

## Wipro Limited

May 10, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based (inter-changeable) facilities	Rs. 1,333.81 crore	Rs. 1,833.20 crore	[ICRA]AAA (Stable)/[ICRA] A1+ Reaffirmed
Fund-based (inter-changeable) facilities	USD 1,097.00 million	USD 1,045.40 million	[ICRA]AAA (Stable)/[ICRA] A1+ Reaffirmed
External commercial borrowings	USD 150.00 million	USD 150.00 million	[ICRA]AAA (Stable)/ Reaffirmed
Non-fund based facilities	Rs. 4,136.40 crore	Rs. 3,374.10 crore	[ICRA]AAA (Stable)/ Reaffirmed
Non-fund based facilities	USD 10.70 million	USD 10.70 million	[ICRA]AAA (Stable)/ Reaffirmed

### Rating action

ICRA has reaffirmed the [ICRA]AAA (pronounced ICRA triple A) rating to the Rs. 1,833.20 crore (revised from Rs. 1,333.81 crore) fund-based (inter-changeable) facilities, the USD 1,045.40 million (revised from USD 1,097.0 million) fund-based (inter-changeable) facilities, the USD 150 million ECBs, the Rs. 3,374.1 crore (revised from Rs. 4,136.40 crore) non-fund based and the USD 10.7 million non-fund based facilities of Wipro Limited (Wipro / the company). The outlook on the long-term rating is stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 1,833.20 crore (revised from Rs. 1,333.81 crore) fund-based (inter-changeable) facilities and the USD 1,045.40 million (revised from USD 1,097.00 million) fund-based (inter-changeable) facilities of Wipro. Though a part of the bank limits of the company are denominated in foreign currency, ICRA's rating for the same are on a national rating scale, as distinct from the international rating scale.

### Rationale

The reaffirmation of ratings has taken a consolidated view of Wipro, along with all its subsidiaries.

The ratings factor in the established position of the company in the Indian Information Technology (IT) industry—as one of the top three players, its diversified revenue streams with healthy revenue composition across various services lines and domains; and strategic alliances spread across geographies. In line with the industry, Wipro also continues to realign itself with the dynamic demands of IT industry, which is undergoing a shift from traditional legacy models to digitization, automation and analytics based solutions.

The Indian IT industry continues to face head winds due to policy changes in US (contributing to ~53% of Wipro's revenues in FY2018) for H-1B visa holders, higher minimum wage requirements and uncertainty in budgetary spends in the healthcare segment (in US). In the midst of the ongoing structural change in the industry, Wipro's continued focus on enhancing technological capabilities combined with its strong delivery track record has aided it in higher deal wins and in increasing its wallet share with its clients during FY2018. However, despite continuous efforts and deal wins, Wipro lagged behind its peers in the financial solutions and healthcare market. The company's healthcare segment was impacted by uncertainties in the Affordable Care Act (ACA) in US, which impacted the expected payoff for Wipro from its acquisition of HPH Holdings (acquired during FY2016). While some recovery in IT expenditure by Europe (which had fallen because of oil price volatility impacting the energy & utility segment; contributing 13% to revenues in FY2018), has been witnessed in recent quarters, significant turnaround is still awaited.

While Wipro's revenues expanded by ~4.6% in USD reported terms during FY2018, its net profit margin declined by 80 bps (yoy) to 14.7% on account of heavy provisioning to the tune of Rs. 461 crore undertaken due to bankruptcy of two of its customers for impairment of receivables and deferred contract cost. Despite muted revenue growth and contraction in margins, the company maintained its healthy capitalization and coverage metrics supported by strong cash accruals and sizable cash and liquid balance of ~Rs. 30,000 crore as on March 31, 2018.

ICRA also notes the vulnerability of earnings to the increasing pricing pressure from competitors, foreign currency fluctuations, wage inflation, challenges of training and retaining talent and geo-political risks. However, the company has taken steps to mitigate these risks to some extent through its six-strategy theme focusing on digital solutions, client mining, localization of markets, non-linearity, hyper-automation and leveraging eco-systems. The company is recruiting locally and acquiring companies strategically within various IT sectors to diversify its geographical base and skill sets, while focussing on winning new deals.

## Outlook: Stable

ICRA believes Wipro will continue to benefit from its established position in the industry, its strong execution track record and 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, weakening the credit profile of the company.

## Key rating drivers

### Credit strengths

**Global player in the IT services industry and dominant 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 ~23% to revenues); financial solutions (contributing ~28% to revenues); healthcare life science & services (contributing ~14% to revenues) etc.) and across services lines such as application, business process, etc.

**Strong capabilities in the financial solution domain; increasing adoption of digital solutions lends revenue visibility:** With consecutive quarters of growth, the financial solutions vertical, contributing ~27% to revenues in FY2018, remains a key growth driver for the company. The growth is supported by increasing adoption of digital solutions by large banks and insurance companies particularly in markets in US and global banks in Europe. Wipro witnessed expansion in contribution of digital from ~17% in Q1FY2017 to ~27% in Q4FY2018, reflecting its increasing expertise in the digital space.

**Strategic relationships with diversified customer base supporting high repeat business:** Wipro enjoys repeat business of ~97% from its diversified customer base. Over the years, the company has diversified its revenue contribution from top-10 clients from ~23% in FY2014 to ~18% in FY2018; revenue contribution from top-five clients continues to remain in the range of ~11-13%. With client mining as one of its core strategy, the company has increased wallet share and added 223 customers during FY2018.

**Strong financial profile characterized by healthy operating accruals, sound cash position and comfortable debt coverage metrics:** While the company's revenue growth remained muted during FY2018, capitalization metrics remain comfortable with total debt/ net worth at 0.3 times as on March 31, 2018, and an overall negative net debt position. The liquidity profile is supported by a strong cash balances and liquid investments of Rs. 30,000 crore as of March 31, 2018.

## Credit challenges

**Low revenue growth over the past several quarters:** Despite efforts to strengthen its core, Wipro's performance is muted on account of head winds such as rupee appreciation, uncertainty in budgetary spend in healthcare segment in US and restructuring of operations of Middle East and India. Also, two of its customers under went insolvency, leading to Wipro providing ~Rs. 461 crore for impairment loss and deferred cost contract cost in FY2018. The company is expected to continue witnessing revenue softness in the near term. The Indian IT industry is undergoing a structural change, with shift in customer demands from application based traditional systems to digitization, cloud and automation adoption.

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

**High geographical concentration (US: 53%), exposes the company to region specific risk:** With US contributing ~53% to the company's revenues, Wipro remains exposed to region specific volatility such as availability of H-1B visa, higher visa fees, uncertainty in budgetary spends and the recent uncertainty of H-4 visa holders. To mitigate the same, the company has extensively taken up localization of its work force in US during FY2018 which led to 55% of its work force in USA being locally hired.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for company in Information Technology industry](#)

## About the company:

Wipro Limited (Wipro) is the third largest Indian player in the global IT services outsourcing industry in terms of revenue, after Tata Consultancy Services (TCS) and Infosys Limited (Infosys). 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.

Wipro's IT services segment (97% of revenues in FY2018), provides IT and IT enabled services (IT/ITeS) to customers. Key service offerings 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. During FY2017, the company regrouped its industry verticals into—finance solutions (BFSI), healthcare, life sciences and services (HLS), consumer (CBU), energy, natural resources and utilities (ENU), manufacturing and technology (MNT), and communications.

Wipro's IT products segment (3% of revenues in FY2018) offers a range of Wipro personal desktop computers, Wipro servers and Wipro notebooks. It 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.

## Key financial indicators (audited)

	FY 2017	FY 2018*
Operating Income (Rs. crore)	55,040.2	54,487.1
PAT (Rs. crore)	8,493.1	8,008.4
OPBDIT/ OI (%)	19.8%	19.1%
RoCE (%)	18.6%	16.9%
Total Debt/ TNW (times)	0.3	0.3
Total Debt/ OPBDIT (times)	1.3	1.3
Interest coverage (times)	21.1	17.8
NWC/ OI (%)	19.2%	21.4%

\*abridged

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 May 2016	Date & Rating in FY2016 April 2015
1 Fund based (inter-changeable) facilities	Long Term/Short Term	Rs. 1,833.20 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 1,045.40 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 (ECBs)	Long Term	USD 150.00 million	-	[ICRA] AAA(Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
4 Non-fund based facilities	Long Term	Rs. 3,374.10 crore	-	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)
5 Non-fund based facilities	Long Term	USD 10.70 million	-	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)		

## 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based (inter-changeable) facilities	NA	NA	-	Rs. 1,833.20 crore	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Fund based (inter-changeable) facilities	NA	NA	-	USD 1,045.40 million	[ICRA]AAA(Stable)/[ICRA] A1+
NA	External commercial borrowings (ECBs)	NA	NA	-	USD 150.00 million	[ICRA]AAA(Stable)
NA	Non- fund based facilities	NA	NA	-	Rs. 3,374.10 crore	[ICRA]AAA (Stable)
NA	Non- fund based facilities	NA	NA	-	USD 10.70 million	[ICRA]AAA (Stable)

Source: Wipro Limited

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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