Capital	4,932	4,937	4,941	4,941	4,941
Reserves & Surplus	339,954	404,691	463,361	515,547	568,938
Net Worth	344,886	409,628	468,302	520,488	573,879
Loan Funds	10,909	12,707	17,361	17,225	17,225
Deferred Tax Liability	(3,362)	(2,945)	(3,800)	(4,125)	(4,125)
Capital Employed	352,433	419,390	481,863	533,588	586,979
Application of Funds					
Net Block	51,449	54,206	64,952	61,521	60,450
Goodwill	63,422	68,078	101,991	101,991	101,991
Investments	62,493	61,839	148,785	220,525	225,525
Current Assets	321,578	379,538	330,700	358,636	425,997
Debtors	85,392	96,754	105,296	112,288	121,599
Inventory	2,293	10,320	11,232	11,977	12,971
Cash	114,201	158,940	99,049	111,602	158,480
Others	119,692	113,524	115,124	122,768	132,948
Current Liabilities	146,509	144,271	164,565	209,087	226,984
Creditors	49,250	50,740	56,180	60,667	65,881
Provisions	97,259	93,531	108,385	148,419	161,103
Net Current Asset	175,069	235,267	166,135	149,549	199,013
Misc Expenses	-	-	-	-	-
Total	352,433	419,390	481,863	533,586	586,978

Cash flow Statement

Year End-March	FY14	FY15	FY16	FY17E	FY18E
PBT	101,005	111,682	115,211	108,484	122,965
Depreciation	11,979	13,240	14,110	18,947	20,442
Others	(334)	(531)	(492)	(284)	(284)
CF before W.cap	112,650	124,391	128,829	127,147	143,123
Inc/dec in W.cap	40,270	15,459	(9,241)	(29,139)	2,586
Op CF after W.cap	72,380	108,932	138,070	156,286	140,537
Less Taxes	22,601	24,624	25,305	24,103	28,282
Net CF From Operations	49,779	84,308	112,765	132,183	112,255
Inc/(dec) in F.A + CWIP	12,030	15,580	25,711	15,841	20,000
(Pur)/sale of Investments	274	4,002	120,859	71,740	5,000
CF from Invst Activities	(12,304)	(19,582)	(146,570)	(87,581)	(25,000)
Loan Raised/ (repaid)	10,055	1,798	4,654	(136)	-
Equity Raised	4,915	12,878	(13,401)	2,765	(0)
Dividend	23,082	34,663	17,339	34,677	40,522
CF from Fin Activities	(8,112)	(19,987)	(26,086)	(32,049)	(40,522)
Net inc/(dec) in cash	29,363	44,739	(59,891)	12,553	46,522
Op. bal of cash	84,838	114,201	158,940	99,049	111,602
Cl. balance of cash	114,201	158,940	99,049	111,602	158,480



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.co.in	+91-22-4084-5074
Institutional Sales				
Sriram Rangarajan	Sales		sriram.rangarajan@trustgroup.co.in	+91-22-4224-5216
Vivek Kumar	Sales		vivek.kumar@trustgroup.co.in	+91-22-4224-5197
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.co.in	+91-22-4224-5123
Nikhil Shah	Dealer		nikhil.shah@trustgroup.co.in	+91-22-4084-5089
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.co.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.co.in	+91-22-4224-5125
Naveen Trivedi	Analyst	Consumer Staple & Durable	naveen.trivedi@trustgroup.co.in	+91-22-4224-5181
Shashwat Nanda	Analyst	Rates & Credit Research	shashwat.nanda@trustgroup.co.in	+91-22-4224-5038
Tejas Sarvaiya	Analyst	Seeds, Exchanges & MidCap	tejas.sarvaiya@trustgroup.co.in	+91-22-4084-5064
Ritu Chaudhary	Associate	Consumer Durable	ritu.chaudhary@trustgroup.co.in	+91-22-4224-5183

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.