

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR465 **TP: INR520 (+12%)** **Neutral**

Mixed quarter with good delivery but muted guidance

Positive commentary on Consulting is encouraging

Bloomberg	WPRO IN
Equity Shares (m)	5693
M.Cap.(INRb)/(USDb)	2431.7 / 29.3
52-Week Range (INR)	484 / 352
1, 6, 12 Rel. Per (%)	6/6/-5
12M Avg Val (INR M)	2259

Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	896	951	1,056
EBIT Margin (%)	15.3	15.6	16.7
PAT	111	121	143
EPS (INR)	20.6	22.9	27.3
EPS Gr. (%)	(0.6)	11.5	19.2
BV/Sh. (INR)	138.2	137.4	140.8

Ratios

RoE (%)	14.7	16.7	19.7
RoCE (%)	11.9	13.4	15.8
Payout (%)	120.0	90.0	70.0

Valuations

P/E (x)	22.7	20.3	17.0
P/BV (x)	3.4	3.4	3.3
EV/EBITDA (x)	12.9	11.8	9.9
Div Yield (%)	5.3	4.4	4.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	72.9	72.9	73.0
DII	8.0	7.6	8.0
FII	9.0	8.7	9.1
Others	10.8	10.8	10.0

FII Includes depository receipts

- WPRO reported IT Services revenue of USD2.66b in 3QFY24, down 1.7% QoQ CC, near the upper end of its guidance and 100bp ahead of our estimate. It reported an order intake of USD3.8b (flat QoQ), with large deal TCV of USD0.9b (down 8.3% QoQ). Despite four straight quarters of revenue decline, WPRO has provided muted guidance for 4Q, with USD CC revenue performance to be in the range of -1.5% to +0.5% QoQ.

- Despite revenue growth in 3Q, WPRO maintained its IT Services EBIT margin at 16.0% (flat QoQ), ahead of our expectation of 15.1% due to better cost control and lower employee count.

- We see WPRO's 3Q performance as positive given that the company struggled to deliver on expectation over the last few quarters due to macro headwinds. Moreover, the management commentary on higher deal wins in the Consulting vertical indicates that the drag from that segment is now bottoming out, which should help improve overall growth.

- But we believe that WPRO's weak 4QFY24 revenue growth guidance is a concern, along with unchanged commentary on demand and discretionary spending. While we expect WPRO to return to growth in FY25 after posting a decline in FY24, the weak base should result in revenue growth lower than that of peers. We expect the company to deliver a 3.9% CAGR in IT Services revenue over FY23-26.

- EBIT margin stood at 16.0% (IT service), beating our estimate by 100bp QoQ, despite two months of wage hikes. The management remains confident of reverting to its 17% EBIT margin guidance in the medium term. We expect WPRO to revert to this level of profitability in FY25, which should translate to an 8.0% CAGR in INR PAT over FY23-26E.

- We have kept our FY24-FY26 EPS estimates broadly unchanged after its 3Q print. We maintain our **Neutral** stance as we view the current valuation as fair. Our TP of INR520 is based on 19x FY26E EPS.

Steady performance beat our estimates, weak 4Q guidance

- IT services USD rev stood at USD2.66b, down 1.7% QoQ in CC (reported USD down 2.1% QoQ) and better than our estimate of a 2.7% QoQ CC decline.

- BFS (-4.3% QoQ CC), Mfg (-6.1% QoQ CC), Comms (-8.6% QoQ CC) and Technology (-1.9% QoQ CC) were adversely impacted.

- IT Services EBIT margin was stable at 16.0% (down 10bp QoQ) despite wage hike in 3Q, above our estimate of a 100bp QoQ decline.

- 3Q deal TCV came in at USD3.8b, flat QoQ and down 13.5% YoY CC. Large deal TCV of USD0.9b (down 8.3% QoQ).

- Net profit stood at INR27b, down 11.7% YoY but above our estimate of INR25b due to a beat in margins.

Key highlights from management commentary

- The management alluded that the market has not changed fundamentally in terms of demand. It is witnessing some stabilization in technology-related spending. While a major slowdown is seen in discretionary areas, especially in smaller projects.
- The short-term demand environment remains cautious, with enterprise clients still being conservative on investment decisions. They continue to look for optimization and cost saving opportunities, while return on investments remains a common theme across clients.
- EN&U is performing well and is witnessing progressive investments in the areas of plant engineering and IT services. Additionally, GenAI is also supporting the overall demand trend and getting embedded into remote equipment
- The management indicated that GenAI is now moving from an experimental stage to a commercial stage, where every large deals has some components of GenAI to develop use cases and AI models.

Valuations & View

- Given WPRO's weak 3QFY24 revenue growth and muted 4Q guidance, we expect its FY24 revenue growth rate to be one of the lowest among Tier-1 IT Services peers, with margin below the management's medium-term guided range of 17.0-17.5%.
- We maintain our **Neutral** rating as we await: 1) further evidence of the execution of WPRO's refreshed strategy, and 2) a successful turnaround from its struggles over the last decade before turning more constructive on the stock. Our TP of INR520 is based on 19x FY26E EPS.

Quarterly performance (IFRS)

Y/E March	(INR b)											
	FY23				FY24E				FY23	FY24E	FY24E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QFY24	(% / bp)
IT Services Revenue (USD m)	2,756	2,817	2,821	2,840	2,779	2,713	2,656	2,671	11,234	10,818	2,633	0.9
QoQ (%)	1.3	2.2	0.1	0.6	-2.1	-2.3	-2.1	0.5	8.5	-3.7	-2.9	83bp
Overall Revenue (INR b)	215	225	232	232	228	225	222	223	905	896	221	0.6
QoQ (%)	3.2	4.7	3.1	-0.2	-1.5	-1.4	-1.4	0.3			-2.0	60bp
YoY (%)	17.9	14.6	14.4	11.2	6.0	-0.1	-4.4	-4.0	14.4	-0.9	-5.0	58bp
GPM (%)	27.7	27.3	29.7	29.8	29.4	29.3	30.7	30.9	28.7	30.0	27.5	322bp
SGA (%)	13.4	13.4	14.1	14.0	14.2	14.6	16.0	14.6	13.7	14.9	13.8	224bp
EBITDA	40	40	47	46	42	42	42	45	173	171	39	9.1
EBITDA Margin (%)	18.4	18.0	20.2	19.9	18.4	18.8	19.0	20.1	19.1	19.1	17.5	148bp
IT Serv. EBIT (%)	14.9	15.1	16.3	16.3	16.0	16.1	16.0	17.9	15.7	16.5	15.1	92bp
EBIT Margin (%)	14.8	14.4	16.2	16.2	15.1	14.8	14.8	16.4	15.4	15.3	13.8	98bp
Other income	2	2	2	3	3	2	3	2	8	10	2	6.3
ETR (%)	23.6	22.5	22.9	23.0	24.0	24.0	24.0	24.0	23.0	24.0	24.0	-3bp
PAT	26	27	31	31	29	26	27	29	114	111	25	8.1
QoQ (%)	-17.0	3.7	14.8	0.7	-6.6	-7.8	1.8	9.4			-5.8	766bp
YoY (%)	-20.7	-9.3	2.9	-0.4	12.0	-0.5	-11.7	-4.2	-7.1	-2.0	-18.4	664bp
EPS (INR)	4.7	4.9	5.6	5.6	5.1	5.0	5.2	5.6	20.7	20.6	4.7	8.4

E: MOFSL estimates

Key performance indicators

Y/E March	FY23				FY24				
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	FY23	FY24E
Revenue (QoQ CC %)	1.9	4.1	0.6	-0.7	-2.8	-2.0	-1.7		
Margins									
Gross margin	27.7	27.3	29.7	29.8	29.4	29.3	30.7	28.7	30.0
EBIT margin	14.8	14.4	16.2	16.2	15.1	14.8	14.8	15.4	15.3
Net margin	11.9	11.8	13.1	13.3	12.6	11.8	12.1	12.5	12.4
Operating metrics									
Headcount (k)	262	263	262	259	250	245	240	259	
Attrition (%)	23.0	22.9	21.2	19.4	17.3	15.5	14.2	19	
Utilization	83.8	79.8	79.7	81.7	83.7	84.5	84	81.3	
Key verticals (YoY CC %)									
BFSI	2.4	3.6	-0.2	-2.4	-4.3	-3.0	-4.3	12.5	
Retail	5.0	5.5	0.6	-0.9	-3.5	-2.3	-1.0	18.3	

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

- The company booked 14 large deals with total TCV of UD3.8b in 3Q. The company's efforts to build a strong leadership team are paying off well, as its winning rates and ability to participate in complex transformation deals have improved significantly.
- It is also winning new logos, apart from what it gets to associate with new clients through vendor consolidation opportunities. In 3Q, the company booked transformation deals worth USD300m.
- The management alluded that the market has not changed fundamentally in terms of demand. It is witnessing some stabilization in technology-related spending. While a major slowdown is seen in discretionary areas, especially in smaller projects.
- The short-term demand environment remains cautious, with enterprise clients still being conservative on investment decisions. They continue to look for optimization and cost saving opportunities, while return on investments remains a common theme across clients.
- Nonetheless, the company has witnessed green shoots in discretionary spending, as few accounts have started investing (although not meaningfully) in the consulting service line. The company's consulting business units, Capco and Rising, have delivered growth in 3Q.
- EN&U is performing well and is witnessing progressive investments in the areas of plant engineering and IT services. Additionally, GenAI is also supporting the overall demand trend and getting embedded into remote equipment

Margin outlook

- The company's strategy to trim the low-margin business and low-potential accounts is progressing well. The APMEA region witnessed strong and sustainable margin improvements over the last couple of quarters, which is also aiding consolidated-level margins.
- It continues to streamline business operations and leverage automation, AI and analytics tools to further optimize operations and improve margins.

- The management indicated that GenAI is now moving from an experimental stage to a commercial stage, where every large deals has some components of GenAI to develop use cases and AI models.
- The company has built certain level of resilience in its margin profile and it is confident of sustaining its margins going forward. The earlier cost-control measures are helping the company hold margins despite a slowdown and competitive landscape.

Exhibit 1: Healthcare leads sequential growth in 3QFY24

Verticals	Contribution to revenue (%)	CC growth (QoQ %)
BFSI	32.7	-4.3
Communications	4.0	-8.6
Consumer Business Unit	18.8	-1.0
Energy, Natural Resources, and Utilities	11.8	0.7
Health Business Unit	13.9	7.5
Manufacturing	6.7	-6.1
Technology	12.1	-1.9

Source: Company, MOFSL

Exhibit 2: America 1 aided the growth in 3QFY24

Geographies	Contribution to revenue (%)	CC growth (QoQ %)
Americas 1	31.0	2.0
Americas 2	30.0	-1.3
Europe	27.7	-4.3
APMEA	11.3	-5.4

Source: Company, MOFSL

Valuations & View

- Given WPRO's weak 3QFY24 revenue growth and muted 4Q guidance, we expect its FY24 revenue growth rate to be one of the lowest among Tier-1 IT Services peers, with margin below the management's medium-term guided range of 17.0-17.5%.
- We maintain our Neutral rating as we await: 1) further evidence of the execution of WPRO's refreshed strategy, and 2) a successful turnaround from its struggles over the last decade before turning more constructive on the stock. Our TP of INR520 is based on 19x FY26E EPS.

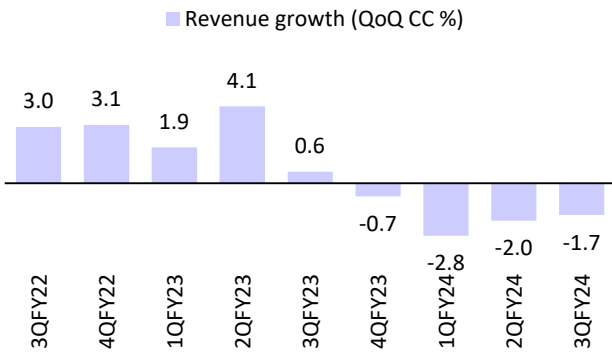
Exhibit 3: Revisions to our estimates

	Revised estimates			Earlier estimates			Change in estimates		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
USD:INR	82.7	83.0	83.0	82.7	83.0	83.0	0.0%	0.0%	0.0%
Revenue from IT Services (USD m)	10,818	11,412	12,618	10,796	11,415	12,631	0.2%	0.0%	-0.1%
Overall growth (%)	(2.5)	5.6	11.1	(2.6)	6.0	11.1	10bps	-40bps	0bps
EBIT margin – overall (%)	15.3	15.6	16.7	14.6	15.5	16.8	70bps	10bps	-10bps
EBIT margin – IT Services (%)	16.5	17.0	18.2	15.7	16.9	18.3	80bps	10bps	-10bps
PAT (INR b)	111.2	121.1	143.1	106.1	120.5	143.4	4.8%	0.5%	-0.2%
EPS (INR)	20.57	22.94	27.35	19.61	22.79	27.33	4.9%	0.7%	0.1%

Source: Company, MOFSL

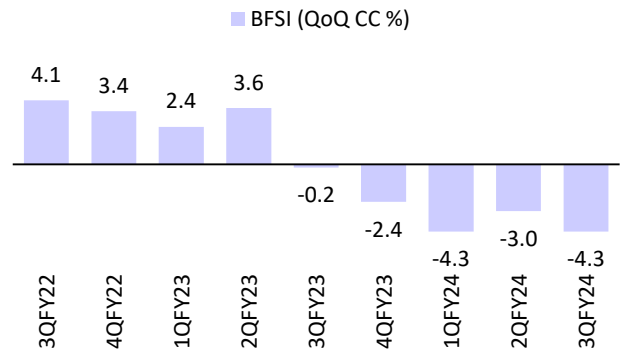
Story in charts

Exhibit 4: WPRO revenue continued to decline in 3Q



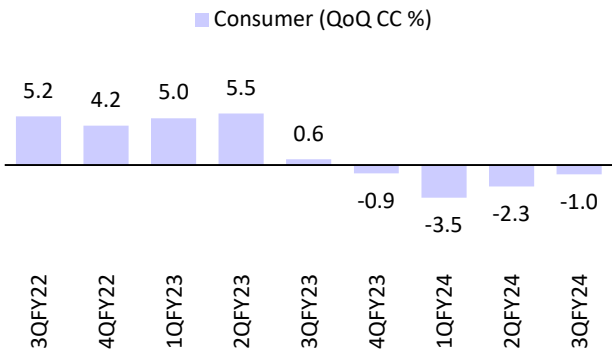
Source: Company, MOFSL

Exhibit 5: BFSI CC growth decelerated further



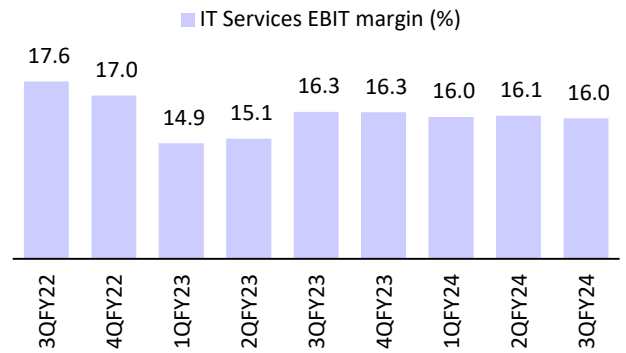
Source: Company, MOFSL

Exhibit 6: Declining trend Consumer segment revenue



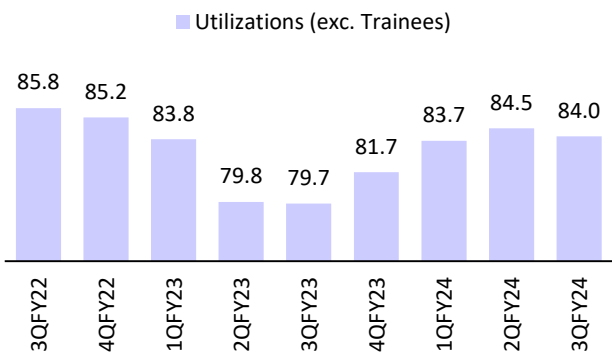
Source: Company, MOFSL

Exhibit 7: Margin remains steady despite weak growth



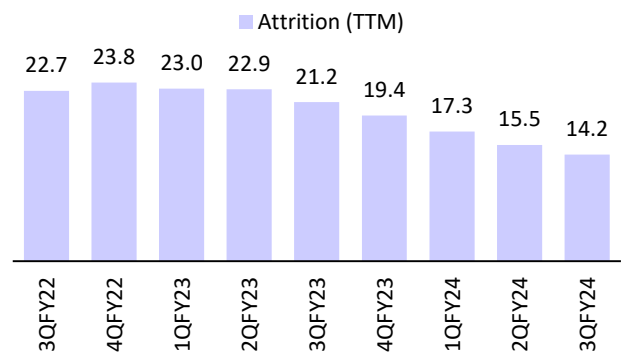
Source: Company, MOFSL

Exhibit 8: Utilization moderated by 50bp QoQ



Source: Company, MOFSL

Exhibit 9: Attrition sees further moderation in 3QFY24



Source: Company, MOFSL

Operating metrics

Exhibit 10: Operating metrics

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Verticals (%)									
Finance Solutions	35.2	35.4	35.4	35.2	34.9	34.2	33.9	33.6	32.7
Manufacturing	6.7	7.0	6.7	6.9	6.9	7.0	7.3	7.0	6.7
Healthcare Life Sciences	11.8	11.5	11.5	11.4	12.0	12.2	12.2	12.7	13.9
Energy, Natural Resources, and Utilities	11.7	11.5	11.1	11.2	11.4	12.3	12.0	11.6	11.8
Communications	5.0	4.8	5.0	4.9	4.6	4.5	4.6	4.3	4.0
Consumer	17.7	17.9	18.5	18.8	18.9	18.8	18.7	18.7	18.8
Technology	11.9	11.9	11.8	11.6	11.3	11.0	11.3	12.1	12.1
Geography (%)									
Americas 1	28.2	28.3	29.1	29.2	29.4	28.8	28.8	29.8	31.0
Americas 2	30.4	31.0	31.3	31.3	30.8	30.7	30.0	29.9	30.0
Europe	29.7	29.3	28.3	28.1	28.8	29.3	29.5	28.6	27.7
APMEA	11.7	11.4	11.3	11.4	11.0	11.2	11.7	11.7	11.3
Customer size distribution (TTM)									
Over USD100m	17	19	20	19	19	19	21	22	22
Over USD75m	29	29	30	29	29	29	28	28	31
Over USD50m	47	50	50	52	52	53	51	51	46
Over USD20m	110	117	120	122	119	117	123	122	121
Over USD10m	189	194	196	199	204	210	207	207	203
Over USD5m	286	297	313	314	312	315	319	313	305
Over USD3m	399	410	427	434	440	436	444	437	430
Over USD1m	661	679	719	745	755	766	769	774	750
Customer metrics									
Revenue from existing customers (%)	94.9	93.7	98.7	97.4	96.9	96.6	99.6	99.1	98.8
Number of new customers	67	116	164	128	82	63	65	49	55
Total number of active customers	1315	1369	1433	1471	1484	1441	1444	1393	1349
Employee metrics									
Closing headcount – IT Services (k)	232	247	262	263	262	259	250	245	240
Sales and support staff – IT Services (k)	18	18	18	17	17	17	17	17	16
Utilization									
Gross utilization (%)	85.8	85.2	83.8	79.8	79.7	81.7	83.7	84.5	84.0
Net utilization (excluding trainees, %)									
Attrition									
Voluntary TTM	22.7	23.8	23.0	22.9	21.2	19.4	17.3	15.5	14.2
	10.0	9.0	11.4	10.3	8.7	9.0	9.2	9.8	8.3
Customer concentration (%)									
Top customer	3.2	3.2	3.2	3.2	3.2	3.2	3.1	3.0	3.0
	12.7	12.9	12.9	13.1	13.3	12.6	12.5	12.3	12.1
Top five	20.2	20.5	20.8	20.8	21.2	20.2	20.5	20.6	20.5
Top 10	35.2	35.4	35.4	35.2	34.9	34.2	33.9	33.6	32.7

Source: MOFSL, Company

Financials and valuations

Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	586	610	619	791	905	896	951	1,056
Change (%)	7.5	4.2	1.5	27.7	14.4	-0.9	6.0	11.1
Operating Costs	413	436	423	556	645	627	663	729
SG&A	75	69	73	97	120	132	139	151
EBITDA	117	126	151	169	173	170	184	216
As a percentage of Net Sales	19.9	20.6	24.3	21.4	19.1	19.0	19.3	20.4
Depreciation and Amort.	19	21	28	31	33	33	35	39
EBIT	97	105	123	138	140	137	149	177
Margin	16.6	17.2	19.8	17.5	15.4	15.3	15.6	16.7
Other Income	18	17	16	13	8	10	12	12
PBT	115	123	139	151	148	147	160	189
Tax	25	25	30	29	34	35	38	45
Rate (%)	21.9	20.2	21.8	19.1	23.0	24.0	24.0	24.0
PAT	90	98	109	122	114	112	122	144
Minority Interest	0	0	1	0	0	1	1	1
Adjusted PAT	90	97	108	122	114	111	121	143
Change (%)	12.4	8.0	11.0	13.2	-7.1	-2.0	8.9	18.1

Balance Sheet

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	12	11	11	11	11	11	11	11
Reserves	556	546	542	647	770	720	706	724
Net Worth	568	557	553	658	781	731	717	735
Minority Interest and others	22	38	41	56	66	54	58	64
Loans	99	78	83	152	150	140	130	120
Capital Employed	690	674	677	866	997	925	905	919
Gross Block	220	268	299	338	369	383	402	423
Less: Depreciation	149	170	198	228	262	295	330	369
Net Block	71	98	102	110	107	88	72	54
Investments	13	11	12	20	22	22	22	22
Intangible Assets	131	147	152	291	351	351	351	351
Other non-current assets	47	41	42	38	35	50	53	59
Curr. Assets	572	520	523	621	661	666	672	721
Debtors	123	130	121	176	187	184	196	217
Inventories	4	2	1	1	1	1	1	1
Cash and Bank Balance	159	144	170	104	92	79	50	50
Adv., Other Current Assets	46	54	55	98	72	72	76	84
Investments	240	190	176	242	309	329	349	369
Current Liab. and Prov.	143	143	154	213	179	251	264	288
Net Current Assets	429	377	369	408	482	415	408	433
Application of Funds	690	674	677	866	997	925	905	919

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	14.6	16.4	18.8	21.9	20.7	20.6	22.9	27.3
Cash EPS	18.2	20.2	23.9	27.9	26.8	27.1	29.9	34.8
Book Value	94.8	95.6	97.9	120.4	142.7	138.2	137.4	140.8
DPS	1.0	1.0	1.0	6.0	1.0	24.7	20.6	19.1
Payout (%)	6.7	113.9	93.3	26.9	4.8	120.0	90.0	70.0
Valuation (x)								
P/E ratio	31.9	28.4	24.8	21.3	22.5	22.7	20.3	17.0
Cash P/E ratio	25.6	23.1	19.5	16.7	17.4	17.2	15.6	13.4
EV/EBITDA ratio	21.3	19.6	15.7	13.9	13.3	12.9	11.8	9.9
EV/Sales ratio	4.3	4.0	3.8	3.0	2.5	2.4	2.3	2.0
Price/Book Value ratio	4.9	4.9	4.8	3.9	3.3	3.4	3.4	3.3
Dividend Yield (%)	0.2	0.2	0.2	1.3	0.2	5.3	4.4	4.1
Profitability Ratios (%)								
RoE	17.1	17.3	19.4	20.2	15.8	14.7	16.7	19.7
RoCE	13.1	13.7	16.0	16.3	12.8	11.9	13.4	15.8
Turnover Ratios								
Debtors (Days)	77	78	72	81	75	75	75	75
Asset Turnover ratio (x)	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.9

Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CF from Operations	89	124	125	147	145	144	156	182
Cash for Wkg. Capital	27	-24	23	-36	-15	48	-2	-6
Net Operating CF	116	101	148	111	131	192	154	177
Net Purchase of FA	-21	-22	-19	-19	-14	-13	-19	-21
Other change in investments	71	56	27	-205	-70	-20	-20	-20
Net Cash from Invest.	50	34	8	-224	-84	-33	-39	-41
Issue of Shares/Other adj	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-44	-143	-122	53	-28	-19	-19	-19
Dividend Payments	-5	-8	-6	-7	-33	-153	-126	-117
Net CF from Finan.	-49	-151	-129	47	-61	-171	-145	-136
Free Cash Flow	95	78	129	91	116	179	135	155
Net Cash Flow	117	-16	26	-67	-14	-12	-30	0
Forex difference	1	2	-1	1	2	0	0	0
Opening Cash Bal.	39	157	142	168	102	90	78	48
Add: Net Cash	118	-14	26	-66	-12	-12	-30	0
Closing Cash Bal.	157	142	168	102	90	78	48	48

E: MOFSL estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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