

WNS Holdings Ltd

FY25 growth outlook appears reasonable, despite a client exit

Reiterate Rating: BUY | PO: 81.00 USD | Price: 60.21 USD

Expect FY25 revenue growth of 8%

WNS announced the intent of a top 5 customer that pertains to the healthcare / life sciences vertical to terminate its contract with the company effective July 1, 2024. This likely creates a revenue headwind of about 3% for the company in FY25 and another 1% in FY26, with the customer contributing about 4.3% of the net revenues in the ongoing fiscal. We think WNS' FY25 net revenue growth could still be a reasonable 8%yoy despite this hit, given: (1) a likely return to normalized organic growth rate of 10%-12%yoy in FY25 with risks of volume ramp downs on the lower side amidst lesser macro-uncertainty, and (2) tailwind to growth available from a large, pending ramp with an insurance customer. We retain our FY26 revenue growth forecast of 11%yoy, anticipating the 1% shortfall to be offset by a likely continuing strong environment for cost take out business outsourcing services.

Win rates and market share trend likely to remain healthy

Typical reasons for loss of a contract in the BPM market includes (1) Change in view on insourced / outsourced mix or change in business outlook /priorities for the customer, (2) Delivery / execution related challenges for the BPM vendor and (3) Innovative / superior offerings by a competitor prompting a vendor change. Given the suddenness of the announcement by WNS, we assume that the loss of contract is being driven by changed priorities at the customer end. Consequently, we expect win rates and market share for the company to stay intact.

Adjust estimates / PO

Our adj. EBIT margin estimates for FY25E / FY26E remain unchanged expecting WNS to adjust its cost structure fully in the last 6 months of the contract due termination. Correspondingly, our adj. EPS forecasts for the next 2 years go down by 1.5% each. We update PO to \$81 (from \$82), in sync with adjustment to estimates. Stock valuation of 13x FY25 adj P/E looks undemanding. We reiterate Buy expecting WNS' revenue outlook to benefit from strong demand for cost take out services. We also see low risk from increased adoption of generative AI offerings given the nature of existing contracts that already build in efficiency gains to be passed back to the customer.

| Estimates (Mar) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|--------|--------|--------|--------|--------|
| Net Income (Adjusted - mn) | 175 | 192 | 212 | 222 | 248 |
| EPS | 3.44 | 3.79 | 4.29 | 4.52 | 5.03 |
| EPS Change (YoY) | 26.5% | 10.3% | 13.1% | 5.3% | 11.4% |
| Dividend / Share | 0 | 0 | 0 | 0 | 0 |
| Free Cash Flow / Share | 3.25 | 3.27 | 4.68 | 4.72 | 5.08 |
| Valuation (Mar) | | | | | |
| P/E | 17.51x | 15.87x | 14.04x | 13.33x | 11.97x |
| EV / EBITDA* | 12.45x | 11.65x | 10.22x | 9.21x | 8.03x |
| Free Cash Flow Yield* | 5.65% | 5.68% | 8.11% | 8.19% | 8.81% |

* For full definitions of *IQmethod*SM measures, see page 4.

06 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|------------------|----------|---------|
| Price Obj. | 82.00 | 81.00 |
| 2025E EPS | 4.59 | 4.52 |
| 2026E EPS | 5.10 | 5.03 |
| 2025E EBITDA (m) | 310.6 | 305.1 |
| 2026E EBITDA (m) | 355.2 | 349.7 |

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Stock Data

| | |
|-----------------------------|---------------------|
| Price | 60.21 USD |
| Price Objective | 81.00 USD |
| Date Established | 6-Feb-2024 |
| Investment Opinion | B-1-9 |
| 52-Week Range | 51.84 USD-94.96 USD |
| Mrkt Val / Shares Out (mn) | 2,818 USD / 46.8 |
| Average Daily Value (mn) | 17.86 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 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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iQprofileSM WNS Holdings Ltd

| Key Income Statement Data (Mar) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|-------|-------|-------|-------|-------|
| (US\$ Millions) | | | | | |
| Sales | 1,027 | 1,162 | 1,284 | 1,387 | 1,539 |
| Gross Profit | 375 | 423 | 480 | 520 | 577 |
| Sell General & Admin Expense | (205) | (233) | (263) | (278) | (297) |
| Operating Profit | 164 | 167 | 182 | 211 | 248 |
| Net Interest & Other Income | 0 | (3) | 10 | (14) | (14) |
| Associates | NA | NA | NA | NA | NA |
| Pretax Income | 165 | 165 | 193 | 197 | 234 |
| Tax (expense) / Benefit | (32) | (27) | (28) | (43) | (52) |
| Net Income (Adjusted) | 175 | 192 | 212 | 222 | 248 |
| Average Fully Diluted Shares Outstanding | 51 | 51 | 50 | 49 | 49 |

Key Cash Flow Statement Data

| | | | | | |
|---|-------|-------|-------|-------|-------|
| Net Income | 132 | 137 | 165 | 153 | 183 |
| Depreciation & Amortization | 62 | 74 | 92 | 94 | 101 |
| Change in Working Capital | (34) | (40) | (22) | (16) | (24) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 28 | 34 | 52 | 54 | 50 |
| Cash Flow from Operations | 187 | 205 | 286 | 286 | 310 |
| Capital Expenditure | (28) | (45) | (58) | (55) | (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) | (55) | (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 | 248 |
| Net Debt | (320) | (56) | (271) | (502) | (750) |
| Change in Net Debt | (3) | (20) | (180) | (231) | (248) |

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 | 254 | 282 |
| Cash & Equivalents | 320 | 229 | 409 | 640 | 888 |
| Other Current Assets | 61 | 62 | 66 | 70 | 74 |
| Total Assets | 1,164 | 1,504 | 1,680 | 1,899 | 2,144 |
| 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 | 441 |
| Total Liabilities | 410 | 703 | 715 | 780 | 842 |
| Total Equity | 754 | 801 | 966 | 1,119 | 1,302 |
| Total Equity & Liabilities | 1,164 | 1,504 | 1,680 | 1,899 | 2,144 |

iQmethodSM - Bus Performance*

| | | | | | |
|----------------------------|-------|-------|-------|-------|-------|
| Return On Capital Employed | 14.2% | 12.9% | 12.0% | 11.4% | 12.0% |
| Return On Equity | 24.3% | 24.7% | 24.0% | 21.3% | 20.5% |
| Operating Margin | 16.0% | 14.4% | 14.2% | 15.2% | 16.1% |
| EBITDA Margin | 22.0% | 20.7% | 21.4% | 22.0% | 22.7% |

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% | -44.8% | -57.6% |
| Interest Cover | NA | NA | NA | NA | NA |

Key Metrics

* For full definitions of iQmethodSM measures, see page 4.

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

2.9x

Price objective basis & risk

WNS Holdings Ltd (WNS)

Our price objective of USD81 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

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$

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

$\text{Cash Flow From Operations} - \text{Total Capex}$

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

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

$\text{Shareholders' Equity} / \text{Current Basic Shares}$

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

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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% |

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| 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% |

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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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