

WNS Holdings Ltd

Stabilizing volume trends; GenAI related risks still negligible

Reiterate Rating: BUY | PO: 82.00 USD | Price: 62.94 USD

Lower dip than expected but in-line with mgt. expectation

Q3 revenue decline of 2.3% qoq cc (up 5.9%yoy) was lower than our estimate of down 4%qoq but was in-line with mgt. expectations. Dip in revenues was on account of known headwinds in form of lower volumes in travel vertical, reduction in project-based spends, onsite-to-offshore transition for an internet client and pushout of next phase of ramps by an insurance captive. It highlighted that next phase with the said captive has been partially signed which will start contributing towards FY24-end & balance commitments are likely to be signed later. Adj. EBIT margins of 20.6% were a slight miss to our estimates & dipped 180bps qoq on account of wage hikes & higher SG&A but company remains on track to finish FY24 at earlier targeted c.21.5% i.e. up 50bps yoy.

Commentary suggests a likely growth acceleration in FY25

Per mgt, areas of short-term / project-based work where clients were lowering volumes earlier are now seeing signs of stabilization with no further deterioration in Q3 and as a result, it retained mid-point of its F24 rev. growth guidance which it narrowed to 9-11% yoy cc (vs. 8-12% earlier). As for coming fiscal outlook, healthy trends in new client adds / contract expansions & a strong deal pipeline for cost takeout business operations, along with (i) benefit on insurance ramp pushed out from this year into next, (ii) low base for volumes / project work and (iii) absorption of previous headwinds in healthcare / internet accounts, makes for a likely growth acceleration in FY25 with high probability.

See scope for recouping lost ground on valuations

Company maintained its stance that it sees generative AI as a long term growth catalyst given implementation of enterprise use cases will likely need domain expertise and process knowledge. It also indicated that as of today, it has seen no negative impact from GenAI on revenues or deal conversions. Moreover, GenAI-led offerings are helping the company engage better with first-time outsourcers. We expect current concerns w.r.t. to generate AI to fade gradually as more data points emerge around a net expansion in the market opportunity. We reiterate Buy on WNS, expecting growth to recover in coming fiscal and valuations are supportive (14x on 12m fwd PE vs. 5-yr avg of 21x). Adjust FY25/26E EPS by 1% & retain PO of \$82.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	175	192	212	226	251
EPS	3.44	3.79	4.29	4.59	5.10
EPS Change (YoY)	26.5%	10.3%	13.1%	7.0%	11.2%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	3.25	3.27	4.68	4.73	5.15
Valuation (Mar)					
P/E	18.31x	16.59x	14.67x	13.72x	12.34x
EV / EBITDA*	13.02x	12.18x	10.69x	9.46x	8.27x
Free Cash Flow Yield*	5.40%	5.43%	7.76%	7.85%	8.55%

* For full definitions of *IQmethod™* measures, see page 8.

19 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	4.10	4.29
2025E EPS	4.54	4.59
2026E EPS	5.05	5.10
2024E EBITDA (m)	276.9	274.9
2025E EBITDA (m)	311.4	310.6
2026E EBITDA (m)	355.7	355.2

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Stock Data

Price	62.94 USD
Price Objective	82.00 USD
Date Established	20-Oct-2023
Investment Opinion	B-1-9
52-Week Range	51.84 USD-94.96 USD
Mrkt Val / Shares Out (mn)	2,946 USD / 46.8
Average Daily Value (mn)	15.00 USD
Free Float	47.0%
BofA Ticker / Exchange	WNS / NYS
Bloomberg / Reuters	WNS US / WNS.N
ROE (2024E)	24.0%
Net Dbt to Eqty (Mar-2023A)	-6.94%

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

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iQprofileSM WNS Holdings Ltd

Key Income Statement Data (Mar)

(US\$ Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	1,027	1,162	1,284	1,408	1,560
Gross Profit	375	423	480	528	585
Sell General & Admin Expense	(205)	(233)	(263)	(281)	(300)
Operating Profit	164	167	182	215	253
Net Interest & Other Income	0	(3)	10	(14)	(14)
Associates	NA	NA	NA	NA	NA
Pretax Income	165	165	193	201	239
Tax (expense) / Benefit	(32)	(27)	(28)	(44)	(53)
Net Income (Adjusted)	175	192	212	226	251
Average Fully Diluted Shares Outstanding	51	51	50	49	49

Key Cash Flow Statement Data

Net Income	132	137	165	157	186
Depreciation & Amortization	62	74	92	95	102
Change in Working Capital	(34)	(40)	(22)	(19)	(24)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	28	34	52	54	50
Cash Flow from Operations	187	205	286	287	314
Capital Expenditure	(28)	(45)	(58)	(56)	(62)
(Acquisition) / Disposal of Investments	0	(169)	0	0	0
Other Cash Inflow / (Outflow)	(20)	(19)	0	0	0
Cash Flow from Investing	(49)	(233)	(58)	(56)	(62)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	(127)	63	(49)	0	0
Free Cash Flow	159	160	229	231	252
Net Debt	(320)	(56)	(271)	(502)	(754)
Change in Net Debt	(3)	(20)	(180)	(231)	(252)

Key Balance Sheet Data

Property, Plant & Equipment	192	238	238	231	223
Other Non-Current Assets	405	762	732	704	676
Trade Receivables	188	213	235	258	286
Cash & Equivalents	320	229	409	640	892
Other Current Assets	61	62	66	70	74
Total Assets	1,164	1,504	1,680	1,903	2,151
Long-Term Debt	0	137	137	137	137
Other Non-Current Liabilities	180	262	262	262	262
Short-Term Debt	0	36	1	1	1
Other Current Liabilities	231	268	314	380	442
Total Liabilities	410	703	715	781	842
Total Equity	754	801	966	1,123	1,309
Total Equity & Liabilities	1,164	1,504	1,680	1,903	2,151

iQmethodSM - Bus Performance*

Return On Capital Employed	14.2%	12.9%	12.0%	11.6%	12.2%
Return On Equity	24.3%	24.7%	24.0%	21.6%	20.7%
Operating Margin	16.0%	14.4%	14.2%	15.3%	16.2%
EBITDA Margin	22.0%	20.7%	21.4%	22.1%	22.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.1x	1.1x	1.3x	1.3x	1.3x
Asset Replacement Ratio	0.6x	0.9x	1.0x	0.9x	0.9x
Tax Rate (Reported)	19.7%	16.5%	14.7%	22.0%	22.0%
Net Debt-to-Equity Ratio	-42.4%	-6.9%	-28.0%	-44.7%	-57.6%
Interest Cover	NA	NA	NA	NA	NA

Key Metrics

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Computer Services

Company Description

WNS is a leading India-leveraged offshore BPM service provider. It derives about 45% revenues from UK & about 30% from North America. Key industries serviced include travel, insurance, financial services, utilities, retail & professional services. About 70% of its employees are based in India. Key clients include Aviva, British Airways and Virgin Atlantic.

Investment Rationale

We rate WNS as a Buy given its increasing participation and win rates helped by a strengthened front end team.

Revenue growth prospects for the post Covid phase remain strong given market positioning and investments in digital transformation, automation. We expect company to retain its industry leading margins with a key margin lever being scope to raise seat utilization rate. Active capital allocation through buy-back and tuck-in acquisitions are likely to provide support to the stock.

Stock Data

Price to Book Value

3.1x

Some key announcements post earnings

- The Board has given approval for the company to initiate termination of its ADS program (American Depositary shares) & exchange outstanding ADSs for its ordinary shares, and apply for the ordinary shares to be listed on the NYSE. It plans to complete the exercise by Q1FY25 i.e. Jun'24.
- Per company, key objectives and motivation behind the share conversion exercise include improved access to capital & US Index funds, reduce share price volatility and enhanced governance. It highlighted that only about 2% of the company is owned by index funds which is much lower compared to peers & the share conversion will help improve on this metric.
- In-line with the share conversion, the Board also gave approvals for the company to shift from reporting on the forms available to foreign private issuers (FPIs) and filing their financial statements with the SEC under IFRS, to voluntarily file on US domestic issuer forms and file their financial statements under US GAAP. It plans to complete the exercise by Q2FY25 i.e. Sep'24.
- It also added 2 new headquarters at New York and London, in addition to Mumbai, which supports the company's decentralization of senior leadership and decision-making as highlighted by their organizational structure change announced in April, 2023.

Exhibit 1: Q3FY24 P&L review

Q3 revenues were a slight beat to our estimates

Amount in USD million	Q3FY24	Q2FY24	qoq	Q3FY23	yoy	BofAe	var
Revenue less repair payments	315.9	325.0	-2.8%	292.9	8%	312.0	1%
Cost of revenue	198.6	201.3	-1%	184.1	8%	197.8	0%
Gross Profit	117.3	123.7	-5%	108.9	8%	114.2	3%
Operating Expense							
SG&A expense	65.9	65.3	1%	58.3	13%	62.1	6%
Amortization of intangibles	8.6	8.7	-1%	6.5	33%	8.7	-1%
Forex losses	0.5	0.0	n/a	0.1	n/a	0.0	n/a
Total Operating Expense	75.0	73.9	1%	64.9	16%	70.7	6%
EBIT - GAAP	42.3	49.7	-15%	43.9	-4%	43.5	-3%
Other income, net	4.1	25.6	-84%	3.6	14%	4.8	-14%
Interest income	-7.1	-7.5	n/a	-5.0	n/a	-7.5	n/a
Income before income taxes	39.3	67.9	-42%	42.6	-8%	40.8	-4%
(Provision) for income taxes	-0.4	10.0	n/a	7.9	-105%	9.0	-104%
Minority interest share of loss	0.0	0.0	n/a	0.0	n/a	0.0	n/a
Net income - GAAP	39.6	57.8	-31%	34.7	14%	31.8	25%
EBIT - non GAAP	64.0	71.8	-11%	62.1	3%	65.5	-2%
Net income - non GAAP	56.9	74.7	-24%	48.3	18%	48.6	17%

Source: Company, BofA Global Research estimates

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Exhibit 2: Q3FY24 margins

Q3 EBIT margin was a miss to our estimates

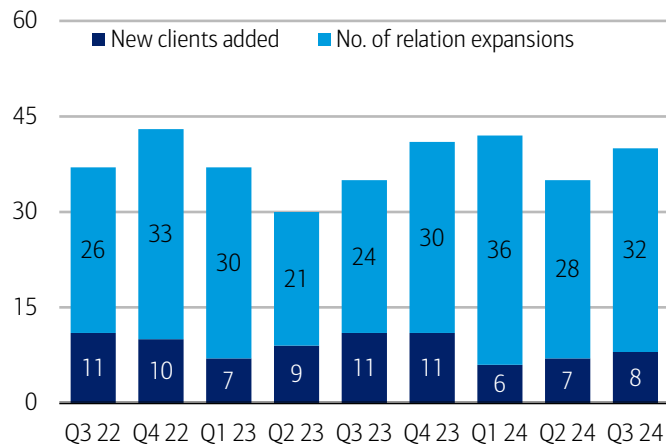
Margin	Q3FY24	Q2FY24	qoq (bps)	Q3FY23	yoy (bps)	BofAe	var (bps)
EBIT - GAAP	13.4%	15.3%	-192	15.0%	-162	13.9%	-55
EBIT - non GAAP	20.3%	22.1%	-182	21.2%	-93	21.0%	-73
Net income - GAAP	12.5%	17.8%	-524	11.8%	71	10.2%	236
Net income - non GAAP	18.0%	23.0%	-495	16.5%	154	15.6%	243

Source: Company, BofA Global Research estimates

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Exhibit 3: New client adds and relation expansions

New client adds & expansions in-line with prior 4 quarter average

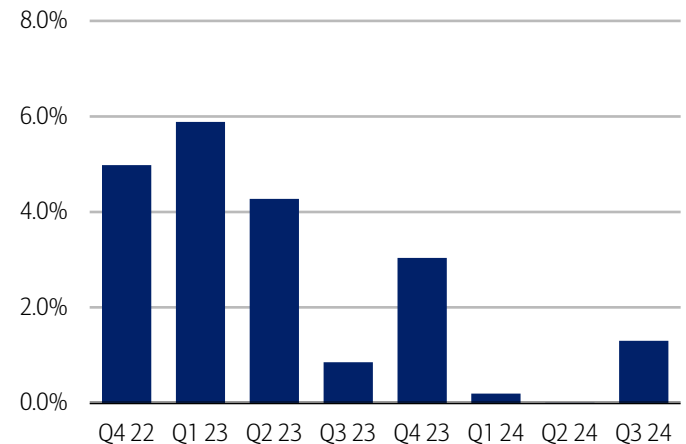


Source: Company, BofA Global Research

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Exhibit 4: Employee headcount growth (qoq)

Employee headcount grew 1.3% sequentially



Source: Company, BofA Global Research

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Exhibit 5: Vertical wise YoY growth trend (USD, including inorganic contributions)

YoY growth led by Banking & financial services, Insurance and Utilities

	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24
Travel and leisure	46.5%	35.9%	21.4%	9.9%	18.2%	1.8%	-1.9%
Insurance	6.5%	5.5%	2.2%	13.1%	24.6%	24.6%	20.9%
HealthCare	7.2%	1.2%	-1.8%	-14.0%	-11.6%	-6.2%	-11.7%
Utilities	17.5%	22.9%	27.6%	24.9%	27.6%	30.1%	31.8%
Banking & financial services	15.9%	31.9%	39.3%	28.6%	37.5%	23.8%	29.7%
Mfg, retail, consumer products, telecom & diversified business	11.2%	16.8%	23.6%	27.7%	21.0%	9.0%	0.7%
Hi-tech & professional services	11.9%	17.9%	20.0%	15.9%	24.1%	24.5%	14.0%
Shipping & logistics	33.5%	-2.2%	3.3%	6.2%	4.8%	16.7%	7.8%

Source: Company, BofA Global Research

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Exhibit 6: Region wise YoY growth trend (USD, including inorganic contributions)

In addition to the healthcare client ramp down impact, other current client-specific situations are present in North America more than Europe, as reflected in the YoY growth trend

	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24
NA	25.7%	23.9%	17.7%	12.2%	11.8%	4.1%	-2.5%
UK	10.7%	0.4%	1.2%	-0.1%	11.3%	18.0%	18.4%
EU	19.6%	26.3%	27.3%	36.5%	43.7%	32.2%	23.7%

Source: Company, BofA Global Research

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Financials

Exhibit 7: P&L (USD mn)

We expect revenue growth in FY24 near the mid-point of the guidance

FY22	FY23	FY24E	FY25E	FY26E
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Exhibit 7: P&L (USD mn)

We expect revenue growth in FY24 near the mid-point of the guidance

Revenue less repair payments	1020.0	1102.0	1203.0	1407.3	1555.0
YoY Change	18.2%	13.2%	10.5%	9.6%	10.8%
Cost of Revenue	652.2	739.3	803.3	879.5	974.4
YoY Change	20.1%	13.4%	8.7%	9.5%	10.8%
Gross Profit	374.6	422.7	480.5	528.1	585.2
YoY Change	15.1%	12.8%	13.7%	9.9%	10.8%
Sales, General and Administrative	205.0	232.8	263.3	280.9	300.2
Forex losses	-6.0	-1.0	0.1	0.0	0.0
Amortisation of intangible assets	11.6	23.6	34.7	32.0	32.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0
Operating Income (EBIT)	164.1	167.3	182.5	215.2	253.0
YoY Change	21.5%	2.0%	9.0%	18.0%	17.5%
Operating Income (EBIT) ex one time	164.1	167.3	182.5	215.2	253.0
YoY Change	21.5%	2.0%	9.0%	18.0%	17.5%
Non Operating income (expense), net	13.9	16.0	39.3	16.0	16.0
Interest expense	-13.4	-18.8	-28.9	-30.0	-30.0
Pretax Income	164.5	164.5	192.9	201.2	239.0
Pro-forma Income Taxes	32.4	27.2	28.4	44.3	52.6
Tax rate	19.7%	16.5%	14.7%	22.0%	22.0%
Equity in net earnings of affiliates					
Minority interests in Earnings of subsidiaries	0.0	0.0	0.0	0.0	0.0
GAAP Net income from continuing operations	132.1	137.3	164.5	157.0	186.4
YoY Change	28.7%	3.9%	19.8%	-4.6%	18.8%
GAAP Diluted EPS from continuing operations	2.60	2.72	3.32	3.19	3.78
GAAP Net income ex one time items	132.1	137.3	164.5	157.0	186.4
YoY Change	28.7%	3.9%	19.8%	-4.6%	18.8%
GAAP Diluted EPS ex one time items	2.60	2.72	3.32	3.19	3.78
Non-GAAP Adjustments					
Stock Compensation Charge	44.2	49.7	55.9	58.3	53.5
Amortisation of intangible assets	11.6	23.6	34.7	32.0	32.0
Tax impact for amortisation and stock comp	0.0	0.0	0.0	0.0	0.0
Non GAAP EBIT	219.8	240.7	273.0	305.5	338.5
YoY Change	17.5%	9.5%	13.4%	11.9%	10.8%
Non GAAP Net Income *	174.8	191.7	212.4	225.6	251.4
YoY Change	23.4%	9.7%	10.8%	6.2%	11.4%

Source: Company, BofA Global Research estimates

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Exhibit 8: Key ratios and numbers

We forecast a 50bps yoy increase in FY24E non-GAAP EBIT margins (ex. of acquisition cost associated in FY23 margins)

Margins	FY22	FY23	FY24E	FY25E	FY26E
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Exhibit 8: Key ratios and numbers

We forecast a 50bps yoy increase in FY24E non-GAAP EBIT margins (ex. of acquisition cost associated in FY23 margins)

	2022	2023	2024E	2025E	2026E
Gross margin					
EBIT - GAAP reported	16.0%	14.4%	14.2%	15.3%	16.2%
Net Margin- GAAP	12.9%	11.8%	12.8%	11.2%	12.0%
Non GAAP EBIT	21.4%	20.7%	21.3%	21.7%	21.7%
Net Margin- non GAAP	17.0%	16.5%	16.5%	16.0%	16.1%
EPS (US\$)	FY22	FY23	FY24E	FY25E	FY26E
GAAP Diluted EPS	2.60	2.72	3.32	3.19	3.78
Basic GAAP EPS ex 1-time	2.70	2.81	3.36	3.21	3.81
Diluted GAAP EPS ex 1-time	2.60	2.72	3.32	3.19	3.78
Non-GAAP Basic EPS	3.57	4.01	4.40	4.61	5.14
Non-GAAP Diluted EPS	3.44	3.88	4.34	4.59	5.10

Source: Company, BofA Global Research estimates

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Price objective basis & risk

WNS Holdings Ltd (WNS)

Our price objective of USD82 is based on a target adj. P/E multiple of 18x for the 12 months ending Mar-25. Our adjusted estimated EPS excludes intangible amortization and stock compensation charges. The target P/E multiple is at 20% discount to company's 5-year average P/E given the near-term demand uncertainty.

Downside risks: (1) Severe macro headwinds that may result in slowdown in the deal decision making process and hence slower revenue growth, (2) Higher than expected investments that may drag operating margins.

Analyst Certification

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India - Software & IT Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ExlService Holdings, Inc.	EXLS	EXLS US	Kunal Tayal
	Genpact Ltd	G	G US	Kunal Tayal
	WNS Holdings Ltd	WNS	WNS US	Kunal Tayal
NEUTRAL				
	HCL	XHCLF	HCLT IN	Kunal Tayal
	Infosys	INFYF	INFO IN	Kunal Tayal
	Infosys Tech - A	INFY	INFY US	Kunal Tayal
	Tata Consultancy	TACSF	TCS IN	Kunal Tayal
	Tata Technologies	XZTLF	TATATECH IN	Kunal Tayal
UNDERPERFORM				
	L&T Technology Services	XLNSF	LTTS IN	Kunal Tayal
	Tech Mahindra	TECHM	TECHM IN	Kunal Tayal
	Wipro	WIPRF	WPRO IN	Kunal Tayal
	Wipro	WIT	WIT US	Kunal Tayal

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

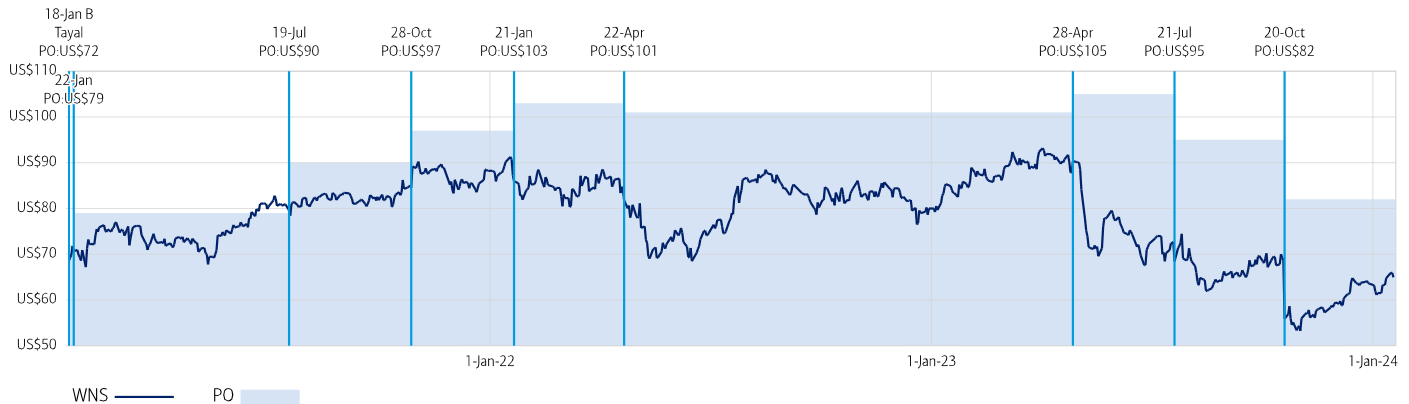
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WNS Holdings Ltd (WNS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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