Wipro

21 July 2017

Reuters: WIPR.BO; Bloomberg: WPRO IN

1QFY18 Result Update

Industry Matching Growth To Be Elusive, But Buyback To Support Stock

Wipro reiterated its promise of industry-leading/matching growth (undefined) by 4QFY18, despite delivering below industry QoQ revenue growth for 1QFY18 (but at the upper end of its very modest guidance) and lower-than-expected 2QFY18 guidance (-0.5% to 1.5% CC growth). The pick-up in growth is expected to be driven by: 1) Continued traction in Energy and Utilities business, which bottomed out earlier than expected in 4QFY17 and where it has a market-leading position. 2) Return of India and Middle East businesses to growth. (3) Continued traction in the BFSI space where it sounded bullish on the US BFSI space at divergence with Indian peers. (4) Pick-up in growth of Healthcare & Life Sciences (HC&LS) vertical in 2H - which we are sceptical about. The reason for weak 1QFY18 and 2QFY18 are: (1) Loss of projects in Healthcare and Life Sciences vertical as the Trump administration wrestles with repeal and replacement of Obamacare.(2) Inability to replace some large communication service provider contracts that expired in 4QFY17. HC&LS, Retail and Communication verticals are expected to be volatile in FY18. We believe growth in HC&LS vertical and continued traction in BFSI vertical is conditional and cannot be taken for granted. We also believe that Wipro's promise to deliver industry-matching growth - whatever that means - is likely to be difficult. Wipro has reiterated its guidance of FY18 margins being in a 'narrow band' vis-à-vis FY17 on constant currency basis. We believe if that happens a large part would have been played by the significantly better INR/USD realisation on its revenues - quite unlike most of its peers - and benefits from automation. We have increased EPS estimates by 15%/19% for FY18/FY19 respectively because of (1) higher INR realisation (2) lower share count by 7% on expected successful completion of buyback. We have retained Sell rating on Wipro with a March 2018 target price of Rs235 (down 13% from CMP) based on 11.5x FY19E earnings. 11.5x P/E is at a 20% discount to the target P/E multiple assigned to Infosys/TCS. We believe our target P/E multiple is justified on poor run in organic growth and poor return ratios. We believe it is also justified on the basis of lack of turnaround in business metrics and the fact that Wipro possibly has the worst RoIC in the industry because of poor organic growth and returns-dilutive acquisitions. The large share buyback (~7% of equity is going to be bought back versus 2%-4% by its peers) could act as support for the stock price in the immediate term.

Divergent BFSI commentary vis-à-vis peers: Wipro stated that it is seeing broad-based growth in the US BFSI sector which is led by Digital transformation-based spending by clients. It highlighted that investments in building cloud-based transformation (Appirio) and design (DesginIT) capabilities is helping it gain traction with clients. The commentary is at divergence with that provided by Indian peers like TCS and Infosys (having significantly larger presence in the US BFSI vertical) who indicated lack of spending by large US BFS clients. This could be a Wipro specific phenomenon and is related to its clients and sub-segments it addresses.

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SELL

Sector: Information Technology

CMP: Rs269

Target price: Rs235

Downside: 13%

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Key Data

Current Shares O/S (mn)	4,866.4
Mkt Cap (Rsbn/US$bn)	1,309.8/20.3
52 Wk H / L (Rs)	284/204
Daily Vol. (3M NSE Avg.)	3,552,286

Price Performance (%)

	1 M	6 M	1 Yr
Wipro	5.9	12.6	(0.1)
Nifty Index	2.3	18.3	15.3

Source: Bloomberg

Y/E March (Rsmn)	1QFY17	4QFY17	1QFY18	YoY (%)	QoQ (%)	1QFY18E	Dev (%)
IT Services Revenue (USDmn)	**1,931**	**1,955**	**1,972**	**2.1**	**0.87**	**1,976**	**(0.2)**
Net Sales	**135,992**	**139,875**	**136,261**	**0.2**	**(2.6)**	**131,202**	**3.9**
Employee costs	96,389	100,771	97,111	0.7	(3.6)	96,740	0.4
% of Sales	*70.9*	*72.0*	*71.3*	-	-	*73.7*	-
Other Expenditure	17,740	19,103	17,410	(1.9)	(8.9)	18,137	(4.0)
% of Sales	*13.0*	*13.7*	*12.8*	-	-	*13.8*	-
Forex Gain / (Loss)	984	745	353	-	(52.6)	2,000	-
Other Operating Income		4,082	0	-	-	0	-
EBIT	**22,847**	**24,828**	**22,093**	**(3.3)**	**(11.0)**	**18,325**	**20.6**
EBIT Margin (%)	***16.8***	***17.8***	***16.2***	-	-	***14.0***	-
Other Income	3,864	4,583	4,725	22.3	3.1	4,798	(1.5)
PBT	**26,711**	**29,411**	**26,818**	**0.4**	**(8.8)**	**23,123**	**16.0**
Provision for Tax	6,122	6,742	5,994	(2.1)	(11.1)	5,318	12.7
Effective Tax Rate (%)	*22.9*	*22.9*	*22.4*	-	-	*23.0*	-
Minority share in Profit / Loss	(71)	(58)	(59)	(16.9)	1.7	(100)	(41.0)
PAT (Reported)	**20,518**	**22,611**	**20,765**	**1.2**	**(8.2)**	**17,705**	**17.3**
NPM (%)	***15.1***	***16.2***	***15.2***	-	-	***13.5***	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Revenue Growth (Rsbn)	473	514	550	565	606
YoY Growth (%)	*8.1*	*8.7*	*7.0*	*2.6*	*7.3*
EBIT Growth (Rsbn)	95	97	94	91	97
EBIT (%)	*20.2*	*18.8*	*17.1*	*16.2*	*16.0*
Adj. PAT (Rsbn)	87	89	85	86	92
YoY Growth (%)	*11.0*	*2.9*	*(4.6)*	*1.6*	*6.7*
FDEPS (Rs)	17.8	18.4	17.5	18.5	20.4
RoE (%)	*22.9*	*20.3*	*17.1*	*15.7*	*15.4*
RoCE (%)	*19.7*	*17.1*	*14.9*	*13.2*	*11.9*
RoIC (%)	*34.3*	*31.8*	*29.7*	*26.7*	*24.5*
P/E (x)	14.0	13.6	14.3	14.1	13.2
P/BV (x)	3.0	2.6	2.3	2.1	1.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in estimates

	New		Old		*Change (%)*	
	FY18E	FY19E	FY18E	FY19E	*FY18E*	*FY19E*
INR/USD	66.8	68.0	65.6	67.0	*1.8*	*1.5*
IT Services USD Revenue (USDmn)	8,076	8,517	8,229	8,649	*(1.9)*	*(1.5)*
Revenue (Rsbn)	565	606	562	604	*0.5*	*0.4*
EBIT (Rsbn)	91	97	82	87	*11.9*	*11.3*
EBIT Margin (%)	*16.2*	*16.0*	*14.5*	*14.4*	-	-
PAT (Rsbn)	86	92	78	83	*11.0*	*11.0*
FDEPS (Rs)	18.5	20.4	16.0	17.1	*15.3*	*19.3*

Source: Company, Nirmal Bang Institutional Equities Research

We have a negative view on Indian IT services sector: We have been cautious on the Indian IT services sector for more than two years and have advocated an underweight stance. We expect the sector to post 3%-6% USD revenue growth in FY18 (likely lowest on the street, organic). In our sector reports Structural And Cyclical Speed-breakers Ahead and Downside Risks Open Up - It Is That Time Of The Cycle!, we had indicated the reasons for being bearish on the sector: These include: (1) The probability of below-trend growth in the US over the next 12-24 months is high as the economic cycle is maturing. This, in our view, will have a deleterious impact on Global 2000 corporations' sales growth - key driver of Indian IT sector's revenue growth. (2) We believe volume growth, pricing and margins are all likely to disappoint current consensus expectations amid intense competition because of convergence of capabilities and strategies among Tier-1 Indian players. (3) We see revenue cannibalisation from automation to accelerate as the entire industry is in a challenger-defender paradigm and some players have already factored in aggressive assumptions on gains from it and therefore have to deliver unless they want to witness material margin downside. (4) We do not believe digital business is material enough to offset the pressure one expects in traditional business. Besides we believe Indian industry is not getting a fair share of this business because of lower capabilities in consulting and design. (5) We see P/E multiple remaining compressed for the sector as revenue and earnings growth will be anaemic. We also expect return ratios to move down materially over FY17-FY19. (6) In the near term, we believe the changes to H1-B visa rules are likely to have a negative impact on the margins of the companies under our coverage over FY17-FY19 (H1-B Related Minimum Wage Increase – Material Damage Likely To Margins). Even if the minimum wage rule does not kick in, higher onsite hiring, higher onsite wage inflation, lower onsite utilisation and higher use of sub-contractors will damage margins. We expect RoIC to also move down in tandem.

1QFY18 result highlights and conference-call takeaways

Revenue growth at upper end of its guidance which was any way weak

- Wipro's IT services division posted sequential revenue growth of 0.3% in CC terms and 0.9% in reported US dollar or USD terms. This was above the company's guidance of -2%-0% growth in CC terms given post 4QFY17 results. Roughly 2% of the growth has come from additional months of Appirio acquisition.

Growth in verticals/service lines/geographies

- There was a mixed growth performance by verticals. BFSI Solutions grew 3.2% in CC terms, Consumer Business Unit was flattish and ENU grew 2.2% for the second time in a row after many quarters of decline. On the other hand, Healthcare and Life Sciences (HC& LS) slipped 3.1% QoQ, Communications declined 2.6% and Manufacturing and Hi-tech fell 0.9%.

Service Lines

- In service lines, the growth was driven by Analytics (3.8% QoQ, in reported USD terms), Application Services (1.1% QoQ), and Global Infrastructure Services (1.2% QoQ). There was 1.6 % QoQ decline in Business Process Services and 0.5 % QoQ decline in Product Engineering Services.

Geographies

- Among geographies, growth was driven by India and the Middle East which grew 5.1% followed by 2.6% QoQ in APAC and 0.2% QoQ growth in Americas, while Europe declined 2.6% QoQ in CC terms. Wipro stated that it is seeing very good signs in terms of restructuring of its India and Middle East businesses which in turn is bringing positive momentum to revenues as well as margins. As regards poor growth in its larger operational geographies, the management indicated that Americas was flattish (despite strong growth in its Top 10 accounts) because of ramp-down in several other accounts pertaining to Healthcare and Retail verticals and Europe declined 2.6% QoQ in CC terms because of its continued inability to replace some large European communication service provider contracts that expired in 3QFY17 & 4QFY17. However, the management expressed confidence of revival in these geographies based on deal wins and pipelines.

Divergent BFSI commentary vis-à-vis other Indian peers

- Wipro stated that it is seeing broad-based growth in the US BFSI sector which is led by Digital transformation-based spending by clients. Wipro highlighted that its investments in building cloud- based transformation (Appirio) and design capabilities (DesginIT) is helping it gain traction with clients and also stated that it has a pretty good pipeline. The commentary is at divergence with that provided by Indian peers like TCS and Infosys (having significantly larger presence in the US BFSI vertical) who indicated lack of spending by large US BFS clients. This could be a Wipro-specific phenomenon and is related to its client and sub-segment base. It is our belief that while spending is contracting on the traditional side, incremental spending is happening in the Digital space where Indian players are losing market share to players like Accenture and Cognizant Technology Solutions (CTS) and to global in-house captives of large clients because of behind-the-curve investments in building capabilities in consulting, user experience design, digital marketing, etc. We are not sure whether we want to club Wipro as yet in that category of winners at this point in time

Healthcare, Telecom & Retail expected to remain volatile:

- Wipro expects softness to continue in Healthcare, Retail and Telecom verticals in 2QFY18. While the expectations of softness in Telecom is because of its continued inability to replace some large European communication service provider contracts that expired in 3QFY17 & 4QFY17 (as similar commentary was given during 4QFY17 as well), weakness in Healthcare and Retail verticals was highlighted to be more of cyclical in nature. As regards HC&LS, Wipro stated that clients are less worried about repeal of ACA and are more worried about the present uncertainties in this space which are making them remain in the 'wait-and-watch' mode which in turn resulted in significant ramp-down of projects in this vertical in 1QFY18 and some impact of which is going to continue in 2QFY18 as well. Wipro, however, stated that if clarity emerged on regulations in future, it expects to capture a significant amount of market share because of its all-round capabilities in this space. However with recent developments on this front in the US where the 'replacement' part is unlikely to come through in the near term, we expect this vertical to remain under pressure in entire of FY18. As regards Retail, it stated that clients are not willing to spend because of structural issues in the industry but stated that it is seeing traction for its Digital services in this vertical. However, the size of deals is small.

ENU vertical

- For ENU vertical, it stated the market has now stabilised in terms of crude oil price which is expected to oscillate within a narrow band of US$45-US$55/barrel for some time now. It indicated that lot of organisations have re-budgeted and are increasing their Digital spending for reimagining their business. It expects continued traction in growth here. Infosys was sounding a tad more cautious on this vertical despite a good performance in 1QFY18 because of the recent volatility in crude oil price.

Guidance for 2QFY18 is weak but expects a strong exit to FY18

- Wipro stated that revenues in 2QFY18 will be in the range of US$1,927mn to US$1,967mn, implying a growth of -0.50% to 1.50% QoQ in CC terms. The revenue guidance includes revenues from 'Infoserver' (its recently acquired entity in Latin America). However, revenues from 'Infoserver' are small. The management stated that it has baked in uncertainty pertaining to HPS in this guidance.

- Slow growth in 2QFY18 stems from continued weakness in Retail, HC&LS and Telecom verticals, but Wipro reiterated that it aims to end FY18 with industry-leading or matching growth and stated that stable demand environment with increasing customer satisfaction, robust transformational deal inflow and deal pipeline and its continued efforts to address Wipro-specific challenges are giving it the confidence to end FY18 with industry-leading or matching growth. However, there was no definition of what exactly 'industry-matching/leading' meant. We believe this goal is unlikely to be achieved considering the number of verticals that seem to be under pressure in the market and in Wipro-specific circumstances.

Margin movement

- On margins, Wipro reiterated that it will try to maintain FY17 margins within a narrow band. This, however, does not include the currency volatility which may arise during the course of FY18.

- The margins in IT services business (not the overall company) were reported at 16.8%, down 160bps QoQ, which included 130bps negative impact on margins on account of INR appreciation and the rest because of lower employee utilisation and higher costs which were partially offset by improved India & ME businesses and improved operational efficiency largely stemming from automation.

- The management stated that margins in 2QFY18 will be impacted on account of: (1) wage hike for two extra months. (2) Appreciation of Indian rupee or INR. (3) Low revenue growth.

- The management stated that margin dilution in 1QFY18 & 2QFY18 will be recouped during the rest of the year through: (1) Synergy benefits of its 'Appirio' acquisition on both revenue and cost sides. (2) Completion of restructuring of India and Middle East businesses by 1QFY18. (3) Increase in operational efficiency with the help of hyper automation, crowd sourcing and execution of large programmes.

Strategic direction given by the new CEO

- Mr. Abidali Neemuchwala, CEO of Wipro, provided the outcome of its detailed six-theme strategy to achieve his aim of US$15bn in revenues by 2020. Key highlights are as follows:

  1. **Digital –** Wipro continues to win deals in this segment because of its full range of digital services and 'DesignIT' acquisition. Digital contributed 22.5% to total revenues in 1QFY18 versus 22.1% in 4QFY17. After training 39,600 employees in Digital technologies in FY17, Wipro trained additional 15,000 employees in 1QFY18. With this, Wipro has now trained >75,000 employees in Digital technologies.

  2. **Client mining –** Wipro was able to sequentially increase the number of clients by 2 in the US$50mn+ bracket in 1QFY18 and its revenues from Top 10 clients increased 4.5% sequentially in USD terms. Further, it highlighted that the growth in Top 10 clients is a result of its efforts in cross-selling and up-selling of its services

  3. **Geography-focused expansion –** The management highlighted that with increased local hiring in the US to reduce its dependence on visas, its local employee strength is now >50% from 35% about 18 months back. Wipro also stated that it plans to open a 'Digital Innovation' centre in California (the first outside India) and has built a facility to accommodate 7,000 employees in Mexico. Wipro also highlighted that it has been investing in STEM activities for creation of talent in the US which can later be absorbed into its own organisation. It also indicated that it now has >1,000 employees each across its local delivery centres in the states of Florida, California, Georgia and Texas.

4. **Non-linearity –** The management highlighted that Wipro Holmes is now being recognised by its clients and it has won several new deals. It has developed 47 new patents taking its total number of patents to 1,730. It also indicated that it invested US$46mn of the planned US$90mn in creating derivative IPs in 1QFY18 and is now signing contracts in which it is getting a increased percentage of the revenues (as a result of using its IP) from clients. The management indicated that the company's own IP namely 'Promax' has also helped it win a deal in the consumer space.

5. **Hyper automation –** Post saving 12,000 Level 1 FTEs worth of efforts with hyper automation in FY17, Wipro stated that it will now be concentrating on the Level 2 employees and highlighted that it was able to save 2,100 Level 2 FTE worth of efforts in 1QFY18. As regards the quantum of margin improvement because of savings of these level 2 FTEs, Wipro stated that employees in this rung need to be re-skilled for more advanced skills as a result of which the redeployment cycle of such employees is generally slow which result in decrease in utilisation in the short term (which was evident in 1QFY18 itself), but stated that savings of these efforts are going to help increase its margins significantly in the long run. The management also highlighted that while it was earlier able to provide 50% auto-resolution of Tickets (which involved Level 1 interface) with the help of its automation tools, it was now able to provide 42% auto-resolution of services (which involves Level 2 interface) with the help of its improved automation capabilities. Wipro also indicated that it was able to deploy 2,000 Wipro HOLMES bots across its customers in 1QFY18.

6. **Leveraging partner ecosystem –** Wipro stated that it has won 25 synergy wins in the cloud application space with the help of capabilities it acquired through Appirio. It mentioned that 'Infoserver' is helping it gain traction amongst BFSI clients in Latin America. Wipro also indicated that with help of its 12 investee companies in which it has invested close to US$24mn, it has been able to win 7 joint customer deals in 1QFY18.

Share buyback – largest among peers – could affect cash dividend

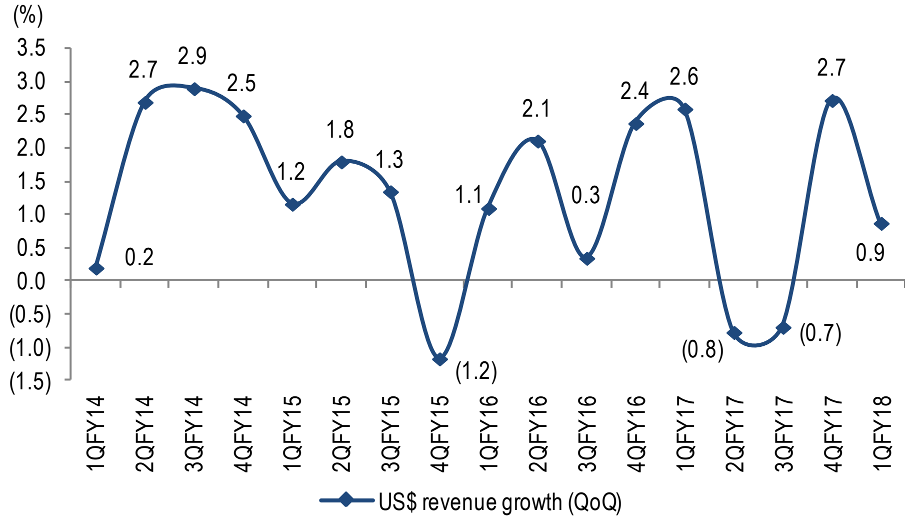
- Wipro has approved a proposal to buy back up to 343.75mn equity shares for an aggregate amount not exceeding Rs110bn, and which is ~7% of its total paid-up equity share capital, at Rs320/equity share. The buyback is proposed to be made to all existing shareholders of the company and is subject to approval of the shareholders by way of a special resolution through postal ballot as a result of which it may take time and the management highlighted that it may get completed by November 2017. The company stated that it plans to pay back 45%-50% of its earnings to shareholders on an average (including both dividend and stock buyback) and the payout percentage is applicable across a block of years and not an annual basis. This probably implies that because of the huge buyback – relative to its peers who have bought back 2%-4% of outstanding equity – the cash dividend paid out in FY18 and FY19 could get affected.

Miscellaneous

- Net employee utilisation rate (including trainees) decreased from 81.9% to 80.3% on QoQ basis because of larger redeployment cycle of its Level 2 employees.

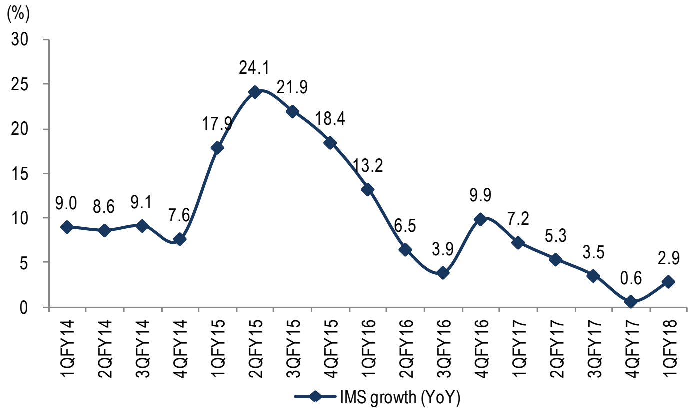
- The voluntary quarterly annualised attrition rate increased 130bps to 16.1% for the quarter because of seasonal trends.

Exhibit 3: USD revenue growth (QoQ)



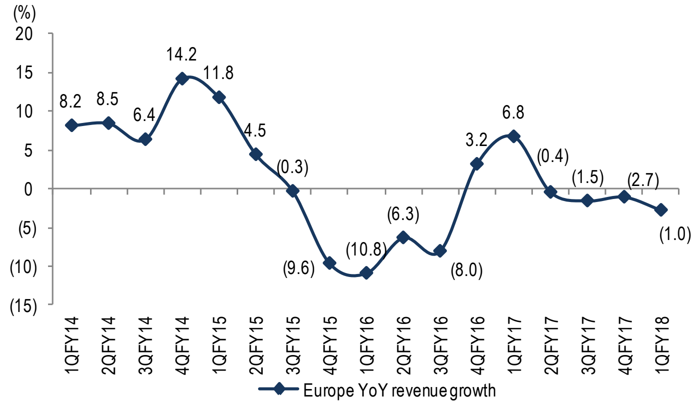
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: YoY growth in IMS revenue (USD terms) has been grinding to a halt. Losing Market share?



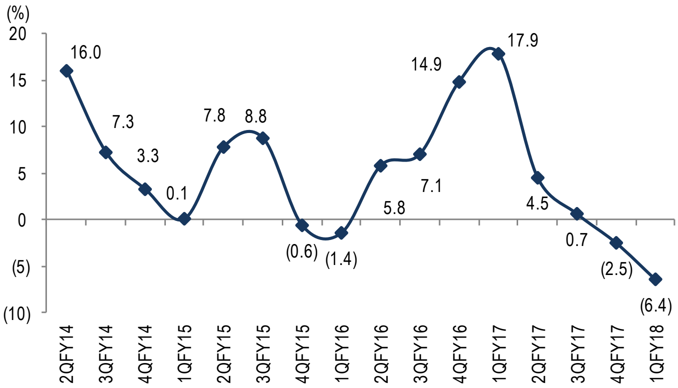
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: YoY Europe revenue growth (USD terms) is disappointing (lack of vertical breadth visible)



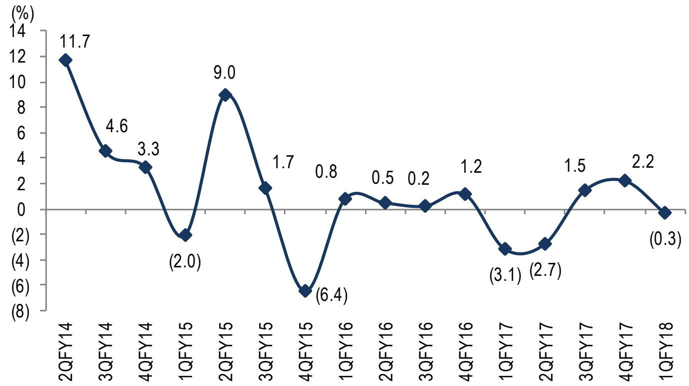
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Healthcare & Life Sciences vertical (USD terms) also has been showing weak QoQ growth



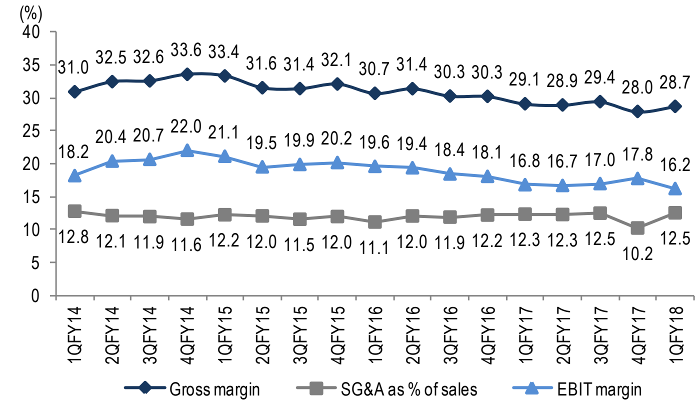
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Energy, Natural Resources and Utilities vertical's growth (US Terms) seems to have bottomed out



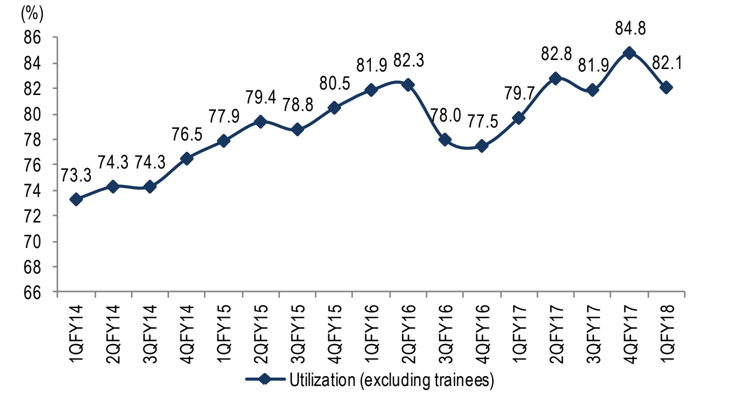
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Gross margin, SG&A expenses and EBIT margin trend - EBIT margin in a narrow band



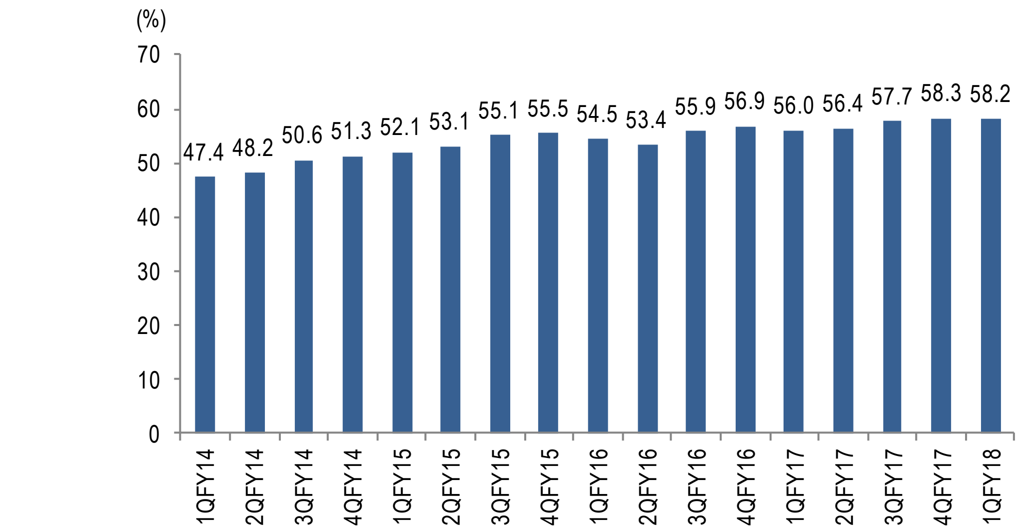
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Staff utilisation (ex-trainees) at close to peak



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Higher fixed-price engagements' share of revenues



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key metrics

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Revenues (US$mn)	1,794	1,832	1,838	1,882	1,931	1,916	1,903	1,955	1,972
EBIT (US$mn)	378	369	356	365	336	335	335	362	334
PAT (US$mn)	345	341	333	329	302	302	304	330	314
P&L (Rsmn)									
Revenues	122,376	125,135	129,516	137,417	135,992	137,657	136,878	139,875	136,261
EBITDA	27,035	27,416	27,347	28,498	27,512	27,820	28,645	24,828	22,093
PAT	21,917	22,409	22,341	22,350	20,518	20,672	21,094	22,611	20,765
Vertical mix (%)									
BFSI	*26.8*	*26.8*	*26.2*	*25.4*	*25.7*	*25.6*	*25.6*	*26.0*	*26.8*
HLS	*11.2*	*11.4*	*12.0*	*13.2*	*15.2*	*15.9*	*15.9*	*15.3*	*14.7*
RCTG	*15.0*	*16.2*	*15.6*	*15.4*	*15.8*	*15.8*	*15.7*	*15.8*	*15.8*
ENU	*15.2*	*14.7*	*14.4*	*14.0*	*13.2*	*12.9*	*13.0*	*13.1*	*13.4*
MFG	*18.6*	*23.4*	*18.4*	*18.8*	*22.5*	*22.4*	*22.4*	*22.9*	*22.5*
GMT	*13.2*	*7.6*	*13.4*	*13.1*	*7.6*	*7.5*	*7.4*	*6.9*	*6.8*
Horizontal mix (%)									
Global Infrastructure Services	*28.0*	*28.0*	*28.1*	*28.9*	*27.9*	*28.2*	*28.1*	*28.0*	*28.1*
Analytics and Information Management	*7.5*	*7.5*	*7.4*	*7.2*	*7.4*	*7.3*	*7.0*	*6.9*	*7.1*
Business Application Services	*47.5*	*46.8*	*46.7*	*45.3*	*44.7*	*43.8*	*44.4*	*45.7*	*45.8*
BPO	*9.3*	*9.8*	*9.8*	*10.6*	*12.9*	*13.4*	*13.3*	*12.3*	*12.0*
Product Engineering and Mobility	*7.7*	*7.9*	*8.0*	*8.0*	*7.1*	*7.3*	*7.2*	*7.1*	*7.0*
R&D	*10.3*	*10.5*	*10.4*	*10.3*	-	-	-	-	-
Consulting	*1.7*	*1.9*	*1.6*	*1.4*	-	-	-	-	-
Geographic mix (%)									
US	*52.5*	*53.0*	*52.8*	*52.5*	*53.5*	*54.8*	*55.5*	*54.9*	*54.5*
Europe	*25.6*	*25.2*	*24.8*	*25.6*	*25.4*	*24.0*	*23.6*	*24.4*	*24.2*
India & Middle East	*10.6*	*10.6*	*11.0*	*11.0*	*10.4*	*10.4*	*10.0*	*10.8*	*10.4*
APAC and Other Emerging Markets	*11.3*	*11.2*	*11.4*	*10.9*	*10.7*	*10.8*	*10.9*	*10.8*	*10.9*
Project type									
T&M	45.5	46.6	44.1	43.1	44.0	43.6	42.3	41.7	41.8
Fixed price	54.5	53.4	55.9	56.9	56.0	56.4	57.7	58.3	58.2
Staff utilisation (%) (gross)	***71.3***	***69.5***	***66.4***	***68.1***	***69.9***	***71.2***	***71.6***	***73.1***	***72***
Revenue mix-onsite	*54.6*	*53.9*	*53.8*	*54.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Revenue mix-offshore	*45.4*	*46.1*	*46.2*	*45.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Clients' concentration (%)									
Top client	*3.3*	*3.1*	*3.2*	*2.7*	*2.5*	*2.6*	*2.8*	*2.9*	*2.9*
Top 5 clients	*12.2*	*11.7*	*11.5*	*11.0*	*10.3*	*10.1*	*10.0*	*10.0*	*10.3*
Top 10 clients	*20.1*	*19.8*	*19.3*	*18.2*	*17.6*	*17.5*	*16.9*	*16.9*	*17.5*
Number of clients									
> US$100mn	10	10	9	9	9	8	9	9	9
> US$75mn	17	17	17	18	19	19	17	18	18
> US$50mn	30	31	32	33	33	33	33	34	36
> US$20mn	86	85	85	89	91	91	90	91	90
>US $10mn	151	154	154	160	170	171	170	163	163
> US$5mn	244	244	247	248	252	258	264	268	262
> US$3mn	314	321	325	331	336	341	349	354	357
> US$1mn	537	533	536	550	565	571	576	602	624
Employees	161,789	168,396	170,664	172,912	173,863	174,238	179,129	181,482	180,250
Attrition (%)	16.4	16.8	16.3	14.9	17.9	17.2	15.4	14.8	16.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Quarterly snapshot

(Rsmn)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Revenue	125,135	129,516	137,417	135,992	137,657	136878	139875	136261
Gross margin	39,311	39,246	41,574	39,603	39,849	40,302	39,104	39,150
SG&A expenses	15,595	15,372	16,738	17,740	18,159	17,836	19,103	17,410
EBIT	23,716	23,874	24,836	22,847	22,971	23,233	24,828	22,093
Other income (net)	4,729	4,804	4,333	3,864	3,677	4,353	4,583	4,725
PBT	28,445	28,678	29,169	26,711	26,648	27,586	29,411	26,818
Tax	6,515	6,248	6,626	6,122	5,909	6,440	6,742	5,994
Minority interest	(54)	(89)	(193)	(71)	(67)	(52)	(58)	(59)
PAT	21,876	22,341	22,350	20,518	20,672	21,094	22,611	20,765
YoY growth (%)								
Revenue	*5.9*	*7.2*	*12.9*	*11.1*	*10.0*	*5.7*	*1.8*	*0.2*
Gross profit	*5.4*	*3.3*	*6.3*	*5.4*	*1.4*	*2.7*	*(5.9)*	*(1.1)*
EBIT	*2.8*	*(0.7)*	*1.1*	*0.9*	*(3.1)*	*(2.7)*	*-*	*(3.3)*
Net profit	*4.9*	*1.9*	*(1.6)*	*(0.3)*	*(5.5)*	*(5.6)*	*1.2*	*1.2*
QoQ growth (%)								
Revenue	*2.3*	*3.5*	*6.1*	*(1.0)*	*1.2*	*(0.6)*	*2.2*	*(2.6)*
EBIT	*4.7*	*0.7*	*4.0*	*(8.0)*	*0.5*	*1.1*	*6.9*	*(11.0)*
Net profit	*6.3*	*2.1*	*-*	*(8.2)*	*0.8*	*2.0*	*7.2*	*(8.2)*
Margins (%)								
Gross margin	*31.4*	*30.3*	*30.3*	*29.1*	*28.9*	*29.4*	*28.0*	*28.7*
SG&A expenses	*12.5*	*11.9*	*12.2*	*13.0*	*13.2*	*13.0*	*13.7*	*12.8*
EBIT	*19.0*	*18.4*	*18.1*	*16.8*	*16.7*	*17.0*	*17.8*	*16.2*
PAT	*17.5*	*17.2*	*16.3*	*15.1*	*15.0*	*15.4*	*16.2*	*15.2*

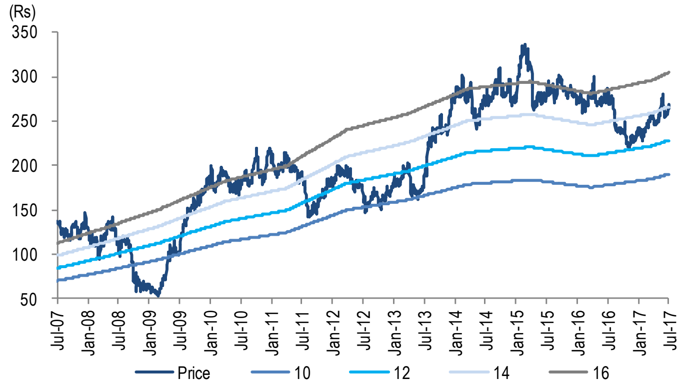
Source: Company, Nirmal Bang Institutional Equities Research

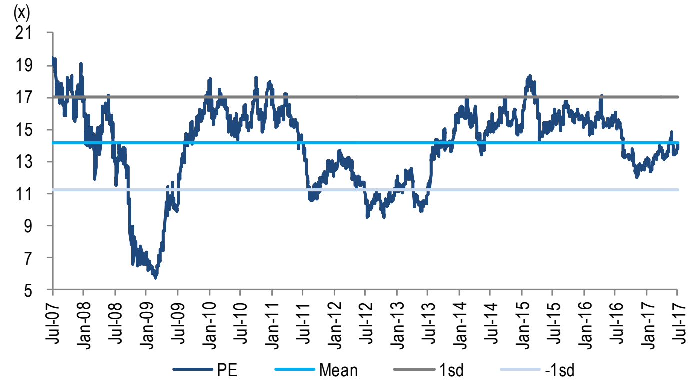
Exhibit 13: QoQ and YoY growth of various parameters

	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
QoQ Growth (%)																	
Horizontal Service Lines																	
Technology Infrastructure Services	(3.1)	3.1	5.1	2.5	6.2	8.6	3.2	(0.5)	1.5	2.1	0.7	5.3	(1.0)	0.3	(1.0)	2.4	1.2
Analytics and Information Management	(100.0)	0.0	0.0	0.0	0.0	3.2	(1.5)	0.2	6.8	2.1	(1.0)	(0.4)	5.4	(2.1)	(4.8)	1.3	3.8
Business Application Services	(9.7)	4.1	1.8	2.9	80.3	(1.0)	(0.1)	(2.6)	0.0	0.6	0.1	(0.7)	1.2	(2.8)	0.7	5.7	1.1
BPO	0.2	0.4	4.1	13.1	2.2	(3.4)	4.7	(2.2)	0.0	7.6	0.3	10.7	24.9	3.1	(1.4)	(5.0)	(1.6)
Product Engineering and Mobility	(3.8)	2.7	4.3	1.1	(3.1)	3.3	2.8	5.8	2.4	4.8	1.6	2.4	(8.9)	2.0	(2.0)	1.3	(0.5)
R&D Business	(1.7)	6.7	(2.0)	(0.6)	(1.9)	3.9	2.4	2.9	2.1	4.1	(0.6)	1.4	-	-	-	-	-
Consulting	4.4	2.7	(1.2)	(6.1)	(8.0)	1.8	(3.7)	(6.4)	(4.5)	14.1	(15.5)	(10.4)	-	-	-	-	-
Vertical Wise																	
Communications	(1.3)	5.0	1.4	4.0	4.1	(1.0)	0.6	(3.3)	(1.1)	3.7	0.3	0.1	(40.5)	(2.1)	(2.0)	(4.2)	(0.6)
Finance Solutions	1.0	2.3	2.9	4.0	0.8	(0.9)	0.2	1.9	2.2	1.7	(1.5)	(0.7)	3.4	(1.2)	(0.7)	4.7	3.6
Manufacturing and Technology	(0.8)	2.2	0.7	(0.8)	2.3	1.8	1.9	(1.2)	2.8	2.7	(1.3)	4.6	22.8	(1.2)	(1.1)	5.0	(0.5)
Healthcare, Life sciences and Services	(2.8)	5.8	8.0	2.5	3.1	5.6	5.9	(1.2)	(3.2)	3.9	5.6	13.5	18.0	3.8	(0.7)	(1.1)	(3.1)
Consumer	0.2	0.7	1.5	1.8	(2.3)	1.1	2.8	1.6	4.6	2.8	3.7	1.1	5.3	(1.4)	(0.1)	2.7	0.9
Energy. Natural Resources and Utilities	3.5	2.0	4.9	3.1	(0.1)	6.9	(1.1)	(6.6)	(0.9)	(1.2)	(1.7)	(0.5)	(3.3)	(3.0)	0.1	3.5	3.2
Geography-wise																	
Americas	(0.6)	2.9	3.1	2.7	0.8	4.3	2.1	(0.6)	2.7	3.1	(0.0)	1.8	4.5	1.6	0.6	1.6	0.1
Europe	2.0	2.3	5.4	3.9	(0.2)	(4.4)	0.6	(5.8)	(1.6)	0.5	(1.2)	5.7	1.8	(6.2)	(2.3)	6.2	0.0
India & Middle East	(6.2)	(3.1)	5.4	6.1	4.6	2.9	5.8	10.2	0.2	2.1	4.1	2.4	(3.0)	(0.8)	(4.5)	10.9	(2.9)
APAC and Other Emerging Markets	4.4	6.8	(5.0)	(4.3)	3.9	6.2	(3.7)	(2.0)	1.1	1.2	2.1	(2.1)	0.7	0.2	0.2	1.8	1.8
Non Americas Total	1.0	2.5	2.7	2.3	1.6	(0.6)	0.5	(1.8)	(0.6)	1.0	0.8	3.0	0.4	(3.5)	(2.2)	6.2	(0.2)
Customer Concentration																	
Top customer	5.5	5.7	(0.2)	1.2	1.8	(4.1)	7.3	1.1	(11.3)	(5.7)	5.7	(13.4)	(8.1)	3.3	10.6	4.5	1.5
Top 5	7.4	4.4	4.7	(1.0)	(1.9)	(2.4)	(2.7)	0.3	(1.1)	(3.8)	0.6	(1.9)	(7.1)	(2.6)	1.7	0.9	4.5
Top 10	5.5	4.3	3.4	(0.6)	(1.8)	(0.0)	(3.5)	(0.8)	(0.4)	(1.1)	(0.2)	(3.3)	(4.0)	(1.3)	(0.8)	0.9	5.1
YoY Growth (%)																	
Horizontal Service Lines																	
Technology Infrastructure Services	9.0	8.6	9.1	7.6	17.9	24.1	21.9	18.4	13.2	6.5	3.9	9.9	7.2	5.3	3.5	0.6	2.9
Analytics and Information Management	(100.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.9	7.7	8.2	7.6	6.2	1.8	(2.1)	(0.5)	(2.0)
Business Application Services	(3.3)	(1.0)	(3.8)	(1.5)	96.7	86.9	83.4	73.7	(3.6)	(2.0)	(1.8)	0.1	1.3	(2.1)	(1.6)	4.8	4.6
BPO	9.8	4.7	5.2	18.4	20.8	16.2	16.8	1.0	(1.2)	10.2	5.6	19.6	49.3	43.0	40.5	20.5	(5.0)
Product Engineering and Mobility	(11.2)	(7.0)	3.6	4.2	5.0	5.6	4.0	8.9	15.0	16.7	15.4	11.6	(0.8)	(3.4)	(6.8)	(7.8)	0.7
R&D Business	(10.9)	(3.3)	3.3	2.3	2.0	(0.6)	3.8	7.4	11.8	11.9	8.7	7.1	-	-	-	-	-
Consulting	4.9	10.3	11.0	(0.5)	(12.3)	(13.1)	(15.3)	(15.6)	(12.4)	(1.8)	(13.8)	(17.5)	-	-	-	-	-
Vertical Wise (New from Q1FY11)																	
Communications	(4.3)	2.2	2.0	9.3	15.2	8.6	7.8	0.2	(4.8)	(0.3)	(0.6)	2.9	(38.0)	(41.5)	(42.8)	(45.3)	(8.6)
Finance Solutions	5.2	3.5	4.4	10.6	10.4	7.0	4.1	2.0	3.5	6.2	4.4	1.7	2.8	(0.1)	0.7	6.3	6.5
Manufacturing and Technology	3.2	5.9	5.8	1.2	4.4	4.0	5.2	4.9	5.4	6.3	2.9	9.0	30.2	25.3	25.4	26.0	2.1
Healthcare, Life sciences and Services	1.7	12.6	13.9	13.9	20.7	20.4	18.1	13.9	6.9	5.3	5.0	20.6	47.0	46.8	38.0	20.3	(1.2)
Consumer	5.6	4.5	2.9	4.2	1.6	2.0	3.3	3.2	10.5	12.3	13.3	12.6	13.4	8.7	4.8	6.6	2.1
Energy. Natural Resources and Utilities	17.4	10.8	13.5	14.2	10.3	15.5	9.0	(1.3)	(2.1)	(9.5)	(10.1)	(4.2)	(6.5)	(8.2)	(6.6)	(2.8)	3.7
Geography-wise																	
Americas	1.0	2.4	6.4	8.3	9.8	11.2	10.2	6.7	8.7	7.5	5.2	7.7	9.7	8.1	8.8	8.6	4.0
Europe	8.2	8.5	6.4	14.2	11.8	4.5	(0.3)	(9.6)	(10.8)	(6.3)	(8.0)	3.2	6.8	(0.4)	(1.5)	(1.0)	(2.7)
India & Middle East	4.9	2.2	2.8	1.6	13.3	20.4	20.8	25.4	20.1	19.1	17.3	9.0	5.6	2.6	(5.9)	2.0	2.1
APAC and Other Emerging Markets	14.0	17.6	9.1	1.3	0.8	0.3	1.6	4.1	1.3	(3.5)	2.4	2.3	1.9	0.9	(1.0)	2.9	4.0
Non Americas Total	9.0	9.6	6.4	8.7	9.3	6.0	3.8	(0.4)	(2.5)	(0.8)	(0.6)	4.3	5.4	0.6	(2.4)	0.6	(0.1)
Customer Concentration																	
Top customer	11.9	15.5	25.5	12.6	8.6	(1.5)	5.9	5.9	(7.8)	(9.3)	(10.7)	(23.5)	(20.8)	(13.2)	(9.1)	9.7	21.2
Top 5	18.9	13.8	16.7	16.3	6.2	(0.7)	(7.7)	(6.6)	(5.9)	(7.1)	(4.0)	(6.0)	(11.7)	(10.6)	(9.7)	(7.2)	4.5
Top 10	14.0	8.8	11.4	13.1	5.2	0.9	(5.8)	(6.0)	(4.7)	(5.7)	(2.5)	(4.9)	(8.4)	(8.5)	(9.1)	(5.2)	3.9

Source: Nirmal Bang Institutional Equities Research

Exhibit 14: P/E charts





Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 15: Income statement

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Average INR/USD	**61.8**	**66.1**	**68.6**	**66.8**	**68.0**
Net Sales - IT Services (USD	**7,082**	**7,346**	**7,704**	**8,076**	**8,517**
-Growth (%)	***7.0***	***3.7***	***4.9***	***4.8***	***5.5***
Net Sales - Overall	**473**	**514**	**550**	**565**	**606**
-Growth (%)	*8.1*	*8.7*	*7.0*	*2.6*	*7.3*
Cost of Sales & Services	321	357	392	404	439
% of sales	*67.9*	*69.3*	*71.1*	*71.5*	*72.4*
Gross profit	152	158	159	161	167
% of sales	*32.1*	*30.7*	*28.9*	*28.5*	*27.6*
SG& A	56	63	73	72	72
% of sales	*11.9*	*12.2*	*13.2*	*12.7*	*11.9*
EBIT	**95**	**97**	**94**	**91**	**97**
% of sales	***20.2***	***18.8***	***17.1***	***16.2***	***16.0***
Interest expenses	4	6	5	6	6
Other income (net)	20	23	22	27	29
PBT	112	115	110	112	120
-PBT margin (%)	*23.6*	*22.3*	*20.1*	*19.8*	*19.8*
Provision for tax	25	25	25	26	28
Effective tax rate (%)	*22.0*	*22.1*	*22.8*	*22.8*	*23.0*
Minority Interest	0.5	0.5	0.2	0.2	0.2
Net profit	**87**	**89**	**85**	**86**	**92**
-Growth (%)	*11.0*	*2.9*	*(4.6)*	*1.6*	*6.7*
-Net profit margin (%)	*18.3*	*17.3*	*15.4*	*15.3*	*15.2*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance sheet

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Equity capital	5	5	5	10	10
Reserves & surplus	405	462	518	564	615
Net worth	410	467	523	574	625
Deferred tax liability, net	0	1	4	4	4
Other liabilities	10	16	15	13	13
Total loans	13	17	20	32	32
Total liabilities	**433**	**501**	**561**	**623**	**674**
Goodwill	68	102	126	126	126
Other intangible assets	8	16	16	16	16
Net block	54	65	70	86	106
Investments	58	209	299	217	217
Other non-current assets	27	28	29	34	34
Unbilled revenue	42	48	45	51	53
Inventories	5	5	4	3	3
Other current assets	85	46	50	48	50
Debtors	92	101	99	111	117
Cash & bank balance	159	99	53	172	199
Total current assets	383	300	251	386	422
Total current liabilities	164	219	230	242	248
Net current assets	219	81	21	144	174
Total assets	**433**	**501**	**561**	**623**	**674**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Cash flow

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
EBIT	95	97	94	91	97
(Inc.)/dec. in working capital	(37)	37	4	(3)	(4)
Cash flow from operations	58	134	97	88	93
Other income	20	23	22	27	29
Depreciation & amortisation	13	13	15	0	0
Financial expenses	(4)	(6)	(5)	(6)	(6)
Tax paid	(25)	(25)	(25)	(26)	(28)
Dividends paid	(30)	(34)	(30)	(35)	(41)
Net cash from operations	**32**	**106**	**74**	**49**	**47**
Capital expenditure	(8)	(23)	(12)	(15)	(20)
Net cash after capex	24	83	61	34	27
Inc./(dec.) in debt	27	46	17	4	0
(Inc.)/dec. in investments	5	(151)	(90)	82	0
Equity issue/(buyback)	0	0	(0)	5	0
Cash from financial activities	**33**	**(105)**	**(73)**	**90**	**0**
Others	(12)	(38)	(35)	(5)	
Opening cash	114	159	99	53	172
Closing cash	159	99	53	172	199
Change in cash	45	(60)	(46)	119	27

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
Per share (Rs)					
EPS	17.9	18.4	17.6	18.5	20.4
FDEPS	17.8	18.4	17.5	18.5	20.4
Dividend Per Share	6.7	7.5	6.6	7.7	9.2
Dividend Yield (%)	2.5	2.8	2.5	2.8	3.4
Book Value	91	104	116	127	139
Dividend Payout Ratio	35.0	38.1	35.0	40.0	45.0
Return ratios (%)					
RoE	22.9	20.3	17.1	15.7	15.4
RoCE	19.7	17.1	14.9	13.2	11.9
ROIC	34.3	31.8	29.7	26.7	24.5
Tunover Ratios					
Asset Turnover Ratio	0.8	0.7	0.7	0.6	0.7
Debtor Days (incl. unbilled Rev)	103	106	95	105	102
Working Capital Cycle Days	96	62	56	56	55
Valuation ratios (x)					
PER	14.0	13.6	14.3	14.1	13.2
P/BV	3.0	2.6	2.3	2.1	1.9
EV/EBTDA	11.3	10.7	10.8	10.7	9.8
EV/Sales	2.3	2.0	1.8	1.7	1.6
M-cap/Sales	2.6	2.4	2.2	2.1	2.0

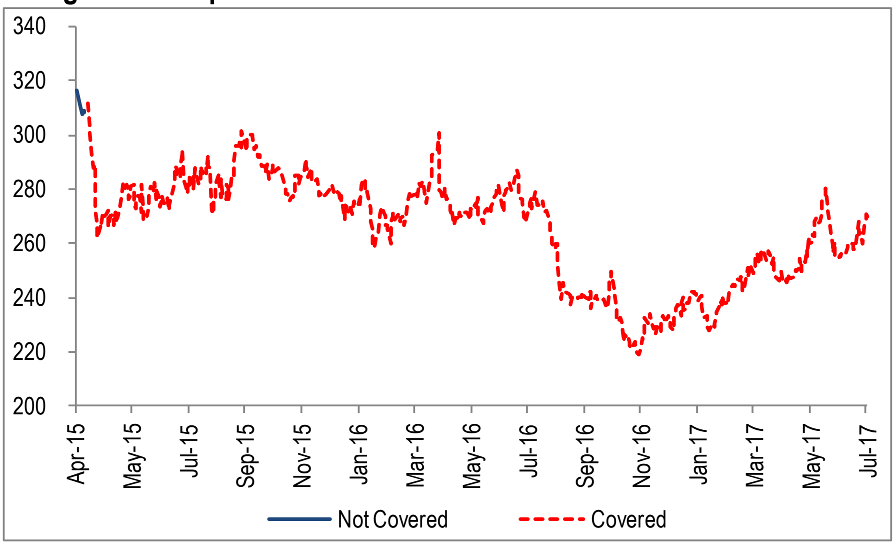
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 April 2015	Sell	618	576
22 April 2015	Sell	588	546
24 July 2015	Sell	588	548
30 September 2015	Sell	587	546
23 October 2015	Sell	578	544
8 January 2016	Under Review	556	-
19 January 2016	Under Review	549	-
14 March 2016	Sell	540	498
21 April 2016	Sell	601	489
20 July 2016	Sell	549	478
24 October 2016	Sell	499	436
10 January 2017	Sell	472	410
27 January 2017	Sell	474	413
14 February 2017	Sell	474	427
26 April 2017	Sell	495	437
21 June 2017*	Sell	254	197
21 July 2017	Sell	269	235

* Post 1:1 Bonus

Rating Track Graph



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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