



# Wipro

Sector: Technology

## 3QFY17 Result Update

CMP: ` 474

Guidance subdued, maintain Hold

Recommendation: Hold

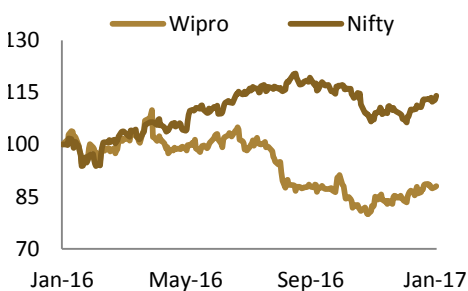
### Market statistics

Current stock price (`)	474
Shares O/S (cr.)	243.1
Mcap (` cr)	115,090
52W H/L (`)	607/410
6m avg. volume	1,636,886
Bloomberg	WPRO IN

### Shareholding pattern

Promoters	73.25
Domestic Institution	5.88
Foreign Institution	10.52
Non-institution	10.35
of which more than 1%	
Life Insurance Corporation of India	2.54
First State Asia Pacific Leaders Fund	1.27

### Wipro vs Nifty



### Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	20.5	17.3	17.1
EPS (`)	36.2	34.1	36.9
CEPS (`)	42.3	42.3	45.9
P/E (x)	15.6	13.9	12.8
P/BV (x)	3.0	2.3	2.1
EV/EBITDA (x)	11.0	8.9	7.8
Income growth (%)	8.8	6.9	5.6
EBITDA growth (%)	2.5	0.8	8.6
PAT growth (%)	3.3	(5.9)	8.4

**Wipro' 3QFY17 IT Services revenues at US\$1,903m grew 0.6% QoQ in cc terms, down 0.7% QoQ in US\$ terms and in the middle of the guidance band of US\$1,891-1,930mn after adjusting for cross currency movement. Overall EBIT margin was 16.4%, (up 66bps QoQ). PAT stood at `21.1bn, up 2% QoQ. Guidance for 4QFY17 came in at 0% to 2% which was muted, once again. 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.**

**Margin improvement – a silver lining:** IT services US\$ revenue came in at US\$1,903mn (up 0.6% QoQ, up 2% in constant currency terms). IT Services EBIT margins were higher-than-expectations at 18.3% on account of tight SG&A costs during the quarter.

**Guidance for 4QFY17, lower-than-expectation:** WPRO guided for US\$ revenue growth of 0% to 2% QoQ in 4QFY17, implying a significantly below par organic outlook for Mar'17 quarter. The revenue guidance is below our expectations of 1-3% QoQ growth and continues to miss management's initial indication of both a growth and margin pick up in H2FY17.

**Geographies, Verticals performance – mixed bag:** Europe was up 1.3% QoQ in cc terms and Americas (1%) while India & Middle East (down 4.2%). APAC was up 1.7%. Growth drivers for the quarter were Energy, Natural Resources & Utilities (was up 2.1%) and Finance Solutions (up 0.8%). Healthcare, Life Sciences & Services and Consumer Business Unit and Manufacturing and Technology were up 0.1% QoQ in cc terms each respectively.

**US\$15bn revenue ambition and 6 themes is still the way forward:** Management continues to believe in the 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 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. It has carved a separate business unit called Wipro Digital, which sits across technology stacks, for increased focus emerging technologies. 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 9.7% and EPS to grow at a CAGR of 9.3% over FY17-19E. Valuations are at 12.8x FY18E and 11.6x FY19E 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.

ANALYST

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### Exhibit 1: Quarterly details

` mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>1,838</b>	<b>1,916</b>	<b>1,903</b>	<b>(0.7)</b>	<b>3.5</b>	<b>US\$ revenue was down 0.7% QoQ, up 0.6% in cc terms.</b>
Revenues	128,605	137,657	136,878	(0.6)	6.4	
- Operating costs	101,386	111,118	109,000	(1.9)	7.5	
<b>EBITDA</b>	<b>27,219</b>	<b>26,539</b>	<b>27,878</b>	<b>5.0</b>	<b>2.4</b>	
<b>EBITDA margin (%)</b>	<b>21.2</b>	<b>19.3</b>	<b>20.4</b>	<b>109bps</b>	<b>(80)bps</b>	IT Services EBIT margin was up 65 bps to 18.3%, were better-than--expectations
- Depreciation	3,764	4,849	5,412	11.6	43.8	
+ Other income, net (incl forex)	5,715	4,958	5,120	3.3	(10.4)	
<b>PBT</b>	<b>29,170</b>	<b>26,648</b>	<b>27,586</b>	<b>3.5</b>	<b>(5.4)</b>	
- Taxes	6,248	5,909	6,440	9.0	3.1	
Effective tax rate (%)	21.4	22.2	23.3	117bps	193bps	Effective tax rate for FY17 to be between 22-23%
<b>PAT</b>	<b>22,922</b>	<b>20,739</b>	<b>21,146</b>	<b>2.0</b>	<b>(7.7)</b>	
Minority interest	89	67	52	NA	NA	
<b>Reported profits</b>	<b>22,833</b>	<b>20,672</b>	<b>21,094</b>	<b>2.0</b>	<b>(7.6)</b>	

Source: Company

### Exhibit 2: Change in estimates

` mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,214	8,036	(2.2)	9,036	8,767	(3.0)
Revenue	547,136	548,050	0.2	587,334	578,601	(1.5)
EBITDA margin (%)	19.7	20.0	25bps	20.4	20.5	10bps
EPS (`)	33.8	34.1	0.9	37.5	36.9	(1.6)

Source: Trust Research

**Geography wise Revenues:** Europe was up 1.3% QoQ in cc terms and Americas (1%) while India & Middle East (down 4.2%). APAC was up 1.7%.

### Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Americas	51.4	51.7	52.5	53.0	52.8	52.5	53.5	54.8	55.5
Europe	27.6	26.3	25.6	25.2	24.8	25.6	25.4	24.0	23.6
India & ME businesses	9.6	10.7	10.6	10.6	11.0	11.0	10.4	10.4	10.0
APAC & Other EM's	11.4	11.3	11.3	11.2	11.4	10.9	10.7	10.8	10.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**Vertical wise Performance:** Growth drivers for the quarter were Energy, Natural Resources & Utilities (was up 2.1%) and Finance Solutions (up 0.8%). Healthcare, Life Sciences & Services and Consumer Business Unit and Manufacturing and Technology were up 0.1% QoQ in cc terms each respectively.

**Exhibit 4: Vertical wise segmentation**

Vertical Mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Finance solutions	26.8	26.7	26.2	25.4	25.6	25.5	25.5
Healthcare, life sciences & services	11.2	11.4	12.0	13.3	15.3	16.0	16.0
Energy & utilities	15.2	14.7	14.4	14.0	13.2	12.9	13.0
Manufacturing & Technology	23.2	23.4	23.2	23.2	22.5	22.4	22.3
Consumer	16.2	16.2	16.5	16.4	15.8	15.7	15.8
Communications	7.4	7.6	7.7	7.7	7.6	7.5	7.4
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**Human Resources:** Headcount addition stood at net employee addition of 4,891 taking total headcount to 179,129 (after 10 quarter low net addition).

**Exhibit 5: Employee strength at WPRO**

	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Headcount IT Services	156,866	158,217	161,789	168,396	170,664	172,912	173,863	174,238	179,129
<b>Revenue Mix</b>									
FPP Revenue	55.1	55.5	54.5	53.4	55.9	56.9	56.0	56.4	57.7
Onsite revenue	54.3	53.7	54.6	53.9	53.8	54.2	54.4	53.9	53.5
Offshore revenue	45.7	46.3	45.4	46.1	46.2	45.8	45.6	46.1	46.5

Source: Company, Trust Research

**Client details:** WPRO added 1 client to the US\$100mn+ taking the list to 9. Top client grew 6.9% QoQ after seeing muted growth for couple of years (the client has declined in 5 of the past 8 quarters with revenues down by 5% QoQ in the Jun'16 quarter). WPRO lost 79 clients (on a net basis) to take the client list to 1,259 this quarter.

**Exhibit 6: Client details**

	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
>\$100m	10	11	10	10	9	9	9	8	9
>\$75m	16	15	17	17	17	18	19	19	17
>\$50m	31	31	30	31	32	33	33	33	33
\$20m	84	86	86	85	85	89	91	91	90
\$10m	153	150	151	154	154	160	170	171	170
\$5m	226	231	244	244	247	248	252	258	264
\$3m	300	311	314	321	325	331	336	341	349
\$1m	526	542	537	533	536	550	565	571	576
Number of new customers	44	65	36	67	39	119	50	47	108
Total number of active customers	1,018	1,054	1,071	1,100	1,105	1,223	1,208	1,180	1,259
Top customer contribution (%)	3.8	3.8	3.3	3.1	3.2	2.7	2.5	2.6	2.8
Top 5 contributions (%)	12.7	12.6	12.2	11.7	11.5	11.0	10.3	10.1	10.0
Top 10 contributions (%)	21.0	20.6	20.1	19.8	19.3	18.2	17.6	17.5	16.9

Source: Company

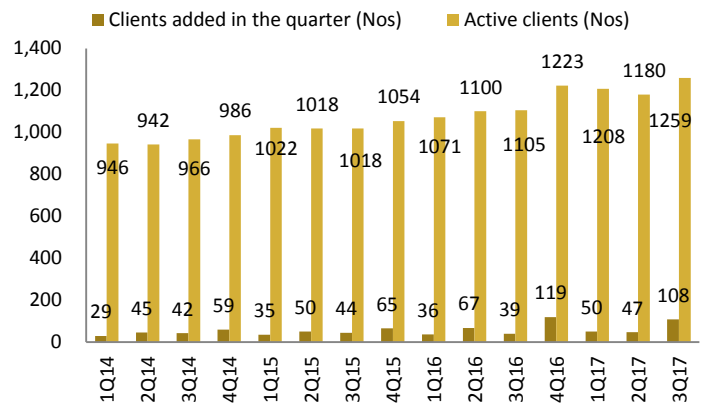


Exhibit 7: Addition was robust net addition at 4,891



Source: Company, Trust

Exhibit 8: Client additions robust due to acquisition



Source: Company, Trust



## Financials

### Income Statement ( ` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Revenues</b>	<b>470,868</b>	<b>512,440</b>	<b>548,050</b>	<b>578,601</b>	<b>638,230</b>
Op. Expenses	364,937	403,829	438,567	459,699	505,786
<b>EBITDA</b>	<b>105,931</b>	<b>108,611</b>	<b>109,483</b>	<b>118,902</b>	<b>132,445</b>
Other Income	18,574	21,565	20,020	20,725	22,531
Depreciation	12,823	14,965	20,432	22,380	24,630
<b>EBIT</b>	<b>111,682</b>	<b>115,211</b>	<b>109,070</b>	<b>117,246</b>	<b>130,345</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>111,682</b>	<b>115,211</b>	<b>109,070</b>	<b>117,246</b>	<b>130,345</b>
Tax	24,624	25,305	24,650	25,794	29,328
<b>PAT</b>	<b>87,058</b>	<b>89,906</b>	<b>84,420</b>	<b>91,452</b>	<b>101,017</b>
Minority	531	492	242	208	208
<b>Adj Pat</b>	<b>86,527</b>	<b>89,414</b>	<b>84,178</b>	<b>91,244</b>	<b>100,809</b>

### Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Per share ( ` )</b>					
EPS	35.0	36.2	34.1	36.9	40.7
CEPS	40.2	42.3	42.3	45.9	50.7
BVPS	165.2	188.7	205.3	226.9	250.4
DPS	12.0	6.0	9.0	13.0	14.5
Payout (%)	40.1	19.4	30.9	41.2	41.7
<b>Valuation (x)</b>					
P/E	17.8	15.6	13.9	12.8	11.6
P/BV	3.8	3.0	2.3	2.1	1.9
EV/EBITDA	12.5	11.0	8.9	7.8	6.8
Dividend Yield (%)	1.9	1.1	1.9	2.7	3.1
<b>Return ratio (%)</b>					
EBIDTA Margin	22.5	21.2	20.0	20.5	20.8
PAT Margin	18.4	17.4	15.4	15.8	15.8
ROAE	23.0	20.5	17.3	17.1	17.1
ROACE	23.9	20.6	17.5	17.1	17.3
<b>Leverage Ratios (x)</b>					
Total D/E	0.0	0.0	0.0	0.1	0.0
Net Debt/Equity	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio	2.6	2.0	1.2	1.4	1.7
<b>Growth Ratios (%)</b>					
Income growth	7.7	8.8	6.9	5.6	10.3
EBITDA growth	6.1	2.5	0.8	8.6	11.4
PAT growth	10.8	3.3	(5.9)	8.4	10.5
<b>Turnover Ratios</b>					
Inventory Days	4.9	7.7	7.7	7.8	7.6
Debtors Days	70.6	79.5	77.9	57.2	47.7
Payable days	59.1	63.7	62.2	61.4	56.8

### Balance Sheet ( ` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Sources of Funds</b>					
Equity Share Capital	4,937	4,941	4,941	4,941	4,941
Reserves & Surplus	404,691	463,361	505,089	558,766	617,571
<b>Net Worth</b>	<b>409,628</b>	<b>468,302</b>	<b>510,030</b>	<b>563,707</b>	<b>622,512</b>
Loan Funds	12,707	17,361	22,018	30,018	30,018
<b>Deferred Tax Liability</b>	<b>(2,945)</b>	<b>(3,800)</b>	<b>(10,568)</b>	<b>(10,568)</b>	<b>(10,568)</b>
<b>Capital Employed</b>	<b>419,390</b>	<b>481,863</b>	<b>521,480</b>	<b>583,157</b>	<b>641,962</b>
<b>Application of Funds</b>					
Net Block	54,206	64,952	70,950	72,706	73,075
Goodwill	68,078	101,991	101,991	101,991	101,991
Investments	61,839	148,785	293,413	301,413	306,413
<b>Current Assets</b>	<b>379,538</b>	<b>330,700</b>	<b>289,577</b>	<b>353,798</b>	<b>405,282</b>
Debtors	96,754	105,296	112,613	118,891	131,143
Inventory	10,320	11,232	12,012	12,682	13,989
Cash	158,940	99,049	41,828	92,239	116,767
Others	113,524	115,124	123,124	129,987	143,383
<b>Current Liabilities</b>	<b>144,271</b>	<b>164,565</b>	<b>234,452</b>	<b>246,752</b>	<b>244,801</b>
Creditors	50,740	56,180	60,321	63,173	70,585
Provisions	93,531	108,385	174,131	183,579	174,216
Net Current Asset	235,267	166,135	55,125	107,046	160,482
Misc Expenses	-	-	-	-	-
<b>Total</b>	<b>419,390</b>	<b>481,863</b>	<b>521,479</b>	<b>583,155</b>	<b>641,961</b>

### Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>PBT</b>	<b>111,682</b>	<b>115,211</b>	<b>109,070</b>	<b>117,246</b>	<b>130,345</b>
Depreciation	13,240	14,110	13,664	22,380	24,630
Others	(531)	(492)	(242)	(208)	(208)
<b>CF before W.cap</b>	<b>124,391</b>	<b>128,829</b>	<b>122,492</b>	<b>139,419</b>	<b>154,767</b>
Inc/dec in W.cap	15,459	(9,241)	(53,790)	1,511	28,908
<b>Op CF after W.cap</b>	<b>108,932</b>	<b>138,070</b>	<b>176,282</b>	<b>137,908</b>	<b>125,860</b>
Less Taxes	24,624	25,305	24,650	25,794	29,328
<b>Net CF From Operations</b>	<b>84,308</b>	<b>112,765</b>	<b>151,632</b>	<b>112,114</b>	<b>96,532</b>
Inc/(dec) in F.A + CWIP	15,580	25,711	26,430	24,136	25,000
(Pur)/sale of Investments	4,002	120,859	144,628	8,000	5,000
<b>CF from Invst Activities</b>	<b>(19,582)</b>	<b>(146,570)</b>	<b>(171,058)</b>	<b>(32,136)</b>	<b>(30,000)</b>
Loan Raised/ (repaid)	1,798	4,654	4,657	8,000	-
Equity Raised	12,878	(13,401)	(16,444)	(0)	0
Dividend	34,663	17,339	26,008	37,567	42,004
<b>CF from Fin Activities</b>	<b>(19,987)</b>	<b>(26,086)</b>	<b>(37,795)</b>	<b>(29,567)</b>	<b>(42,004)</b>
<b>Net inc /(dec) in cash</b>	<b>44,739</b>	<b>(59,891)</b>	<b>(57,221)</b>	<b>50,410</b>	<b>24,529</b>
Op. bal of cash	114,201	158,940	99,049	41,828	92,239
<b>Cl. balance of cash</b>	<b>158,940</b>	<b>99,049</b>	<b>41,828</b>	<b>92,239</b>	<b>116,767</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
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Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
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