

October 22, 2016

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Rating	Accumulate
Price	Rs499
Target Price	Rs600
Implied Upside	20.2%
Sensex	28,077
Nifty	8,693

(Prices as on October 21, 2016)

Trading data

Market Cap. (Rs bn)	1,225.0
Shares o/s (m)	2,454.0
3M Avg. Daily value (Rs m)	1054.6

Major shareholders

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

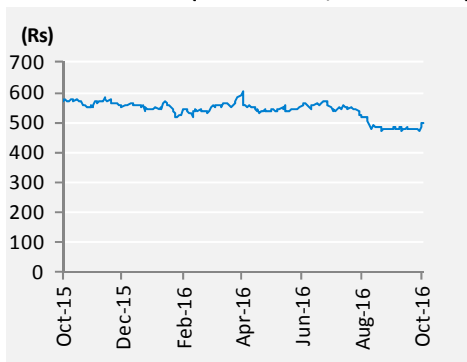
Stock Performance

(%)	1M	6M	12M
Absolute	3.3	(10.7)	(13.6)
Relative	4.8	(19.2)	(16.5)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	35.5	35.3	0.6
2018	38.3	39.0	-1.6

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



Source: Bloomberg

Wipro's Q2FY17 revenues were in line with our expectations; however, margins were ~80 bps ahead of our estimates. Q3FY17 guidance is muted and disappointing. After reporting ~1% CC revenue growth in Q2FY17, company has guided for 0-2% QoQ CC revenue growth for Q3FY17, including the benefit from Appirio acquisition. On an organic basis company has guided for negative to flat revenues. Revenue growth trajectory has remained soft for the company. We believe company is realigning its revenue portfolio to cater to the emerging IT spend, through both organic initiatives and acquisitions. These efforts will likely yield results in medium-term while near term revenue and margins may remain soft.

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.

- **Q2FY17 – modest revenue growth, margins beat estimates:** IT Services' (CC) revenues grew by 0.9% QoQ (PlE: 0.7%) while USD revenues declined by 0.8% QoQ, below our expectations (PlE: -0.2%). IT Services EBIT margins were flat for the quarter at 17.8% despite impact of two months of wage hike. Wage hike impact was offset through benefits from automation led productivity, offshoring and utilization. EPS for the quarter was flat at Rs 8.4.
- **Automation and employee transformation continue to remain strong:** Wipro's increasing focus on automation has led to more than 2,000 core IT activities to be automated. 143 unique "bots" (software robots) are deployed through the company's Artificial Intelligence (AI) based Holmes platform, which is now live in 75 client engagements. Company has already trained 17,500 employees in digital technology in H1FY17 out of the 20,000 employees targeted for FY17.
- **Q3FY17 revenue guidance disappoints at negative to flat organic QoQ growth:** Appirio acquisition will contribute ~3% to revenues if integrated for full Q3FY17.

Key financials (Y/e March)

	2015	2016	2017E	2018E
Revenues (Rs m)	469,545	511,743	554,050	597,459
Growth (%)	8.1	9.0	8.3	7.8
EBITDA (Rs m)	102,892	108,652	110,326	121,786
PAT (Rs m)	86,528	90,898	87,661	94,626
EPS (Rs)	35.1	36.8	35.5	38.3
Growth (%)	10.9	5.1	(3.6)	7.9
Net DPS (Rs)	10.0	10.9	11.9	13.9

Profitability & Valuation

	2015	2016	2017E	2018E
EBITDA margin (%)	21.9	21.2	19.9	20.4
RoE (%)	23.0	20.7	17.5	16.9
RoCE (%)	22.7	19.9	16.9	16.4
EV / sales (x)	2.3	2.0	1.7	1.5
EV / EBITDA (x)	10.6	9.2	8.6	7.3
PE (x)	14.2	13.6	14.1	13.0
P / BV (x)	3.0	2.6	2.3	2.1
Net dividend yield (%)	2.0	2.2	2.4	2.8

Source: Company Data; PL Research

Exhibit 1: Q2FY17 Results –Revenue in line; IT services margins better than estimates

IFRS Consolidated (RS m)	Q2FY17	Q1FY17	QoQ gr.	Q2FY16	YoY	PL(e)	Cons(e)	Var (PLe)
IT Services Revenue (US\$ m)	1,916	1,931	-0.8%	1,832	4.6%	1,927	1,926	-0.6%
Consolidated Sales (Rs m)	137,657	135,992	1.2%	125,135	10.0%	134,100	134,611	2.7%
EBIT (Rs m)	21,690	21,863	-0.8%	23,756	-8.7%	21,065	19,969	3.0%
<i>EBIT Margins</i>	15.8%	16.1%	-32	19.0%	-323	15.7%	14.8%	5
PBT (Rs m)	26,648	26,711	-0.2%	28,894	-7.8%	25,998	25,933	2.5%
Tax (Rs m)	5,909	6,122	-3.5%	6,486	-8.9%	5,833	5,820	1.3%
<i>Tax Rate</i>	22.2%	22.9%	-75	22.4%	-27	22.4%	22.4%	-26
PAT (Rs m)	20,672	20,518	0.8%	22,354	-7.5%	20,140	20,113	2.6%
EPS (Rs)	8.4	8.3	0.5%	9.1	-7.7%	8.3	8.2	1.0%

Source: Company Data, Bloomberg, PL Research

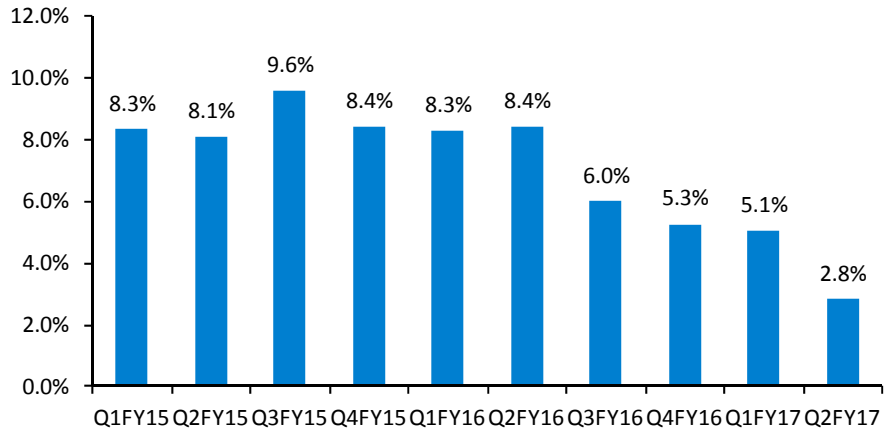
- IT services CC revenues grew by 0.9/7.2% QoQ/YoY for the quarter.
- IT services revenues declined 0.8% QoQ in USD terms implying adverse cross currency impact of 170bps.
- Combined company revenues in INR terms grew by 1.2% QoQ at Rs 137.6bn.
- IT services operating margins was flat for the quarter and ~80bps ahead of our expectations.
- Impact of two months of wage hike on margins was offset by benefits from increased productivity, higher offshore mix and increased utilization.
- EPS for the quarter was flat at Rs 8.4.

Key Concall takeaways

- Management outlined IT services evolving from “run the bucket” model which includes cost efficiency, vendor consolidation, hyper-automation to “change the bucket” which focuses on digital spend, cognitive and artificial intelligence led transformation.
- Out of the company’s plan to release 4,500 employees through automation for FY17 the company has already released 3,200 employees in H1FY17. The company has been successful in deploying these employees in other growth requirements by the company.
- The six themes that the company has been focusing on which include Digital, Client mining, localization; Non linearity and hyper automation have been showing early signs of success and is enabling growth and margin improvement.
- In the quarter company acquired Appirio a cloud based Services Company for a consideration of USD500m. Appirio is headquartered in Indianapolis with CY15 revenues of USD196m and an employee base of 1,250.
- This acquisition will help establish Wipro’s dominance in cloud application services and help strengthen Wipro’s brand as a Digital Partner of choice.

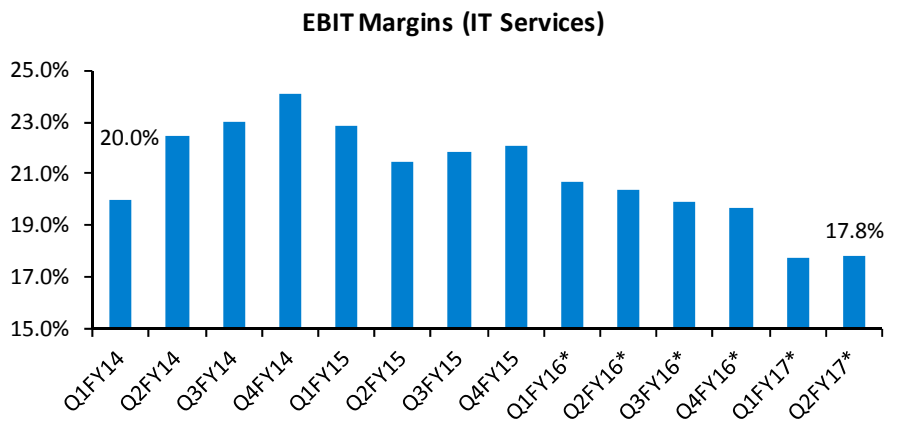
- Although the company is not facing any specific headwind on margins, investments in the form of Appirio acquisition might have an impact on Q3 margins along with some impact of currency volatility.
- Company also outlined that apart from currency depreciation, there is no specific macro challenge due to Brexit.

Exhibit 2: IT services organic CC revenue growth YoY trajectory declines further



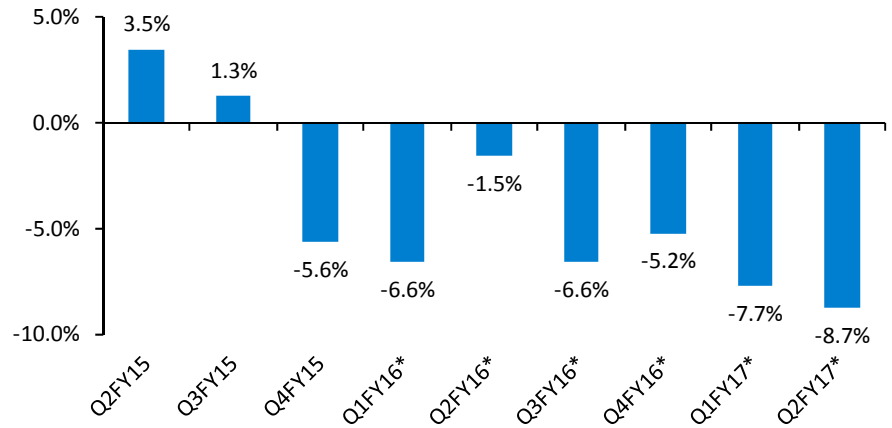
Source: Company Data, PL Research

Exhibit 3: IT service EBIT margin flat QoQ



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

Exhibit 4: USD EBIT growth YoY



Source: Company Data, PL Research

Exhibit 5: Constant currency growth

	QoQ	YoY
IT services	0.9%	7.2%
Verticals		
Communications	1.1%	8.2%
Consumer	0.4%	3.7%
Energy, Natural Resources & Utilities	1.3%	-1.8%
Finance Solutions	0.7%	2.8%
Healthcare, Life Sciences & Services	4.3%	46.9%
Manufacturing & Technology	-1.0%	0.5%
Geography		
America	1.8%	8.4%
Europe	-0.1%	0.2%
India and middle East	0.3%	9.0%
APAC & other emerging markets	-1.1%	4.3%

Source: Company Data, PL Research

Exhibit 6: Europe sees a sharp decline for quarter followed by US

Geo Spread	Q2FY17	Q1FY17	QoQ gr.	Q2FY16	YoY
US	1050.0	1033.0	1.6%	934.3	12.4%
Europe	459.8	490.4	-6.2%	509.3	-9.7%
India & ME business	199.3	200.8	-0.8%	177.7	12.1%
Other Emerging Markets	206.9	206.6	0.2%	210.7	-1.8%
% of Total					
US	54.8%	53.5%	130 bps	51.0%	380 bps
Europe	24.0%	25.4%	-140 bps	27.8%	-380 bps
India & ME business	10.4%	10.4%	0 bps	9.7%	70 bps
Other Emerging Markets	10.8%	10.7%	10 bps	11.5%	-70 bps

Source: Company Data, PL Research

Exhibit 7: BPO leads the growth

Practices (IT Services + BPO Sales)	Q2FY17	Q1FY17	QoQ gr.	Q2FY16	YoY
Global Infrastructure Services	540.3	538.7	0.3%	512.9	5.3%
Analytics	139.9	142.9	-2.1%	137.4	1.8%
Business Process Services	256.7	249.1	3.1%	179.5	43.0%
Product Engineering	139.9	137.1	2.0%	144.7	-3.4%
Application Services	839.2	863.1	-2.8%	857.3	-2.1%
% of (IT Services + BPO Sales)					
Global Infrastructure Services	28.2%	27.9%	30 bps	28.0%	20 bps
Analytics	7.3%	7.4%	-10 bps	7.5%	-20 bps
Business Process Services	13.4%	12.9%	50 bps	9.8%	360 bps
Product Engineering	7.3%	7.1%	20 bps	7.9%	-60 bps
Application Services	43.8%	44.7%	-90 bps	46.8%	-300 bps

Source: Company Data, PL Research

Exhibit 8: Growth led by Healthcare; All the other verticals decline

Verticals Component	Q2FY17	Q1FY17	QoQ gr.	Q2FY16	YoY
Communications	143.7	148.7	-3.3%	137.4	4.6%
Consumer	300.8	316.7	-5.0%	296.8	1.4%
Energy, Natural Resources & Utilities	247.2	270.3	-8.6%	278.4	-11.2%
Finance Solutions	488.6	490.4	-0.4%	490.9	-0.5%
Healthcare, Life Sciences & Services	306.6	256.8	19.4%	205.2	49.4%
Manufacturing & Technology	429.2	447.9	-4.2%	425.0	1.0%
% of Total					
Communications	7.5%	7.7%	-20 bps	7.5%	0 bps
Consumer	15.7%	16.4%	-70 bps	16.2%	-50 bps
Energy, Natural Resources & Utilities	12.9%	14.0%	-110 bps	15.2%	-230 bps
Finance Solutions	25.5%	25.4%	10 bps	26.8%	-130 bps
Healthcare, Life Sciences & Services	16.0%	13.3%	270 bps	11.2%	480 bps
Manufacturing & Technology	22.4%	23.2%	-80 bps	23.2%	-80 bps

Source: Company Data, PL Research

Exhibit 9: Good increase in US\$5m+ client

Customer Size Distribution	Q2FY17	Q1FY17	QoQ gr.	Q2FY16	YoY
Total >1\$m	571	565	1.1%	533	7.1%
>US\$ 3m	341	336	1.5%	321	6.2%
>US\$ 5m	258	252	2.4%	244	5.7%
>US\$ 10m	171	170	0.6%	154	11.0%
>US\$ 20m	91	91	0.0%	85	7.1%
>US\$ 50m	33	33	0.0%	31	6.5%
>US\$ 75m	19	19	0.0%	17	11.8%
> US\$100m	8	9	-11.1%	10	-20.0%

Source: Company Data, PL Research

Exhibit 10: HR metrics

People Management	Q2FY17	Q1FY17	QoQ	Q2FY16	YoY
Closing HC	174,238	173,863	0.2%	168,396	3.5%
Gross Utilization	71.2%	69.9%	130 bps	69.5%	170 bps
Net Utilization (Excl Support)	80.2%	78.8%	140 bps	77.2%	300 bps
Net Utilization (Excl Training)	82.8%	79.7%	310 bps	82.3%	50 bps
IT Services excl BPO and I&ME					
Voluntary TTM	16.6%	16.5%	10 bps	16.4%	20 bps
Voluntary Quarterly Annualized	17.2%	17.9%	-70 bps	16.8%	40 bps
BPO % - Quarterly	12.2%	11.7%	50 bps	10.2%	200 bps
BPO % - Post Training	10.8%	9.0%	180 bps	8.5%	230 bps
Sales & Support Staff (IT Services) (avg)	14,543	14,324	1.5%	13,068	11.3%

Source: Company Data, PL Research

Exhibit 11: Customer concentration

Customer Management	Q2FY17	Q1FY17	QoQ gr.	Q2FY16	YoY
Revenue from new Customers	40.2	29.0	38.9%	42.1	-4.5%
Revenue from repeat businesses	1,875.8	1,901.8	-1.4%	1,789.8	4.8%
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%
Customer Concentration					
Top Customer	49.8	48.3	3.2%	56.8	-12.3%
Top 2-5 Clients	143.7	150.6	-4.6%	157.5	-8.8%
Top 5	193.5	198.9	-2.7%	214.3	-9.7%
Top 6-10	141.8	140.9	0.6%	148.4	-4.4%
Top 10	335.3	339.8	-1.3%	362.7	-7.6%
Non Top 10 customers	1,580.7	1,591.0	-0.6%	1,469.2	7.6%
Revenue from new Customers (%)	2.1%	1.5%	60 bps	2.3%	-8.7%
Customer Concentration					
Top Customer	2.6%	2.5%	10 bps	3.1%	-50 bps
Top 5	10.1%	10.3%	-20 bps	11.7%	-160 bps
Top 10	17.5%	17.6%	-10 bps	19.8%	-230 bps

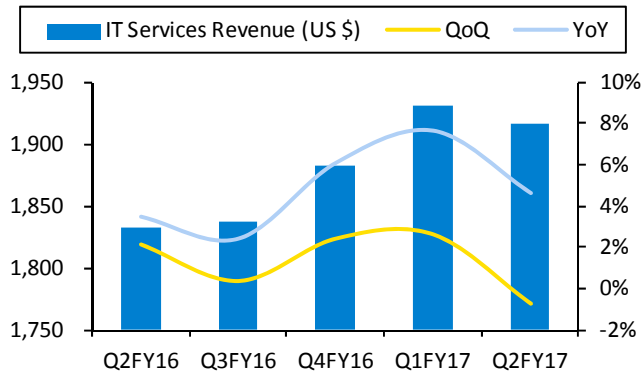
Source: Company Data, PL Research

Exhibit 12: An overview of the company's operating metrics

Revenue by verticals (%)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Communications	NA	NA	7.5%	7.6%	7.7%	7.7%	7.6%	7.5%
Consumer	NA	NA	16.2%	16.2%	16.5%	16.4%	15.8%	25.5%
Energy, Natural Resources & Utilities	NA	NA	15.2%	14.7%	14.4%	14.0%	13.2%	22.4%
Finance Solutions	NA	NA	26.8%	26.7%	26.2%	25.4%	25.6%	16.0%
Healthcare, Life Sciences & Services	NA	NA	11.2%	11.4%	12.0%	13.3%	15.3%	15.7%
Manufacturing & Technology	NA	NA	23.2%	23.4%	23.2%	23.2%	22.5%	12.9%
Revenue by services (%)								
Global Infrastructure Services	27.7%	27.9%	28.0%	28.0%	28.1%	28.9%	27.9%	28.2%
Wipro Analytics	7.0%	7.1%	7.5%	7.5%	7.4%	7.2%	7.4%	7.3%
Business Process Services	9.5%	9.0%	9.3%	9.8%	9.8%	10.6%	12.9%	13.4%
Product Engineering	7.1%	7.6%	7.7%	7.9%	8.0%	8.0%	7.1%	7.3%
Application Services	48.7%	48.0%	47.5%	46.8%	46.7%	45.3%	44.7%	43.8%
Revenue by geography (%)								
America	51.4%	51.7%	52.5%	53.0%	52.8%	52.5%	53.5%	54.8%
Europe	27.6%	26.3%	25.6%	25.2%	24.8%	25.6%	25.4%	24.0%
India and Middle East	9.6%	10.7%	10.6%	10.6%	11.0%	11.0%	10.4%	10.4%
Other Emerging Market	11.4%	11.3%	11.3%	11.2%	11.4%	10.9%	10.7%	10.8%
Customer concentration (%)								
Top Client	3.8%	3.8%	3.3%	3.1%	3.2%	2.7%	2.5%	2.6%
Top 5 Clients	12.7%	12.6%	12.2%	11.7%	11.5%	11.0%	10.3%	10.1%
Top 10 Clients	21.0%	20.6%	20.1%	19.8%	19.3%	18.2%	17.6%	17.5%
Revenue by contract type (%)								
Fixed Price	55.1%	55.5%	54.5%	53.4%	55.9%	56.9%	56.0%	56.4%
Time & Material	44.9%	44.5%	45.5%	46.6%	44.1%	43.1%	44.0%	43.6%
Revenue by location (%)								
Onsite	54.3%	53.7%	54.6%	53.9%	53.8%	54.2%	54.4%	53.9%
Offshore	45.7%	46.3%	45.4%	46.1%	46.2%	45.8%	45.6%	46.1%

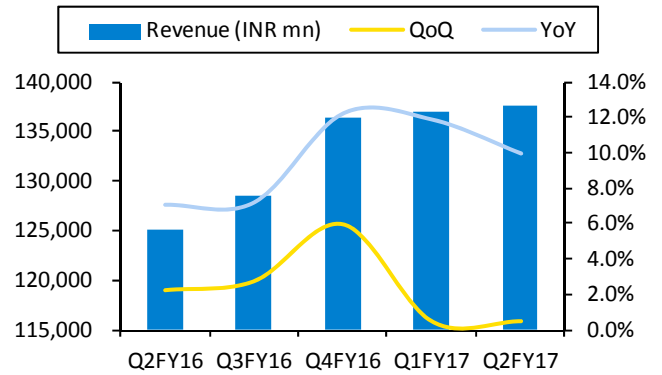
Source: Company Data, PL Research

Exhibit 13: IT Services Revenue (USD) growth trend



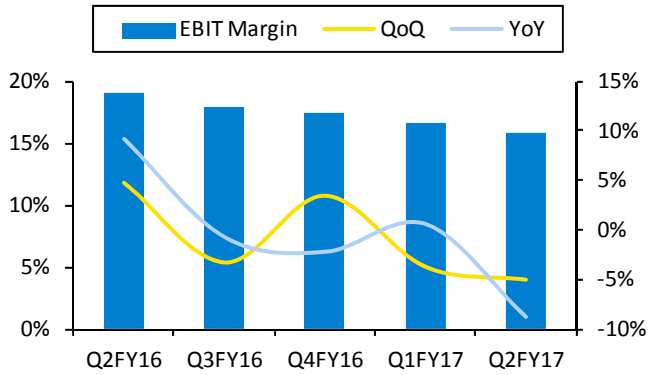
Source: Company Data, PL Research

Exhibit 14: Overall INR revenue movement over the quarters



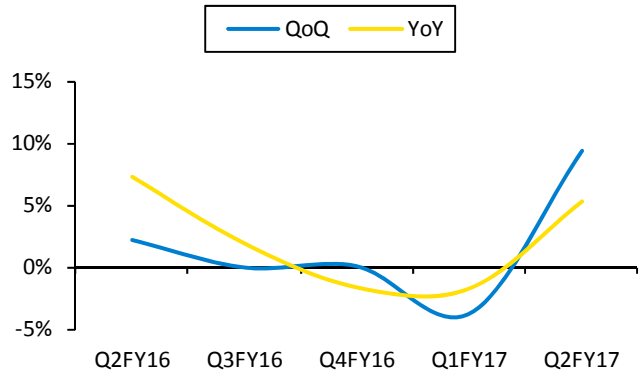
Source: Company Data, PL Research

Exhibit 15: EBIT margin and growth trend



Source: Company Data, PL Research

Exhibit 16: PAT movement over the last few quarters



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	469,545	511,743	554,050	597,459
Raw Material Expenses	321,284	356,340	396,376	426,486
Gross Profit	148,261	155,403	157,674	170,973
Employee Cost	—	—	—	—
Other Expenses	45,369	46,751	47,348	49,187
EBITDA	102,892	108,652	110,326	121,786
Depr. & Amortization	11,106	14,351	19,162	21,402
Net Interest	3,599	—	—	—
Other Income	23,496	22,436	22,059	24,388
Profit before Tax	111,683	116,737	113,223	124,771
Total Tax	24,624	25,449	25,362	29,945
Profit after Tax	87,059	91,288	87,861	94,826
Ex-Od items / Min. Int.	531	390	200	200
Adj. PAT	86,528	90,898	87,661	94,626
Avg. Shares O/S (m)	2,468.5	2,468.5	2,468.5	2,468.5
EPS (Rs.)	35.1	36.8	35.5	38.3

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	78,262	126,057	103,719	112,844
C/F from Investing	(25,816)	(15,352)	(16,621)	(17,924)
C/F from Financing	(7,934)	(26,242)	(29,475)	(34,367)
Inc. / Dec. in Cash	44,512	84,462	57,623	60,553
Opening Cash	114,201	158,713	243,175	300,798
Closing Cash	158,713	243,175	300,798	361,350
FCFF	70,356	110,704	87,097	94,920
FCFE	72,154	110,704	87,097	94,920

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	8.1	9.0	8.3	7.8
EBITDA (%)	6.0	5.6	1.5	10.4
PAT (%)	11.0	5.1	(3.6)	7.9
EPS (%)	10.9	5.1	(3.6)	7.9
Profitability				
EBITDA Margin (%)	21.9	21.2	19.9	20.4
PAT Margin (%)	18.4	17.8	15.8	15.8
RoCE (%)	22.7	19.9	16.9	16.4
RoE (%)	23.0	20.7	17.5	16.9
Balance Sheet				
Net Debt : Equity	(0.4)	(0.5)	(0.5)	(0.6)
Net Wrkng Cap. (days)	(9)	8	10	10
Valuation				
PER (x)	14.2	13.6	14.1	13.0
P / B (x)	3.0	2.6	2.3	2.1
EV / EBITDA (x)	10.6	9.2	8.6	7.3
EV / Sales (x)	2.3	2.0	1.7	1.5
Earnings Quality				
Eff. Tax Rate	22.0	21.8	22.4	24.0
Other Inc / PBT	21.0	19.2	19.5	19.5
Eff. Depr. Rate (%)	9.2	10.5	12.5	12.5
FCFE / PAT	83.4	121.8	99.4	100.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	407,982	471,862	530,048	590,307
Total Debt	12,707	12,707	12,707	12,707
Other Liabilities	15,315	15,315	15,315	15,315
Total Liabilities	436,004	499,884	558,070	618,329
Net Fixed Assets	54,206	55,207	52,667	49,188
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	336,219	399,957
<i>Cash & Equivalents</i>	<i>158,940</i>	<i>243,175</i>	<i>300,798</i>	<i>361,350</i>
<i>Other Current Assets</i>	<i>217,154</i>	<i>199,960</i>	<i>216,071</i>	<i>232,603</i>
<i>Current Liabilities</i>	<i>164,029</i>	<i>167,642</i>	<i>180,650</i>	<i>193,996</i>
Other Assets	39,080	39,080	39,080	39,080
Total Assets	436,004	500,433	558,619	618,878

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	128,605	136,324	135,992	137,657
EBITDA	26,727	28,047	26,528	26,539
<i>% of revenue</i>	<i>20.8</i>	<i>20.6</i>	<i>19.5</i>	<i>19.3</i>
Depr. & Amortization	3,764	4,304	4,665	4,849
Net Interest	1,423	1,284	1,336	1,428
Other Income	7,138	6,710	6,184	6,386
Profit before Tax	28,678	29,169	26,711	26,648
Total Tax	6,248	6,626	6,122	5,909
Profit after Tax	22,341	22,350	20,518	20,672
Adj. PAT	22,341	22,350	20,518	20,672

Key Operating Metrics

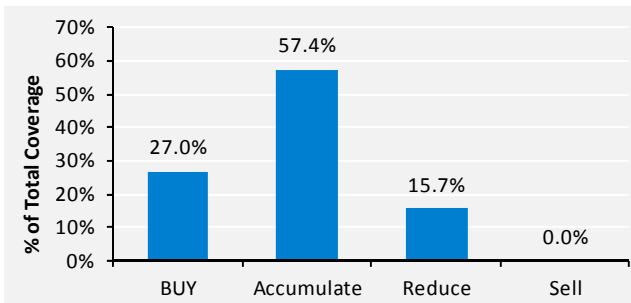
Y/e March	2015	2016	2017E	2018E
Revenue (US\$ m)	7,592	7,788	8,269	8,917

Source: Company Data, PL Research.

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