

Estimate change



TP change



Rating change



CMP: INR394

TP: INR 380 (-3%)

Neutral

Disconnect between order book and growth concerning

Remain Neutral on inexpensive valuation

	WPRO IN
Bloomberg	
Equity Shares (m)	5,693
M.Cap.(INRb)/(USDb)	2159.9 / 26.6
52-Week Range (INR)	666 / 372
1, 6, 12 Rel. Per (%)	3/-16/-38
12M Avg Val (INR M)	4212

Financials & Valuations (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	909	988	1,079
EBIT Margin (%)	15.5	16.4	17.0
PAT	115	131	148
EPS (INR)	20.9	23.9	27.0
EPS Gr. (%)	(4.7)	14.3	13.1
BV/Sh. (INR)	123.1	126.5	130.6

Ratios

RoE (%)	17.2	19.2	21.1
RoCE (%)	14.0	15.7	17.2
Payout (%)	70.0	70.0	70.0

Valuations

P/E (x)	19.7	17.3	15.3
P/BV (x)	3.3	3.3	3.2
EV/EBITDA (x)	11.2	9.7	8.5
Div Yield (%)	3.5	4.1	4.6

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	73.0	73.0	73.0
DII	8.0	3.4	2.1
FII	9.1	7.2	10.0
Others	10.0	16.4	14.9

FII Includes depository receipts

- WPRO reported 3QFY23 IT Services revenue growth of 0.6% QoQ CC (in line) due to weak macro and furloughs. Despite the easy 3Q comp (among the weakest topline growth in our large cap IT services coverage) and strong order intake (USD4.3b, 1.5x book-to-bill), WPRO has guided for a muted 4Q USD CC revenue growth of -0.6% to 1.0% QoQ.

- Q3 EBIT margin in IT Services was up 120bp QoQ to 16.3%, ahead of our expectation of 15.4% due to better employee cost control and the reversal of one-off costs incurred last quarter.

- We were disappointed by WPRO's weak implied 4QFY23 revenue growth guidance, given the continued strength in deal momentum over the last few quarters. Management indicated that near-term deal conversion was affected by slower decision-making (macro overhang) and a longer tenure (4-5 years) of transformation deals, especially the ones with hyperscalars (44% contribution of the total TCV).

- Management, however, remains optimistic that the strong deal pipeline and robust order bookings will continue in 4Q, which should help WPRO deliver better growth in FY24. Given the tepid conversion of strong TCV over the last 6-8 quarters, we are concerned that growth challenges might continue and WPRO may lag its peers even in FY24 in terms of revenue/earnings growth. We are factoring in a USD revenue CAGR of 7.3% over FY22-25, among the lowest in our IT Services coverage.

- In terms of margins, the company exceeded our expectations by 90bp QoQ and delivered 16.3% (IT service EBIT) despite two months of wage hikes and promotions at senior levels. Management remains confident to sustain margin at the 3QFY23 level and indicates further improvement over a new base. We expect FY23/FY24/FY25 margins to be 15.5%/16.4%/17.0%, which should translate to a 6.6% CAGR in INR PAT over FY22-25 – among the lowest in our IT Services coverage.

- We raise our FY23 and FY25 EPS estimate by 4% but lower our FY24 EPS estimate marginally to factor in weaker growth next year due to a lower exit rate in 4Q. We maintain our **Neutral** stance as we view the current valuation as fair. Our TP implies 16x FY24E EPS.

In-line 3Q revenue, margin beat; weak 4Q guidance

- In 3QFY23, revenue from IT Services grew by 0.6% QoQ in CC terms, INR EBIT was up 6% YoY, and INR PAT increased by 2.9% YoY.

- WPRO delivered USD revenue/INR EBIT/INR PAT growth of 9.2%/-1.0%/-9.4% YoY in 9MFY23.

- The EBIT margin in IT Services expanded by 120bp QoQ to 16.3%, ahead of our estimate of 15.4%.

- Full-year FY23 revenue growth guidance was 11.5-12% YoY in CC, implying 4Q guidance of -0.6% to +1.0% QoQ CC, below our expectation.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- The FCF-to-net income ratio stood strong at 143%. The net cash on books was at USD2.7b.
- PAT was up 2.9% YoY to INR31b, ahead of our expectations of INR28b, aided by strong margins.

Key highlights from management commentary

- Conversions were affected by macro uncertainties and slower ramp-ups in vendor consolidation deals (due to transition). The backlog remains strong, so conversions should improve going forward.
- Quarterly annualized attrition continued to moderate and was down 360bp QoQ at 17.5%.
- WPRO will continue to build on the 3QFY23 margin base.

Valuations factor in muted growth

- As WPRO posted weak 3Q earnings, we expect its FY23 organic growth to be one of the lowest among Tier-1 IT Services companies, with margin below management's medium-term guided range of 17-17.5%. Moreover, WPRO's capital allocation has started suffering due to high investments in its consulting capability, which should hurt the payout in FY23.
- We raise our FY23 and FY25 EPS estimate by 4% but lower our FY24 EPS estimate marginally to factor in weaker growth next year due to a lower exit rate in 4Q. We maintain our **Neutral** stance as we await 1) further evidence of the execution of WPRO's refreshed strategy, and 2) a successful turnaround from its growth struggles over the last decade before turning more constructive on the stock. Our TP implies 16x FY24E EPS.

Quarterly performance (IFRS)

Y/E March	(INR b)											
	FY22				FY23E				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QFY23	(% / bp)	
Revenue from IT Services (USD m)	2,415	2,580	2,640	2,722	2,736	2,798	2,804	2,837	10,356	11,174	2,808	-0.2
QoQ (%)	12.2	6.9	2.3	3.1	0.5	2.3	0.2	1.2	27.3	7.9	0.4	-18bp
Overall revenue (INR b)	183	197	203	209	215	225	232	236	791	909	232	0.0
QoQ (%)	12.4	7.8	3.3	2.7	3.2	4.7	3.1	1.4			3.1	-1bp
YoY (%)	22.4	30.1	29.6	28.4	17.9	14.6	14.4	13.0	27.7	14.9	14.4	-1bp
GPM (%)	30.1	30.1	29.7	29.1	27.7	27.3	29.7	29.5	29.7	28.6	26.7	301bp
SGA (%)	12.9	12.8	12.8	12.8	13.4	13.4	14.1	13.5	12.8	13.6	12.6	151bp
EBITDA	41	43	43	43	40	41	47	48	170	177	43	8.9
EBITDA margin (%)	22.4	21.6	21.4	20.7	18.7	18.3	20.1	20.5	21.5	19.4	18.5	164bp
IT Serv. EBIT (%)	17.8	17.8	17.6	17.0	15.0	15.1	16.3	16.7	17.5	15.8	15.4	88bp
EBIT margin (%)	17.8	17.8	17.5	16.8	14.8	14.4	16.2	16.6	17.5	15.5	14.6	164bp
Other income	6	3	2	2	2	2	2	2	13	8	2	3.0
ETR (%)	16.1	22.0	21.3	17.1	23.6	22.5	22.9	22.5	19.1	22.9	22.5	40bp
PAT	32	29	30	31	26	27	31	32	122	115	28	10.4
QoQ (%)	8.7	-9.3	1.3	4.0	-17.0	3.7	14.8	4.1			4.0	1086bp
YoY (%)	35.2	18.9	0.0	3.9	-20.7	-9.3	2.9	2.9	13.2	-6.3	-6.9	973bp
EPS (INR)	5.9	5.3	5.4	5.6	4.7	4.9	5.6	5.8	21.9	20.9	5.0	10.3

E: MOFSL estimates

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenue (QoQ CC %)	12.0	8.1	3.0	3.1	2.1	4.1	0.6			
Margins										
Gross margin	30.1	30.1	29.7	29.1	27.7	27.3	29.7	29.5	29.7	28.6
EBIT margin	17.8	17.8	17.5	16.8	14.8	14.4	16.2	16.6	17.5	15.5
Net margin	17.7	14.9	14.6	14.8	11.9	11.8	13.1	13.5	15.4	12.6
Operating metrics										
Headcount (k)	210	221	232	243	259	259	259		243	
Attrition (%)	15.5	20.5	22.7	23.8	23.3	23.0	21.2		24	
Utilization	86.8	89.2	85.8	85.2	83.8	86.8	79.7		86.8	
Key verticals (YoY CC %)										
BFSI	31.3	31.3	31.3	48.7	48.7	48.7	48.7		42.8	
Retail	33.5	33.5	33.5	34.6	34.6	34.6	34.6		36.0	

Highlights from management commentary**3QFY23 performance and demand outlook**

- WPRO reported revenue growth of 0.6% QoQ in CC terms in 3QFY23. Cloud contributed one-third of total revenues. Sequential growth was affected by weak macro and furloughs.
- The deal pipeline remained strong, with a record deal TCV of USD4.3b (up 26% YoY), with USD1b+ in large deals. The pipeline has a healthy mix of new deals and renewals spread across small, medium and large deals.
- Management expects continued traction in large deal wins in 4QFY23.
- Americas 1 had good growth in Communication and Media (14% YoY). ENU, Cyber security and Insurance grew well in Americas 2.
- WPRO saw strong double-digit growth across markets in Europe, with the order book up 25% YoY.
- WPRO closed one large deal in APMEA, and the pipeline remains strong.
- iDEAS registered a strong growth, led by Cloud transformation (+27% YoY), Application Development (+18%), and Engineering Services (+12%).
- Cyber Security is a strong growth area (+16% YoY) in iCORE. Bookings in cloud infra grow over 50% YoY.
- In Cloud services, bookings from partnerships with hyperscalars (USD2b) contributed ~44% of total TCV.
- The growth trajectory in cloud should remain strong despite concerns over slowing hyperscalars as there is already a gap between demand and delivery due to strong demand.
- Capco continues to do well for the company, and the growth has been better than anticipated.
- Even though ramp-ups are slower and discretionary spends are slowing down, it has not seen any loss of customers or any material deal terminations.
- BFSI and communications remain strong, whereas consumer and retail could see some impact of weakening macro.
- WPRO is seeing good win rates, and investments made in the large deal team are paying off well.

- Conversions are affected by macro uncertainties and slower ramp-ups in vendor consolidation deals (due to transition). Backlog remains very strong, so conversions should improve going forward.
- Management has guided to 11-12.5% CC growth in FY23.

Margin outlook

- WPRO promoted a record number of employees in 3QFY23, ~30% higher than FY22.
- IT Services margin saw a good 120bp sequential improvement in 3QFY23 due to efficiencies despite wage hikes, promotions and RSUs.
- Improved supply, higher number of freshers, good pyramid, lower attrition, absence of restructuring costs and movement of few employees from Fixed to T&M led to a reduction in the cost per employee in 3QFY23.
- WPRO will continue to build on the 3QFY23 margin base.

Other highlights

- Quarterly annualized attrition continued to moderate and was down 360bp QoQ at 17.5%.
- WPRO saw strong OCF-to-Net Income conversion at 143%.

Exhibit 1: Healthcare leads sequential growth in 3QFY23

Verticals	Contribution to revenue (%)	CC growth (QoQ %)
BFSI	34.9	-0.2
Communications	4.6	-2.6
Consumer Business Unit	18.9	0.6
Energy, Natural Resources, and Utilities	11.4	2.8
Health Business Unit	12.0	4.7
Manufacturing	6.9	0.6
Technology	11.3	-1.3

Source: Company, MOFSL

Exhibit 2: Europe sees good growth in 3QFY23

Geographies	Contribution to revenue (%)	CC growth (QoQ %)
Americas 1	29.4	1.3
Americas 2	30.8	-0.9
Europe	28.8	2.4
APMEA	11.0	-1.2

Source: Company, MOFSL

Exhibit 3: iCORE grows 2.3% QoQ in CC terms; iDEAS largely flat

Practices	Contribution to revenue (%)	CC growth (QoQ %)
iDEAS	61.7	0.4
iCORE	38.3	2.3

Source: Company, MOFSL

Valuation and view – aptly priced

- As WPRO posted weak 3Q earnings, we expect its FY23 organic growth to be one of the lowest among Tier-1 IT Services companies, with margin below management's medium-term guided range of 17-17.5%. Moreover, its capital allocation has started suffering due to high investments in its Consulting capability, which should hurt the payout in FY23.

- We raise our FY23 and FY25 EPS estimate by 4% but lower our FY24 EPS estimate marginally to factor in weaker growth next year due to a lower exit rate in 4Q. We maintain our **Neutral** stance as we await 1) further evidence of the execution of WPRO's refreshed strategy, and 2) a successful turnaround from its growth struggles over the last decade before turning more constructive on the stock. Our TP implies 16x FY24E EPS.

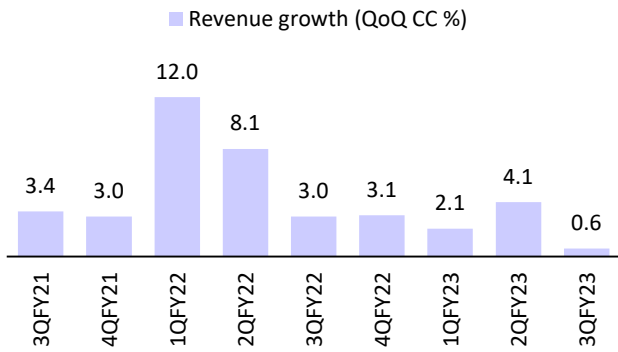
Exhibit 4: Revisions to our estimates

	Revised estimates			Earlier estimates			Change in estimates		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
USD:INR	80.6	82.5	82.5	80.7	82.8	82.8	-0.1%	-0.4%	-0.4%
Revenue from IT Services (USD m)	11,174	11,894	13,013	11,222	12,199.1	13,130.0	-0.4%	-2.5%	-0.9%
Overall growth (%)	5.4	7.3	9.3	5.9	9.3	7.5	-60bps	-210bps	170bps
EBIT margin – overall (%)	15.5	16.4	17.0	14.9	16.0	16.1	60bps	30bps	80bps
EBIT margin – IT Services (%)	15.8	16.5	17.1	15.6	16.9	17.1	20bps	-50bps	0bps
PAT (INR b)	114.5	131.0	148.2	110.6	131.9	143.0	3.5%	-0.7%	3.6%
EPS (INR)	20.89	23.88	27.02	20.2	24.1	26.1	3.5%	-0.7%	3.5%

Source: Company, MOFSL

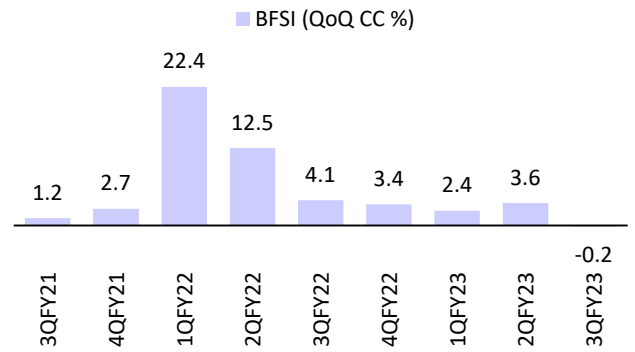
Story in charts

Exhibit 5: WPRO reports weak revenue growth in 3QFY23



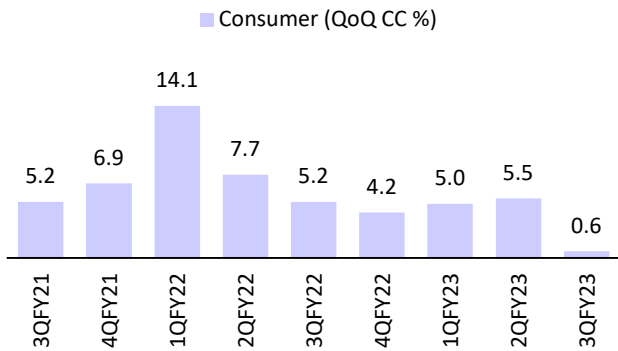
Source: Company, MOFSL

Exhibit 6: BFSI was largely flat QoQ



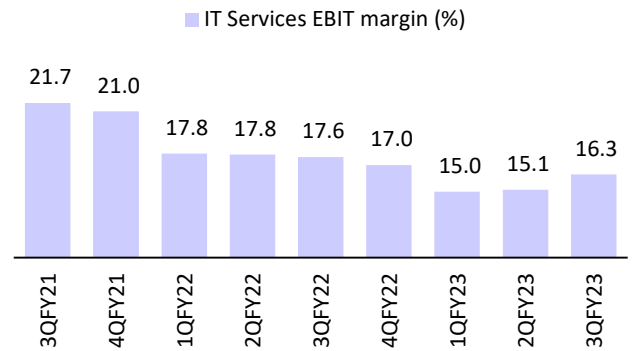
Source: Company, MOFSL

Exhibit 7: Consumer vertical grows marginally in CC terms



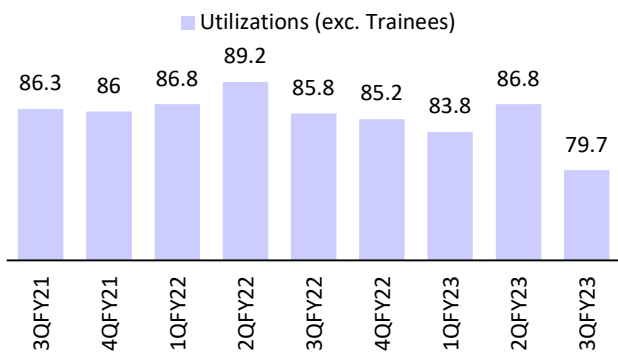
Source: Company, MOFSL

Exhibit 8: Margin improves ~120bp QoQ



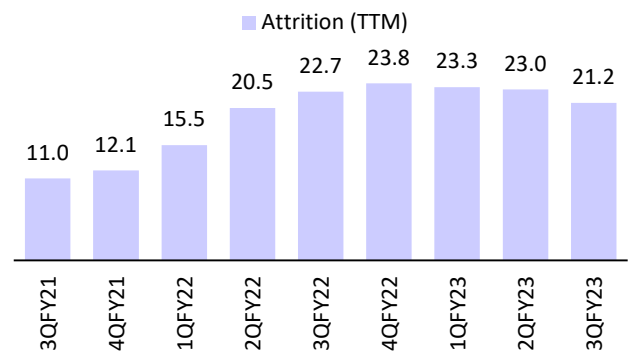
Source: Company, MOFSL

Exhibit 9: Utilization slips below 80% in 3QFY23



Source: Company, MOFSL

Exhibit 10: Attrition sees some moderation in 3QFY23



Source: Company, MOFSL

Operating metrics

Exhibit 11: Operating metrics

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Services composition (%)									
iDEAS	57.3	56.8	60.1	61.3	61.0	61.2	61.9	62.3	61.7
iCORE	42.7	43.2	39.9	38.7	39.0	39.1	38.1	37.7	38.3
Verticals (%)									
Finance Solutions	30.5	30.5	33.4	34.8	35.2	35.4	35.4	35.2	34.9
Manufacturing	8.3	7.9	7.0	6.7	6.7	7.0	6.7	6.9	6.9
Healthcare Life Sciences	13.9	13.0	11.9	11.7	11.8	11.5	11.5	11.4	12.0
Energy, Natural Resources, and Utilities	13.1	13.2	13.1	12.3	11.7	11.5	11.1	11.2	11.4
Communications	5.2	5.0	5.1	5.0	5.0	4.8	5.0	4.9	4.6
Consumer	16.4	17.0	17.3	17.3	17.7	17.9	18.5	18.8	18.9
Technology	12.6	13.4	12.2	12.2	11.9	11.9	11.8	11.6	11.3
Geography (%)									
Americas 1	29.4	29.2	27.6	27.5	28.2	28.3	29.1	29.2	29.4
Americas 2	29.1	29.3	30.5	30.6	30.4	31.0	31.3	31.3	30.8
Europe	28.0	28.4	30.2	30.2	29.7	29.3	28.3	28.1	28.8
APMEA	13.5	13.1	11.7	11.7	11.7	11.4	11.3	11.4	11.0
Customer size distribution (TTM)									
Over USD100m	10	11	13	15	17	19	20	19	19
Over USD75m	24	27	27	28	29	29	30	29	29
Over USD50m	38	40	42	44	47	50	50	52	52
Over USD20m	97	93	95	100	110	117	120	122	119
Over USD10m	168	167	176	182	189	194	195	198	202
Over USD5m	260	257	273	279	286	297	306	308	307
Over USD3m	341	349	361	390	399	410	417	425	431
Over USD1m	567	566	601	623	661	679	703	729	739
Customer metrics									
Revenue from existing customers (%)	97.4	96.4	97.2	95.1	94.9	93.7	98.7	97.4	96.9
Number of new customers	89	52	129	116	67	116	164	128	80
Total number of active customers	1136	1120	1229	1284	1315	1369	1433	1471	1484
Employee metrics									
Closing headcount – IT Services (k)	190	198	210	221	232	243	259	259	259
Sales and support staff – IT Services (k)	15	15	17	17	18	18	18	17	17
Utilization									
Gross utilization (%)	74.8	76.7	77.7	78.1	75.6	75.8	72.7	72.3	72.3
Net utilization (excluding trainees, %)	86.3	86.0	86.8	89.2	85.8	85.2	83.8	86.8	79.7
Attrition									
Voluntary TTM	11.0	12.1	15.5	20.5	22.7	23.8	23.3	23.0	21.2
BPO – post-training	7.0	7.4	8.0	8.7	10.0	9.0	11.4	10.3	8.7
Customer concentration (%)									
Top customer	3.1	3.1	3.1	3.1	3.2	3.2	3.2	3.2	3.2
Top five	11.9	12.2	12.1	12.5	12.7	12.9	13.0	13.1	13.3
Top 10	18.9	19.5	19.8	20.1	20.2	20.5	20.9	21.0	21.3

Source: MOFSL, Company

Financials and valuations

Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales	545	586	610	619	791	909	988	1,079
Change (%)	-1.0	7.5	4.2	1.5	27.7	14.9	8.7	9.3
Operating Costs	386	413	436	423	556	649	701	756
SG&A	75	75	69	73	97	119	125	140
EBITDA	105	117	126	151	169	177	200	225
As a percentage of Net Sales	19.3	19.9	20.6	24.3	21.4	19.4	20.3	20.8
Depreciation and Amort.	21	19	21	28	31	35	38	42
EBIT	84	97	105	123	138	141	162	183
Margin	15.5	16.6	17.2	19.8	17.5	15.5	16.4	17.0
Other Income	18	18	17	16	13	8	8	9
PBT	102	115	123	139	151	149	170	192
Tax	22	25	25	30	29	34	38	43
Rate (%)	21.8	21.9	20.2	21.8	19.1	22.9	22.5	22.5
PAT	80	90	98	109	122	115	132	149
Minority Interest	0	0	0	1	0	0	1	1
Adjusted PAT	80	90	97	108	122	115	131	148
Change (%)	-5.7	12.4	8.0	11.0	13.2	-6.3	14.3	13.1

Balance Sheet

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	9	12	11	11	11	11	11	11
Reserves	474	556	546	542	647	663	682	704
Net Worth	483	568	557	553	658	674	693	715
Minority Interest and others	19	22	38	41	56	55	60	65
Loans	138	99	78	83	152	142	132	122
Capital Employed	640	690	674	677	866	871	884	902
Gross Block	194	220	268	299	338	352	367	388
Less: Depreciation	130	149	170	198	228	264	302	344
Net Block	64	71	98	102	110	88	64	44
Investments	13	13	11	12	20	20	20	20
Intangible Assets	136	131	147	152	291	291	291	291
Other non-current assets	41	47	41	42	38	51	55	60
Curr. Assets	506	572	520	523	621	685	737	791
Debtors	143	123	130	121	176	196	213	233
Inventories	3	4	2	1	1	2	2	2
Cash and Bank Balance	45	159	144	170	104	155	165	172
Adv., Other Current Assets	65	46	54	55	98	70	76	83
Investments	249	240	190	176	242	262	282	302
Current Liab. and Prov.	121	143	143	154	213	264	283	304
Net Current Assets	386	429	377	369	408	421	454	487
Application of Funds	640	690	674	677	866	871	884	902

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	12.5	14.6	16.4	18.8	21.9	20.9	23.9	27.0
Cash EPS	16.0	18.2	20.2	23.9	27.9	27.3	30.9	34.7
Book Value	76.5	94.8	95.6	97.9	120.4	123.1	126.5	130.6
DPS	1.0	1.0	1.0	1.0	6.0	14.6	16.7	18.9
Payout (%)	145.3	6.7	113.9	93.3	26.9	70.0	70.0	70.0
Valuation (x)								
P/E ratio	31.5	27.0	24.0	21.0	18.0	18.9	16.5	14.6
Cash P/E ratio	24.6	21.6	19.5	16.5	14.1	14.4	12.8	11.4
EV/EBITDA ratio	22.1	17.7	16.2	13.0	11.6	10.7	9.2	8.0
EV/Sales ratio	4.3	3.5	3.3	3.2	2.5	2.1	1.9	1.7
Price/Book Value ratio	5.2	4.2	4.1	4.0	3.3	3.2	3.1	3.0
Dividend Yield (%)	0.3	0.3	0.3	0.3	1.5	3.7	4.2	4.8
Profitability Ratios (%)								
RoE	16.0	17.1	17.3	19.4	20.2	17.2	19.2	21.1
RoCE	11.9	13.1	13.7	16.0	16.3	14.0	15.7	17.2
Turnover Ratios								
Debtors (Days)	96	77	78	72	81	79	79	79
Asset Turnover ratio (x)	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.9

Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
CF from Operations	85	89	124	125	147	150	169	190
Cash for Wkg. Capital	-1	27	-24	23	-36	44	-3	-5
Net Operating CF	84	116	101	148	111	194	166	185
Net Purchase of FA	-21	-21	-22	-19	-19	-14	-15	-22
Other changes in investments	56	71	56	27	-205	-20	-20	-20
Dividend from Subsidiary								
Net Cash from Invest.	36	50	34	8	-224	-34	-35	-42
Issue of Shares/Other adj	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-14	-44	-143	-122	53	-15	-15	-15
Dividend Payments	-116	-5	-8	-6	-7	-94	-107	-121
Net CF from Finan.	-130	-49	-151	-129	47	-109	-122	-136
Free Cash Flow	64	95	78	129	91	180	151	163
Net Cash Flow	-10	117	-16	26	-67	52	9	7
Forex difference	0	1	2	-1	1	0	0	0
Opening Cash Bal.	49	39	157	142	168	102	154	163
Add: Net Cash	-10	118	-14	26	-66	52	9	7
Closing Cash Bal.	39	157	142	168	102	154	163	170

E: MOFSL estimates

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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