

BSE SENSEX 27,788
 S&P CNX 8,529

CMP: INR549 TP: INR570 (+4%)
Neutral

Motilal Oswal values your support in the Asiamoney Brokers Poll 2016 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	WPRO IN
Equity Shares (m)	2,462.7
M.Cap.(INRb)/(USD\$b)	1,352 / 20.3
52-Week Range (INR)	613 / 509
1, 6, 12 Rel. Per (%)	-5/-14/-1
12M Avg Val (INR M)	822
Free float (%)	26.7

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Sales	512.4	558.8	622.9
EBITDA	108.1	112.9	131.6
PAT	88.9	85.9	98.4
EPS (INR)	36.1	34.9	40.6
EPS Gr. (%)	2.9	-3.5	16.4
BV/Sh. (INR)	189.7	200.0	228.3
RoE (%)	20.3	17.9	18.9
RoCE (%)	16.7	15.0	16.9
P/E (x)	15.2	15.7	13.5
EV/EBITDA (x)	11.4	10.7	8.8

Estimate change



TP change



Rating change


Quarterly Performance (IFRS)

Y/E March	FY16				FY17				FY16	FY17E	Est. 1QFY17	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	1,794	1,832	1,838	1,882	1,931	1,928	1,958	2,009	7,346	7,825	1,926	0.2
QoQ (%)	1.1	2.1	0.3	2.4	2.6	-0.2	1.5	2.6	3.7	6.5	2.4	24bp
Revenue (INR m)	122,376	125,135	128,605	136,324	135,992	138,109	140,273	144,390	512,440	558,764	140,590	-3.3
QoQ (%)	0.8	2.3	2.8	6.0	-0.2	1.6	1.6	2.9			3.1	-337bp
YoY (%)	9.9	7.1	7.2	12.3	11.1	10.4	9.1	5.9	9.1	9.0	14.9	-376bp
GPM (%)	30.7	31.4	29.8	29.7	29.1	28.8	28.9	29.2	30.4	29.0	29.2	-7bp
SGA (%)	12.2	12.4	12.0	12.3	13.0	12.2	11.9	11.8	12.2	12.2	12.5	58bp
EBITDA Margin (%)	21.3	21.8	20.8	20.6	19.5	20.0	20.4	20.8	21.1	20.2	19.9	-36bp
IT Serv. EBIT (%)	21.0	20.7	20.2	20.1	17.8	17.5	18.0	18.5	20.5	17.9	18.5	
EBIT Margin (%)	18.5	19.0	17.9	17.4	16.1	16.6	17.0	17.5	18.2	16.8	16.7	-66bp
Other income	5,286	5,138	5,715	5,426	4,848	5,422	3,733	3,849	21,565	17,852	3,559	36.2
ETR (%)	21.2	22.4	21.8	22.7	22.9	22.9	22.9	22.9	22.1	22.9	22.7	20bp
PAT	21,877	22,354	22,341	22,350	20,518	21,793	21,230	22,332	88,922	85,872	20,738	-1.1
QoQ (%)	-3.8	2.2	-0.1	0.0	-8.2	6.2	-2.6	5.2			-7.2	-99bp
YoY (%)	4.0	7.2	1.9	-1.8	-6.2	-2.5	-5.0	-0.1	2.7	-3.4	-5.2	-101bp
EPS (INR)	8.9	9.1	9.1	9.1	8.3	9.0	8.8	9.2	36.1	34.9	8.4	
Headcount	161,789	168,396	170,664	172,912	173,863	173,228	177,113	181,998	172,912	181,998	174,852	-0.6
Util excl. trainees (%)	81.9	82.3	78.0	77.5	79.7	79.7	79.7	79.7	74.9	76.4	77.5	220bp
Attrition (%)	16.4	16.4	16.3	16.1								
Offshore rev. (%)	45.4	46.1	46.2	45.8	45.6	46.1	45.8	45.6	45.9	45.8	44.0	158bp
Rev Guidance (USDm)	1857	1878	1912	1939								
Fixed Price (%)	54.5	53.4	55.9	56.9								

E: MOSL Estimates

Ashish Chopra (Ashish.Chopra@MotilalOswal.com); +91 22 6129 1530

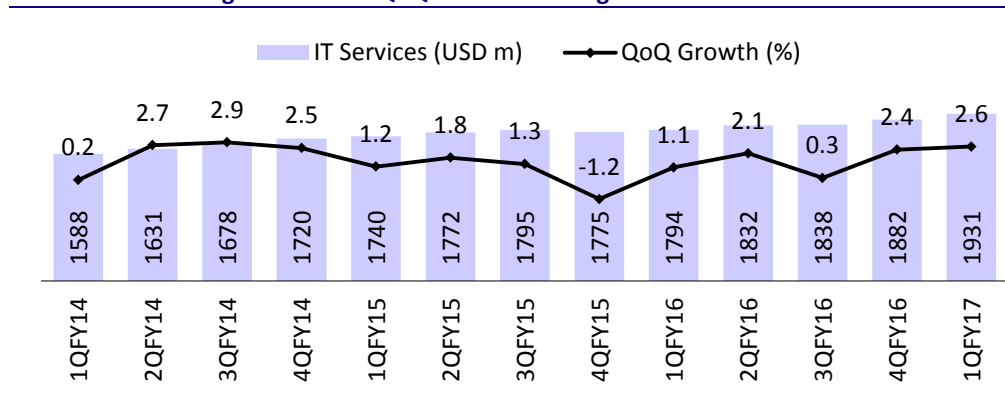
Sagar Lele (Sagar.Lele@MotilalOswal.com); +91 22 6129 1531

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1QFY17: CC revenue growth in line, and at midpoint of guided band

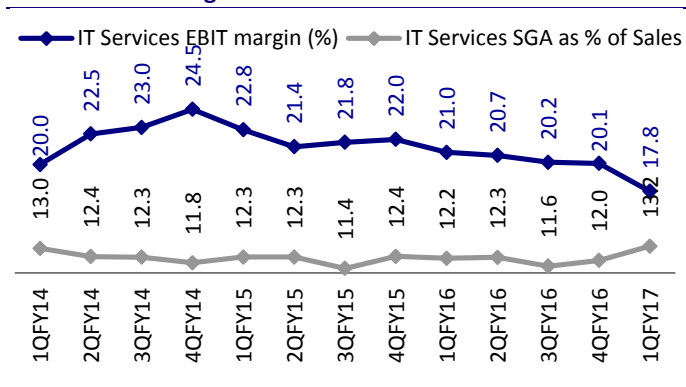
- Wipro' 1QFY17 IT Services revenues at USD1,931m grew 2.6% QoQ v/s est. of 2.4% QoQ. CC revenue growth was 2% QoQ, in line with our estimate of 2.1% QoQ CC.
- In Rupee terms, overall revenues were INR136b, -0.2% QoQ, compared to our estimate of INR140.6b, +3.1% QoQ.
- The decline in the Products business was more intense than anticipated. Product revenue came in at INR4.9b versus our expectation of INR10.6b. Hence, although IT services revenue was largely in line, overall revenue was missed by ~3%.

Exhibit 1: Revenue growth of 2% QoQ CC in line with guidance of 1-3%

Source: Company, MOSL

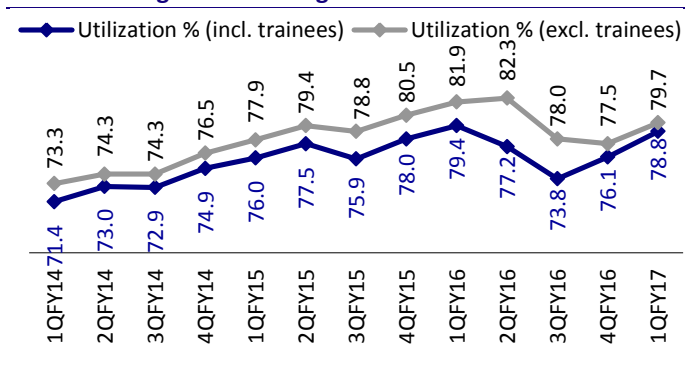
- Overall EBIT margin was 16.1%, -130bp QoQ, below our estimate of 16.7%. The miss was largely on account of operating losses in the hardware business to the tune of INR368m (-6.3% EBIT margin). This marks the fourth consecutive quarter of losses in the product business.
- IT Services EBIT was 17.8%, -190bp QoQ, marginally below our estimate of 18.1%.
- The margin miss resulted despite an increase of 180bp QoQ in utilization of employees including and excluding trainees. During the quarter, utilization (excluding trainees) increased to 79.7% from 77.5% in 4Q.
- Margin headwinds during the quarter were: [1] One month impact of wage inflation, [2] Dilution resulting out of the full integration of HPS, [3] Amortization of intangibles as per IND-AS, [4] Headwinds in the India and Middle East business and [5] Investments in customer relationships at strategic accounts.

Exhibit 2: IT Services EBIT margin decline largely led by wage hike and HPS integration



Source: Company, MOSL

Exhibit 3: Utilization improved by 180bp during the quarter, both including and excluding trainees



Source: Company, MOSL

- PAT for the quarter was INR20.5b, -8.2% QoQ, compared to our estimate of INR20.7b, -7.2%.

Organic growth guidance of 0-1% QoQ fails to enthruse

- For 2QFY17, WPRO guided for revenues between USD1,931m-1,950m, 0-1% QoQ in constant currency. This implies YoY growth of 9.5-10.6% in CC, including contribution from acquisitions. The weaker revenue growth outlook is contributed in part by likelihood of weak discretionary spending, and secondly, restructuring of the India & Middle East business.
- Given that full integration of HPS happened in 1QFY17, the sequential guidance is organic. The company mentioned that due to inordinate delays in completion of closing conditions that exceeded the target closing date and expiration date under the terms of the agreement, the Viteos acquisition has been called off by both parties.
- The guidance is in constant currency and is based on the average realized rates during for 1QFY17, at GBP/USD at 1.46, Euro/USD at 1.13, AUD/USD at 0.74, USD/INR at 67.12 and USD/CAD at 1.29.

In-line revenue driven by lopsided segmental performance

- In constant currency Wipro saw flat revenues in Communications (-0.4% QoQ).
- There was a decline seen in the verticals of Consumer (-1.6% QoQ CC), Energy, Natural Resource & Utilities (-4.1% QoQ CC) and Manufacturing and Technology (-0.9% QoQ CC).
- Effectively growth was driven by Finance Solutions (+2.9% QoQ CC) and Healthcare, Life Sciences & Services (+17.7% QoQ CC). The growth in HLS can be attributed to the full integration of HPS.

Exhibit 4: Weakness in all verticals other than Finance Solutions and Healthcare

Verticals	Contri to Rev. (%)	CC Growth - QoQ (%)	CC Growth - YoY (%)
Communications	7.6	-0.4	14.6
Consumer Business Unit	15.8	-1.6	6.9
Energy, Natural Resources & Utilities	13.2	-4.1	-2.8
Finance Solutions	25.6	2.9	5.5
Healthcare, Life Sciences and Services	15.3	17.7	46.6
Manufacturing & Technology	22.5	-0.9	4.6

Source: Company, MOSL

- Among geographies, in CC terms, growth was led by Americas (+4.2% QoQ). While Europe (+0.5% QoQ CC) and APAC and Other Emerging Markets (-0.4% QoQ CC) were flattish, the India & Middle East business declined by 2.6% QoQ CC.

Exhibit 5: India and Middle East under pressure

Geographies	Contri to Rev. (%)	CC Growth - QoQ (%)	CC Growth - YoY (%)
US	53.5	4.2	10.1
Europe	25.4	0.5	10.2
India & Middle East business	10.4	-2.6	8.7
Other emerging markets	10.7	-0.4	6.0

Source: Company, MOSL

Update on the 6 themes that define strategic direction

CEO Abid Ali Neemuchwala, in the previous quarter had presented six themes that represent the strategic play for WPRO going ahead, in order to reach its ambition of USD15b revenue at 23% operating margin by 2020. The organization and leadership have been structured to emphasize focus on these areas.

- [1] Digital:** Digital comprises of 17.9% of total revenue for WPRO and comprises of advisory, design, engineering and the services of SMAC and cybersecurity. WPRO brings differentiated value to customers through the integration of advisory, design and technology. It won 7 deals across sectors and geographies, including that with a top 10 European bank with scope across their digital portfolio. While it trained 10,000 employees in Digital in FY16; it plans to train an additional 20,000 people in Digital in FY17. In 1QFY17, it trained 800 people in Digital, and additionally 750 sales personnel to sell Digital to customers.
- [2] Client mining:** To augment mining, WPRO has introduced design for delivery managers that will cover 1,000 delivery managers by the end of the year. With respect to this initiative, it has already trained 200 delivery managers.
- [3] Markets:** WPRO has been increasingly focusing on localization. During the quarter, it expanded its presence in Mountain View and Atlanta, and is opening a new centre in Dallas. In Continental Europe, it integrated its offerings with Cellent and to boost presence in emerging geographies, opened centres in Ireland and Mexico.
- [4] Non linearity:** To increase the non-linear component in WPRO's revenues, it will invest in IP, in the form of products, platforms, frameworks and solutions. HOMES has seen strong adoption so far with 35 engagements across segments. This compares well with 18 projects at the end of FY16.

- [5] **Hyper-automation:** WPRO deployed 500 cases of bots across 50 of its existing customers. This enabled the freeing up of 1,100 people. In FY16, 4,500 people were released because of automation.
- [6] **Leveraging the partner ecosystem:** The partner ecosystem has been a key enabler to building capability and scale in Digital and in areas of strategic importance. M&A, alliances and partnerships will continue. All the acquisitions made so far have delivered well in terms of synergy. A good example of it was the cross-selling of HPS to a large existing healthcare client of WPRO.

Takeaways from Management Commentary

- **Demand environment:** Demand environment has been stable. Although client spend is increasing minimally, the velocity of shift in budgets from 'Run' to 'Change' has been rapid. WPRO sees no immediate impact of the Brexit other than currency movements. However, there is potential for some delays in discretionary spend in European financial services.
- **Vertical-wise commentary:** Finance Solutions saw good growth in 1QFY17. Going forward, the company sees headwinds in the Technology vertical – in the areas of semiconductor and network manufacturers. Energy too is expected to remain under pressure till there is stability in oil prices. The environment seems healthy in Healthcare and Lifesciences, especially with the integration of recent acquisitions.
- **Energy continues to drag on overall performance:** In 1QFY17, revenue from the Energy vertical declined by 4% QoQ CC. The pressure is expected to continue till there is stability in oil prices, post which customers are expected to resume their discretionary spend. Given the fact that WPRO's presence in Energy is higher towards the discretionary side of spend, the impact of volatile oil prices has been grave to a larger extent.
- **Some restructuring in India and Middle East coming up:** The company is currently in the process of restructuring its India and Middle East business. While this negatively impacted 1QFY17 revenue, the headwind is likely to continue for a couple of quarters. This is also reflected in WPRO's tepid guidance for 2QFY17.
- **Investments to keep margins under check:** In the short term, WPRO is expected to make investments in the business in its 6 strategic areas. This is expected to weigh upon margins, like it did in 1QFY17. Investments are aimed towards building capabilities, training and incentivizing people, acquiring businesses and investing in strategic accounts resulting in dilution on rates and hence margins.
- **Margin trajectory to inch back up in the mid-term:** While 1QFY17 was impacted by wage hikes for one month, the full impact is expected to create headwinds in 2QFY17. A substantial portion of this is expected to be offset by productivity improvement. While margin expansion will remain capped in the near term because of investments, the company is confident of inching it back up in the medium term by using the levers of pyramid rationalization, offshoring, and fixed price contracts.

Cutting estimates factoring weak 2Q guidance and likely margin pressure

- Although the company met its 1Q revenue guidance, 0-1% QoQ CC revenue growth guidance for 2Q failed to enthuse. This compares with our earlier expectation of 3.4% QoQ growth in 2Q.
- While constant currency guidance assumes an exchange rate of 1.46 GBP/USD, current rate of 1.31 GBP/USD implies a further 100bp pressure on USD revenue growth.
- Factoring for the lower revenue growth expectation in 2QFY17, cross-currency impact, restructuring efforts in the India and Middle East business, and the cancellation of the acquisition of Viteos, we have cut our revenue estimates by 2.7/4.3% for FY17/18E. We now expect revenue growth of 6.5/8.2% YoY in FY17/18E.
- With additional pressure on margins due to losses in the product business, greater impact of wage hike in 2Q, lack of material revival in organic revenue growth, and continued investments in the business, we have cut our overall EBIT margin estimates for FY17/18 by 130/110bp. We now expect a decline of 150bp in FY17 EBIT margins and an expansion of 50bp in FY18E.
- Consequently, our earnings have been cut by 7.8/8.2% for FY17/18E.

Exhibit 6: Change in estimates

	Revised			Earlier			Change		
	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
USD Revenue - m	7,346	7,825	8,463	7,346	8,042	8,842	0.0%	-2.7%	-4.3%
Growth (%)	3.7	6.5	8.2	3.7	9.5	9.9	0bp	-295bp	-179bp
EBIT Margin - Overall (%)	18.2	16.8	17.8	18.2	18.1	18.9	0bp	-126bp	-111bp
EBIT Margin - IT Services (%)	20.5	17.9	18.5	20.5	19.9	20.6	0bp	-195bp	-211bp
EPS - INR (IT Serv & Products)	36.1	34.9	40.6	36.1	37.8	44.2	0.0%	-7.8%	-8.2%

Source: Company, MOSL

Valuation and view - No structural turnaround on the anvil just yet

- As WPRO's new leader, Mr. Abid Ali has chalked out an aggressive plan for WPRO, targeting to reach USD15b revenues with 23% EBIT margin. That implies revenue CAGR of ~20% over the next four years, and if the margins attain the 300bp expansion, then even higher CAGR for earnings.
- That said, given the exit in FY16, performance in 1QFY17, guidance for 2QFY17 and commentary on margins, we continue to await for any evidence towards that end (revenues and operating margins), thereby making the goal post steeper for the remainder of the period.
- Growth underperformance to peers is only a part of WPRO's problems. What is also notable is that the single digit CC organic growth is lopsided in favor of India / Middle East (+20.7% YoY CC in FY16) and APAC (+11% YoY CC), whereas Americas grew 8.5% and Europe was flat. Lest that is addressed, even the margins will be at risk. Among verticals Retail / CPG and Healthcare have held fort, while other segments continue to struggle to get past single digits.
- WPRO is entering in an investment mode where spending is aimed towards building capabilities, training and incentivizing people, acquiring businesses, and investing in strategic accounts, all of which mean near term margin pressure. The bets of margin resurrection is on medium-term levers like automation and

productivity improvement, which is a tough ask especially in the absence of strong revenue growth.

- WPRO trades at 16.0x FY17E and 13.8x FY18E EPS. WPRO’s valuation discount to peers like TCS and INFO suggests attractive upside potential in the event of growth revival. However, the growth gap is not seen converging in the foreseeable future in organic terms, which will keep the multiple in check. Our target price of INR570 discounts forward EPS by 14x. Maintain Neutral.

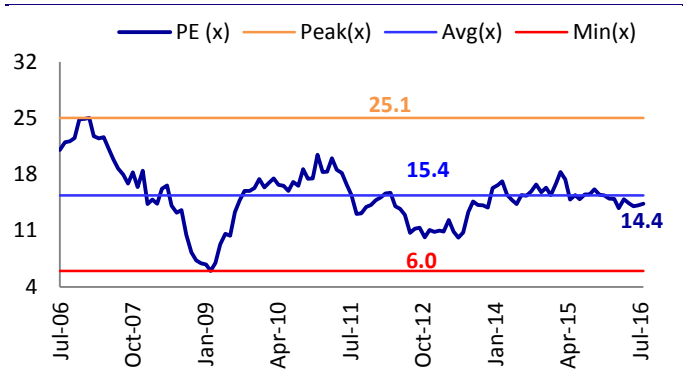
Key triggers

- Significant uptick in YoY CC growth guidance beyond 2QFY17
- Broad-basing of growth across verticals
- Uptick in margins from automation and productivity initiatives

Key risk factors

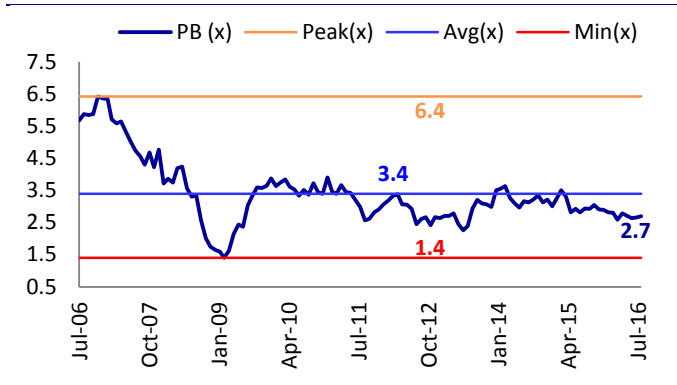
- Prolonged weakness in Energy & Utilities / Manufacturing vertical
- Continued weakness in top accounts
- Continued softness in the Americas and Europe

Exhibit 7: 1-year forward PE band



Source: Company, MOSL

Exhibit 8: 1-year forward PB band



Source: Company, MOSL

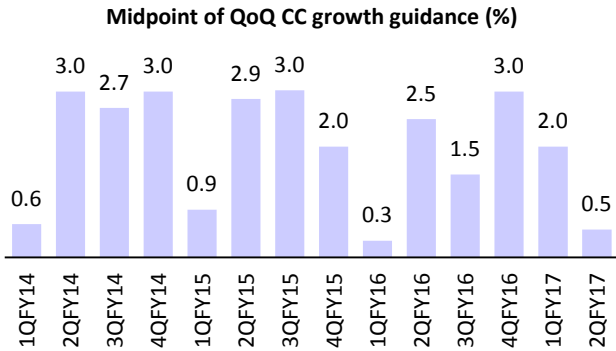
Exhibit 9: Comparative Valuation

Company	Mkt cap (USD b)	Rating	TP (INR)	Upside (%)	EPS (INR)			P/E (x)			RoE (%)			FY16-18E CAGR (%)	
					FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	USD rev.	EPS
TCS	71.7	Neutral	2,650	7.5	123.2	134.0	153.1	20.0	18.4	16.1	37.1	33.6	32.7	10.8	11.5
Infosys	36.6	Buy	1,320	21.4	59.0	62.8	73.2	18.4	17.3	14.9	24.7	23.2	24.1	11.2	11.3
Wipro	19.9	Neutral	570	3.8	36.1	34.9	40.6	15.2	15.7	13.5	20.3	17.9	18.9	7.3	6.0
HCL Tech	15.2	Buy	900	23.3	40.1	54.9	60.9	18.2	13.3	12.0	21.5	25.7	24.6	11.7	6.7
TECHM	7.4	Neutral	550	8.3	35.1	36.4	42.7	14.5	13.9	11.9	23.4	20.9	18.6	10.6	10.3
Cognizant	35.5	Not Rated			2.7	2.9	3.2	21.9	20.0	18.0	19.1	17.6	16.5	11.8	10.1

Source: Company, MOSL

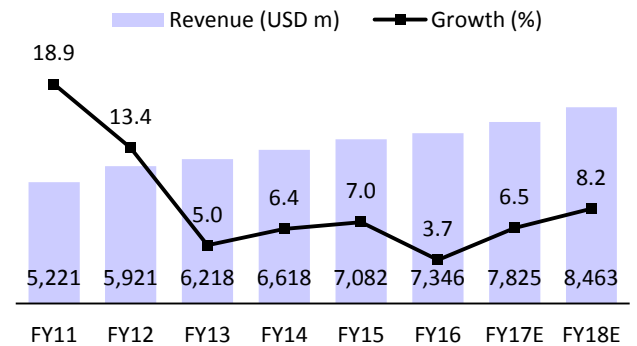
Story in charts

Exhibit 10: Growth guidance not picking up materially...



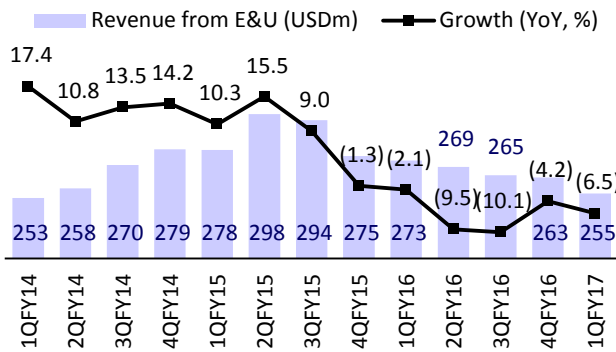
Source: Company, MOSL

Exhibit 11: ...limiting confidence of growth closer to industry average



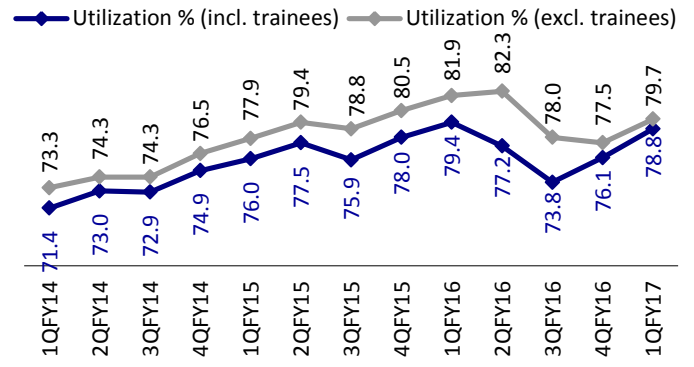
Source: Company, MOSL

Exhibit 12: E&U continues to weigh upon performance



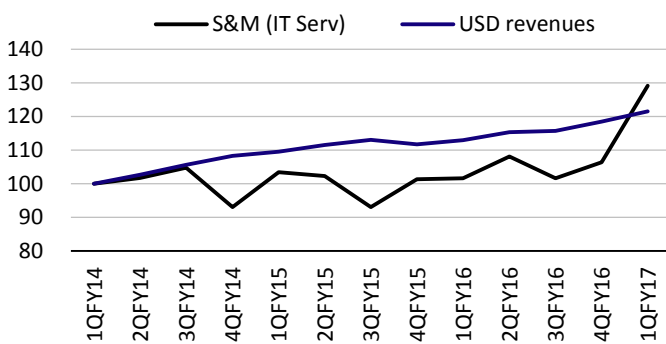
Source: Company, MOSL

Exhibit 13: Margin pressure despite utilization uptick



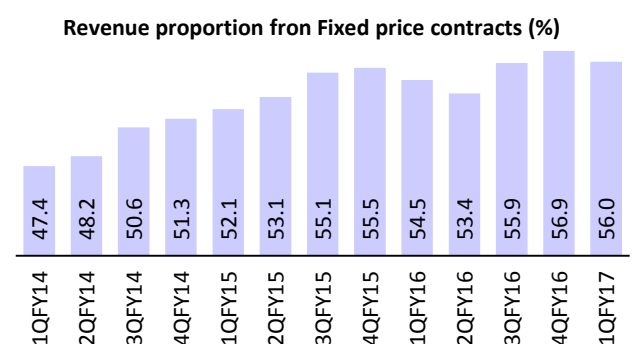
Source: Company, MOSL

Exhibit 14: Visible uptick in investments (indexed at 100)



Source: Company, MOSL

Exhibit 15: Lever of FPP continues to play...



Source: Company, MOSL

Exhibit 16: Operating metrics

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Services Composition (%)									
IMS	25.5	27.2	27.7	27.9	28.0	28.0	28.1	28.9	27.9
BPO	9.7	9.2	9.5	9.4	9.3	9.8	9.8	10.6	12.9
Product Engg and Mobility	6.9	7.0	7.1	7.6	7.7	7.9	8.0	8.0	7.1
Wipro Analytics	7.1	7.2	7.0	7.1	7.5	7.5	7.4	7.2	7.4
Application Services	50.8	49.4	48.7	48.0	47.5	46.8	46.7	45.3	44.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
R&D	9.5	9.7	9.8	10.2	10.3	10.5	10.4	10.3	-
Consulting	2.0	2.0	1.9	1.8	1.7	1.9	1.6	1.4	-
Verticals (%)									
Global Media & Telecom	14.3	13.9	13.8	13.5					
Finance Solutions	26.7	26.0	25.7	26.5	26.8	26.7	26.2	25.4	25.6
Manufacturing & Hitech	18.2	18.2	18.3	18.3					
Healthcare Lifescience	10.8	11.2	11.7	11.7	11.2	11.4	12.0	13.3	15.3
Retail & Transportation	14.0	13.9	14.1	14.5					
Energy, Natural Resources & Utilities	16.0	16.8	16.4	15.5	15.2	14.7	14.4	14.0	13.2
Communications					7.4	7.6	7.7	7.7	7.6
Consumer					16.2	16.2	16.5	16.4	15.8
Manufacturing & Technology					23.2	23.4	23.2	23.2	22.5
Geography (%)									
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 & Middle East business	9.1	9.2	9.6	10.7	10.6	10.6	11.0	11.0	10.4
APAC and Other Emerging Markets	11.5	12.0	11.4	11.3	11.3	11.2	11.4	10.9	10.7
Customer size distribution (TTM)									
> \$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
Customer metrics									
Revenue from Existing customers %	99.6	98.6	97.7	96.7	99.6	98.5	97.9	96.5	99.7
Number of new customers	35	50	44	65	36	67	39	119	50
Total Number of active customers	1022	1018	1018	1054	1071	1100	1105	1223	1208
Customer Concentration (%)									
Top customer	3.7	3.5	3.8	3.8	3.3	3.1	3.2	2.7	2.5
Top 5	13.4	12.9	12.7	12.6	12.2	11.7	11.5	11.0	10.3
Top 10	21.8	21.5	21.0	20.6	20.1	19.8	19.3	18.2	17.6

Source: MOSL, Company

Exhibit 17: Operating metrics

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
EMPLOYEE METRICS									
Closing Headcount - IT Services	147,452	154,297	156,866	158,217	161,789	163,396	170,664	172,912	173,863
Sales & Support staff - IT Services (average)	11,174	11,328	11,603	11,629	12,517	13,068	13,239	13,737	14,324
Utilization (IT Services excl. BPO, IFOX and I&ME)									
Gross Utilization (%)	68.7	70.0	68.5	70.5	71.3	69.5	66.4	68.1	69.9
Net Utilization (excl support) (%)	76.0	77.5	75.9	78.0	79.4	77.2	73.8	76.1	78.8
Net Utilization (excl trainees) (%)	77.9	79.4	78.8	80.5	81.9	82.3	78.0	77.5	79.7
Attrition									
IT Services excluding BPO and I&ME									
Voluntary TTM	16.1	16.5	16.5	16.5	16.4	16.4	16.3	16.1	16.5
Voluntary Quarterly Annualized	17.0	16.9	16.4	15.6	16.4	16.8	16.3	14.9	17.9
Involuntary Quarterly Annualized	-	-	-	-	-	-	-	-	-
BPO - Quarterly	11.8	12.0	13.1	13.3	12.0	10.2	9.9	11.1	11.7
BPO - Post training	10.1	10.0	9.1	9.6	9.3	8.5	8.8	9.9	9.0
IT SERVICES (EXCL INFOX, BPO, I&ME)									
Service Delivery									
Revenue from FPP	52.1	53.1	55.1	55.5	54.5	53.4	55.9	56.9	56.0
% of onsite revenue	54.3	53.7	54.3	53.7	54.6	53.9	53.8	54.2	54.4
% of offshore revenue	45.7	46.3	45.7	46.3	45.4	46.1	46.2	45.8	45.6
IMS	3.2	8.6	3.2	-0.5	1.5	2.1	0.7	5.3	-1.0
BPO	3.3	-3.4	4.7	-2.2	0.0	7.6	0.3	10.7	24.9
Product Engg and Mobility	-8.2	3.3	2.8	5.8	2.4	4.8	1.6	2.4	-8.9
Wipro Analytics	0.0	3.2	-1.5	0.2	6.8	2.1	-1.0	-0.4	5.4
Application Services	0.0	-1.0	-0.1	-2.6	0.1	0.6	0.1	-0.7	1.2
R&D	-0.6	-1.9	3.9	2.4	2.9	4.1	-0.6	1.4	-
Consulting	-6.1	-8.0	1.8	-3.7	-6.4	14.1	-15.5	-10.4	-
Vertical wise									
Global Media and Telecom	4.1	-1.0	0.6	-3.3	-1.1				
Finance Solutions	0.8	-0.9	0.2	1.9	2.2	1.7	-1.5	-0.7	3.4
Manufacturing and Hi-Tech	2.3	1.8	1.9	-1.2	2.8				
Healthcare, Life Sciences and Services	3.1	5.6	5.9	-1.2	-3.2	3.9	5.6	13.5	18.0
Retail and Transportation	-2.3	1.1	2.8	1.6	4.6				
Energy and Utilities	-0.1	6.9	-1.1	-6.6	-0.9	-1.3	-1.7	-0.5	-3.3
Communications						4.9	1.7	2.4	1.3
Consumer						2.1	2.2	1.8	-1.2
Manufacturing & Technology						3.0	-0.5	2.4	-0.5
Geography wise									
US	0.8	4.3	2.1	-0.6	2.7	3.1	0.0	1.8	4.5
Europe	-0.2	-4.4	0.6	-5.8	-1.6	0.5	-1.2	5.7	1.8
India & Middle East business	4.6	2.9	5.8	10.2	0.2	2.1	4.1	2.4	-3.0
Other Emerging markets	3.9	6.2	-3.7	-2.0	1.1	1.2	2.1	-2.1	0.7
Client Concentration									
Top client	1.2	-3.7	10.0	-1.2	-12.2	-4.1	3.6	-13.6	-5.0
top 2-5 clients	-3.8	-1.3	-4.0	-2.3	2.3	-1.3	-3.2	2.4	-3.6
Top 6-10 clients	-2.3	4.2	-2.2	-4.7	-0.2	4.7	-3.4	-5.5	4.0
Non top 10 clients	2.2	2.2	2.0	-0.7	1.7	2.5	1.0	3.8	3.3

Source: MOSL, Company

Financials and Valuations

Income Statement								(INR Million)	
Y/E March	2010	2011	2012	2013	2014	2015	2016	2017E	2018E
Sales	271,242	310,986	318,747	374,256	434,269	469,545	512,440	558,764	622,920
Change (%)	5.6	14.7	2.5	17.4	16.0	8.1	9.1	9.0	11.5
Operating Costs	179,373	204,639	215,665	250,015	284,383	308,460	341,759	377,635	418,989
SG&A	32,822	40,467	36,369	46,245	52,787	56,476	62,562	68,253	72,346
EBITDA	66,581	74,091	66,713	77,996	97,099	104,609	108,119	112,876	131,585
% of Net Sales	24.5	23.8	20.9	20.8	22.4	22.3	21.1	20.2	21.1
Depreciation & Amort.	7,534	8,211	10,129	10,650	11,106	12,823	14,965	18,955	20,507
EBIT	59,047	65,880	56,584	67,346	85,993	91,786	93,154	93,921	111,078
Margins	21.8	21.2	17.8	18.0	19.8	19.5	18.2	16.8	17.8
Other Income	3,369	4,718	8,939	11,250	15,012	19,897	21,565	17,852	16,893
Income from Eq. Inv.	530	648	0	0	0	0	0	0	0
PBT	62,946	71,246	65,523	78,596	101,005	111,683	114,719	111,774	127,970
Tax	9,293	9,896	12,955	16,912	22,601	24,594	25,305	25,618	29,330
Rate (%)	14.8	13.9	19.8	21.5	22.4	22.0	22.1	22.9	22.9
PAT	53,653	61,350	52,568	61,684	78,404	87,089	89,414	86,156	98,640
Minority Interest	-184	-345	-243	-322	-438	-531	-492	-284	-284
Net Income	53,469	61,187	52,325	61,362	77,966	86,558	88,922	85,872	98,356
Change (%)	17.2	14.4	-14.5	17.3	27.1	11.0	2.7	-3.4	14.5

Balance Sheet								(INR Million)	
Y/E March	2010	2011	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	2,936	4,908	4,917	4,926	4,932	4,937	4,941	4,861	4,861
Reserves	193,176	234,772	280,397	278,886	338,567	403,045	461,137	486,721	547,077
Net Worth	196,112	239,680	285,314	283,812	343,499	407,982	466,078	491,582	551,938
Minority Interest & others	8,339	13,710	10,492	10,324	11,440	15,315	22,921	22,202	22,202
Loans	62,511	52,802	58,958	63,816	51,592	78,913	125,221	120,238	108,253
Capital Employed	266,962	306,192	354,764	357,952	406,531	502,210	614,220	634,022	682,393
Gross Block	89,499	99,346	113,369	115,556	127,586	143,166	168,877	209,980	243,867
Less : Depreciation	36,041	44,252	54,381	65,031	76,137	88,960	103,925	122,880	143,387
Net Block	53,458	55,094	58,988	50,525	51,449	54,206	64,952	87,100	100,480
Investments	30,420	49,282	41,961	69,222	60,843	57,775	137,851	177,656	177,656
Intangible Assets	57,813	58,369	72,166	56,470	65,358	76,009	117,832	118,845	118,845
Other non current assets	13,143	22,682	27,897	25,281	30,525	29,459	31,639	38,443	40,273
Curr. Assets	175,094	186,016	234,989	238,232	294,129	382,584	372,647	324,190	370,005
Debtors	67,636	85,776	110,353	108,623	124,726	133,869	150,653	155,907	173,731
Inventories	7,926	9,707	10,662	3,263	2,293	4,849	5,390	2,757	3,074
Cash & Bank Balance	64,878	61,141	77,666	87,869	117,862	164,017	104,724	82,611	104,181
Adv., Other Current Assets	34,654	29,392	36,308	38,477	49,248	79,849	111,880	82,915	89,018
Current Liab. & Prov	62,966	65,251	81,237	81,778	95,773	97,823	110,701	112,212	124,865
Net Current Assets	112,128	120,765	153,752	156,454	198,356	284,761	261,946	211,978	245,139
Application of Funds	266,962	306,192	354,764	357,952	406,531	502,210	614,220	634,022	682,393

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2010	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)									
EPS	18.8	21.6	21.3	24.9	31.7	35.1	36.1	34.9	40.6
Book Value	80.7	98.2	116.5	115.6	139.9	166.1	189.7	200.0	228.3
DPS	2.4	4.4	6.0	7.0	8.0	12.0	6.0	12.8	13.0
Payout %	12.8	20.3	28.2	28.1	25.3	34.2	16.6	36.7	32.0
Valuation (x)									
P/E					17.3	15.6	15.2	15.7	13.5
EV/EBITDA					12.6	11.5	11.4	10.7	8.8
EV/Sales					2.8	2.6	2.4	2.2	1.9
Price/Book Value					3.9	3.3	2.9	2.7	2.4
Dividend Yield (%)					1.5	2.2	1.1	2.3	2.4
Profitability Ratios (%)									
RoE	31.2	28.0	19.9	21.6	24.9	23.0	20.3	17.9	18.9
RoCE	24.8	23.0	17.1	18.9	22.5	20.2	16.7	15.0	16.9
Turnover Ratios									
Debtors (Days)	88	90	112	107	98	101	101	100	97
Asset Turnover (x)	5.3	5.8	5.7	7.0	8.8	9.3	9.0	7.6	6.8
Leverage Ratio									
Debt/Equity Ratio(x)	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2

Cash Flow Statement

(INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016	2017E	2018E
CF from Operations	53,172	68,827	70,711	80,868	97,042	80,015	100,149	124,974	139,971
Cash for Wkg. Capital	-25,743	-12,374	-16,462	7,501	-11,909	-40,250	-36,478	27,855	-11,591
Net Operating CF	27,429	56,453	54,249	88,369	85,133	39,765	63,671	152,829	128,380
Net Purchase of FA	-11,198	-9,847	-14,023	-2,187	-12,030	-15,580	-25,711	-41,103	-33,887
Net Pur. of Investments	-12,742	-28,775	-11,691	-8,949	-5,753	41,476	-124,079	-47,622	-1,830
Net Cash from Invest.	-23,940	-38,622	-25,714	-11,136	-17,783	25,896	-149,790	-88,724	-35,717
Issue of Shares/Other adj	24,047	3,386	10,663	-42,436	4,919	0	-12,421	-22,274	0
Proceeds from LTB/STB	8,742	-4,592	2,780	4,368	-11,324	30,937	53,336	-5,796	-11,985
Dividend Payments	-13,678	-25,079	-34,393	-40,212	-45,964	-70,340	-35,653	-76,000	-76,000
Net CF from Finan.	19,111	-21,568	-12,010	-67,030	-37,357	-19,506	26,826	-86,218	-71,092
Free Cash Flow	16,231	46,606	40,226	86,182	73,103	24,185	37,960	111,726	94,493
Net Cash Flow	22,600	-3,737	16,525	10,203	29,993	46,155	-59,293	-22,113	21,571
Opening Cash Bal.	42,278	64,878	61,141	77,666	87,869	117,862	164,017	104,724	82,611
Add: Net Cash	22,600	-3,737	16,525	10,203	29,993	46,155	-59,293	-22,113	21,571
Closing Cash Bal.	64,878	61,141	77,666	87,869	117,862	164,017	104,724	82,611	104,181

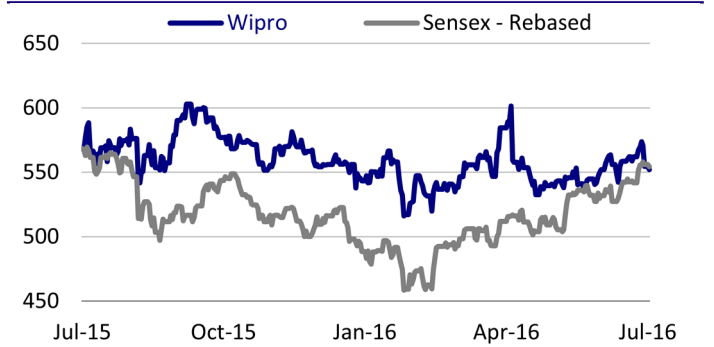
E: MOSL Estimates

Corporate profile

Company description

Wipro is the third largest Indian IT services company and the largest third-party BPO operator in India. It is the largest third-party R&D services provider globally, employing over 156,000 employees. It offers among the widest range of IT and ITeS services and its corporate governance and transparency are at the highest level in the industry.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-16	Dec-15	Mar-15
Promoter	73.3	73.4	73.4
DII	5.3	4.4	4.4
FII	11.5	11.8	12.7
Others	9.9	10.5	9.6

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIC of India	2.2
JP Morgan Chase Bank, NA	2.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Azim H Premji	Chairman & Managing Director
T K Kurien	Executive Director & CEO
Suresh C Senapaty	Executive Director & CFO
M Sanaulla Khan	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Ashok S Ganguly	B C Prabhakar
Henning Kagermann	Ireena Vittal
M K Sharma	Narayanan Vaghul
Shyam Saran	Vyomesh Joshi
William Arthur Owens	Rishad Azim Premji
Jagdish N Sheth	

*Independent

Exhibit 6: Auditors

Name	Type
BSR & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	34.9	38.3	-9.0
FY18	40.6	42.4	-4.2

Source: Bloomberg

PRODUCT GALLERY

Our recent reports on WIPRO

MOTILAL OSWAL | 03 April 2018 | Sector: Technology

Wipro | Update: Sector Technology

Neutral

CMP: INR601 TP: INR600(0%)

Revenue growth turnaround will have to wait.

- Q1 2018 performance was mixed. Q1 2018 revenue grew by 17% while Q1 2017 revenue grew by 15%. Q1 2018 EBIT margin improved to 27% from 26% in Q1 2017. Q1 2018 EPS grew by 17% while Q1 2017 EPS grew by 15%. Q1 2018 P/E ratio was 35.3x while Q1 2017 P/E ratio was 34.7x.
- Q1 2018 revenue growth was 17% while Q1 2017 revenue growth was 15%. Q1 2018 EBIT margin improved to 27% from 26% in Q1 2017. Q1 2018 EPS grew by 17% while Q1 2017 EPS grew by 15%. Q1 2018 P/E ratio was 35.3x while Q1 2017 P/E ratio was 34.7x.

Key Metrics:

Q1 2018	Q1 2017
Revenue (INR Cr)	1,20,000
EBIT (INR Cr)	32,400
EPS (INR)	10.00
P/E Ratio	35.3x

Investors are advised to refer through important disclosures made at the last page of the Research Report.

MOTILAL OSWAL | 03 February 2018 | Sector: Technology

Wipro | Update: Sector Technology

Neutral

CMP: INR516 TP: INR630 (+25%)

Acquires HealthPlan- Another BPO acquisition

Wipro has announced the acquisition of HealthPlan Services from United Healthcare. HealthPlan is an independent health and business process services provider in the US health insurance market. The sale is a strategic move to diversify Wipro's revenue base.

Key Metrics:

Q1 2018	Q1 2017
Revenue (INR Cr)	1,20,000
EBIT (INR Cr)	32,400
EPS (INR)	10.00
P/E Ratio	35.3x

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MOTILAL OSWAL | 03 January 2018 | Sector: Technology

Wipro | Update: Sector Technology

Neutral

CMP: INR547 TP: INR630 (+15%)

Wipro remains on our buy pick-up on revenue momentum.

- Q1 2018 revenue grew by 17% while Q1 2017 revenue grew by 15%. Q1 2018 EBIT margin improved to 27% from 26% in Q1 2017. Q1 2018 EPS grew by 17% while Q1 2017 EPS grew by 15%. Q1 2018 P/E ratio was 35.3x while Q1 2017 P/E ratio was 34.7x.

Key Metrics:

Q1 2018	Q1 2017
Revenue (INR Cr)	1,20,000
EBIT (INR Cr)	32,400
EPS (INR)	10.00
P/E Ratio	35.3x

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Our recent reports on Technology sector

MOTILAL OSWAL | 28 June 2018 | Sector: Technology

IT Digital Day: Key Takeaways

How vendors are trying to differentiate themselves in Digital.

- Key takeaways from the event include:
 - Cloud is the new normal.
 - AI and ML are driving innovation.
 - Security is a top priority.
 - Customer experience is key.

Investors are advised to refer through important disclosures made at the last page of the Research Report.

MOTILAL OSWAL | 30 March 2018 | Sector: Commerce

Ecommerce

100% FDI in Marketplace model - what changes?

100% FDI in marketplace model will have implications on the B2C market.

- Key changes include:
 - Increased competition.
 - Improved customer experience.
 - Enhanced logistics and delivery services.

Investors are advised to refer through important disclosures made at the last page of the Research Report.

MOTILAL OSWAL | 28 February 2018 | Sector: Technology

Technology

What has Digital Changed?

Dynamics of sales growth, prospects for SaaS and how we look at margin IT services prospects.

- Key trends include:
 - Cloud adoption is accelerating.
 - SaaS market is growing rapidly.
 - AI and ML are being adopted widely.

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Our recent reports on other Technology companies

MOTILAL OSWAL | 03 June 2018 | Sector: Technology

INFOSYS FY16

Annual Report Analysis

Key highlights from Infosys FY16 annual report:

- Revenue grew by 17% while EBIT margin improved to 27%.
- Q1 2018 revenue grew by 17% while Q1 2017 revenue grew by 15%.
- Q1 2018 EBIT margin improved to 27% from 26% in Q1 2017.
- Q1 2018 EPS grew by 17% while Q1 2017 EPS grew by 15%.
- Q1 2018 P/E ratio was 35.3x while Q1 2017 P/E ratio was 34.7x.

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MOTILAL OSWAL | 03 February 2018 | Sector: Technology

TCS | Update: Sector Technology

Neutral

CMP: INR2,520 TP: INR2,650 (+5%)

Sluggish BPS will remain an overhang.

- Q1 2018 revenue grew by 17% while Q1 2017 revenue grew by 15%. Q1 2018 EBIT margin improved to 27% from 26% in Q1 2017. Q1 2018 EPS grew by 17% while Q1 2017 EPS grew by 15%. Q1 2018 P/E ratio was 35.3x while Q1 2017 P/E ratio was 34.7x.

Key Metrics:

Q1 2018	Q1 2017
Revenue (INR Cr)	1,20,000
EBIT (INR Cr)	32,400
EPS (INR)	10.00
P/E Ratio	35.3x

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MOTILAL OSWAL | 04 July 2018 | Sector: Technology

Zensar Technologies

Renewed focus

Key highlights from Zensar Technologies:

- Renewed focus on core business.
- Improved operational efficiency.
- Enhanced customer service.

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NOTES

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Varun Kumar

Varun.kumar@motilaloswal.com

Contact : (+65) 68189232

Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931

Kadambari Balachandran

kadambari.balachandran@motilaloswal.com

(+65) 68189233 / 65249115



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com