

Wipro

18 April 2019

Reuters: WIPR.BO; Bloomberg: WPRO IN

FY20 Seen Better Than FY19, But Not Good Enough To Drive A Re-rating

Wipro IT services delivered (adjusted for divestitures and carve outs) YoY growth of 5.4% in FY19, which has been the best in four years. Wipro has not been able to deliver smoother and at-par-with-industry growth because of sector, client and restructuring-related problems during a large part of this decade. FY19 probably marks the first year when it has been able to get its act together somewhat – on growth and on margins. Its margin improvement has been the positive surprise of FY19. Wipro is hinting at improving growth and margins a bit more in FY20. We believe its performance could still fall short of that of peers like TCS, Infosys and HCLT. Unlike its other three peers, Wipro has somehow not been able to balance profitable growth with the continual restructuring/repositioning that is a must in an ever changing technology/business services market. Its QoQ growth of 1% in constant currency (CC) terms in 4QFY19 was within its guidance of 0%-2% but a tad below our estimate of 1.5%, validating macro concerns expressed in 3QFY19, when it was the first Tier-I IT player to talk about them. YoY growth was 6.9% in CC terms. QoQ growth was driven by Consumer, Healthcare and BFSI verticals (5.3%/2.1%/1.3%, respectively). YoY growth was driven by BFSI (15.9%), Consumer Business unit (~14.8%) and ENU (9.4%) verticals. BFSI growth is expected to cool off a tad in FY20 compared to FY19. The muted growth in 4QFY19 was due to (1) QoQ decline in verticals like Manufacturing, Technology and Communications. (2) Pushing back of a few BFSI contracts to FY20. (3) Contraction in Europe. EBIT margin at 19% (in IT services) was a positive surprise against our estimate of ~18.7%, despite additional monetary intervention starting 1 January 2019 to curb attrition. This was achieved because of: (1) Lower SG&A expenses, which stood at 10.5% of revenues in 4QFY19 against 11.9% in 3QFY19, especially because of optimisation in G&A costs. (2) Saving in efforts by increasing automation in fixed-price projects (up significantly QoQ). (3) Increase in employee utilisation on QoQ basis. Also, headwinds of talent crunch, increase in salaries, continued investments, increased competition, appreciating Indian rupee and a more localised workforce with likely higher bench costs will impact margins negatively in 1QFY20 on QoQ basis. Post 4QFY19, we have lowered our IT services revenue estimates for FY20/FY21 a tad but kept margin estimates broadly constant. Our EPS numbers are adjusted for the reduced number of shares after the buyback (The board announced a share buyback worth Rs105bn which would lead to reduction in outstanding shares by ~5.35%). We retain our Sell rating on Wipro with a target price of Rs219 (using 11.6x target P/E based on FY21E EPS, 30% discount to the target P/E assigned to TCS). Our Sell rating on Wipro is explained by our estimate of a no-growth year in FY21 for the sector as we expect global spending to soften. We believe our target P/E multiple is justified on the basis that Wipro has lagged on organic growth, has less diversified revenue streams and also has lower return ratios versus TCS.

Muted 1QFY20 guidance: Wipro has historically had a seasonally weak 1Q because of India and SI focus of its business which used to get bunched up in 4Q of any year. However post restructuring, in 1QFY20, Wipro's guidance of -1% to +1% QoQ growth in CC terms (excluding divestment impact of Workday and Cornerstone on-demand business) is based on: (1) Macro uncertainties both in the US and Europe leading to some BFS players, especially in the capital markets area, pushing back spending. (2) Productivity clauses-related compression in some legacy run-the-business services contracts. (3) Delay in follow-on digital projects by customers.

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	4QFY19E	Dev (%)
IT Services Revenue (USD mn)	2,013	2,047	2,076	3.1	1.4	2,083	(0.4)
Net Sales	137,686	150,595	150,063	9.0	(0.4)	150,719	(0.4)
Employee Costs	97,794	103,971	106,942	9.4	2.9	102,365	4.5
% of Sales	71.0	69.0	71.3	-	-	67.9	-
Other Expenditure	21,064	18,867	17,663	(16.1)	(6.4)	20,187	(12.5)
% of Sales	15.3	12.5	11.8	-	-	13.4	-
Forex Gain / (Loss)	557	911	316	-	(65.3)	0	-
Other Operating Income	-	-	1,546	-	-	0	-
EBIT	19,385	28,668	27,320	40.9	(4.7)	28,167	(3.0)
EBIT Margin (%)	14.1	19.0	18.2	-	-	18.7	-
Other Income	3,236	3,742	4,681	44.7	25.1	4,656	0.5
PBT	22,621	32,410	32,001	41.5	(1.3)	32,824	(2.5)
Provision for Tax	4,615	6,966	7,064	53.1	1.4	7,221	(2.2)
Effective Tax Rate (%)	20.4	21.5	22.1	-	-	22.0	-
Minority share in Profit / Loss	22	(341)	(104)	(572.7)	(69.5)	0	-
PAT (Reported)	18,028	25,103	24,833	37.7	(1.1)	25,603	(3.0)
NPM (%)	13.1	16.7	16.5	-	-	17.0	-

Source: Company, Nirmal Bang Institutional Equities Research

SELL

Sector: Information Technology

CMP: Rs282

Target Price: Rs219

Downside: 22%

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Key Data

Current Shares O/S (mn)	6,033.9
Mkt Cap (Rsb/US\$bn)	1,694.9/24.3
52 Wk H / L (Rs)	297/190
Daily Vol. (3M NSE Avg.)	9,596,121

Price Performance (%)

	1 M	6 M	1 Yr
Wipro	9.0	15.9	28.0
Nifty Index	3.2	12.8	11.7

Source: Bloomberg

Exhibit 1: Key financials

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
Revenue (Rsbn)	550	545	586	636	643
YoY Growth (%)	7.0	(1.0)	7.5	8.6	1.1
EBIT (Rsbn)	94	84	100	117	115
EBIT (%)	17.1	15.5	17.1	18.3	17.9
Adj. PAT (Rsbn)	85	80	90	106	108
YoY Growth (%)	(4.6)	(5.7)	12.4	17.6	1.9
FDEPS (Rs)	17.5	16.8	18.6	18.4	19.0
RoE (%)	17.1	15.9	17.0	17.8	16.7
RoCE (%)	14.4	12.7	15.0	16.3	15.1
Pre Tax RoIC (%)	28.8	24.5	30.4	37.0	36.8
P/E (x)	16.1	16.8	15.2	15.3	14.9
P/BV (x)	3.1	3.3	2.8	2.6	2.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

Change in estimates	New			Old			Change (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
INR/USD	70.0	72.0	74.5	70.0	72.0	74.5	0.1	-	-
IT Services USD Revenues (US\$m)	8,190	8,618	8,423	8,191	8,667	8,430	(0.0)	(0.6)	(0.1)
Revenue (Rsbn)	586	636	643	585	639	643	0.1	(0.5)	(0.0)
EBIT (Rsbn)	100	117	115	99	117	115	0.6	(0.3)	0.5
EBIT Margin (%)	17.1	18.3	17.9	17.0	18.3	17.8	-	-	-
PAT (Rsbn)	90	106	108	90	107	109	0.4	(1.3)	(1.2)
FDEPS (Rs)	18.6	18.4	19.0	18.5	17.8	18.1	0.4	3.2	4.7

Source: Company, Nirmal Bang Institutional Equities Research

View on Indian IT services sector: We downgraded the Indian IT sector (see our report: [Street Is Not Factoring Even A Soft Landing; We Downgrade](#)) on 27 December 2018 based on: (1) Consensus not factoring in significantly softer growth in FY21 as the best demand environment since 2008-09 is largely behind us with corporate capex in both the US and Europe likely to have peaked in 2018. (2) The US BFSI space could witness pressure on margins from a flattened/inverted yield curve and probably a more hostile regulatory environment through a split Congress in the US. (3) Pressure on cost structure because of tariffs levied on imports from China impacting US manufacturers. (4) Front-office capabilities in digital still elusive for Indian IT services players, leading to inability to tap into the marketing budgets of customers in a material way. The focus has been on the technology-intensive back-end of digital where we believe the field is relatively more crowded. (5) 'Automation at scale' in legacy services eating into growth coming in from new services. This is driven by explosive growth in both intelligent and robotic process automation software industry. (6) Factoring in lower INR depreciation benefits than estimated earlier (Refer: [Incorporating New INR Estimate](#)). (7) Capital return to shareholders not being as potent a stock driver as it was earlier as the cash hoard is shrinking after two to three rounds of buyback over the past three years. (8) Talent pressure in the US in new-age services because of a tighter H1-B visa regime. We were planning the downgrade a quarter or two down the road, but the global macro set-up has turned weaker far more quickly than we anticipated, hastening this move. While some of the 'relative' factors such as investor positioning, valuation, earnings revision momentum - partly the reasons for turning 'tactically positive in March 2018 - still exist, we believe they are unlikely to carry as much importance with investors as deteriorating fundamentals would over FY19-FY21. While many of our competitors are expecting a better FY20 versus FY19, we believe that is unlikely. We probably had the best macro environment that the industry has seen in the past 10 years in 2018 and incrementally we only see a deterioration which should crimp spending by customers. More importantly, we reiterate our no-industry-growth-in-FY21 call initiated in March 2018. We base this scenario on an explicit expectation of a soft landing in the US (0%-1.5% real GDP growth) in 2020. We believe consensus is expecting mid-high single-digit revenue growth in FY21 for the industry, implicitly assuming continued robust growth in the US (2%-2.5%). It is our belief that the street will converge with our no-growth expectations over time. Until the market prices in this scenario, we believe technical factors are not likely to hold the sector up. A hard landing (recession) - not our current base case - could lead to single-digit negative growth for the sector. Just as outperformance of the sector in 2018 was driven largely by P/E multiple expansion in the belief that growth is going to accelerate, we believe the downside in 2019 will be driven by P/E multiple deflation as investors begin to re-calibrate growth expectations lower over FY19-FY21. We prefer large-caps over mid-caps. The faster growth shown by select mid-caps is a case of 'rising tide lifting all boats', a smaller base and lower exposure to legacy services. But as digital demand shifts from the front to back, we believe that traditional large Indian companies will be in a better position to capture the market. We would advise investors to focus on sustainability and not overpay for a riskier business model - some companies have seen client concentration rising over the past two years.

Exhibit 3: Vertical-based USD QoQ and YoY revenue growth in 4QFY19

Verticals	Contribution to Revenue (%)	Growth-QoQ (%)	Growth-YoY (%)
Communications	5.7	(0.3)	(1.1)
Finance Solutions	31.5	1.7	8.6
Manufacturing and Technology	20.6	(1.0)	(9.8)
Healthcare, Life sciences and Services	13.2	2.2	(4.4)
Consumer Business Unit	16.2	5.3	4.5
Energy, Natural Resources and Utilities	12.8	(0.1)	3.1
Total	100.00	1.4	3.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Practice-based USD QoQ and YoY revenue growth in 4QFY19

Practices	Contribution to Revenue	Growth-QoQ (%)	Growth-YoY (%)
Global Infrastructure services	25.2	2.2	(11.9)
Analytics and Information Management	7.6	1.4	9.3
Business Application Services	45.1	0.3	1.3
BPO	14.9	2.8	23.9
Product Engineering and Mobility	7.2	2.8	(0.7)
Total	100.0	1.4	3.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Geography-based USD QoQ and YoY revenue growth in 4QFY19

Geographies	Contribution to Revenue	Growth-QoQ (%)	Growth-YoY (%)
Americas	58.2	3.4	11.2
Europe	24.6	(2.2)	(8.3)
ROW	17.2	0.0	(0.1)
Total	100	1.4	3.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Vertical-based CC QoQ and YoY revenue growth in 4QFY19

Verticals	Contribution to Revenue (%)	Growth-QoQ (%)	Growth-YoY (%)
Communications	5.7	(1.2)	3.2
Finance Solutions	31.5	1.3	15.9
Manufacturing and Technology	20.6	(2.7)	(8.5)
Healthcare, Life sciences and Services	13.2	2.1	(2.3)
Consumer Business Unit	16.2	5.3	14.8
Energy, Natural Resources and Utilities	12.8	(0.7)	9.4
Total	100.00	1.0	6.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Geography-based CC QoQ and YoY revenue growth in 4QFY19

Geographies	Contribution to Revenue	Growth-QoQ (%)	Growth-YoY (%)
Americas	58.2	3.1	14.2
Europe	24.6	(3.0)	(2.6)
ROW	17.2	0.3	0.2
Total	100.0	1.0	6.9

Source: Company, Nirmal Bang Institutional Equities Research

4QFY19 result highlights and conference-call takeaways

- Vertical overview:** Three out of seven verticals grew faster than the company in 4QFY19 (>1% QoQ in CC terms). These include BFSI, Consumer Business Unit and Health Business Unit which grew 1.3%/5.3%/2.1%, respectively. Four verticals witnessed a decline in CC terms, QoQ. Communications, Energy and Utilities, Manufacturing and Technology declined 1.2%, 0.7%/0.7%/2%, respectively. YoY growth was driven by BFSI, Consumer Business Unit and Energy and Utilities verticals, which grew 15.9%/14.8%/9.4%, respectively, YoY. Wipro indicated that the strong growth seen by BFSI in FY19 would likely cool off a bit in FY20.
- Geographic overview:** In 4QFY19, Wipro witnessed growth of 14.2% YoY and 3.1% QoQ in CC terms coming from Americas. Europe witnessed a contraction of 2.6% YoY and 3% QoQ as Wipro always had lower penetration in Europe. The company stopped reporting the performance of APAC, India and Middle-Eastern businesses separately and clubbed them together in Rest of the World segment in 3QFY19. This was done as Wipro had decided to carve out India State-Run Enterprises (ISRE) in 3QFY19 as it felt that it had business momentum and characteristics which were very different from that of its global IT services business. The India business (largely IT services provided to private sector) continues to remain slightly volatile as the restructuring and transformation is undertaken.
- Communication business turning volatile:** In 4QFY19, this vertical posted a decline of 1.2% QoQ against a decent growth of 2.1% on QoQ basis in 3QFY19. The muted YoY growth in Communication vertical stood at 3.2% in CC terms. In 2Q, the management had indicated a turnaround in this vertical backed by opportunities around 5G, digital transformation and new client acquisitions in a couple of new markets, but had also warned regarding patchy growth. It may take few more quarters before growth gets back on the smooth trajectory. The management has not been able to turn around the growth in a sustained way but is positive on the vertical based on 5G deals and a robust pipeline.
- Energy and Utilities, Healthcare and Manufacturing witnessed QoQ decline:** With respect to Energy business, the management had stated that Wipro has been growing very well. However, the vertical declined by 0.7% in CC terms QoQ showed a decent growth of 9.4%, YoY. The company had witnessed double-digit growth last year and it was able to win some significant engagements with existing customers and also been able to win new clients. The management is positive regarding this vertical going forward, despite volatile crude oil prices, while it remained cautious on the Health and Manufacturing verticals for 1HFY20. Both declined 2.3%/3.2% in CC terms, respectively, and Manufacturing declined 0.7% QoQ. Manufacturing was affected because of the decline in Europe, which is its key geography. The management is trying to turn things around in Europe by restructuring the leadership teams and getting a new leadership for BFSI, which should result in a turnaround in 1QFY20.
- Sub-contracting expenses decline:** At 16.7% of IT services revenues in 2QFY19, Wipro had among the highest sub-contracting expenses in the industry (Infosys and Tata Consultancy Services are in the 6%-8% band). But the sub-contracting expenses started declining from 3QFY19, now standing at 15.9% of revenues versus 16% in 3QFY19. This could be a deliberate strategy to keep onsite employee utilisation high under the stringent new visa regime. However, we believe that if Wipro does a good job of supply management, there is scope to eke out a few percentage points from this to enhance margins even more.

Strategic direction given by the CEO

Mr. Abidali Neemuchwala, CEO of Wipro, provided the outcome of its detailed strategy. Key highlights are as follows:

- Digital:** The revenues from digital continue to grow strongly and increased 6.4% sequentially and 32.2% YoY in 4QFY19. It now contributes 35% to overall revenues against 33.2% in 3QFY19. The rising traction in digital is because of clients going for enterprise adoption of digital. The CEO emphasised on the rising role of digital in Energy and Utilities vertical.
- Client mining – client addition was rather muted:** Three new customers were added in the US\$75mn bucket. In 4QFY19, top 10 clients grew 9.6% YoY in reported currency terms versus 14% YoY in 3QFY19. No new clients were added in the US\$100mn and US\$50mn buckets, and three clients were lost from the >US\$20mn bucket. US\$1mn- US\$3mn bucket was mainly impacted because of divestments of Workday and Cornerstone businesses which have client base of a smaller ticket size.

3. **Hyper-automation:** In 4QFY19, the management stated that Wipro saved nearly 11.3% (up from 6.7% in 3QFY19) of efforts across all its fixed-price programs. Its fixed-price mix touched a new high of 60% in 4QFY19, up from 59.8% in 3QFY19. The automation initiatives helped improve its margins. In 3QFY19, Wipro indicated that on RTB projects based on current technologies, around 10%-15% of the work can be automated. As time passes by it feels the number can go up. Holmes is now being used in engagements with over 350 clients and indicates widespread commercial acceptance of the product.
4. **Focus on localisation:** The management stated that Wipro has achieved high localisation level by having 64% of local employees in the US, up from 62.6% in 3QFY19. The localisation focus is there in all major markets. Wipro is leveraging its brand presence and deep relationships with campuses for achieving this kind of localisation level in the US and other key markets as well. This kind of planned localisation is a step towards dealing with the talent crunch prevalent in the industry.

Wipro wins Alight Solutions deal

On 2 September 2018, Wipro announced that it won a 10-year engagement to provide services to Illinois-based Alight Solutions LLC, a health, wealth, HR and finance solutions company. Alight Solutions, which used to be the technology outsourcing business of HR and management consulting company Aon Hewitt, was acquired by private equity major Blackstone in 2017 and was rebranded an independent company.

Alight Solutions provides benefits administration and cloud-based HR and financial solutions to 1,400 clients serving 19mn employees and their 18mn family members. This deal will result in revenues of US\$1.5bn to US\$1.6bn for Wipro. This is Wipro's largest win to date. The previous largest was the ATCO deal won in 2014 sized at US\$1.1bn for a 10-year tenure.

The Alight Solutions deal was initially flagged off on 20 July 2018 when 1QFY19 results were announced. Wipro stated that it would acquire India operations of Alight Solutions. This partnership was to accelerate investment in consumer-facing technologies and services across Alight Solutions' businesses by leveraging Wipro's strengths in automation, machine learning and data analytics. In the process, Wipro was to acquire and take on responsibility for the services delivered from Alight Solutions' captive operations in India. It has India centres at Gurugram, Noida, Mumbai and Chennai.

The enterprise value of the acquisition was indicated to be US\$117mn. The India operations of Alight Solutions apparently clocked revenues of ~US\$175mn in FY18. Around 9,000 employees will join Wipro from Alight Solutions. The deal has been consummated in 2QFY19 and revenues have started flowing in from September 2018. 3QFY19 quarter had two extra months of revenues and it seems as if that was the key driver of incremental growth QoQ.

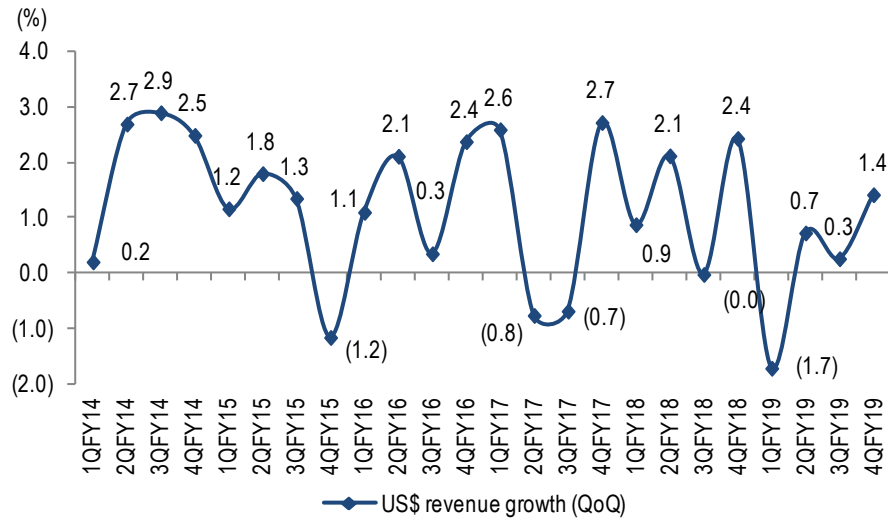
Workday and Cornerstone divestiture: Wipro has divested its Workday and Cornerstone OnDemand business to Alight for a cash consideration of up to US\$110mn, of which US\$100mn would be payable at closing and the balance US\$10mn would be a deferred consideration payable at the end of 12 months based on achievement of performance targets. The reason behind this step is to sharpen the management's focus on key offerings. This divestment has resulted in loss of some clients in the US\$1mn-US\$20mn bucket.

Miscellaneous

- Wipro has confirmed about a phishing attack on its corporate e-mail system. Wipro is leveraging cyber security practices and collaborating with a partner to collect and monitor advanced threat intelligence for enhancing security. It has also retained an independent forensic firm to assist in the investigation. The impact and the severity of this incident has not been discussed clearly yet.
- Wipro announced a share buyback proposal, subject to the approval of shareholders of the company, to the extent of up to 323.1mn equity shares of Rs2 each (representing 5.35% of total paid-up equity capital) from the shareholders of the company on a proportionate basis by way of a tender offer. The buyback price is Rs325 (US\$4.71) per equity share, payable in cash, for an aggregate amount not exceeding Rs105bn (US\$1.5bn)
- Net employee utilisation rate (excluding trainees) increased from 83.2% to 85.4% on QoQ basis.
- The voluntary quarterly annualised attrition rate continued to decline 90bps to 16.6% in 4QFY19 from 17.5% in 3QFY19.
- Wipro did not announce any final dividend for 4QFY19. The interim dividend of Re1 declared by the board in 3QFY19 is the final dividend for the financial year 2018-19.

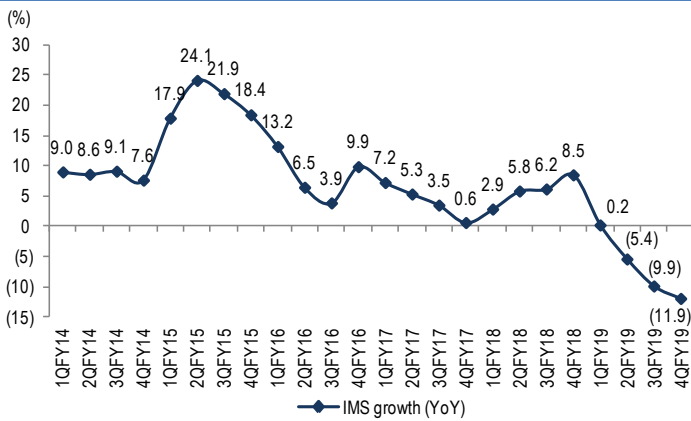
- In 4QFY19, Wipro invested in B Capital, taking its total number of investments to 18. This supplements the selection process of investment framework of its Wipro Ventures. Wipro now has 90 production deployments through Wipro Ventures.
- Wipro's net income to free cash flow was 100%. The hedge remained at the same level of US\$2.65bn in 4QFY19 as in 3QFY19.

Exhibit 8: USD revenue growth (QoQ) picture



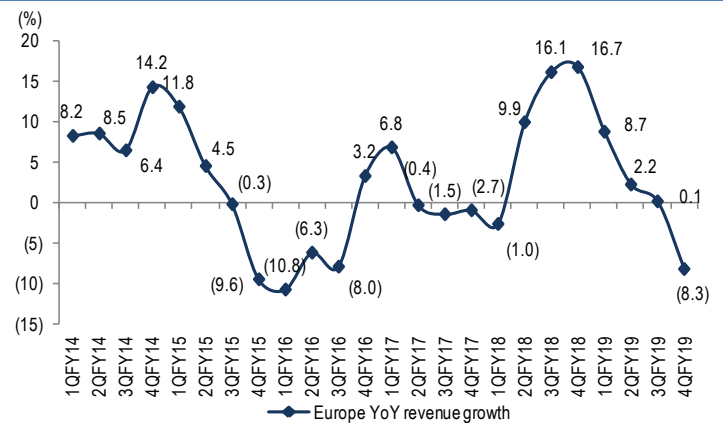
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: YoY growth in IMS revenues (USD terms) has declined



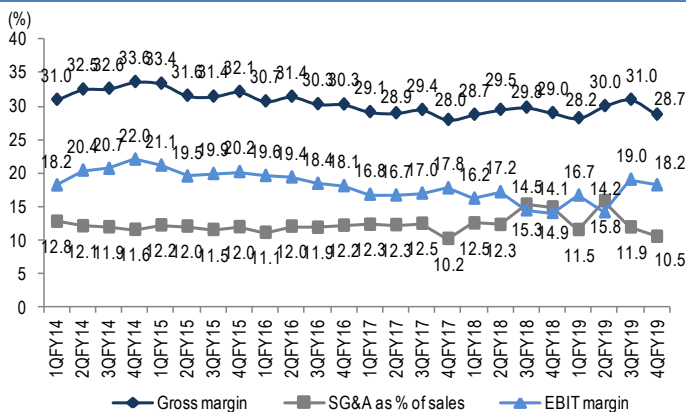
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: YoY Europe revenue growth (USD terms) has dipped



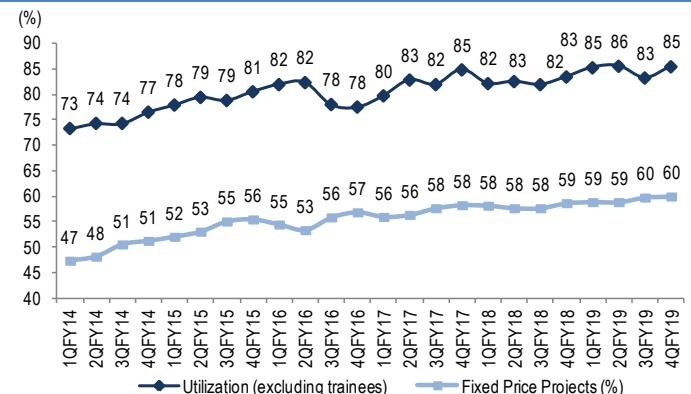
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: SG&A expenses decrease on QoQ basis



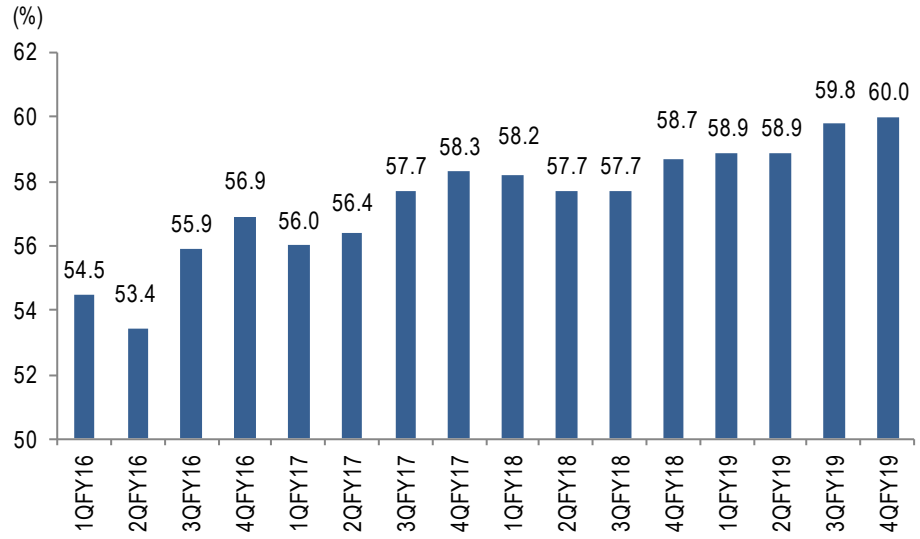
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Staff utilisation increases 220bps QoQ



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Fixed-price engagements increase in terms of revenue share (60%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Quarterly snapshot

Year to 31 March (Rsmn)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
INR/USD	68.0	67.9	68.6	69.4	68.6	66.1	65.4	65.4	64.4	67.6	70.6	71.7	70.3
USD Revenue IT Services (USD mn)	1,882	1,931	1,916	1,903	1,955	1,972	2,014	2,013	2,062	2,027	2,041	2,047	2,076
INR Revenue- IT Services	127,967	131,088	131,366	131,961	134,021	130,256	131,689	131,614	132,746	137,003	143,773	146,656	145,865
INR Revenue- IT Products	9,604	5,930	7,666	5,713	6,613	6,343	2,988	5,076	4,940	3,532	2,876	3,145	2,759
Total Revenue- (Services+Products)	137,417	135,992	137,657	136,878	139,875	136,261	134,234	136,690	137,686	139,777	145,410	150,595	150,063
Direct costs	95,843	96,389	97,808	96,576	100,771	97,111	94,694	95,976	97,794	100,350	101,770	103,971	106,942
Gross Margin	41,574	39,603	39,849	40,302	39,104	39,150	39,540	40,714	39,892	39,427	43,640	46,624	43,121
SGA	16,738	17,740	18,159	17,836	19,103	17,410	16,952	21,064	21,064	19,421	24,510	18,867	17,663
Forex gain/(loss)	-	984	1,281	767	745	353	453	0	0	771	1,217	911	316
Other operating Income	-	-	-	-	4,082	0	0	0	0	2,529	269	0	1,546
EBIT- IT Services	25,665	23,269	23,269	24,155	25,269	21,916	22,784	19,590	19,323	23,968	21,041	28,456	27,413
EBIT- IT Products	(290)	(368)	(368)	(586)	(428)	31	88	195	48	(740)	(425)	212	(93)
Total EBIT	24,836	22,847	22,971	23,233	24,828	22,093	23,041	19,650	18,828	23,306	20,616	28,668	27,320
Other income (net)	4,333	3,864	3,677	4,353	4,583	4,725	5,280	4,939	3,236	3,495	3,587	3,742	4,681
PBT	29,169	26,711	26,648	27,586	29,411	26,818	28,321	24,589	22,064	26,801	24,203	32,410	32,001
Tax	6,626	6,122	5,909	6,440	6,742	5,994	6,426	5,355	4,615	5,865	5,347	6,966	7,064
Minority Interest	(193)	(71)	(67)	(52)	(58)	(59)	22	12	22	270	33	(341)	(104)
PAT	22,350	20,518	20,672	21,094	22,611	20,765	21,917	19,246	17,471	21,206	18,889	25,103	24,833
YoY Growth (%)													
USD Revenue IT Services	6.1	7.6	4.6	3.5	3.9	2.1	5.1	5.8	5.5	2.8	1.4	1.7	0.7
INR Revenue	12.9	11.1	10.0	5.7	1.8	0.2	(2.5)	(0.1)	(1.6)	2.6	8.3	10.2	9.0
Gross Profit	6.3	5.4	1.4	2.7	(5.9)	(1.1)	(0.8)	1.0	2.0	0.7	10.4	14.5	8.1
EBIT	1.1	0.9	(3.1)	(2.7)	-	(3.3)	0.3	(15.4)	(24.2)	5.5	(10.5)	45.9	45.1
Net Profit	(1.6)	(0.3)	(5.5)	(5.6)	1.2	1.2	6.0	(8.8)	(22.7)	2.1	(13.8)	30.4	42.1
QoQ Growth (%)													
USD Revenue - IT Services	2.0	3.0	(1.0)	(1.0)	3.0	1.0	2.0	-	2.0	(2.0)	0.7	0.3	1.4
INR Revenue	6.1	(1.0)	1.2	(0.6)	2.2	(2.6)	(1.5)	1.8	0.7	1.5	4.0	3.6	(0.4)
EBIT	4.0	(8.0)	0.5	1.1	6.9	(11.0)	4.3	(14.7)	(4.2)	23.8	(11.5)	39.1	(4.7)
Net Profit	-	(8.2)	0.8	2.0	7.2	(8.2)	5.5	(12.2)	(9.2)	21.4	(10.9)	32.9	(1.1)
Margins (%)													
Gross Margin	30.3	29.1	28.9	29.4	28.0	28.7	29.5	29.8	29.0	28.2	30.0	31.0	28.7
SGA	12.2	13.0	13.2	13.0	13.7	12.8	12.6	15.4	15.3	13.9	16.9	12.5	11.8
EBIT Margin- IT Services	20.1	17.8	17.7	18.3	18.9	16.8	17.3	14.9	14.6	17.5	14.6	19.4	18.8
EBIT Margin- IT Products	(3.0)	(6.2)	(4.8)	(10.3)	(6.5)	0.5	2.9	3.8	1.0	(21.0)	(14.8)	6.7	(3.4)
Total EBIT Margin	18.1	16.8	16.7	17.0	17.8	16.2	17.2	14.4	13.7	16.7	14.2	19.0	18.2
PAT	16.3	15.1	15.0	15.4	16.2	15.2	16.3	14.1	12.7	15.2	13.0	16.7	16.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key metrics

Key Metrics	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Revenue (USD mn)	1,882	1,931	1,916	1,903	1,955	1,972	2,014	2,013	2,062	2,027	2,041	2,047	2,076
P and L (Rsmn)													
Revenue	137,417	135,992	137,657	136,878	139,875	136,261	134,234	136,690	137,686	139,777	145,410	150,595	150,063
EBITDA	28,498	27,512	27,820	28,645	27,016	26,223	27,320	23,905	23,715	27,436	24,895	32,825	29,753
PAT	22,350	20,518	20,672	21,094	22,611	20,765	21,917	19,371	18,028	21,206	18,889	25,103	24,833
Vertical Mix (%)													
BFSI	25.4	25.7	25.6	25.6	26.0	26.8	27.6	28.5	29.1	30.0	30.7	31.4	31.6
HLS	13.2	15.2	15.9	15.9	15.3	14.7	13.7	14.0	13.8	13.3	12.8	13.1	13.2
RCTG	15.4	15.8	15.8	15.7	15.8	15.8	15.9	16.0	15.7	16.0	16.4	15.6	16.2
ENU	14.0	13.2	12.9	13.0	13.1	13.4	13.5	12.4	12.5	12.6	12.7	13.0	12.8
MFG	18.8	22.5	22.4	22.4	22.9	22.5	22.8	22.7	23.0	22.5	21.8	21.2	20.5
GMT	13.1	7.6	7.5	7.4	6.9	6.8	6.5	6.4	5.9	5.6	5.7	5.8	5.7
Horizontal Mix (%)													
Practices (IT Services + BPO sales)													
Technology Infrastructure Services	28.9	27.9	28.2	28.1	28.0	28.1	28.4	28.2	28.8	27.4	26.5	25.0	25.2
Advanced Technologies & Solutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Testing services	-	-	-	-	-	-	-	-	-	-	-	-	-
Package Implementation	-	-	-	-	-	-	-	-	-	-	-	-	-
Analytics and Information Management	7.2	7.4	7.3	7.0	6.9	7.1	7.1	7.0	7.0	7.1	7.8	7.6	7.6
Business Application Services	45.3	44.7	43.8	44.4	45.7	45.8	45.5	45.3	44.8	46.1	45.7	45.6	45.1
BPO	10.6	12.9	13.4	13.3	12.3	12.0	12.1	12.6	12.1	12.1	12.7	14.7	14.9
Product Engineering and Mobility	8.0	7.1	7.3	7.2	7.1	7.0	6.9	6.9	7.3	7.3	7.3	7.1	7.2
ADM	-	-	-	-	-	-	-	-	-	-	-	-	-
R&D	10.3	-	-	-	-	-	-	-	-	-	-	-	-
Consulting	1.4	-	-	-	-	-	-	-	-	-	-	-	-
Geographic Mix (%)													
US	52.5	53.5	54.8	55.5	54.9	54.5	53.6	53.1	52.7	54.9	55.2	57.1	58.2
Europe	25.6	25.4	24.0	23.6	24.4	24.2	25.1	25.9	27.0	25.6	25.3	25.5	24.6
India & Middle East	11.0	10.4	10.4	10.0	10.8	10.4	9.9	10.0	9.4	8.6	8.1	-	-
APAC and Other Emerging Markets	10.9	10.7	10.8	10.9	10.8	10.9	11.4	11.0	10.8	10.9	11.4	17.4	17.2
Project Type													
T&M	43.1	44.0	43.6	42.3	41.7	41.8	42.3	42.3	41.3	41.1	41.1	40.2	40.0
Fixed Price	56.9	56.0	56.4	57.7	58.3	58.2	57.7	57.7	58.7	58.9	58.9	59.8	60.0
Utilization (%) (gross)	68.1	69.9	71.2	71.6	73.1	72	72.9	71.0	73.1	74.5	74.4	73.4	75.4
Revenue mix-Onsite (%)	54.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue mix-Offshore (%)	45.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clients Concentration (%)													
Top client	2.7	2.5	2.6	2.8	2.9	2.9	3.1	3.1	3.5	3.7	3.6	3.7	3.7
Top 5 clients	11.0	10.3	10.1	10.0	10.0	10.3	11.0	11.3	11.9	11.7	12.1	13.0	13.7
Top 10 clients	18.2	17.6	17.5	16.9	16.9	17.5	18.0	17.8	18.4	18.3	18.8	19.7	20.4
Number of Clients													
> USD 100 mn+	9	9	8	9	9	9	9	9	8	8	9	10	10
> USD 75 mn+	18	19	19	17	18	18	16	17	20	19	19	19	22
> USD 50 mn+	33	33	33	33	34	36	39	41	39	40	39	41	41
> USD 20 mn+	89	91	91	90	91	90	90	90	95	91	93	99	96
> USD 10 mn+	160	170	171	170	163	163	170	167	171	173	180	171	172
> USD 5 mn+	248	252	258	264	268	262	270	272	277	278	274	269	262
> USD 3 mn+	331	336	341	349	354	357	370	364	369	368	358	339	339
> USD 1 mn+	550	565	571	576	602	624	627	635	631	624	612	578	571
Employees	172,912	173,863	174,238	179,129	181,482	181,559	178,639	177,434	179,042	179,735	190,208	186,954	185,785
Attrition (%)	14.9	17.9	17.2	15.4	14.8	16.1	16.7	16.2	17.5	17.7	18.3	17.5	16.6

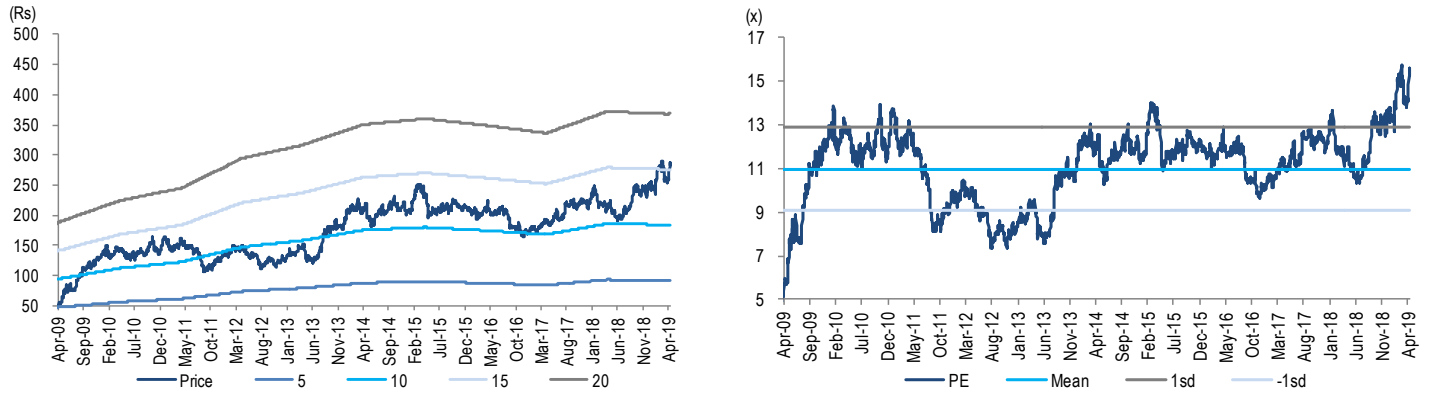
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: QoQ and YoY growth of various parameters

	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
QoQ Growth (%)														
Horizontal Service Lines														
Technology Infrastructure Services	0.7	5.3	(1.0)	0.3	(1.0)	2.4	1.2	3.2	(0.7)	4.6	(6.5)	(2.6)	(5.4)	2.2
Analytics and Information Management	(1.0)	(0.4)	5.4	(2.1)	(4.8)	1.3	3.8	2.1	(1.4)	2.4	(0.3)	10.7	(2.3)	1.4
Business Application Services	0.1	(0.7)	1.2	(2.8)	0.7	5.7	1.1	1.5	(0.5)	1.3	1.1	(0.1)	0.0	0.3
BPO	0.3	10.7	24.9	3.1	(1.4)	(5.0)	(1.6)	3.0	4.1	(1.6)	(1.7)	5.7	16.0	2.8
Product Engineering and Mobility	1.6	2.4	(8.9)	2.0	(2.0)	1.3	(0.5)	0.7	(0.0)	8.4	(1.7)	0.7	(2.5)	2.8
R&D Business	(0.6)	1.4	-	-	-	-	-	-	-	-	-	-	-	-
Consulting	(15.5)	(10.4)	-	-	-	-	-	-	-	-	-	-	-	-
Vertical Wise														
Communications	0.3	0.1	(40.5)	(2.1)	(2.0)	(4.2)	(0.6)	(2.4)	(1.6)	(7.2)	(5.1)	2.5	2.0	(0.3)
Finance Solutions	(1.5)	(0.7)	3.4	(1.2)	(0.7)	4.7	3.6	5.6	3.2	5.0	1.0	3.1	2.5	1.7
Manufacturing and Technology	(1.3)	4.6	22.8	(1.2)	(1.1)	5.0	(0.5)	3.5	(0.5)	3.8	(3.9)	1.6	(6.8)	(1.0)
Healthcare, Life sciences and Services	5.6	13.5	18.0	3.8	(0.7)	(1.1)	(3.1)	(5.5)	2.2	1.7	(5.3)	(3.8)	2.6	2.2
Consumer	3.7	1.1	5.3	(1.4)	(0.1)	2.7	0.9	2.8	0.6	(0.1)	0.8	2.6	(4.0)	5.3
Energy, Natural Resources and Utilities	(1.7)	(0.5)	(3.3)	(3.0)	0.1	3.5	3.2	2.9	(8.2)	3.3	(1.7)	1.5	3.4	(0.1)
Geography-wise														
Americas	(0.0)	1.8	4.5	1.6	0.6	1.6	0.1	0.4	(1.0)	1.7	2.4	1.3	3.7	3.4
Europe	(1.2)	5.7	1.8	(6.2)	(2.3)	6.2	0.0	5.9	3.2	6.8	(6.8)	(0.5)	1.1	(2.2)
India & Middle East	4.1	2.4	(3.0)	(0.8)	(4.5)	10.9	(2.9)	(2.8)	1.0	(3.7)	(10.1)	(5.1)	(100.0)	-
APAC and Other Emerging Markets	2.1	(2.1)	0.7	0.2	0.2	1.8	1.8	6.8	(3.5)	0.6	(0.8)	5.3	53.0	0.3
Non Americas Total	0.8	3.0	0.4	(3.5)	(2.2)	6.2	(0.2)	4.1	1.1	3.1	(6.1)	0.1	(4.0)	(1.2)
Customer Concentration														
Top customer	5.7	(13.4)	(8.1)	3.3	10.6	4.5	2.1	6.9	2.4	11.0	6.5	(2.5)	4.2	1.0
Top 5	0.6	(1.9)	(7.1)	(2.6)	1.7	0.9	5.2	6.8	5.2	3.5	(1.0)	3.7	9.0	6.4
Top 10	(0.2)	(3.3)	(4.0)	(1.3)	(0.8)	0.9	5.7	2.8	1.3	1.6	0.2	3.0	6.3	4.6
YoY Growth (%)														
Horizontal Service Lines														
Technology Infrastructure Services	3.9	9.9	7.2	5.3	3.5	0.6	2.9	5.8	6.2	8.5	0.2	(5.4)	(9.9)	(11.9)
Analytics and Information Management	8.2	7.6	6.2	1.8	(2.1)	(0.5)	(2.0)	2.2	5.8	7.0	2.8	11.4	10.4	9.3
Business Application Services	(1.8)	0.1	1.3	(2.1)	(1.6)	4.8	4.6	9.2	7.9	3.4	3.5	1.8	2.3	1.3
BPO	5.6	19.6	49.3	43.0	40.5	20.5	(5.0)	(5.1)	0.2	3.8	3.6	6.4	18.6	23.9
Product Engineering and Mobility	15.4	11.6	(0.8)	(3.4)	(6.8)	(7.8)	0.7	(0.7)	1.4	8.5	7.2	7.3	4.6	(0.7)
R&D Business	8.7	7.1	-	-	-	-	-	-	-	-	-	-	-	-
Consulting	(13.8)	(17.5)	-	-	-	-	-	-	-	-	-	-	-	-
Vertical Wise (New from Q1FY11)														
Communications	(0.6)	2.9	(38.0)	(41.5)	(42.8)	(45.3)	(8.6)	(8.9)	(8.5)	(11.3)	(15.4)	(11.1)	(7.9)	(1.1)
Finance Solutions	4.4	1.7	2.8	(0.1)	0.7	6.3	6.5	13.7	18.2	18.5	15.5	12.8	12.0	8.6
Manufacturing and Technology	2.9	9.0	30.2	25.3	25.4	26.0	2.1	7.0	7.7	6.4	2.8	0.9	(5.5)	(9.8)
Healthcare, Life sciences and Services	5.0	20.6	47.0	46.8	38.0	20.3	(1.2)	(10.0)	(7.4)	(4.8)	(6.9)	(5.3)	(4.9)	(4.4)
Consumer	13.3	12.6	13.4	8.7	4.8	6.6	2.1	6.4	7.1	4.2	4.1	3.9	(0.9)	4.5
Energy, Natural Resources and Utilities	(10.1)	(4.2)	(6.5)	(8.2)	(6.6)	(2.8)	3.7	10.0	0.9	0.7	(4.1)	(5.4)	6.6	3.1
Geography-wise														
Americas	5.2	7.7	9.7	8.1	8.8	8.6	4.0	2.8	1.2	1.3	3.5	4.4	9.3	11.2
Europe	(8.0)	3.2	6.8	(0.4)	(1.5)	(1.0)	(2.7)	9.9	16.1	16.7	8.7	2.2	0.1	(8.3)
India & Middle East	17.3	9.0	5.6	2.6	(5.9)	2.0	2.1	0.0	5.8	(8.2)	(15.0)	(17.1)	(100.0)	(100.0)
APAC and Other Emerging Markets / ROW	2.4	2.3	1.9	0.9	(1.0)	2.9	4.0	10.9	6.8	5.5	2.8	1.4	60.8	60.3
Non Americas Total	(0.6)	4.3	5.4	0.6	(2.4)	0.6	(0.1)	7.9	11.5	8.2	1.9	(2.1)	(7.0)	(10.9)
Customer Concentration														
Top customer	(10.7)	(23.5)	(20.8)	(13.2)	(9.1)	9.7	21.9	26.1	16.8	24.0	29.3	18.1	20.1	9.4
Top 5	(4.0)	(6.0)	(11.7)	(10.6)	(9.7)	(7.2)	5.1	15.2	19.2	22.3	15.2	11.8	15.8	19.1
Top 10	(2.5)	(4.9)	(8.4)	(8.5)	(9.1)	(5.2)	4.5	8.8	11.1	11.9	6.0	6.2	11.4	14.7

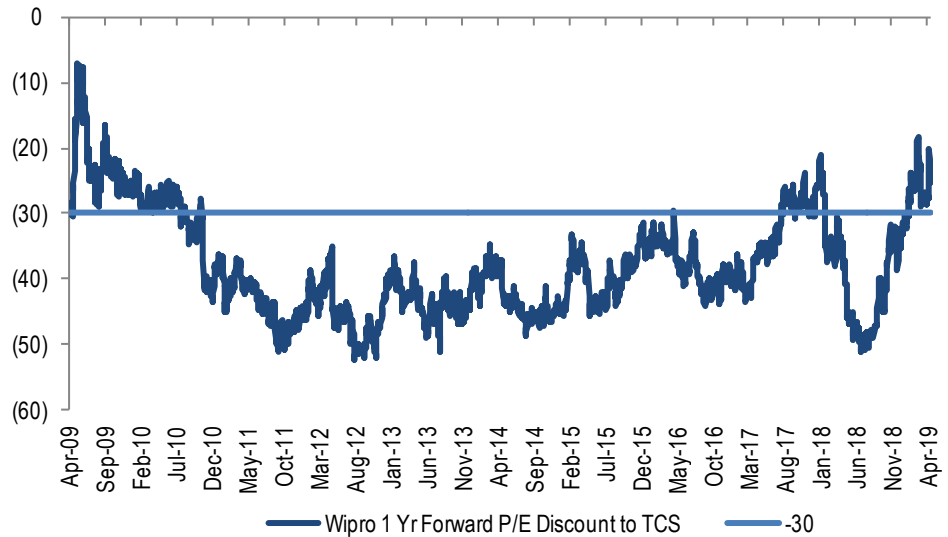
Source: Nirmal Bang Institutional Equities Research

Exhibit 17: P/E charts



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 18: P/E (discount)/premium of Wipro to TCS



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 19: Income statement

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
Average INR/USD	68.6	65.3	70.0	72.0	74.5
Net Sales - IT Services (USD)	7,704	8,060	8,190	8,618	8,423
-Growth (%)	4.9	4.6	1.6	5.2	(2.3)
Net Sales - Overall	550	545	586	636	643
-Growth (%)	7.0	(1.0)	7.5	8.6	1.1
Cost of Sales & Services	392	386	413	446	453
% of sales	71.1	70.8	70.5	70.1	70.4
Gross profit	159	159	173	190	190
% of sales	28.9	29.2	29.5	29.9	29.6
SG&A	73	76	80	74	75
% of sales	13.2	14.0	13.7	11.6	11.6
EBIT	94	84	100	117	115
% of sales	17.1	15.5	17.1	18.3	17.9
Interest expenses	5	6	7	8	8
Other income (net)	22	24	23	27	31
PBT	110	102	115	136	138
-PBT margin (%)	20.1	18.8	19.7	21.3	21.5
Provision for tax	25	22	25	30	30
Effective tax rate (%)	22.8	21.8	21.9	22.0	22.0
Minority Interest	0.2	0.0	0.1	0.0	0.0
Net profit	85	80	90	106	108
-Growth (%)	(4.6)	(5.7)	12.4	17.6	1.9
-Net profit margin (%)	15.4	14.7	15.4	16.6	16.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Balance sheet

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
Equity capital	5	9	12	12	12
Reserves & surplus	518	476	559	606	660
Net worth	523	485	571	618	672
Deferred tax liability, net	4	(4)	(2)	(2)	(2)
Other liabilities	15	13	16	16	16
Total loans	20	45	28	28	28
Total liabilities	561	540	613	661	715
Goodwill	126	118	117	117	117
Other intangible assets	16	18	14	14	14
Net block	70	64	71	63	54
Investments	299	258	229	229	229
Other non-current assets	29	34	36	36	36
Unbilled revenue	45	42	23	25	24
Inventories	4	3	4	4	4
Other current assets	50	65	71	78	77
Debtors	99	105	105	119	114
Cash & bank balance	53	45	159	198	263
Total current assets	251	262	362	424	481
Total current liabilities	230	214	214	222	216
Net current assets	21	48	147	203	265
Total assets	561	540	613	661	715

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Cash flow

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	94	84	100	117	115
(Inc./dec. in working capital)	4	(17)	65	(16)	2
Cash flow from operations	97	67	165	101	117
Other income	22	24	23	27	31
Depreciation & amortisation	17	17	15	16	17
Financial expenses	(5)	(6)	(7)	(8)	(8)
Tax paid	(25)	(22)	(25)	(30)	(30)
Dividends paid	(30)	(5)	(7)	(48)	(54)
Net cash from operations	76	74	164	58	72
Capital expenditure	(12)	24	(8)	(8)	(8)
Net cash after capex	64	98	156	50	64
Inc./(dec.) in debt	17	(4)	(39)	0	0
(Inc./dec. in investments)	(90)	42	29	0	0
Equity issue/(buyback)	(25)	(110)	3	(105)	0
Cash from financial activities	(98)	(72)	(7)	(105)	0
Others	(12)	(34)	(36)	94	-
Opening cash	99	53	45	159	198
Closing cash	53	45	158	198	263
Change in cash	(46)	(8)	113	39	64

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Key ratios

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per Share (Rs)					
EPS	17.5	16.8	18.6	18.4	19.0
FDEPS	17.5	16.8	18.6	18.4	19.0
Dividend Per Share	6.1	1.2	1.1	8.4	9.5
Dividend Yield (%)	2.2	0.4	0.4	3.0	3.4
Book Value	92	85	100	109	118
Dividend Payout Ratio	35.0	6.7	7.2	45.0	50.0
Return ratios (%)					
RoE	17.1	15.9	17.0	17.8	16.7
RoCE	14.4	12.7	15.0	16.3	15.1
Pre Tax ROIC (%)	28.8	24.5	30.4	37.0	36.8
Turnover Ratios					
Asset Turnover Ratio	0.7	0.7	0.7	0.7	0.7
Debtor Days (incl. unbilled Rev)	95	99	80	82	78
Working Capital Cycle Days	56	68	22	29	28
Valuation ratios (x)					
PER	16.1	16.8	15.2	15.3	14.9
P/BV	3.1	3.3	2.8	2.6	2.4
EV/EBTDA	12.6	14.3	11.5	9.7	9.2
EV/Sales	2.5	2.7	2.3	2.0	1.9
M-cap/Sales	2.9	2.9	2.7	2.5	2.5

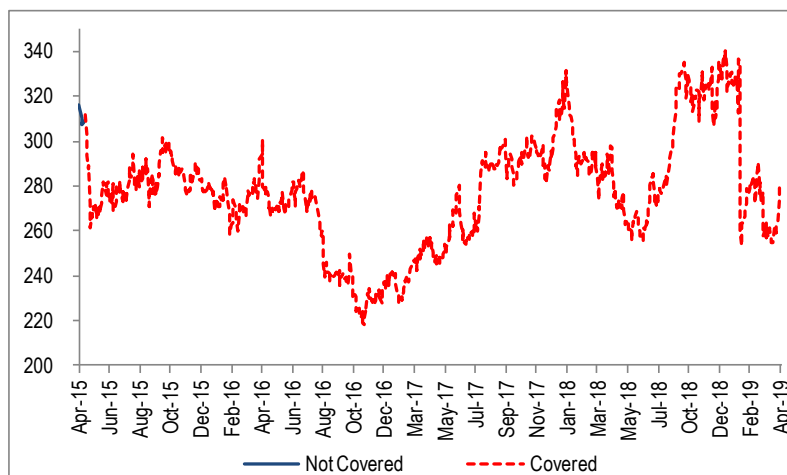
Source: Company, Nirmal Bang Institutional Equities Research

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
28 September 2017	Sell	290	228
18 October 2017	Sell	290	244
26 December 2017	Under Review	302	-
22 January 2018	Under Review	329	-
17 March 2018	Accumulate	296	302
26 April 2018	Accumulate	287	303
3 July 2018	Buy	262	335
23 July 2018	Buy	282	323
5 October 2018	Buy	325	377
17 October 2018	Buy	309	364
27 December 2018	Sell	326	297
7 January 2019	Sell	324	268
21 January 2019	Sell	347	277
19 March 2019**	Sell	258	209
18 April 2019	Sell	282	219

* Post 1:1 bonus share issue, ** Post 1:3 bonus share issue

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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