ICRA

July 31, 2017

Wipro Limited

Wipro Limited has announced its quarterly results on July 21, 2017. Gross revenue of the company registered a growth of 0.2% YoY for Q1FY2018 with the company reported operating income of Rs.13,626 crore and Profit after tax (PAT) of Rs. 2,082 crore in Q1FY2018 against operating income of Rs. 13,599 crore and PAT of Rs 2,058 crore in Q1FY2017. The Board approved proposal for buyback of Rs 11,000 crore at a price of Rs. 320 each for 7.06% of its total paid of equity. The buyback proposal is pending approval from shareholders. The company has also allotted bonus equity shares of Rs. 2/-per share in the ration of 1:1 to the shareholder of the company as on June 14, 2017. The company maintains a healthy cushion of cash and liquid investments of over Rs 15,000 crore.

The results are broadly in line with expectations.

In arriving at the ratings, ICRA has taken a consolidated view of Wipro, factoring in its established global presence in the Information Technology (IT) services outsourcing industry and its diversified business verticals and strategic alliances spread across various geographies. The company functions in a dynamic industry environment witnessing a shift in customer needs from application-based services to automation, analytics and digitisation-based. The Indian IT industry also faces head winds because of policy changes in USA regarding H1B visas, visa availability and budgetary spends in the US healthcare segment due to expected change in regulations. This was, however, cushioned to an extent by healthy business volumes under financial solutions, consumer, manufacturing and technology verticals, thereby supporting the overall revenues. Wipro posted a 7.4 % yoy growth in revenues in constant currency and 4.9% yoy growth in US Dollar terms during FY2017. The company’s efforts towards strengthening its presence in other verticals, together with expected growth in business volumes under new contracts are expected to support its revenue growth, going forward. Furthermore, over the last few years, Wipro has been investing incrementally on new technology areas such as social media, mobility, analytics and cloud computing. Wipro’s continued focus on enhancing technological capabilities combined with its strong delivery track record would aid in deal wins and in turn support long-term business growth.

While over the next 12-18 months, some recovery in IT expenditure by Europe (which had fallen because of oil price volatility) and focused efforts by Wipro on strengthening its verticals by various acquisitions of intellectual properties as well as partnering for diversifying its skill sets are expected to support revenues. The overall revenue outlook for the industry appears muted.

The rating continues to factor in the strong financial profile of the company, which is characterised by positive cash accruals and healthy debt coverage metrics. Wipro maintained a healthy capital structure during FY2017, with leverage of 0.3x as on March 31, 2017. The company has unutilised lines of credit (in the form of bank overdrafts, lines of credit) amounting to over Rs. 5,300 crore and sizable cash and liquid balance to over Rs. 15,000 crore as on March 31, 2017. Going forward, the company is expected to continue investing in intellectual properties and acquisitions; however, it will be supported by existing cash reserves. The rating takes into account the increasing pricing pressure from competitors, challenges of retaining and training a large talent pool and te risk of sizable portion of revenue (almost 17%) generated from its top 10 clients. The company has taken steps to re-align its strategies to mitigate these risks. The company is recruiting locally and acquiring strategically companies within various IT sectors to diversify its geographical base and skill sets, while focussing on winning new deals.

The previous rating rationale is available on the following link: Wipro Limited rationale

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