

June 10, 2019

Wipro Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based (inter-changeable) facilities	Rs. 1,833.2 crore	Rs. 1,193.50 crore	[ICRA]AAA (Stable) / [ICRA]A1+ / Reaffirmed
Fund-based (inter-changeable) facilities	USD 1,045.4 million	USD 965.00 million	[ICRA]AAA (Stable) / [ICRA]A1+ / Reaffirmed
External commercial borrowings	USD 150.0 million	0.00	-
Non-fund based facilities	Rs. 3,374.1 crore	Rs. 2,666.60 crore	[ICRA]AAA (Stable) / Reaffirmed
Non-fund based facilities	USD 10.7 million	USD 135.60 million	[ICRA]AAA (Stable) / Reaffirmed
Non-fund based facilities	0.0	GBP 15.00 million	[ICRA]AAA (Stable) / Reaffirmed
Unallocated - Non-fund based/ fund-based facilities	0.0	Rs. 1,408.09 crore	[ICRA]AAA (stable) / [ICRA]A1+ / Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to factor Wipro's healthy operational and financial profile supported by its established position in the information technology (IT) industry and its longstanding relationship with a strong base of customers diversified across various domains such as finance solution, manufacturing, energy, consumer, etc. To align itself with the changing demand landscape of the global IT industry, Wipro has been strengthening its digital and automation capabilities which has supported it in increasing its wallet share with existing clients and addition of new clients. In FY2019, Wipro won a major deal with US-based Alight Solution LLC (Alight) and this is expected to generate revenues of ~\$1.5-1.6 billion over the next ten years. Despite positive upticks in segments like finance solution, Wipro's revenue growth was relatively muted at ~1.2% (in US currency terms) in FY2019, on account of subdued performance in segments like healthcare, manufacturing & technology, etc. While the manufacturing & technology vertical de-grew on account of delays in deal renewals, the healthcare segment remained affected by regulatory restrictions in end markets. While the company is expected to benefit from its new deal with Alight and new opportunities emerging in Europe, prevailing uncertainties in the European political scenario could mute the growth levels. ICRA continues to derive comfort from the healthy financial profile supported by strong debt and coverage metrics with total debt/ net worth at 0.2 times and OPBDITA/ interest charges at 15.2 times as on Mar 31, 2019. Cash balance of Rs. 15,852 crores and investments of Rs. 22,886 crores provide a healthy cushion to its total debt of Rs. 9,645 crores as on Mar 31, 2019.

ICRA also notes the stiff competition Wipro faces from other players in the global IT industry and visa related issues in US. The industry continues to be challenged by wage inflation, talent acquisition and retention pains and high geographical concentration on America (57% of revenues in FY2019) exposing Wipro to region specific risks. Moreover, IT companies also remain exposed to constant pricing pressure from clients and increasing inclination of global customers towards cloud technology and digital technology, wherein few domestic IT players are still in development phase and are strengthening their skills through various acquisitions and partnerships. While Wipro has entered into various partnerships, it has been relatively slow on new acquisitions in recent period. Wipro pegs its performance on its six-strategy theme focusing on digital solutions, client mining, localization of markets, non-linearity, hyper-automation and leveraging eco-systems.

Outlook: Stable

ICRA believes that Wipro will continue to benefit from its established position in the industry, stable demand from key markets and its strong order book. The outlook may be revised to 'Negative' if the company witnesses significant decline in revenues/margins or any major inorganic investments which could lead to substantial decline in accruals, thereby weakening the credit profile of the company.

Key rating drivers

Credit strengths

Strong capabilities in the finance solution domain to drive Wipro's top line: Wipro's top line was primarily supported by finance solution (FS) domain which grew by 16.1% YoY in constant currency terms during FY2019 with increasing adoption of digital solutions by large banks and insurance companies. FS's revenue contribution also grew from 27.8% in FY2018 to 30.9% in FY2019. While America remains a key market, positive shoots are expected out of Europe, where in the company has increased its focus in recent times. However, growth is also expected to come from other segments such as consumer and energy, natural resources and utilities, where in the company is witnessing healthy traction in deals.

Key deal win with Alight: In September 2018, Wipro won a large deals with Alight where in it is expected to provide services for various projects of Alight. Wipro is expected to generate \$1.5-1.6 billion over the next ten years primarily from US across various domains drawing on synergies from this deal. During FY2019, Wipro sold two its cloud-based HR solutions - Workday and Cornerstone OnDemand to Alight for a consideration of \$110 million.

Strategic client relationships and diversified customer base supports high repeat business (98% in FY2019): Wipro has a strong base of 1,115 customers with 98.4% business generated from existing clients in FY2019. Wipro's revenue contribution from top-10 clients grew to 19.5% in FY2019 from 18.3% in FY2018. The company is witnessing healthy inflows in renew of deals and also adding new deals from existing clients in the field of digitization. With client mining as one of its core strategy, the company has increased its wallet share and added 271 customers during FY2019.

Strong financial profile characterized by sound cash position and comfortable debt and coverage metrics: Supported by healthy accruals, the company maintains strong debt metrics with total debt/ net worth at 0.2 times as on Mar 31, 2019. Coverage metrics also stood healthy at OPBITDA/ interest charge at 15.2 times and total debt/ OPBITA at 1.0 times as on Mar 31, 2019. Cash balance of Rs. 15,852 crores and investments of Rs. 22,886 crores as on Mar 31, 2019 provide a healthy cushion to Wipro's credit profile.

Global player in the IT services industry and strong position in the domestic market across various domains: Wipro has a long track record and established position in the Indian information technology (IT) services industry and caters to clients across domains such as manufacturing & technology (contributing ~21.7% to revenues); financial solutions (~30.9%); consumer (~15.7%) etc. and across services lines such as application, business process, etc.

Credit challenges

High geographical concentration (USA:57%): Wipro's geography wise revenue trend is in line with the global IT industry scenario, with America as the largest contributor to revenues, contributing 57% to revenues in FY2019, exposing the company to the region's structural and region-specific challenges. One of the key risks for the company currently includes the issue of working visas in US, which can hamper the company's margins. However, with localization as one of its strategy, Wipro has localized 64% of its work force in US in FY2019 from 50% in FY2018. Currently, Wipro is cautiously increasing its exposure from Europe, given the uncertain political scenario. However, with majority of deals expected to

be generated from US through Wipro's deal with Alight, US is expected to continue to be the highest contributing region going forward.

Margin pressures arising from wage inflation and competitive pressures: The global IT industry is dominated by presence of several large players (like Wipro) leading to intense margin pressure. Although, the company is the fourth largest (down from third position during FY2019) Indian IT services company, it continues to be impacted by industry specific factors such as currency fluctuations, wage inflation, and challenges of retention and re-skilling of talent pool.

Foreign currency fluctuations and employee attrition: With more than 80% of its revenues derived internationally, Wipro is exposed to foreign currency fluctuations. The company enters into various derivative contracts to hedge against these exposures. Changing demand scenario in IT industry calls for a strong talent base equipped with skills to provide solutions through various platforms such as blockchain, devOps, etc. Thus, managing attrition remains a key challenge for all the players in the IT industry. Wipro's attrition levels in Q4FY2019 was 16.6%, in line with industry.

Liquidity Position:

Wipro has strong liquidity supported by sizable cash balance of Rs. 15,852 crore and investments of Rs. 22,886 crore as on March 31, 2019. Wipro's cash flows have remained healthy over the last few years. Going forward, Wipro is expected to incur capex for supporting its operations and for acquisitions, which is likely to impact its cash flows to some extent. However, given its current cash balances and strong operating accruals, Wipro's cash flow and liquidity position are likely to remain comfortable.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for entities in Information Technology industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidated financials

About the company:

Wipro Limited (Wipro) is the fourth largest Indian player in the global IT services outsourcing industry in terms of revenue, after Tata Consultancy Services (TCS), Infosys Limited (Infosys) and HCL Technologies Limited. Wipro was incorporated in 1945 as Western India Vegetables Product Limited and was predominantly a consumer care products manufacturer till 1980, when it began its IT services business. The company's operations can be broadly classified into IT services and IT products. With effect from April 01, 2012 (FY2013), the company demerged its other divisions (consumer care and lighting, medical equipment and infrastructure engineering) into a separate company, Wipro Enterprises Limited, to enhance its focus and allow both businesses to pursue their individual growth strategies.

Under IT Services segment (96% of revenues in FY19), the company provides IT and IT enabled services to customers. Key service offerings under the division include software application development, application maintenance, research and development services for hardware and software design, data centre outsourcing services and business process outsourcing (BPO) services.

Under IT Products Segment (2% of revenues in FY19), the company offers range of Wipro personal desktop computers, Wipro servers and Wipro Notebooks and is a value-added reseller of desktops, servers, notebooks, storage products, networking solutions and packaged software for leading international brands. However, this segment commands relatively low margins.

In addition to product and services vertical, during FY2019 Wipro has carved out a new vertical viz India state run enterprise (ISRE) where in, it is expected to categorise revenue generated from public sector and government companies. This has been done considering the different dynamics of revenue generation, contract size, deal closure time, collection time, etc. for public companies.

Key financial indicators (audited, consolidated)

	FY2018	FY2019*
Operating Income (Rs. crore)	54,487.1	58,584.5
PAT (Rs. crore)	8,003.1	9,017.9
OPBDIT/OI (%)	19.1%	19.1%
RoCE (%)	17.2%	19.5%
Total Debt/TNW (times)	0.3	0.2
Total Debt/OPBDIT (times)	1.3	0.9
Interest coverage (times)	17.8	15.2

Source: Wipro, * Abridged financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					Jun 2019	May 2018	July 2017	May 2016
1	Fund-based (inter-changeable) facilities	Long Term/ Short Term	Rs. 1,193.50 crore	-	[ICRA]AAA (Stable)/ [ICRA] A1+	[ICRA]AAA (Stable)/ [ICRA] A1+	[ICRA]AAA (Stable)/ [ICRA] A1+	[ICRA]AAA (Stable)/ [ICRA] A1+
2	Fund-based (inter-changeable) facilities	Long Term/ Short Term	USD 965.00 million	-	[ICRA]AAA (Stable)/ [ICRA] A1+	[ICRA]AAA (Stable)/ [ICRA] A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
3	External commercial borrowings	Long Term	0.00	-	-	[ICRA] AAA(Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
4	Non-fund based facilities	Long Term	Rs. 2,666.60 crore	-	[ICRA]AAA (Stable)	[ICRA] AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Non-fund based facilities	Long Term	USD 135.60 million	-	[ICRA]AAA (Stable)	[ICRA] AAA (Stable)	[ICRA]AAA (Stable)	-
6	Non-fund based facilities		GBP 15.00 million		[ICRA]AAA (Stable)			
7	Unallocated- Non-fund based/ fund based facilities	Long term/ Short term	Rs. 1,408.09 crore		[ICRA]AAA (stable)/ [ICRA]A1+	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount rated	Current Rating and Outlook
NA	Fund-based (inter-changeable) facilities	NA	NA	-	Rs. 1,193.50 crore	[ICRA]AAA (Stable) / [ICRA]A1+
NA	Fund-based (inter-changeable) facilities	NA	NA	-	USD 965.00 million	[ICRA]AAA (Stable) / [ICRA]A1+
NA	Non-fund based facilities	NA	NA	-	Rs. 2,666.60 crore	[ICRA]AAA (Stable)
NA	Non-fund based facilities	NA	NA	-	USD 135.60 million	[ICRA]AAA (Stable)
NA	Non-fund based facilities	NA	NA	-	GBP 15.00 million	[ICRA]AAA (Stable)
NA	Unallocated- Non-fund based/ fund based facilities	NA	NA	-	Rs. 1,408.09 crore	[ICRA]AAA (stable) / [ICRA]A1+

Source: Wipro

Annexure-2: List of entities considered for consolidated analysis

Company	Shareholding	Method
Wipro Datacentre and Cloud Services Inc.	100%	Consolidation
Wipro Holdings Investment Korlátolt Felelősségű Társaság	100%	Consolidation
Wipro Holdings (Mauritius) Limited	100%	Consolidation
Wipro Technologies South Africa (Proprietary) Limited	100%	Consolidation
Wipro Technologies Nigeria Limited	100%	Consolidation
Wipro Corporate Technologies Ghana Limited	100%	Consolidation
Wipro SA Broad Based Ownership Scheme SPV (Rf) (Pty) Ltd	100%	Consolidation
Wipro Portugal SA	100%	Consolidation
Wipro Technologies GmbH	100%	Consolidation
Wipro Europe Limited (formerly SAIC Europe Limited))	100%	Consolidation
Wipro UK Limited	100%	Consolidation
Wipro Financial Services UK Limited	100%	Consolidation
Rainbow Software LLC	100%	Consolidation
Wipro Insurance Solutions LLC	100%	Consolidation
Wipro BPO Philippines LTD Inc.	100%	Consolidation
Wipro Technologies SRL	100%	Consolidation
Wipro Outsourcing Services (Ireland) Limited	100%	Consolidation
Opus Capital Markets Consultants LLC	100%	Consolidation
Wipro Arabia Limited	67%	Consolidation
Wipro Doha LLC	49%	Consolidation
Wipro Networks Pte Limited (formerly 3DNetworks Pte Limited)	100%	Consolidation
Wipro Technologies SDN BHD	100%	Consolidation
Wipro Shanghai Limited	100%	Consolidation
Wipro Chengdu Limited	100%	Consolidation
Wipro (Dalian) Limited	100%	Consolidation
Wipro Gallagher Solutions Inc	100%	Consolidation
Wipro Overseas IT Services Pvt Ltd	100%	Consolidation
Wipro Airport IT Services Limited	100%	Consolidation
Wipro Technologies Norway AS	100%	Consolidation
Wipro Trademarks Holding Limited	100%	Consolidation
Wipro Cyprus Private Limited	100%	Consolidation
Wipro Holdings Hungary Korlátolt FelelősségűTársaság	100%	Consolidation

Company	Shareholding	Method
Wipro IT Services Inc	100%	Consolidation
Wipro Information Technology Netherlands BV	100%	Consolidation
New Logic Technologies SARL	100%	Consolidation
Wipro Information Technology Austria GmbH(A)(Formerly Wipro Holdings Austria)	100%	Consolidation
Wipro Retail UK Limited	100%	Consolidation
Wipro Technologies SA DE C V	100%	Consolidation
Wipro Technologies SA	100%	Consolidation
Wipro Technologies VZ, CA	100%	Consolidation
Wipro Do Brasil Sistemetas De Informatica Ltd	100%	Consolidation
Wipro Japan KK	100%	Consolidation
Wipro Technologies Limited, Russia	100%	Consolidation
Wipro Technology Chile SPA	100%	Consolidation
Wipro Information Technology Kazakhstan LLP	100%	Consolidation
Wipro do Brasil Tecnologia Ltda	100%	Consolidation
Wipro Technologies Peru SAC	100%	Consolidation
Wipro IT Services Ukraine LLC	100%	Consolidation
Wipro Gulf LLC	100%	Consolidation
Wipro Information Technology Egypt SAE	100%	Consolidation
Wipro Technologies Austria GmbH	100%	Consolidation
Wipro IT Services Poland Sp Zoo	100%	Consolidation
Wipro Poland Sp Zoo	100%	Consolidation
Wipro Australia Pty Limited	100%	Consolidation
Wipro Technologies Australia Pty Ltd	100%	Consolidation
Wipro Promax Analytics Solutions LLC	100%	Consolidation
Designit Tokyo Ltd	100%	Consolidation
Designit Peru S.A.C	100%	Consolidation
Cellent GmbH	100%	Consolidation
Cellent Mittel stands beratung GmbH	100%	Consolidation
Cellent GmbH Austria	100%	Consolidation
FRONTWORX Informations technologie AG	100%	Consolidation
Designit Munchen GmbH	100%	Consolidation
Wipro Travel Services Limited	100%	Consolidation
Wipro Digital Aps(A)	100%	Consolidation
Designit A/S (Group Company)	100%	Consolidation
Designit Denmark A/S	100%	Consolidation
Designit Spain Digital SLU	100%	Consolidation
Designit Colombia SAS	100%	Consolidation
Designit Oslo A/S	100%	Consolidation
Designit Sweden AB	100%	Consolidation
Designit TLV Ltd	100%	Consolidation
PT WT Indonesia	100%	Consolidation
Wipro Bahrain Limited WLL	100%	Consolidation
Appirio GmbH (Germany)	100%	Consolidation
Appirio Pvt. Ltd. (Singapore)	100%	Consolidation
Appirio Inc. (US)	100%	Consolidation
Appirio K.K. (Japan)	100%	Consolidation
Appirio Ltd. (Ireland)	100%	Consolidation
Appirio Ltd. (UK)	100%	Consolidation
Appirio Cloud Solutions Pvt. Ltd. (India)	100%	Consolidation
Saaspoint Inc. (US)	100%	Consolidation

Company	Shareholding	Method
TopCoder Inc. (US)	100%	Consolidation
HPH Holdings Corp	100%	Consolidation
Healthplan Services, Inc	100%	Consolidation
Healthplan Services Insurance Agency, Inc	100%	Consolidation
Wipro (Thailand) Co., Ltd	100%	Consolidation
Wipro Solutions Canada Limited	100%	Consolidation
Wipro LLC	100%	Consolidation
Wipro Holdings (UK) Limited	100%	Consolidation
Infocrossing Inc	100%	Consolidation
Drivestream Inc	47%	Associate
Denim Group Limited	33%	Associate
Denim Group Management LLC	33%	Associate

Source: Wipro

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