

July 19, 2016

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Rating	Accumulate
Price	Rs549
Target Price	Rs600
Implied Upside	9.3%
Sensex	27,788
Nifty	8,529

(Prices as on July 19, 2016)

#### Trading data

Market Cap. (Rs bn)	1,348.2
Shares o/s (m)	2,454.0
3M Avg. Daily value (Rs m)	915.2

#### Major shareholders

Promoters	73.39%
Foreign	10.71%
Domestic Inst.	4.36%
Public & Other	11.54%

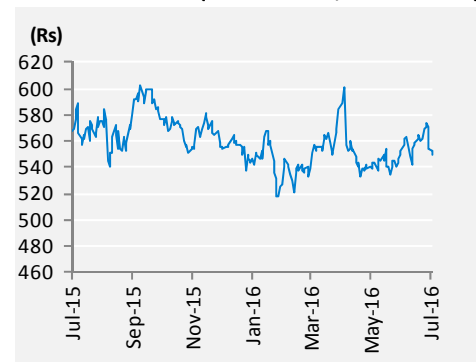
#### Stock Performance

(%)	1M	6M	12M
Absolute	(0.5)	1.4	(3.4)
Relative	(4.9)	(12.1)	(1.0)

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	37.2	38.3	-2.8
2018	40.0	42.3	-5.6

#### Price Performance (RIC:WIPR.BO, BB:WPRO IN)



Source: Bloomberg

**Wipro's Q1FY17 revenues were in line with our expectations; however, margins and Q2FY17 guidance are disappointing. After reporting flat revenues on organic basis, the company has guided for flat-to-1% revenue growth in CC terms for Q2FY17. Revenue growth trajectory indicates significant challenges in business. FY17 organic USD revenue growth will be ~3-4% YoY. IT services' EBIT margins at 17.8% are at a multi-year low and likely to recover gradually in H2FY17. Wipro is making investments in business to enhance the medium-term growth outlook. However, that is having an adverse impact on margins in the short term. We now build in a gradual margin recovery in H2FY17 and FY18. We revise down FY17/18 EPS by 3%/1% and revise TP to Rs600 (was 650) based on 15x (was 16x) FY18 EPS.**

**Despite low revenue growth in FY17, very strong FCF generation by the company with almost 90%+ conversion of Net Profit to FCF and expectations of revival in medium term supports our target P/E multiple of 15x. Retain Accumulate.**

- **Q1FY17 - Organic revenues flat:** IT Services' (CC) revenue grew by 2% QoQ and USD revenues grew at 2.6% QoQ slightly below our expectations (PL: 2.7%). Adjusted for ~2% contribution from acquisitions (Two months of Health Plan), organic CC revenue was flat QoQ. IT services' EBIT margins contracted by ~190bps at 17.8% impacted by wage hikes (100bps), integration of acquisitions (30-40bps), headwinds from India & Middle East business (30bps) and investment in customer relationships (40bps).
- **Q2FY17 guidance disappoints at 0-1% QoQ growth:** Despite a soft Q1, Wipro has guided for 0-1% growth in Q2FY17. Q2FY17 will have cross-currency headwind of ~150bps and EBIT margin headwind of ~200bps.
- **Demand environment stable:** Management has maintained that the demand environment has remained stable. However, there is a shift of IT spend from "Run the business" to "Change the business". Wipro is geared to benefit from this shift by investment in digital and consulting.

#### Key financials (Y/e March)

	2015	2016E	2017E	2018E
Revenues (Rs m)	469,545	511,743	547,879	590,806
Growth (%)	8.1	9.0	7.1	7.8
EBITDA (Rs m)	102,892	108,652	111,936	123,310
PAT (Rs m)	86,528	90,898	91,894	98,633
EPS (Rs)	35.1	36.8	37.2	40.0
Growth (%)	10.9	5.1	1.1	7.3
Net DPS (Rs)	10.0	10.9	11.9	13.9

#### Profitability & Valuation

	2015	2016E	2017E	2018E
EBITDA margin (%)	21.9	21.2	20.4	20.9
RoE (%)	23.0	20.7	18.3	17.4
RoCE (%)	22.7	19.9	17.7	16.9
EV / sales (x)	2.6	2.2	1.9	1.7
EV / EBITDA (x)	11.8	10.4	9.5	8.2
PE (x)	15.7	14.9	14.8	13.7
P / BV (x)	3.3	2.9	2.5	2.3
Net dividend yield (%)	1.8	2.0	2.2	2.5

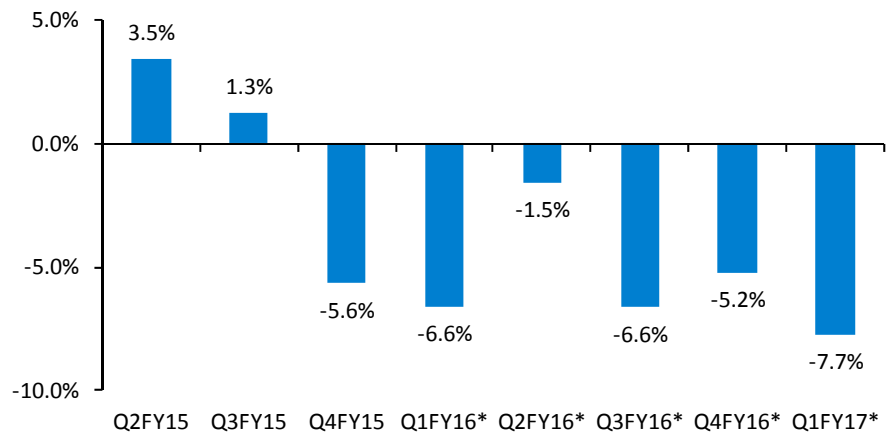
Source: Company Data; PL Research

**Exhibit 1: Q1FY17 Results – CC revenue slightly below expectation; margins a big miss**

IFRS Consolidated (RS m)	Q1FY17	Q4FY16	QoQ gr.	Q1FY16	YoY	PL(e)	Cons(e)	Var (PLe)
<b>Combined IT Revenue (US\$ m)</b>	<b>1,931</b>	<b>1,882</b>	<b>2.6%</b>	<b>1,794</b>	<b>7.6%</b>	<b>1,933</b>	<b>1,926</b>	<b>-0.1%</b>
Consolidated Sales (Rs m)	135,992	136,324	-0.2%	122,376	11.1%	136,597	137,945	-0.4%
Operating Profit(Rs m)	21,863	23,743	-7.9%	22,692	-3.7%	23,085	24,123	-5.3%
<i>OPM</i>	<i>16.1%</i>	<i>17.4%</i>	<i>-134</i>	<i>18.5%</i>	<i>-247</i>	<i>16.9%</i>	<i>17.5%</i>	<i>-82</i>
PBT (Rs m)	26,711	29,169	-8.4%	27,978	-4.5%	27,629	28,909	-3.3%
Tax (Rs m)	6,122	6,626	-7.6%	5,945	3.0%	6,355	7,099	-3.7%
<i>Tax Rate</i>	<i>22.9%</i>	<i>22.7%</i>	<i>20</i>	<i>21.2%</i>	<i>167</i>	<i>23.0%</i>	<i>24.6%</i>	<i>-8</i>
PAT (Rs m)	20,518	22,350	-8.2%	21,877	-6.2%	21,225	21,810	-3.3%
EPS (Rs)	8.3	9.1	-8.1%	8.9	-6.2%	8.6	8.9	-3.3%

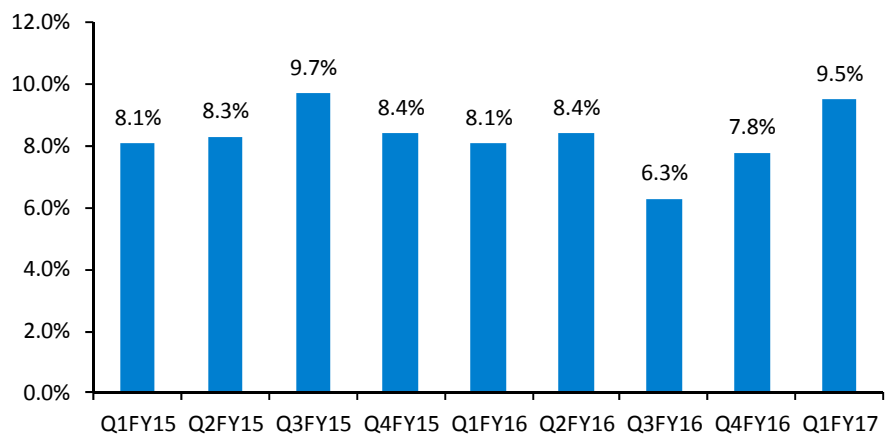
Source: Company Data, Bloomberg, PL Research

**Exhibit 2: USD EBIT growth (YoY) (IT Services) remains negative**



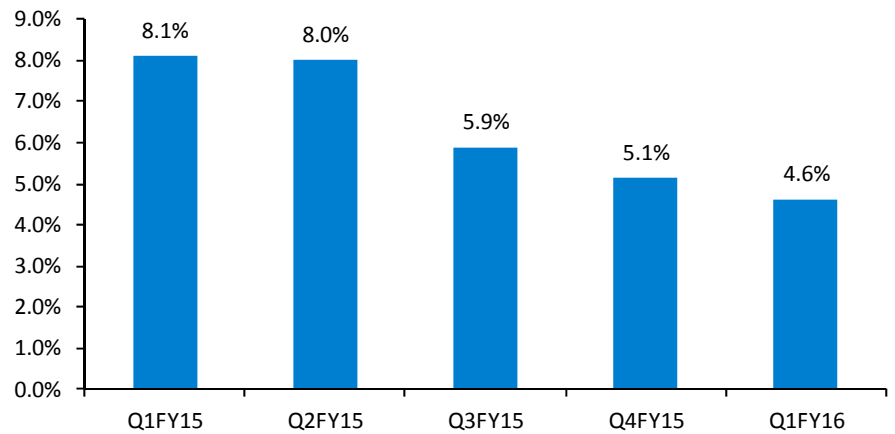
Source: Company Data, PL Research, \* as per Ind AS alignment

**Exhibit 3: IT services CC revenue growth YoY is steady however ....**



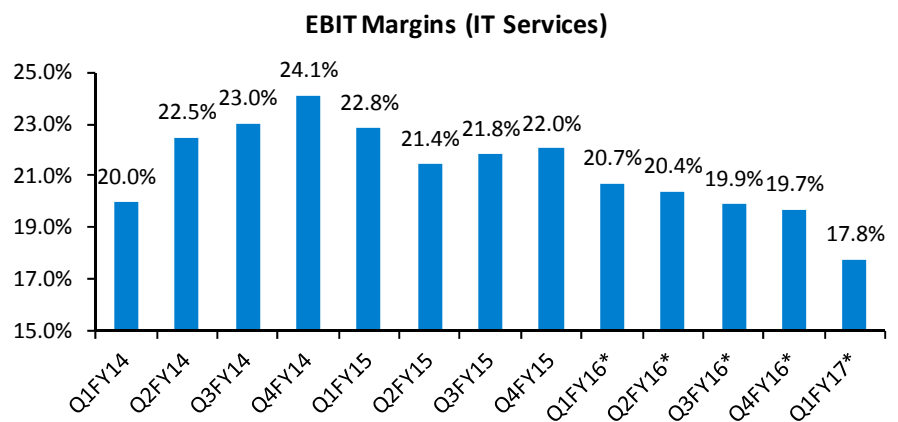
Source: Company Data, PL Research

**Exhibit 4: ...Organic CC revenue growth YoY has slowed down**



Source: Company Data, PL Research

**Exhibit 5: IT service EBIT margin at multi-year lows**



Source: Company Data, PL Research, \* as per Ind AS alignment

**Exhibit 6: Constant currency growth (Acquisition led growth)**

	QoQ	YoY
IT services	2.0%	9.5%
<b>Verticals</b>		
Communications	-0.4%	14.6%
Consumer	-1.6%	6.9%
Energy, Natural Resources & Utilities	-4.1%	-2.8%
Finance Solutions	2.9%	5.5%
Healthcare, Life Sciences & Services	17.7%	46.6%
Manufacturing & Technology	-0.9%	4.6%
<b>Geography</b>		
America	4.5%	9.7%
Europe	1.7%	6.8%
India and middle East	-2.5%	5.4%
APAC & other emerging markets	0.7%	2.1%

Source: Company Data, PL Research

**Exhibit 7: US & Europe grow above company average**

Geo Spread	Q1FY17	Q4FY16	QoQ gr.	Q1FY16	YoY
US	1033.0	993.7	4.0%	927.5	11.4%
Europe	490.4	466.7	5.1%	471.8	3.9%
India & ME business	200.8	207.0	-3.0%	192.0	4.6%
Other Emerging Markets	206.6	214.5	-3.7%	202.7	1.9%
<b>% of Total</b>					
US	53.5%	52.8%	70 bps	51.7%	180 bps
Europe	25.4%	24.8%	60 bps	26.3%	-90 bps
India & ME business	10.4%	11.0%	-60 bps	10.7%	-30 bps
Other Emerging Markets	10.7%	11.4%	-70 bps	11.3%	-60 bps

Source: Company Data, PL Research

**Exhibit 8: BPO leads the growth aided by acquisition**

Practices (IT Services + BPO Sales)	Q1FY17	Q4FY16	QoQ gr.	Q1FY16	YoY
Global Infrastructure Services	538.7	543.9	-1.0%	502.3	7.2%
Analytics	142.9	135.5	5.4%	134.6	6.2%
Business Process Services	249.1	199.5	24.9%	166.9	49.3%
Product Engineering	137.1	150.6	-8.9%	138.1	-0.8%
Application Services	863.1	852.5	1.2%	852.2	1.3%
<b>% of (IT Services + BPO Sales)</b>					
Global Infrastructure Services	27.9%	28.9%	-100 bps	28.0%	-10 bps
Analytics	7.4%	7.2%	20 bps	7.5%	-10 bps
Business Process Services	12.9%	10.6%	230 bps	9.3%	360 bps
Product Engineering	7.1%	8.0%	-90 bps	7.7%	-60 bps
Application Services	44.7%	45.3%	-60 bps	47.5%	-280 bps

Source: Company Data, PL Research

**Exhibit 9: Growth led by Healthcare (HPS acquisition)**

Verticals Component	Q1FY17	Q4FY16	QoQ gr.	Q1FY16	YoY
Communications	146.7	144.9	1.3%	134.6	9.1%
Consumer	305.1	308.6	-1.2%	290.6	5.0%
Energy, Natural Resources & Utilities	254.9	263.5	-3.3%	272.7	-6.5%
Finance Solutions	494.3	478.0	3.4%	480.8	2.8%
Healthcare, Life Sciences & Services	295.4	250.3	18.0%	200.9	47.0%
Manufacturing & Technology	434.4	436.6	-0.5%	416.2	4.4%
<b>% of Total</b>					
Communications	7.6%	7.7%	-10 bps	7.5%	10 bps
Consumer	15.8%	16.4%	-60 bps	16.2%	-40 bps
Energy, Natural Resources & Utilities	13.2%	14.0%	-80 bps	15.2%	-200 bps
Finance Solutions	25.6%	25.4%	20 bps	26.8%	-120 bps
Healthcare, Life Sciences & Services	15.3%	13.3%	200 bps	11.2%	410 bps
Manufacturing & Technology	22.5%	23.2%	-70 bps	23.2%	-70 bps

Source: Company Data, PL Research

**Exhibit 10: Good increase in US\$10m+ client**

Customer Size Distribution	Q1FY17	Q4FY16	QoQ gr.	Q1FY16	YoY
Total >1\$m	565	550	2.7%	537	5.2%
>US\$ 3m	336	331	1.5%	314	7.0%
>US\$ 5m	252	248	1.6%	244	3.3%
>US\$ 10m	170	160	6.3%	151	12.6%
>US\$ 20m	91	89	2.2%	86	5.8%
>US\$ 50m	33	33	0.0%	30	10.0%
>US\$ 75m	19	18	5.6%	17	11.8%
> US\$100m	9	9	0.0%	10	-10.0%

Source: Company Data, PL Research

**Exhibit 11: HR metrics**

People Management	Q1FY17	Q4FY16	QoQ gr.	Q1FY16	YoY
<b>Closing Headcount – IT Services</b>	<b>173,863</b>	<b>172,912</b>	<b>0.5%</b>	<b>161,789</b>	<b>7.5%</b>
(IT Services excl BPO, IFOX, cellent, HPS & I&ME)					
Gross Utilization	69.9%	68.1%	180 bps	71.3%	-140 bps
Net Utilization (excl. Support)	78.8%	76.1%	270 bps	79.4%	-60 bps
Net Utilization (excl. Trainees)	79.7%	77.5%	220 bps	81.9%	-220 bps
<b>IT Services excl BPO, cellent, HPS</b>					
Voluntary TTM	16.5%	16.1%	40 bps	16.4%	10 bps
Voluntary Quarterly Annualized	17.9%	14.9%	300 bps	16.4%	150 bps
BPO % - Quarterly	11.7%	11.1%	60 bps	12.0%	-30 bps
BPO % - Post Training	9.0%	9.9%	-90 bps	9.3%	-30 bps
Sales & Support Staff (IT Services) (avg)	14,324	13,737	4.3%	12,517	14.4%

Source: Company Data, PL Research

**Exhibit 12: Customer concentration**

Customer Management	Q1FY17	Q4FY16	QoQ gr.	Q1FY16	YoY
Revenue from new Customers	40.5	28.2	43.6%	41.3	-1.7%
Revenue from repeat businesses	1,890.3	1,853.8	2.0%	1,752.8	7.8%
Number of new customers	50	119	-58.0%	36	38.9%
Total Number of active customers	1,208	1,223	-1.2%	1,071	12.8%
<b>Customer Concentration</b>					
Top Customer	48.3	50.8	-5.0%	59.2	-18.5%
Top 2-5 Clients	150.6	156.2	-3.6%	159.7	-5.7%
Top 5	198.9	207.0	-3.9%	218.9	-9.1%
Top 6-10	140.9	135.5	4.0%	141.7	-0.6%
Top 10	339.8	342.5	-0.8%	360.6	-5.8%
Non Top 10 customers	1,591.0	1,539.5	3.3%	1,433.5	11.0%
Revenue from new Customers (%)	2.1%	1.5%	60 bps	2.3%	-8.7%
<b>Customer Concentration</b>					
Top Customer	2.5%	2.7%	-20 bps	3.3%	-80 bps
Top 5	10.3%	11.0%	-70 bps	12.2%	-190 bps
Top 10	17.6%	18.2%	-60 bps	20.1%	-250 bps

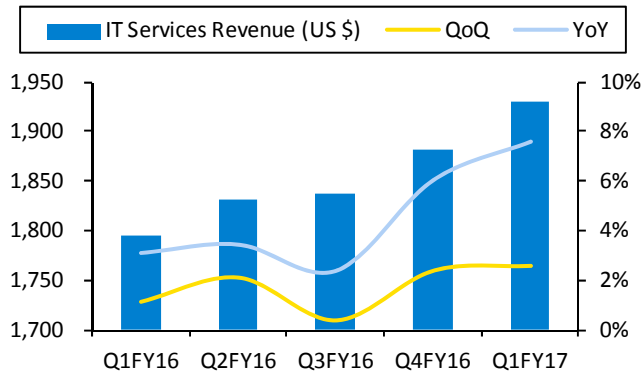
Source: Company Data, PL Research

**Exhibit 13: An overview of the company's operating metrics**

<b>Revenue by verticals (%)</b>	<b>Q2FY15</b>	<b>Q3FY15</b>	<b>Q4FY15</b>	<b>Q1FY16</b>	<b>Q2FY16</b>	<b>Q3FY16</b>	<b>Q4FY16</b>	<b>Q1FY17</b>
Communications	NA	NA	NA	7.5%	7.6%	7.7%	7.7%	7.6%
Consumer	NA	NA	NA	16.2%	16.2%	16.5%	16.4%	15.8%
Energy, Natural Resources & Utilities	NA	NA	NA	15.2%	14.7%	14.4%	14.0%	13.2%
Finance Solutions	NA	NA	NA	26.8%	26.7%	26.2%	25.4%	25.6%
Healthcare, Life Sciences & Services	NA	NA	NA	11.2%	11.4%	12.0%	13.3%	15.3%
Manufacturing & Technology	NA	NA	NA	23.2%	23.4%	23.2%	23.2%	22.5%
<b>Revenue by services (%)</b>								
Global Infrastructure Services	27.2%	27.7%	27.9%	28.0%	28.0%	28.1%	28.9%	27.9%
Wipro Analytics	7.2%	7.0%	7.1%	7.5%	7.5%	7.4%	7.2%	7.4%
Business Process Services	9.2%	9.5%	9.0%	9.3%	9.8%	9.8%	10.6%	12.9%
Product Engineering	7.0%	7.1%	7.6%	7.7%	7.9%	8.0%	8.0%	7.1%
Application Services	49.4%	48.7%	48.0%	47.5%	46.8%	46.7%	45.3%	44.7%
<b>Revenue by geography (%)</b>								
America	51.0%	51.4%	51.7%	52.5%	53.0%	52.8%	52.5%	53.5%
Europe	27.8%	27.6%	26.3%	25.6%	25.2%	24.8%	25.6%	25.4%
India and Middle East	9.2%	9.6%	10.7%	10.6%	10.6%	11.0%	11.0%	10.4%
Other Emerging Market	12.0%	11.4%	11.3%	11.3%	11.2%	11.4%	10.9%	10.7%
<b>Customer concentration (%)</b>								
Top Client	3.5%	3.8%	3.8%	3.3%	3.1%	3.2%	2.7%	2.5%
Top 5 Clients	12.9%	12.7%	12.6%	12.2%	11.7%	11.5%	11.0%	10.3%
Top 10 Clients	21.5%	21.0%	20.6%	20.1%	19.8%	19.3%	18.2%	17.6%
<b>Revenue by contract type (%)</b>								
Fixed Price	53.1%	55.1%	55.5%	54.5%	53.4%	55.9%	56.9%	56.0%
Time & Material	46.9%	44.9%	44.5%	45.5%	46.6%	44.1%	43.1%	44.0%
<b>Revenue by location (%)</b>								
Onsite	53.7%	54.3%	53.7%	54.6%	53.9%	53.8%	54.2%	54.4%
Offshore	46.3%	45.7%	46.3%	45.4%	46.1%	46.2%	45.8%	45.6%

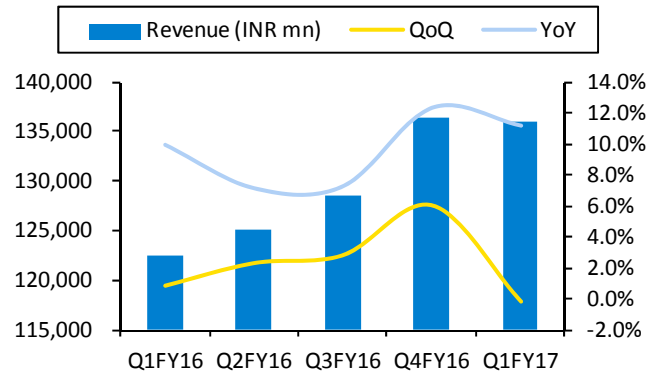
Source: Company Data, PL Research

**Exhibit 14: IT Services Revenue (USD) growth trend**



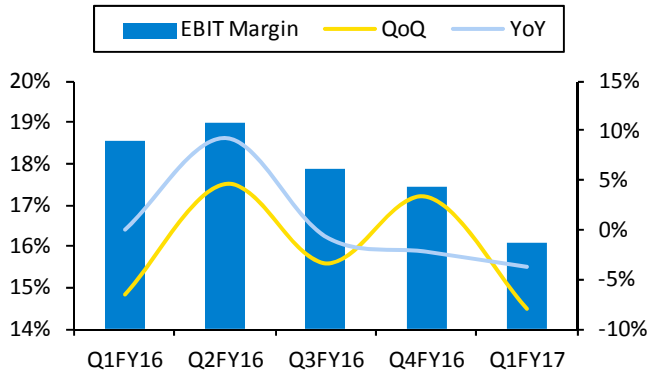
Source: Company Data, PL Research

**Exhibit 15: Overall INR revenue movement over the quarters**



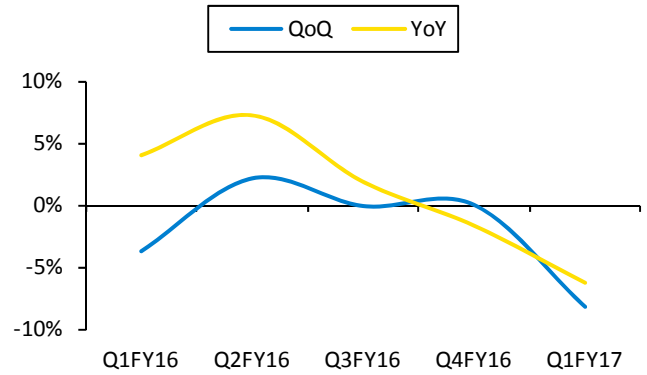
Source: Company Data, PL Research

**Exhibit 16: EBIT margin and growth trend**



Source: Company Data, PL Research

**Exhibit 17: PAT movement over the last few quarters**



Source: Company Data, PL Research



### Income Statement (Rs m)

Y/e March	2015	2016E	2017E	2018E
<b>Net Revenue</b>	<b>469,545</b>	<b>511,743</b>	<b>547,879</b>	<b>590,806</b>
Raw Material Expenses	321,284	356,340	386,081	415,409
Gross Profit	148,261	155,403	161,799	175,397
Employee Cost	—	—	—	—
Other Expenses	45,369	46,751	49,862	52,088
<b>EBITDA</b>	<b>102,892</b>	<b>108,652</b>	<b>111,936</b>	<b>123,310</b>
Depr. & Amortization	11,106	14,351	15,311	17,083
Net Interest	3,599	—	—	—
Other Income	23,496	22,436	22,978	25,551
<b>Profit before Tax</b>	<b>111,683</b>	<b>116,737</b>	<b>119,603</b>	<b>131,777</b>
Total Tax	24,624	25,449	27,509	32,944
<b>Profit after Tax</b>	<b>87,059</b>	<b>91,288</b>	<b>92,094</b>	<b>98,833</b>
Ex-Od items / Min. Int.	531	390	200	200
<b>Adj. PAT</b>	<b>86,528</b>	<b>90,898</b>	<b>91,894</b>	<b>98,633</b>
<b>Avg. Shares O/S (m)</b>	<b>2,468.5</b>	<b>2,468.5</b>	<b>2,468.5</b>	<b>2,468.5</b>
<b>EPS (Rs.)</b>	<b>35.1</b>	<b>36.8</b>	<b>37.2</b>	<b>40.0</b>

### Cash Flow Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
C/F from Operations	78,262	126,057	104,554	112,567
C/F from Investing	(25,816)	(15,352)	(16,436)	(17,724)
C/F from Financing	(7,934)	(26,242)	(29,475)	(34,367)
Inc. / Dec. in Cash	44,512	84,462	58,643	60,475
Opening Cash	114,201	158,713	243,175	301,818
Closing Cash	158,713	243,175	301,818	362,294
FCFF	70,356	110,704	88,118	94,843
FCFE	72,154	110,704	88,118	94,843

### Key Financial Metrics

Y/e March	2015	2016E	2017E	2018E
<b>Growth</b>				
Revenue (%)	8.1	9.0	7.1	7.8
EBITDA (%)	6.0	5.6	3.0	10.2
PAT (%)	11.0	5.1	1.1	7.3
EPS (%)	10.9	5.1	1.1	7.3
<b>Profitability</b>				
EBITDA Margin (%)	21.9	21.2	20.4	20.9
PAT Margin (%)	18.4	17.8	16.8	16.7
RoCE (%)	22.7	19.9	17.7	16.9
RoE (%)	23.0	20.7	18.3	17.4
<b>Balance Sheet</b>				
Net Debt : Equity	(0.4)	(0.5)	(0.5)	(0.6)
Net Wrkng Cap. (days)	(9)	8	9	9
<b>Valuation</b>				
PER (x)	15.7	14.9	14.8	13.7
P / B (x)	3.3	2.9	2.5	2.3
EV / EBITDA (x)	11.8	10.4	9.5	8.2
EV / Sales (x)	2.6	2.2	1.9	1.7
<b>Earnings Quality</b>				
Eff. Tax Rate	22.0	21.8	23.0	25.0
Other Inc / PBT	21.0	19.2	19.2	19.4
Eff. Depr. Rate (%)	9.2	10.5	10.0	10.0
FCFE / PAT	83.4	121.8	95.9	96.2

Source: Company Data, PL Research.

### Balance Sheet Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
Shareholder's Funds	407,982	471,862	534,282	598,548
Total Debt	12,707	12,707	12,707	12,707
Other Liabilities	15,315	15,315	15,315	15,315
<b>Total Liabilities</b>	<b>436,004</b>	<b>499,884</b>	<b>562,304</b>	<b>626,570</b>
Net Fixed Assets	54,206	55,207	56,333	56,973
Goodwill	76,009	76,009	76,009	76,009
Investments	54,644	54,644	54,644	54,644
Net Current Assets	212,065	275,493	336,787	400,412
<i>Cash &amp; Equivalents</i>	<i>158,940</i>	<i>243,175</i>	<i>301,818</i>	<i>362,294</i>
<i>Other Current Assets</i>	<i>217,154</i>	<i>199,960</i>	<i>213,721</i>	<i>230,069</i>
<i>Current Liabilities</i>	<i>164,029</i>	<i>167,642</i>	<i>178,753</i>	<i>191,951</i>
Other Assets	39,080	39,080	39,080	39,080
<b>Total Assets</b>	<b>436,004</b>	<b>500,433</b>	<b>562,853</b>	<b>627,119</b>

### Quarterly Financials (Rs m)

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
<b>Net Revenue</b>	<b>125,135</b>	<b>128,605</b>	<b>136,324</b>	<b>135,992</b>
<b>EBITDA</b>	<b>27,286</b>	<b>26,727</b>	<b>28,047</b>	<b>21,863</b>
<i>% of revenue</i>	<i>21.8</i>	<i>20.8</i>	<i>20.6</i>	<i>16.1</i>
Depr. & Amortization	3,530	3,764	4,304	—
Net Interest	1,589	1,423	1,284	1,336
Other Income	6,727	7,138	6,710	6,184
<b>Profit before Tax</b>	<b>28,894</b>	<b>28,678</b>	<b>29,169</b>	<b>26,711</b>
Total Tax	6,486	6,248	6,626	6,122
<b>Profit after Tax</b>	<b>22,354</b>	<b>22,341</b>	<b>22,350</b>	<b>20,518</b>
<b>Adj. PAT</b>	<b>22,354</b>	<b>22,341</b>	<b>22,350</b>	<b>20,518</b>

### Key Operating Metrics

Y/e March	2015	2016E	2017E	2018E
Revenue (US\$ m)	7,592	7,788	8,177	8,818

Source: Company Data, PL Research.



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<table border="1"> <caption>Rating Distribution of Research Coverage</caption> <thead> <tr> <th>Rating</th> <th>% of Total Coverage</th> </tr> </thead> <tbody> <tr> <td>BUY</td> <td>37.4%</td> </tr> <tr> <td>Accumulate</td> <td>47.0%</td> </tr> <tr> <td>Reduce</td> <td>15.7%</td> </tr> <tr> <td>Sell</td> <td>0.0%</td> </tr> </tbody> </table>	Rating	% of Total Coverage	BUY	37.4%	Accumulate	47.0%	Reduce	15.7%	Sell	0.0%	<p><b>BUY</b> : Over 15% Outperformance to Sensex over 12-months</p> <p><b>Accumulate</b> : Outperformance to Sensex over 12-months</p> <p><b>Reduce</b> : Underperformance to Sensex over 12-months</p> <p><b>Sell</b> : Over 15% underperformance to Sensex over 12-months</p> <p><b>Trading Buy</b> : Over 10% absolute upside in 1-month</p> <p><b>Trading Sell</b> : Over 10% absolute decline in 1-month</p> <p><b>Not Rated (NR)</b> : No specific call on the stock</p> <p><b>Under Review (UR)</b> : Rating likely to change shortly</p>
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