

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	WPRO IN
Equity Shares (m)	5,693
M.Cap.(INRb)/(USDb)	2236.7 / 27.2
52-Week Range (INR)	740 / 385
1, 6, 12 Rel. Per (%)	1/-25/-34
12M Avg Val (INR M)	4513

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	791	908	998
EBIT Margin (%)	17.5	15.1	16.0
PAT	122	111	130
EPS (INR)	21.9	20.3	23.7
EPS Gr. (%)	16.9	(7.4)	16.5
BV/Sh. (INR)	120.4	123.2	126.6

Ratios

RoE (%)	20.2	16.7	19.0
RoCE (%)	16.3	13.6	15.6
Payout (%)	26.9	70.0	70.0

Valuations

P/E (x)	18.6	20.1	17.2
P/BV (x)	3.4	3.3	3.2
EV/EBITDA (x)	12.1	10.8	9.1
Div Yield (%)	1.5	3.5	4.1

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	73.0	73.0	73.0
DII	3.4	3.3	5.7
FII	7.2	8.4	10.2
Others	16.4	15.4	11.1

FII Includes depository receipts

CMP: INR408 **TP: INR 380 (-7%)** **Neutral**

Slowdown in Consulting to dampen revenue growth

Margin recovery to take some time

- WPRO reported a 2QFY23 IT Services' revenue of USD2.8b (up 4.1% QoQ in CC terms), in line with its guidance and our estimate (including a 130bp gain from the Rizing acquisition). The EBIT margin in IT Services stood in line at 15.1% (up 10bp QoQ). Its 3QFY23 USD CC revenue growth guidance of 0.5-2% QoQ was disappointing and missed our estimate by 50bp. The management also guided at a stable margin performance in 3QFY23.
- We were disappointed by WPRO's weak 3QFY23 revenue growth guidance. While the management blamed this on macro uncertainty and geopolitical issues, it said that it has started to see a slowdown in the Consulting business, although the same was partially compensated by cross-selling in Services. We remain concerned given the vulnerability of Consulting due to its early cycle nature. Moreover, the low employee addition in 2QFY23 also adds to near term growth concerns. We are factoring in a FY22-24 USD revenue CAGR of 7.8% – the weakest in our Tier I IT Services coverage.
- WPRO is on track to deliver a 230bp drop in EBIT margin in FY23 (excluding a one-off impact in 2Q due to the restructuring in Europe), which inhibits the management's ability to focus on growth. We expect WPRO to stay meaningfully behind its 17-17.5% medium term IT Services' EBIT margin guidance over the next two years. With the Consulting business slowing down, risk to profitability from a weakness in Capco continues to rise and may force WPRO to choose between scaling up the vertical and margin.
- We expect FY23 EBIT margin at 15% (down 250bp YoY, including a one-off impact) in IT Services, which should result in a 7.4% drop in INR PAT, despite a 7% gain from the depreciation in the INR v/s the USD. We expect a FY22-24 INR PAT CAGR of 3% – one of the lowest in our IT Services coverage.
- We lower our FY23/FY24 EPS estimate by 6%/2% to factor in a miss on growth and elevated risk. We maintain our **Neutral** stance as we view the current valuation as fair. Our TP implies 16x FY24E EPS.

In line 2Q earnings, but 3QFY23 guidance is softer than expected

- In 2QFY23, revenue from IT Services grew 4.1% QoQ in CC terms, INR EBIT fell 7% YoY, and INR PAT declined by 9% YoY.
- It delivered a USD revenue/INR EBIT/INR PAT growth of in 7.6%/(4.6%)/(15.3)% YoY in 1HFY23.
- The EBIT margin in IT Services was in line at 15.1%.
- Its revenue growth guidance of 0.5-2% QoQ in CC terms for 3QFY23 was lower than our expectations.
- FCF-to-net income ratio stood strong at 166%. The cash on its books stood at USD897m.
- PAT fell 9% YoY to INR26.6b and was 10% below our estimate.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Key highlights from the management commentary

- Consulting is more prone to a risk in a weakening macro environment. It has seen an impact with some slowdown in Capco. Clients are changing the nature of deals, with a greater skew towards productivity deals.
- A weakening macro-economic environment, the crisis in Ukraine, the energy crisis, and a possible recession are creating heightened uncertainties, which will impact clients.
- The management said it will continue to face some margin headwinds in 3QFY23.

Valuations factor in muted growth

- As WPRO posted a weak set of 2Q earnings, we expect its FY23 organic growth to be one of the lowest among Tier I IT Services play, with margin below the management's medium-term guided range of 17-17.5%. Moreover, its capital allocation has started suffering due to elevated investments in its Consulting capability, and the same should impact payout in FY23.
- We lower our FY23/FY24 EPS estimate by 6%/2% to factor in a miss on margin. We maintain our **Neutral** stance as we await: a) further evidence of the execution of WPRO's refreshed strategy, and b) 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	FY22				FY23E				(INR b)			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY22	FY23E	FY23E	Var.
											2QE	(%/bp)
Revenue from IT Services (USD m)	2,415	2,580	2,640	2,722	2,736	2,798	2,791	2,842	10,356	11,166	2,809	-0.4
QoQ (%)	12.2	6.9	2.3	3.1	0.5	2.3	-0.2	1.8	27.3	7.8	2.7	-41bp
Overall revenue (INR b)	183	197	203	209	215	225	232	236	791	908	225	0.0
QoQ (%)	12.4	7.8	3.3	2.7	3.2	4.7	2.8	1.8			4.7	2bp
YoY (%)	22.4	30.1	29.6	28.4	17.9	14.6	14.1	13.0	27.7	14.8	14.6	3bp
GPM (%)	30.1	30.1	29.7	29.1	27.7	27.3	27.1	27.8	29.7	27.5	27.9	-59bp
SGA (%)	12.9	12.8	12.8	12.8	13.4	13.4	12.4	12.4	12.8	12.9	13.3	6bp
EBITDA	41	43	43	43	42	43	45	48	170	177	44	-3.4
EBITDA margin (%)	22.4	21.6	21.4	20.7	19.3	18.9	19.6	20.3	21.5	19.5	19.6	-67bp
IT Serv. EBIT (%)	17.8	17.8	17.6	17.0	15.0	15.1	15.3	16.0	17.5	15.4	15.3	-23bp
EBIT margin (%)	17.8	17.8	17.5	16.8	14.8	14.4	15.2	15.8	17.5	15.1	15.1	-67bp
Other income	6	3	2	2	2	2	2	2	13	7	4	-61.3
ETR (%)	16.1	22.0	21.3	17.1	23.6	22.5	22.5	22.5	19.1	22.8	22.5	4bp
PAT	32	29	30	31	26	27	29	30	122	111	30	-10.2
QoQ (%)	8.7	-9.3	1.3	4.0	-17.0	3.7	7.8	6.0			15.5	-1174bp
YoY (%)	35.2	18.9	0.0	3.9	-20.7	-9.3	-3.4	-1.6	13.2	-8.9	1.0	-1027bp
EPS (INR)	5.9	5.3	5.4	5.6	4.7	4.9	5.2	5.5	21.9	20.3	5.4	-10.1

E: MOFSL estimates

Key performance indicators

Y/E March	FY22				FY23E				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	12.0	8.1	3.0	3.1	2.1	4.1				
Margins										
Gross margin	30.1	30.1	29.7	29.1	27.7	27.3	27.1	27.8	29.7	27.5
EBIT margin	17.8	17.8	17.5	16.8	14.8	14.4	15.2	15.8	17.5	15.1
Net margin	17.7	14.9	14.6	14.8	11.9	11.8	12.4	12.9	15.4	12.3
Operating metrics										
Headcount (k)	210	221	232	243	259	259			243	
Attrition (%)	15.5	20.5	22.7	23.8	23.3	23.0			24	
Utilization	86.8	89.2	85.8	85.2	83.8	86.8			86.8	
Key verticals (YoY CC %)										
BFSI	31.3	31.3	31.3	48.7	48.7	48.7			42.8	
Retail	33.5	33.5	33.5	34.6	34.6	34.6			36.0	



Highlights from the management commentary

2QFY23 performance and demand outlook

- WPRO reported a revenue growth of 4.1% QoQ in CC terms in 2QFY23.
- The pipeline remains strong and the deal TCV was up 24% YoY, with large deal TCV up 42% YoY in 1HFY23.
- All sectors grew well in Americas 1, with bookings up 34% YoY. The strong 20% growth in Manufacturing and ENU led growth in Americas 2.
- It saw strong double-digit growth across markets in Europe, with the order book up 36% YoY.
- In APMEA, all markets registered strong double-digit growth.
- iDEAS registered strong growth on the back of Cloud transformation (+26% YoY), Application Development (+21%), and Engineering Services (+18%).
- Cyber Security is a strong growth area (+23% YoY) in iCORE, and WPRO is seeing strong demand for the same.
- In Cloud services, bookings from partnerships with hyperscallers rose 24% YoY.
- Consulting is more prone to a risk in a weakening macro environment. It has seen an impact with some slowdown in Capco. Clients are changing the nature of deals, with a greater skew towards productivity deals.
- A weakening macro-economic environment, the crisis in Ukraine, the energy crisis, and a possible recession are creating heightened uncertainties, which will impact clients.
- BFSI is holding well, despite a weak macro. Technology, Retail, and Manufacturing verticals are looking weak and may be impacted. It is expecting the Manufacturing space to be impacted in 2HFY23.
- The management guided at a 0.5-2% QoQ growth in CC terms on account of uncertainties due to a weakening macro and seasonality in 3QFY23. However, it stuck to its double-digit growth guidance for FY23.

Margin outlook

- WPRO offered quarterly promotions in Jul'22 and rolled out wage hikes in Sep'22.
- The management said it will continue to face some margin headwinds in 3QFY23.

- Though pricing environment remains good, there is some uncertainty about pricing going forward, given the macro environment.
- Utilization will improve in coming quarters as freshers turn billable.
- Though consulting is facing challenges in growth, margin in Consulting is improving, which will aid its overall margin profile.
- Improved automation, operating leverage, utilization, productivity, and pricing are key margin levers.

Other highlights

- Quarterly annualized attrition moderated to 23%.
- It witnessed a robust improvement in the working capital cycle and recorded an operating cash flow-to-net income conversion of 181%.

Exhibit 1: ENU vertical leads revenue growth

Verticals	Contribution to revenue (%)	CC growth (QoQ %)
BFSI	35.2	3.6
Communications	4.9	3.3
Consumer Business Unit	18.8	5.5
Energy, Natural Resources, and Utilities	11.2	6.6
Health Business Unit	11.4	3.0
Manufacturing	6.9	6.2
Technology	11.6	1.5

Source: Company, MOFSL

Exhibit 2: Strong growth across geographies

Geographies	Contribution to revenue (%)	CC growth (QoQ %)
Americas 1	29.2	2.9
Americas 2	31.3	3.0
Europe	28.1	5.6
APMEA	11.4	6.7

Source: Company, MOFSL

Exhibit 3: iDEAS grows 4.9% QoQ in CC terms

Practices	Contribution to revenue (%)	CC growth (QoQ %)
iDEAS	62.3	4.9
iCORE	37.7	2.8

Source: Company, MOFSL

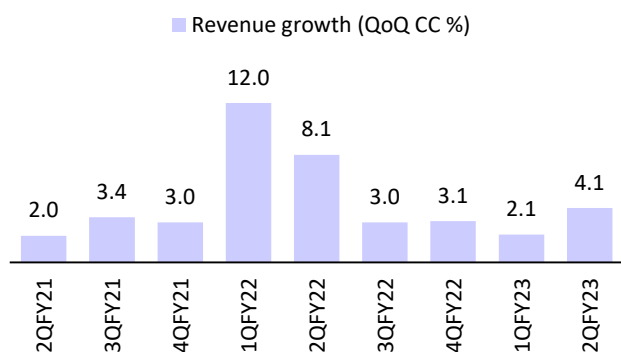
Valuation and view – aptly priced

- As WPRO posted a weak set of 2Q earnings, we expect its FY23 organic growth to be one of the lowest among Tier I IT Services play, with margin below the management's medium-term guided range of 17-17.5%. Moreover, its capital allocation has started suffering due to elevated investments in its Consulting capability, and the same should impact payout in FY23.
- We lower our FY23/FY24 EPS estimate by 6%/2% to factor in a miss on margin. We maintain our **Neutral** stance as we await: a) further evidence of the execution of WPRO's refreshed strategy, and b) a successful turnaround from its growth struggles over the last decade before turning more constructive on the stock. Our TP implies 16x FY24E EPS.

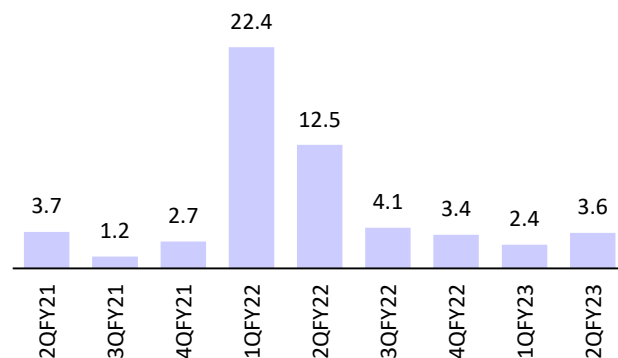
Exhibit 4: Revisions to our estimates

	Revised estimates		Earlier estimates		Change in estimates (%)	
	FY23	FY24	FY23	FY24	FY23	FY24
USD:INR	80.7	82.5	80.3	81.8	0.5	0.9
Revenue from IT Services (USD m)	11,166	12,035	11,233	11,931.3	-0.6	0.9
Overall growth (%)	5.4	8.4	6.5	6.4	-110bps	200bps
EBIT margin – overall (%)	15.1	16.0	15.2	15.7	-10bps	40bps
EBIT margin – IT Services (%)	15.4	16.2	15.4	15.9	-10bps	30bps
PAT (INR b)	111.3	129.7	118.0	131.7	-5.7	-1.5
EPS (INR)	20.30	23.66	21.5	24.0	-5.7	-1.5

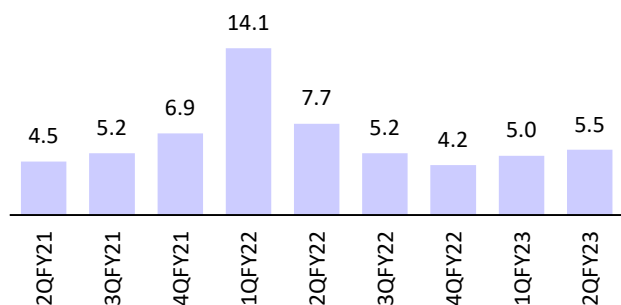
Source: Company, MOFSL

Story in charts**Exhibit 5: WPRO reports strong revenue growth in 2QFY23**

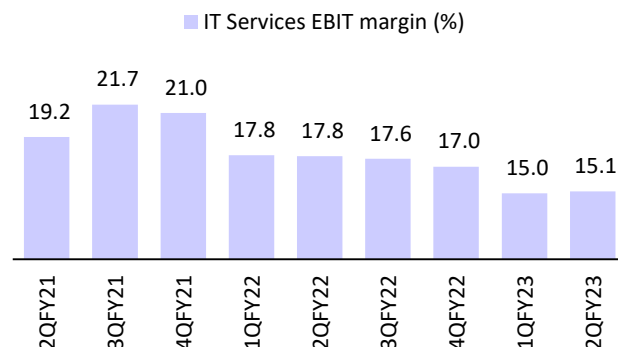
Source: Company, MOFSL

Exhibit 6: BFSI vertical up 3.6% in CC terms in 2QFY23

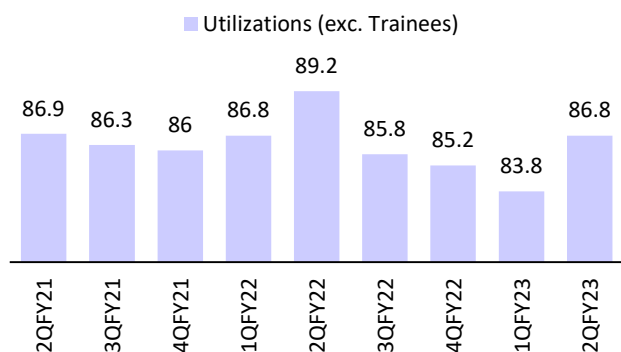
Source: Company, MOFSL

Exhibit 7: Consumer vertical grew 5.5% QoQ in CC terms

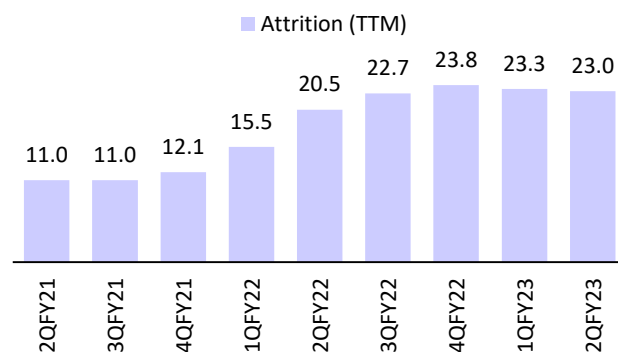
Source: Company, MOFSL

Exhibit 8: Margin in IT Services largely flat

Source: Company, MOFSL

Exhibit 9: Utilization improves in 2QFY23

Source: Company, MOFSL

Exhibit 10: See some moderation in attrition in 2QFY23

Source: Company, MOFSL

Operating metrics

Exhibit 11: Operating metrics

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Services composition (%)									
iDEAS	57.6	57.3	56.8	60.1	61.3	61.0	61.2	61.9	62.3
iCORE	42.4	42.7	43.2	39.9	38.7	39.0	39.1	38.1	37.7
Verticals (%)									
Finance Solutions	31.2	30.5	30.5	33.4	34.8	35.2	35.4	35.4	35.2
Manufacturing	8.2	8.3	7.9	7.0	6.7	6.7	7.0	6.7	6.9
Healthcare Life Sciences	13.7	13.9	13.0	11.9	11.7	11.8	11.5	11.5	11.4
Energy, Natural Resources, and Utilities	12.9	13.1	13.2	13.1	12.3	11.7	11.5	11.1	11.2
Communications	5.3	5.2	5.0	5.1	5.0	5.0	4.8	5.0	4.9
Consumer	16.2	16.4	17.0	17.3	17.3	17.7	17.9	18.5	18.8
Technology	12.5	12.6	13.4	12.2	12.2	11.9	11.9	11.8	11.6
Geography (%)									
Americas 1	29.7	29.4	29.2	27.6	27.5	28.2	28.3	29.1	29.2
Americas 2	30.1	29.1	29.3	30.5	30.6	30.4	31.0	31.3	31.3
Europe	26.1	28.0	28.4	30.2	30.2	29.7	29.3	28.3	28.1
APMEA	14.1	13.5	13.1	11.7	11.7	11.7	11.4	11.3	11.4
Customer size distribution (TTM)									
Over USD100m	11	10	11	13	15	17	19	20	19
Over USD75m	24	24	27	27	28	29	29	30	29
Over USD50m	39	38	40	42	44	47	50	50	52
Over USD20m	100	97	93	95	100	110	117	120	122
Over USD10m	166	168	167	176	182	189	194	195	198
Over USD5m	257	260	257	273	279	286	297	306	308
Over USD3m	342	341	349	361	390	399	410	417	425
Over USD1m	573	567	566	601	623	661	679	703	729
Customer metrics									
Revenue from existing customers (%)	98.6	97.4	96.4	97.2	95.1	94.9	93.7	98.7	97.4
Number of new customers	97	89	52	129	116	67	116	164	128
Total number of active customers	1089	1136	1120	1229	1284	1315	1369	1433	1471
Employee metrics									
Closing headcount – IT Services (k)	185	190	198	210	221	232	243	259	259
Sales and support staff – IT Services (k)	15	15	15	17	17	18	18	18	17
Utilization									
Gross utilization (%)	76.4	74.8	76.7	77.7	78.1	75.6	75.8	72.7	72.3
Net utilization (excluding trainees, %)	86.9	86.3	86.0	86.8	89.2	85.8	85.2	83.8	86.8
Attrition									
Voluntary TTM	11.0	11.0	12.1	15.5	20.5	22.7	23.8	23.3	23.0
BPO – post-training	6.1	7.0	7.4	8.0	8.7	10.0	9.0	11.4	10.3
Customer concentration (%)									
Top customer	3.2	3.1	3.1	3.1	3.1	3.2	3.2	3.2	3.2
Top five	12.0	11.9	12.2	12.1	12.5	12.7	12.9	13.0	13.1
Top 10	19.6	18.9	19.5	19.8	20.1	20.2	20.5	20.9	21.0

Source: MOFSL, Company

Financials and valuations

Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	550	545	586	610	619	791	908	998
Change (%)	7.4	-1.0	7.5	4.2	1.5	27.7	14.8	9.9
Operating Costs	392	386	413	436	423	556	659	719
SG&A	69	75	75	69	73	97	113	120
EBITDA	113	105	117	126	151	169	177	204
As a percentage of Net Sales	20.5	19.3	19.9	20.6	24.3	21.4	19.5	20.5
Depreciation and Amort.	23	21	19	21	28	31	41	45
EBIT	90	84	97	105	123	138	137	160
Margin	16.3	15.5	16.6	17.2	19.8	17.5	15.1	16.0
Other Income	21	18	18	17	16	13	7	8
PBT	110	102	115	123	139	151	144	168
Tax	25	22	25	25	30	29	33	38
Rate (%)	22.8	21.8	21.9	20.2	21.8	19.1	22.8	22.5
PAT	85	80	90	98	109	122	111	130
Minority Interest	0	0	0	0	1	0	0	1
Adjusted PAT	85	80	90	97	108	122	111	130
Change (%)	-4.5	-5.7	12.4	8.0	11.0	13.2	-8.9	16.5

Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	5	9	12	11	11	11	11	11
Reserves	515	474	556	546	542	647	662	681
Net Worth	520	483	568	557	553	658	673	692
Minority Interest and others	24	19	22	38	41	56	55	60
Loans	142	138	99	78	83	152	140	130
Capital Employed	687	640	690	674	677	866	868	882
Gross Block	178	194	220	268	299	338	352	367
Less: Depreciation	108	130	149	170	198	228	269	313
Net Block	70	64	71	98	102	110	83	53
Investments	7	13	13	11	12	20	20	20
Intangible Assets	142	136	131	147	152	291	291	291
Other non-current assets	36	41	47	41	42	38	51	56
Curr. Assets	539	506	572	520	523	621	699	760
Debtors	140	143	123	130	121	176	162	178
Inventories	4	3	4	2	1	1	2	2
Cash and Bank Balance	53	45	159	144	170	104	203	222
Adv., Other Current Assets	50	65	46	54	55	98	70	77
Investments	292	249	240	190	176	242	262	282
Current Liab. and Prov.	107	121	143	143	154	213	275	298
Net Current Assets	432	386	429	377	369	408	424	463
Application of Funds	687	640	690	674	677	866	868	882

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	13.0	12.5	14.6	16.4	18.8	21.9	20.3	23.7
Cash EPS	16.7	16.0	18.2	20.2	23.9	27.9	27.7	31.8
Book Value	80.6	76.5	94.8	95.6	97.9	120.4	123.2	126.6
DPS	2.0	1.0	1.0	1.0	1.0	6.0	14.2	16.6
Payout (%)	44.6	145.3	6.7	113.9	93.3	26.9	70.0	70.0
Valuation (x)								
P/E ratio	31.3	32.6	27.9	24.9	21.8	18.6	20.1	17.2
Cash P/E ratio	24.5	25.5	22.4	20.2	17.1	14.6	14.7	12.8
EV/EBITDA ratio	21.5	23.0	18.4	16.9	13.6	12.1	10.8	9.1
EV/Sales ratio	4.4	4.4	3.7	3.5	3.3	2.6	2.1	1.9
Price/Book Value ratio	5.1	5.3	4.3	4.3	4.2	3.4	3.3	3.2
Dividend Yield (%)	0.5	0.2	0.2	0.2	0.2	1.5	3.5	4.1
Profitability Ratios (%)								
RoE	17.2	16.0	17.1	17.3	19.4	20.2	16.7	19.0
RoCE	13.0	11.9	13.1	13.7	16.0	16.3	13.6	15.6
Turnover Ratios								
Debtors (Days)	93	96	77	78	72	81	65	65
Asset Turnover ratio (x)	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
CF from Operations	88	85	89	124	125	147	152	174
Cash for Wkg. Capital	5	-1	27	-24	23	-36	89	0
Net Operating CF	93	84	116	101	148	111	241	175
Net Purchase of FA	-16	-21	-21	-22	-19	-19	-14	-15
Other changes in investments	-100	56	71	56	27	-205	-20	-20
Dividend from Subsidiary								
Net Cash from Invest.	-116	36	50	34	8	-224	-34	-35
Issue of Shares/Other adj	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	11	-14	-44	-143	-122	53	-15	-15
Dividend Payments	-34	-116	-5	-8	-6	-7	-91	-106
Net CF from Finan.	-23	-130	-49	-151	-129	47	-106	-121
Free Cash Flow	77	64	95	78	129	91	227	160
Net Cash Flow	-46	-10	117	-16	26	-67	101	19
Forex difference	-1	0	1	2	-1	1	0	0
Opening Cash Bal.	97	49	39	157	142	168	102	203
Add: Net Cash	-48	-10	118	-14	26	-66	101	19
Closing Cash Bal.	49	39	157	142	168	102	203	222

E: MOFSL estimates

Explanation of Investment Rating	
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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