May 27, 2020

Wipro Limited: Ratings reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based (interchangeable) facilities	Rs. 1,193.50 crore	Rs. 696.00 crore	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Fund-based (interchangeable) facilities	USD 965.00 million	USD 965.00 million	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Non-fund based facilities	Rs. 2,666.60 crore	Rs. 2,799.10 crore	[ICRA]AAA(Stable); Reaffirmed
Non-fund based facilities	USD 135.60 million	USD 70.70 million	[ICRA]AAA(Stable); Reaffirmed
Non-fund based facilities	GBP 15.00 million	-	-[1]
Unallocated - Non-fund based/fund-based facilities	Rs. 1,408.09 crore	Rs. 8,666.33 crore	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Total	**Rs. 13,046.95 crore**	**Rs. 20,000.00 crore**	

**Instrument details are provided in Annexure-1; The exchange rate considered is Rs 75.6838 per USD for current rated amount and Rs 69.4431 per USD for previous rated amount. The exchange rate considered is Rs 90.5650 per GBP for previous rated amount.*

Rationale

The ratings favourably factor in Wipro Limited's (Wipro/the company) strong financial profile characterised by robust debt coverage metrics and superior liquidity, established position in the global information technology (IT) services industry, long-standing relationships with a strong customer base and healthy operational profile. The ratings continue to draw comfort from the company's presence in diversified verticals like Banking, Financial Services and Insurance (BFSI), Consumer Business unit (CBU), Health Business unit (Health BU), Technology (TECH), Energy, Natural Resources & Utilities (ENU), Manufacturing (MFG) and Communications (COMM). The BFSI segment is the major revenue contributor (31.0% in FY2020), it witnessed only 4.0% constant currency (CC) growth in FY2020 due to the softness in spending by the capital markets and European banks. Overall, Wipro witnessed a 4.2% year-on-year (YoY) growth in its revenues in FY2020 on the back of the positive CC growth across all verticals except for the TECH vertical due to furloughs and some customer-specific issues. Wipro's operating margin improved to 20.0% in FY2020 from 19.1% in FY2019 on the back of cost optimisation. Healthy cash and liquid investments of Rs. 33,413.4 crore as on March 31, 2020 coupled with minimal debt provide further cushion to the company's financial profile.

ICRA also notes the stiff competition faced by the company from other prominent players in the global IT services industry, leading to margin pressure. The industry continues to face challenges in the form of wage inflation, foreign currency fluctuations, talent acquisition and retention. The demand for IT services remains exposed to macro-economic uncertainties such as a growth slowdown in key markets in the US and Europe and the Brexit-related issues, which may pose a challenge to the Indian IT services industry. In the past three years, there has been uncertainty regarding the US Government's visa policies for its non-immigrant and temporary visa programmes, which is one of the key risks for the company.

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[1] *ICRA had a rating outstanding of [ICRA]AAA(Stable) on the GBP 15.00-million long-term non-fund based limit earlier, which has now been revised to nil*

The Covid-19 pandemic has adversely impacted the global economy. It has resulted in supply (restriction of movement of employees) and demand shocks (delayed offtake of new projects, reduced discretionary spend and IT budget cuts) for the Indian IT services industry. The BFSI segment, which is already experiencing weakness will be further impacted, primarily due to the global economic weakness, lower credit offtake and reduced usage of other banking services in the coming quarters. However, the segment may witness demand for new loan application systems on the back of the stimulus packages announced by the governments. Other key sectors such as ENU will be impacted because of the record low crude oil prices, which led to reduced discretionary spend by companies in this segment. Demand from the CBU segment will be impacted as consumers will restrict outdoor activities to essentials in the foreseeable future. However, the segment may witness new demand for e-commerce systems. Wipro plans to take strong cost control measures to deal with the impact in terms of optimising the hiring process, postponing discretionary expenses and reducing the subcontracting costs. On the positive side, opportunities exist in terms of enabling clients to build work-from-home (WFH) capabilities, vendor consolidation, uptick in cyber security services and providing post Covid-19 infrastructure and process automation.

Key rating drivers and their description

Credit strengths

Strategic relationships with diversified customer base, supporting high repeat business – Wipro has a strong base of 1,074 customers with 98.1% of the business generated from existing clients in FY2020. The revenue contribution from the company's top 10 clients grew to 19.7% in FY2020 from 19.5% in FY2019. As client mining is one of its core strategies, the company has added five new clients to the 'More than USD 100 million' client bucket, taking the total to 15 in FY2020 from 10 in FY2019. Going forward, Wipro is expected to maintain a diversified revenue stream across customers in various segments.

Strong financial profile characterised by healthy cash position and robust debt coverage metrics – Wipro's financial profile is characterised by robust debt coverage metrics with a gearing of 0.1x, TD/OPBITDA of 0.5x and interest coverage of 16.7x as on March 31,2020. Wipro's financial profile is further supported by its healthy accruals coupled with cash and liquid investments of Rs. 33,413.4 crore as on March 31, 2020. Going forward, the metrics are expected to be in line with past trends and remain healthy.

Global player in IT services industry with diversified presence across sectors – Wipro has a long track record and established position in the Indian IT services industry. It caters to clients across various sectors such as BFSI (contributing 31.0% to revenues in FY2020), CBU (~16.3%), Health BU (~13.2%), ENU (~12.9%), etc, and across service lines such as modern application services, cloud and infrastructure services, digital operations and platforms, etc. Going forward, the company's diversity across sectors is expected to follow past trends.

Credit challenges

Geographical concentration risk – Wipro's geography-wise revenue trend is in line with the global IT services industry with the US being the largest contributor to its revenues. Wipro derived 59.1% of its overall revenue from the US in FY2020, up from 56.8% in FY2019, exposing the company to the US' structural and region-specific challenges. One of the key risks for the company currently includes the issue of working visas in the US, which might aggravate amid the pandemic. However, as localisation is one of its strategies, Wipro has localised 70% of its work force in the US in 9M FY2020 compared to 50% in FY2018. As companies in the US are severely impacted by the pandemic, this is likely to have an impact on Wipro's revenue as well.

Margin pressure arising from wage inflation, competitive pressure and foreign currency fluctuations – With nearly 96% of its revenues being generated in foreign currencies, Wipro is exposed to foreign currency fluctuations. To mitigate the same, Wipro enters into various derivative contracts to hedge against these exposures. Further, the global IT services industry is dominated by several large players, leading to intense margin pressure. Although Wipro is the fourth largest Indian IT services company, it continues to be impacted by industry-specific factors such as wage inflation and challenges of retention and reskilling of the talent pool.

Headwinds from the impact of Covid-19 pandemic likely to affect near-term revenue and margins – The global spread of Covid-19 is resulting in simultaneous supply and demand shocks for the Indian IT services industry. These shocks are expected to materially slow down the economic activity across the globe, impacting the company's revenue and leading to subsequent pressure on its margins. Wipro plans to take strong cost control measures to deal with the impact and ICRA expects the company to be able to manage such headwinds, given its large scale of operations, diversified presence across sectors, robust credit profile and healthy cash reserves.

Liquidity position: Superior

Wipro's liquidity position is **Superior** with cash and liquid investments of Rs. 33,413.4 crore as on March 31, 2020. Despite regular dividend payouts and buybacks, the company's liquidity position has remained strong on the back of healthy operating cash flows, which are expected to continue in future as well. Going forward, Wipro is expected to incur capex for supporting its operations and for acquisitions, which is likely to impact its cash reserves to some extent. Overall, ICRA expects Wipro to be able to meet its near-term commitments (debt-servicing obligations and capex requirements) through internal sources and yet be left with a robust cash surplus.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Pressure on the company's ratings could arise in case of a deterioration in its credit profile due to a sharp decline in its operational performance amid the pandemic.

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	The ratings are based on the consolidated financial statements of the rated entity

About the company

Wipro is one of the leading global IT, consulting and business process services company. It is the fourth largest Indian player in the global IT services industry, in terms of revenue, after Tata Consultancy Services (TCS), Infosys Limited (Infosys) and HCL Technologies Limited (HCL).

Wipro was incorporated in 1945 as Western India Vegetables Product Limited and was predominantly a consumer care product manufacturer till 1980 after which it diversified into the IT services business. With effect from April 1, 2012 (FY2013), the company demerged its other divisions (consumer care and lighting, medical equipment and infrastructure engineering) into a separate company called Wipro Enterprises Limited (WEL), to enhance its focus and allow both businesses to pursue their individual growth strategies.

Wipro's operations can be broadly classified into IT Services, IT Products and India State Run Enterprise. Wipro derives most of its revenue from the IT Services segment (96.8% in FY2020) under which it provides IT and IT enabled services, which include digital strategy advisory, customer-centric design, technology consulting, IT consulting, custom application design, development, re-engineering and maintenance, systems integration, package implementation, cloud infrastructure services, analytics services, business process services, research and development and hardware and software design, to leading enterprises worldwide.

Key financial indicators (audited and consolidated)

	FY2019	FY2020*
Operating Income (Rs. crore)	58.584.5	61,023.2
PAT (Rs. crore)	9,022.2	9,768.9
OPBDIT/OI (%)	19.1%	20.0%
RoCE (%)	19.7%	21.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	0.9	0.5
Interest Coverage (times)	15.2	16.7
DSCR	5.3	12.2

*Source: Wipro Limited; PAT figure does not included share of profit/loss from Associates or Joint Ventures; *Abridged financials;*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					27-May-2020	10-June-2019	10-May-2018	10-Jul-2017
1	Fund-based (interchangeable) facilities	Long term/ Short term	Rs. 696.00 crore	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
2	Fund-based (interchangeable) facilities	Long term/ Short term	USD 965.00 million	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
3	Non-fund based facilities	Long term	Rs. 2,799.10 crore	NA	[ICRA]AA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Non-fund based facilities	Long term	USD 70.7 million	NA	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Non-fund based facilities	Long term	-	NA	-	[ICRA]AAA (Stable)	-	-
6	Unallocated - Non-fund based/ fund-based facilities	Long term/ Short term	Rs. 8,666.33 crore	NA	ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-
7	External commercial borrowings	Long term	-	NA	-	-	[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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Fund-based (interchangeable) facilities	NA	NA	NA	Rs. 696.00 crore	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	Fund-based (interchangeable) facilities	NA	NA	NA	USD 965.00 million	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	Non-fund based facilities	NA	NA	NA	Rs. 2,799.10 crore	[ICRA]AAA(Stable)
NA	Non-fund based facilities	NA	NA	NA	USD 70.7 million	[ICRA]AAA(Stable)
NA	Non-fund based facilities	NA	NA	NA	-	-
NA	Unallocated - Non-fund based/fund-based facilities	NA	NA	NA	Rs. 8,666.33 crore	[ICRA]AAA(Stable)/ [ICRA]A1+

Source: Wipro Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Wipro Holdings Investment Korlátolt Felelősségű Társaság	100%	Full Consolidation
Wipro Technologies South Africa (Proprietary) Limited	100%	Full Consolidation
Wipro Technologies Nigeria Limited	100%	Full Consolidation
Wipro Corporate Technologies Ghana Limited	100%	Full Consolidation
Wipro Portugal SA	100%	Full Consolidation
Wipro Technologies GmbH	100%	Full Consolidation
Wipro Europe Limited (formerly SAIC Europe Limited))	100%	Full Consolidation
Wipro UK Limited	100%	Full Consolidation
Wipro Financial Services UK Limited	100%	Full Consolidation
Rainbow Software LLC	100%	Full Consolidation
Wipro Insurance Solutions LLC	100%	Full Consolidation
Wipro Philippines Inc.	100%	Full Consolidation
Wipro Technologies SRL	100%	Full Consolidation
Wipro Outsourcing Services (Ireland) Limited	100%	Full Consolidation
Opus Capital Markets Consultants LLC	100%	Full Consolidation
Wipro Arabia Limited	67%	Full Consolidation
Wipro Doha LLC	49%	Full Consolidation
Wipro Networks Pte Limited (formerly 3DNetworks Pte Limited)	100%	Full Consolidation
Wipro Technologies SDN BHD	100%	Full Consolidation
Wipro Shanghai Limited	100%	Full Consolidation
Wipro Chengdu Limited	100%	Full Consolidation
Wipro (Dalian) Limited	100%	Full Consolidation
Wipro Gallagher Solutions Inc	100%	Full Consolidation
Wipro Overseas IT Services Pvt Ltd	100%	Full Consolidation
Wipro Trademarks Holding Limited	100%	Full Consolidation
Wipro Holdings Hungary Korlátolt Felelősségű Társaság	100%	Full Consolidation
Wipro IT Services LLC	100%	Full Consolidation
Wipro Information Technology Netherlands BV	100%	Full Consolidation
Wipro Technologies SA DE CV	100%	Full Consolidation
Wipro Technologies SA	100%	Full Consolidation
Wipro Technologies VZ, CA	100%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Wipro Do Brasil Servicos De Tecnologia SA	100%	Full Consolidation
Wipro Japan KK	100%	Full Consolidation
Wipro Technologies Limited, Russia	100%	Full Consolidation
Wipro Technology Chile SPA	100%	Full Consolidation
Wipro Information Technology Kazakhstan LLP	100%	Full Consolidation
Wipro do Brasil Technologia Ltda	100%	Full Consolidation
Wipro Technologies Peru SAC	100%	Full Consolidation
Wipro IT Services Ukraine LLC	100%	Full Consolidation
Wipro Gulf LLC	100%	Full Consolidation
Wipro Information Technology Egypt SAE	100%	Full Consolidation
Wipro IT Services Poland Sp Zoo	100%	Full Consolidation
Wipro Poland Sp Zoo	100%	Full Consolidation
Wipro Australia Pty Limited	100%	Full Consolidation
Wipro Promax Analytics Solutions Americas LLC	100%	Full Consolidation
Designit Tokyo Ltd	100%	Full Consolidation
Designit Peru S.A.C	100%	Full Consolidation
Cellent GmbH	100%	Full Consolidation
Cellent GmbH Austria	100%	Full Consolidation
Wipro Travel Services Limited	100%	Full Consolidation
Designit A/S	100%	Full Consolidation
Designit Denmark A/S	100%	Full Consolidation
Designit Spain Digital SL	100%	Full Consolidation
Designit Colombia SAS	100%	Full Consolidation
Designit Oslo A/S	100%	Full Consolidation
Designit Sweden AB	100%	Full Consolidation
Designit TLV Ltd	100%	Full Consolidation
PT WT Indonesia	100%	Full Consolidation
Wipro Bahrain Limited Co. SPC	100%	Full Consolidation
Appirio Inc. (US)	100%	Full Consolidation
Appirio K.K. (Japan)	100%	Full Consolidation
Appirio Ltd. (Ireland)	100%	Full Consolidation
Appirio Ltd. (UK)	100%	Full Consolidation
TopCoder LLC	100%	Full Consolidation
Healthplan Services, Inc	100%	Full Consolidation
Healthplan Services Insurance Agency, Inc	100%	Full Consolidation
Wipro (Thailand) Co., Ltd	100%	Full Consolidation
Wipro Solutions Canada Limited	100%	Full Consolidation
Wipro LLC	100%	Full Consolidation
Wipro Holdings (UK) Limited	100%	Full Consolidation
Infocrossing LLC	100%	Full Consolidation
Drivestream Inc	44%	Equity Method
Denim Group Limited	33%	Equity Method
Denim Group Management LLC	33%	Equity Method
Women's Business Park Technologies Limited	55%	Full Consolidation
Cooper Software, Inc.	100%	Full Consolidation
Wipro US Foundation	100%	Full Consolidation
International TechneGroup Incorporated	100%	Full Consolidation
Rational Interaction Inc.	100%	Full Consolidation
Designit Germany GmbH	100%	Full Consolidation
Wipro IT Services SRL	100%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Wipro IT Services SE	100%	Full Consolidation
Wipro Arabia Co Limited	100%	Full Consolidation
Wipro Technologies W.T. Sociedad Anonima	100%	Full Consolidation
Wipro IT Services Bangladesh Limited	100%	Full Consolidation
Wipro HR Services India Private Limited	100%	Full Consolidation
Wipro Do Brasil Sistemetas De informatica Ltd	100%	Full Consolidation
International TechneGroup Ltd.	100%	Full Consolidation
ITI Proficiency Ltd.	100%	Full Consolidation
ITI SRL	100%	Full Consolidation
Mech Works SRL	100%	Full Consolidation
Rational Interaction Limited	100%	Full Consolidation
Rational Consulting Australia Pty Ltd.	100%	Full Consolidation

Source: Wipro Limited

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About ICRA Limited:

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