



In partnership. With trust.

# Wipro

Sector: Technology

## 4QFY17 Result Update

CMP: ` 495

Guidance subdued, maintain Hold

Recommendation: Hold

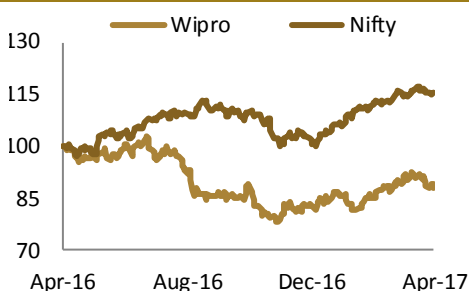
### Market statistics

Current stock price (`)	495
Shares O/S (cr.)	243.1
Mcap (` cr)	120,293
52W H/L (`)	578/410
6m avg. volume	1,534,384
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	FY17	FY18E	FY19E
RoE (%)	17.2	15.8	16.0
EPS (`)	34.9	35.3	39.6
CEPS (`)	44.4	48.9	53.3
P/E (x)	14.7	14.0	12.5
P/BV (x)	2.4	2.1	1.9
EV/EBITDA (x)	9.7	8.4	7.3
Income growth (%)	7.4	2.9	10.0
EBITDA growth (%)	0.5	5.0	11.4
PAT growth (%)	(5.0)	1.0	12.3

#### ANALYST

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**Wipro' 4QFY17 IT Services revenues at US\$1,955m grew 1.7% QoQ in cc terms, up 2.7% QoQ in US\$ terms and in the upper end of the guidance band of US\$1,941-1,960mn after adjusting for cross currency movement. Overall EBIT margin was 14.3%, (down 211bps QoQ) on account of higher depreciation. PAT stood at `22.6bn, up 7.2% QoQ. Guidance for 1QFY18 came in at -2% to 0% 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.**

**Margins in line excluding one-offs:** IT Services EBIT margin was 17.6% (-70bps QoQ), adjusted for one-offs, gain of INR4,082m from the sale of EcoEnergy and INR2,851m of impairment charges on certain intangible assets. Negative impact from full integration of Appirio (-40bps) was partly offset by operational efficiencies. Overall EBIT margin was 16.1%, implying continued losses in the Products segment.

**Guidance for 1QFY18, lower-than-expectation:** WPRO guided for US\$ revenue decline of 2% to flat-growth QoQ in 1QFY18, implying a significantly below par organic outlook for Jun'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 FY18. It reflects the weakness in the Healthcare vertical due to uncertainty around the Affordable Care Act under the new US President, continued sluggishness in Communications and uniformly witnessed spending pressure in Retail.

**Geographies, Verticals performance – mixed bag:** During the quarter, growth was led by the verticals of Consumer (2.6% QoQ in cc terms), Finance Solution (+3.2%) and Manufacturing (+4.7%). Growth was dented by Communications (-6.6%) and Healthcare (-2.0%). In terms of Geographies, India & ME was flattish having grown at 0.5% QoQ in cc terms, APAC declined by 0.7%. Growth was strong in Europe at 4.4% QoQ. In terms of service lines, Application Services (5.5% QoQ) was the strongest, and BPO saw a decline of 4.8% QoQ.

**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. 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.

**Capital allocation:** WPRO announced the issue of bonus share in the ratio of 1:1. In 3Q, WPRO declared an interim dividend of INR2 per share. This has now been recommended to be adopted as the final dividend for FY17, making it the total dividend paid in the year. The company will now consider a proposal for buyback of shares around July 2017. In July 2017, the company would have completed one year since its previous buyback.

**Valuation & Outlook:** We expect Wipro to grow USD revenue at a CAGR of 8.4% and EPS to grow at a CAGR of 6.4% over FY17-19E. Valuations are at 14.6x FY18E and 13.0x 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.



### Exhibit 1: Quarterly details

` mn	4QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>1,882</b>	<b>1,903</b>	<b>1,955</b>	<b>2.7</b>	<b>3.9</b>	<b>US\$ revenue was up 1.7% QoQ, up 2.7% in cc terms.</b>
Revenues	136,324	136,878	139,875	2.2	2.6	
- Operating costs	108,277	109,000	111,693	2.5	3.2	
<b>EBITDA</b>	<b>28,047</b>	<b>27,878</b>	<b>28,182</b>	<b>1.1</b>	<b>0.5</b>	
<b>EBITDA margin (%)</b>	<b>20.6</b>	<b>20.4</b>	<b>20.1</b>	<b>(22)bps</b>	<b>(43)bps</b>	IT Services EBIT margin was 17.6% (-70bps QoQ), adjusted for one-offs
- Depreciation	4,304	5,412	8,181	51.2	90.1	
+ Other income, net (incl forex)	5,426	5,120	9,410	83.8	73.4	
<b>PBT</b>	<b>29,169</b>	<b>27,586</b>	<b>29,411</b>	<b>6.6</b>	<b>0.8</b>	
- Taxes	6,626	6,440	6,742	4.7	1.8	
Effective tax rate (%)	22.7	23.3	22.9	(42)bps	21bps	Effective tax rate for FY18 to be between 22-23%
<b>PAT</b>	<b>22,543</b>	<b>21,146</b>	<b>22,669</b>	<b>7.2</b>	<b>0.6</b>	
Minority interest	193	52	58	NA	NA	
<b>Reported profits</b>	<b>22,350</b>	<b>21,094</b>	<b>22,611</b>	<b>7.2</b>	<b>1.2</b>	

Source: Company

### Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	8,767	8,580	(2.1)	9,670	9,438	(2.4)
Revenue	578,601	566,298	(2.1)	638,230	622,882	(2.4)
EBITDA margin (%)	20.5	20.2	(25)bps	20.8	20.5	(25)bps
EPS (`)	36.9	35.3	(4.3)	40.7	39.6	(2.7)

Source: Trust Research

**Geography wise Revenues:** In terms of Geographies, India & ME was flattish having grown at 0.5% QoQ in cc terms, APAC declined by 0.7%. Growth was strong in Europe at 4.4% QoQ.

### Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Americas	51.7	52.5	53.0	52.8	52.5	53.5	54.8	55.5	54.9
Europe	26.3	25.6	25.2	24.8	25.6	25.4	24.0	23.6	24.4
India & ME businesses	10.7	10.6	10.6	11.0	11.0	10.4	10.4	10.0	9.9
APAC & Other EM's	11.3	11.3	11.2	11.4	10.9	10.7	10.8	10.9	10.8
<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

**Human Resources:** Headcount addition stood at net employee addition of 2,353 taking total headcount to 181,482.

### Exhibit 4: Employee strength at WPRO

	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Headcount IT Services	158,217	161,789	168,396	170,664	172,912	173,863	174,238	179,129	181,482
<b>Revenue Mix</b>									
FPP Revenue	55.5	54.5	53.4	55.9	56.9	56.0	56.4	57.7	58.3
Onsite revenue	53.7	54.6	53.9	53.8	54.2	54.4	53.9	53.5	52.8
Offshore revenue	46.3	45.4	46.1	46.2	45.8	45.6	46.1	46.5	47.2

Source: Company, Trust Research



**Vertical wise Performance:** During the quarter, growth was led by the verticals of Consumer (2.6% QoQ in cc terms), Finance Solution (+3.2%) and Manufacturing (+4.7%). Growth was dented by Communications (-6.6%) and Healthcare (-2.0%).

**Exhibit 5: Vertical wise segmentation**

Vertical Mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Finance solutions	26.8	26.7	26.2	25.4	25.6	25.5	25.5	26.0
Healthcare, life sciences & services	11.2	11.4	12.0	13.3	15.3	16.0	16.0	15.4
Energy & utilities	15.2	14.7	14.4	14.0	13.2	12.9	13.0	13.1
Manufacturing & Technology	23.2	23.4	23.2	23.2	22.5	22.4	22.3	22.8
Consumer	16.2	16.2	16.5	16.4	15.8	15.7	15.8	15.8
Communications	7.4	7.6	7.7	7.7	7.6	7.5	7.4	6.9
<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>	<b>100.0</b>

Source: Company

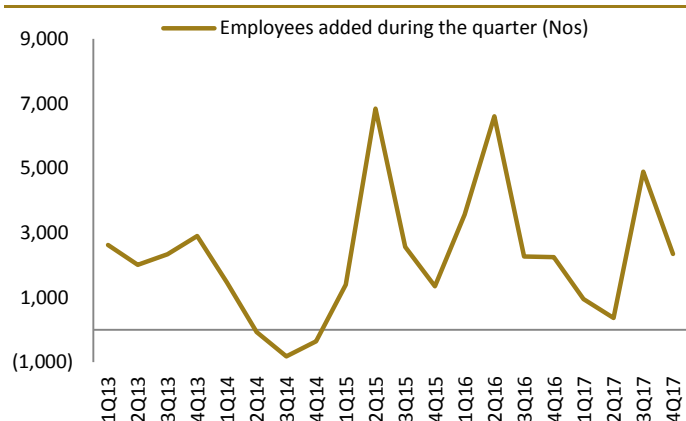
**Client details:** WPRO added 1 client each to the US\$75mn+, US\$50mn+ and US\$20mn+ taking the list to 18, 34 and 91 respectively. Top client grew 6.4% QoQ after seeing muted growth for couple of years (the client has declined in 5 of the past 9 quarters with revenues down by 5% QoQ in the Jun'16 quarter).

**Exhibit 6: Client details**

	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
>\$100m	11	10	10	9	9	9	8	9	9
>\$75m	15	17	17	17	18	19	19	17	18
>\$50m	31	30	31	32	33	33	33	33	34
\$20m	86	86	85	85	89	91	91	90	91
\$10m	150	151	154	154	160	170	171	170	163
\$5m	231	244	244	247	248	252	258	264	268
\$3m	311	314	321	325	331	336	341	349	354
\$1m	542	537	533	536	550	565	571	576	602
Number of new customers	65	36	67	39	119	50	47	108	51
Total number of active customers	1,054	1,071	1,100	1,105	1,223	1,208	1,180	1,259	1,323
Top customer contribution (%)	3.8	3.3	3.1	3.2	2.7	2.5	2.6	2.8	2.9
Top 5 contributions (%)	12.6	12.2	11.7	11.5	11.0	10.3	10.1	10.0	10.0
Top 10 contributions (%)	20.6	20.1	19.8	19.3	18.2	17.6	17.5	16.9	16.9

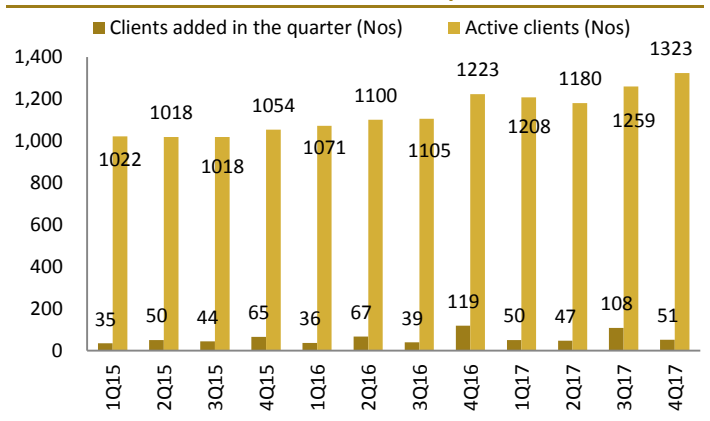
Source: Company

**Exhibit 7: Addition was robust net addition at 2,353**



Source: Company, Trust

**Exhibit 8: Client additions robust this quarter**



Source: Company, Trust



## Financials

## Income Statement ( ` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Revenues</b>	<b>470,868</b>	<b>512,440</b>	<b>550,402</b>	<b>566,298</b>	<b>622,882</b>
Op. Expenses	364,937	403,829	441,235	451,695	495,211
<b>EBITDA</b>	<b>105,931</b>	<b>108,611</b>	<b>109,167</b>	<b>114,603</b>	<b>127,671</b>
Other Income	18,574	21,565	24,336	28,733	29,453
Depreciation	12,823	14,965	23,107	33,017	33,319
<b>EBIT</b>	<b>111,682</b>	<b>115,211</b>	<b>110,396</b>	<b>110,318</b>	<b>123,804</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>111,682</b>	<b>115,211</b>	<b>110,396</b>	<b>110,318</b>	<b>123,804</b>
Tax	24,624	25,305	25,213	24,270	27,237
<b>PAT</b>	<b>87,058</b>	<b>89,906</b>	<b>85,183</b>	<b>86,048</b>	<b>96,567</b>
Minority	531	492	248	232	232
<b>Adj Pat</b>	<b>86,527</b>	<b>89,414</b>	<b>84,935</b>	<b>85,816</b>	<b>96,335</b>

## Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Per share ( ` )</b>					
EPS	35.0	36.2	34.9	35.3	39.6
CEPS	40.2	42.3	44.4	48.9	53.3
BVPS	165.2	188.7	214.0	234.0	259.4
DPS	12.0	6.0	2.0	13.0	12.0
Payout (%)	40.1	19.4	6.7	43.1	35.4
<b>Valuation (x)</b>					
P/E	17.8	15.6	14.7	14.0	12.5
P/BV	3.8	3.0	2.4	2.1	1.9
EV/EBITDA	12.5	11.0	9.7	8.4	7.3
Dividend Yield (%)	1.9	1.1	0.4	2.6	2.4
<b>Return ratio (%)</b>					
EBIDTA Margin	22.5	21.2	19.8	20.2	20.5
PAT Margin	18.4	17.4	15.4	15.2	15.5
ROAE	23.0	20.5	17.2	15.8	16.0
ROACE	23.9	20.6	16.7	14.3	15.0
<b>Leverage Ratios (x)</b>					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Current ratio	2.6	2.0	1.2	1.5	1.7
<b>Growth Ratios (%)</b>					
Income growth	7.7	8.8	7.4	2.9	10.0
EBITDA growth	6.1	2.5	0.5	5.0	11.4
PAT growth	10.8	3.3	(5.0)	1.0	12.3
<b>Turnover Ratios</b>					
Inventory Days	4.9	7.7	7.7	7.9	7.6
Debtors Days	70.6	79.5	76.7	76.8	71.6
Payable days	59.1	63.7	60.5	61.8	57.4

## Balance Sheet ( ` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Sources of Funds</b>					
Equity Share Capital	4,937	4,941	4,861	4,861	4,861
Reserves & Surplus	404,691	463,361	517,834	566,676	628,882
<b>Net Worth</b>	<b>409,628</b>	<b>468,302</b>	<b>522,695</b>	<b>571,537</b>	<b>633,743</b>
Loan Funds	12,707	17,361	19,611	27,611	27,611
<b>Deferred Tax Liability</b>	<b>(2,945)</b>	<b>(3,800)</b>	<b>(7,103)</b>	<b>(7,103)</b>	<b>(7,103)</b>
<b>Capital Employed</b>	<b>419,390</b>	<b>481,863</b>	<b>535,203</b>	<b>592,045</b>	<b>654,251</b>
<b>Application of Funds</b>					
Net Block	54,206	64,952	69,794	60,910	52,591
Goodwill	68,078	101,991	101,864	101,864	101,864
Investments	61,839	148,785	307,952	315,952	320,952
<b>Current Assets</b>	<b>379,538</b>	<b>330,700</b>	<b>301,522</b>	<b>359,966</b>	<b>417,759</b>
Debtors	96,754	105,296	113,096	116,363	127,989
Inventory	10,320	11,232	12,064	12,412	13,652
Cash	158,940	99,049	52,710	103,968	136,182
Others	113,524	115,124	123,652	127,223	139,935
<b>Current Liabilities</b>	<b>144,271</b>	<b>164,565</b>	<b>245,929</b>	<b>246,646</b>	<b>238,914</b>
Creditors	50,740	56,180	60,565	60,789	66,597
Provisions	93,531	108,385	185,364	185,857	172,317
Net Current Asset	235,267	166,135	55,593	113,320	178,845
Misc Expenses	-	-	-	-	-
<b>Total</b>	<b>419,390</b>	<b>481,863</b>	<b>535,203</b>	<b>592,046</b>	<b>654,252</b>

## Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>PBT</b>	<b>111,682</b>	<b>115,211</b>	<b>110,396</b>	<b>110,318</b>	<b>123,804</b>
Depreciation	13,240	14,110	19,804	33,017	33,319
Others	(531)	(492)	(248)	(232)	(232)
<b>CF before W.cap</b>	<b>124,391</b>	<b>128,829</b>	<b>129,952</b>	<b>143,104</b>	<b>156,892</b>
Inc/dec in W.cap	15,459	(9,241)	(64,203)	6,469	33,311
<b>Op CF after W.cap</b>	<b>108,932</b>	<b>138,070</b>	<b>194,155</b>	<b>136,635</b>	<b>123,580</b>
Less Taxes	24,624	25,305	25,213	24,270	27,237
<b>Net CF From Operations</b>	<b>84,308</b>	<b>112,765</b>	<b>168,942</b>	<b>112,365</b>	<b>96,343</b>
Inc/(dec) in F.A + CWIP	15,580	25,711	27,949	24,133	25,000
(Pur)/sale of Investments	4,002	120,859	159,040	8,000	5,000
<b>CF from Invst Activities</b>	<b>(19,582)</b>	<b>(146,570)</b>	<b>(186,989)</b>	<b>(32,133)</b>	<b>(30,000)</b>
Loan Raised/ (repaid)	1,798	4,654	2,250	8,000	-
Equity Raised	12,878	(13,401)	(24,854)	1	0
Dividend	34,663	17,339	5,688	36,974	34,130
<b>CF from Fin Activities</b>	<b>(19,987)</b>	<b>(26,086)</b>	<b>(28,292)</b>	<b>(28,973)</b>	<b>(34,130)</b>
<b>Net inc /(dec) in cash</b>	<b>44,739</b>	<b>(59,891)</b>	<b>(46,339)</b>	<b>51,258</b>	<b>32,214</b>
Op. bal of cash	114,201	158,940	99,049	52,710	103,968
<b>Cl. balance of cash</b>	<b>158,940</b>	<b>99,049</b>	<b>52,710</b>	<b>103,968</b>	<b>136,182</b>



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**Recommendation**      **Expected absolute returns (%) over 12 months**

Buy                              More than 15%

Hold                             15% to -15%

Sell                              Less than -15%

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