

Institutional Equity Research

Mphasis

IT | India

CMP* (Rs)	3,246
Upside/ (Downside) (%)	11
Bloomberg Ticker	MPHL IN
Market Cap. (Rs bn)	616

BUY 

1 Year Target Price: Rs3,590

2QFY22 Result Update | 22 October, 2021

Growth Resiliency Continues; Raise Target Price

Beat on Both Revenue and Margin Fronts

Mphasis (MPHL) reported 2QFY22 revenue at Rs28.7bn, which was 1.5% above our estimate of Rs28.3bn. Constant currency growth rate came in at 6.6% QoQ vs. our estimate of 5.7% QoQ. Revenue from direct channel (92% of revenue) grew by a strong 9.9% QoQ in CC, while the revenue from DXC business declined by 24.5% QoQ in CC. DXC contributes a mere 6% to the revenue now. EBIT margin stood at 15.1% (adjusted EBIT margin of 15.8%), which was below our estimate of 15.5%. Net income came in at Rs3.42bn, 0.3% ahead of our estimate of Rs3.40bn, driven by a revenue growth outperformance. New TCV wins in direct business came in at US\$241mn, with 68% of the deal wins in the new generation services vs. US\$505mn in 1QFY22. The company targets an industry-leading FY22 revenue growth in the direct business, and expects a strong 3QFY22 with minimal impact of seasonality. We prefer MPHL given its industry-leading revenue growth rate over FY22-FY24, driven by the strong direct business, reducing share of DXC business, and an expanding EBIT margin. At CMP, the stock trades at 30.5x FY24 consensus EPS, which is at ~20% discount to Mindtree. We revise our FY22E-FY24E EPS estimates by -1.8 to +3.0%, driven by an improved revenue growth visibility and contribution from acquisition. **We retain our BUY rating and raise the Target Price to Rs3,590 (vs. the prior Rs3,470), valuing the stock at 32x FY24E earnings.**

BFSI & Americas Led Growth

1) Among verticals, the revenue growth was led by BFSI (13.3% QoQ), insurance (2.3% QoQ) and others (2.8% QoQ). 2) Among geographies, revenue growth was particularly strong in Americas (8.8% QoQ) and India (21% QoQ). 3) Revenue contribution (~10 days in 2QFY22) from the new acquisition Blink stood at US\$0.9mn. 4) The company added ~841 employees in 2QFY22. 5) During 1HFY22, MPHL added 14 new Fortune 500 clients (10 were by Blink's acquisition).

Acquisition Related Charges to Weigh on FY22E-FY23E EBIT Margin

EBIT margin stood at 15.1% (adjusted EBIT margin of 15.8%) for the quarter, which was below our estimate of 15.5%. The management has already highlighted an EBIT margin dilution of ~100bps over the next 8 quarters due to acquisition related cost (amortization and talent retention cost). We believe a limited margin upside exists for FY22 due to the higher SG&A cost (higher attrition and resumption of offices), and increased hiring over the next two quarters. Company management has retained organic FY22 EBIT margin target of 15.5%-17%. Additionally, as Blink is gross margin accretive, we expect a slightly better profitability in FY24. We estimate an EBIT margin of 15.7-16.8% over FY22E-FY24E.

Outlook and Valuation

We expect MPHL to report FY21-FY24E EPS CAGR of 20%, against FY17-FY20 EPS CAGR of 17%. We believe the company will report an industry-leading double-digit revenue growth rate over FY22E-FY24E. Additionally, DXC business continued to witness a slump and contributed just 6% to MPHL's total revenue in 2QFY22 vs. 23% in 4QFY20. In our view, a substantial reduction in the volatile part of business is encouraging for a consistent growth. At CMP, the stock trades at 29x FY24E EPS, which is at 20% discount to Mindtree. We retain our BUY rating and raise the Target Price to Rs3,590 (vs. the prior Rs3,470), valuing the stock at 32x FY24E earnings. We have shifted to a 1-year target price, from the earlier 2-year. As we enter 2HFY22, instead of rolling forward our valuation, we maintain it based on FY24E earnings and shift to a 1-year target price of Rs3,590.

Key Financials

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	88,436	97,222	1,16,854	1,36,790	1,58,527
EBIT	14,187	15,609	18,320	22,073	26,676
PAT	11,424	12,166	14,513	17,179	21,169
Diluted EPS (Rs)	60.8	64.4	77.1	91.0	111.8
P/E (x)	53.4	50.4	42.1	35.7	29.0
RoE (%)	21.3	22.0	23.5	25.8	30.0
Dividend Yield (%)	1.1	2.0	1.8	2.0	2.2

Source: RSec Research

Recos/View	Old	Revised	Change
Recos	BUY	BUY	↔
Price Target (Rs)	3,470	3,590	↑
↑ Upgrade ↔ Maintain ↓ Downgrade			

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(3.2)	29.9	130.8
Relative to Nifty	(6.6)	15.2	78.2

Change of Estimates			
(% change)	FY22E	FY23E	FY24E
Net revenues	2.1	2.4	3.1
EBIT	(2.2)	(1.0)	4.0
Net Profit	(1.8)	(1.2)	3.3
EPS (Rs)	(1.8)	(1.3)	3.1

1 Year Stock Price Performance



Note: * CMP as on October 22, 2021

Research Analyst:

Suyog Kulkarni, CFA

Contact: (022) 41681371 / 9890966735

Email: suyog.kulkarni@relianceada.com

Research Associate:

Chaitanya Panchmatia

Contact : (022) 41681371 / 8080782900

Email : chaitanya.panchmatia@relianceada.com

Institutional Equity Research

Mphasis

IT | India

CMP* (Rs)	3,246
Upside/ (Downside) (%)	11
Bloomberg Ticker	MPHL IN

BUY 

Target Price: Rs3,590

Quarterly Performance

YE March (Rs mn)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	RSec - Est	Deviation from our est. (%)
Revenue \$mn	385	363	6.1	327	10.8	382.1	0.8
Revenue	28,693	26,909	6.6	24,354	10.5	28,278.5	1.5
EBIT	4,320	4,271	1.1	3,924	8.8	4,383.2	(1.4)
Net income	3,415	3,397	0.5	2,992	13.5	3,402.3	0.4
Diluted EPS (Rs)	18.0	17.9	0.3	15.9	12.4	17.9	0.1
Margin Analysis (%)	Change in bps		Change in bps				
EBIT	15.1	15.9	(82)	16.1	(106)	15.5	(40)
Net Income	11.9	12.6	(72)	12.3	(38)	12.0	(10)

Source: Company, RSec Research

Conference Call – Key Takeaways

- ▶ MPHL highlighted the following three key engines of growth: 1) IT services market growth, 2) discretionary opex spend as capex reduces, and 3) tech spend origination from new spend areas.
- ▶ Among verticals, the revenue growth was led by BFSI (13.3% QoQ), insurance (2.3% QoQ) and others (2.8% QoQ). BFSI vertical has delivered more than 20% revenue growth consistently in the past five quarters. Among geographies, the revenue growth was particularly strong in Americas (8.8% QoQ) and India (21% QoQ).
- ▶ Revenue from the top 10 accounts grew 28.1% YoY. Notably, all US\$50mn+ accounts grew sequentially in 2QFY22 for the second straight quarter.
- ▶ YTD TCW wins stood at US\$747mn and registered a CAGR of 50% in the past 2 years, of which ~80% of the wins came from new generation areas.
- ▶ MPHL targets an industry-leading growth in FY22, and retained organic FY22 EBIT margin target of 15.5%-17%.

Key Risks

- ▶ Significant reduction in tech spends by US banks/insurers
- ▶ Extended travel restriction to onsite locations
- ▶ Unfavourable currency movement

Institutional Equity Research

Mphasis

IT | India

CMP* (Rs)	3,246
Upside/ (Downside) (%)	11
Bloomberg Ticker	MPHL IN

BUY 

Target Price: Rs3,590

Estimate Change & Revision in Target Price

We raise our revenue estimates by 1.2%-3.2% over FY23E-FY24E driven by consistent deal wins. Additionally, we expect moderation in FY22E-FY23E EBIT margin driven by acquisition related costs. We downgrade our FY22E-FY23E EPS estimates by 1.8%/1.3% due to acquisition related costs. We raise FY24E revenue/EPS by 3.2%/3.1% respectively driven by synergy benefits from Blink acquisition and updated currency rates. We expect MPHL to report FY21-FY24E EPS CAGR of 20%, against FY17-FY20 EPS CAGR of 17%. We believe the company will report an industry-leading double-digit revenue growth rate over FY22E-FY24E. Additionally, DXC business continued to witness a slump and contributed just 6% to MPHL's total revenue in 2QFY22 vs. 23% in 4QFY20. In our view, a substantial reduction in the volatile part of business is encouraging for a consistent growth. At CMP, the stock trades at 29x FY24E EPS, which is at 20% discount to Mindtree. We retain our BUY rating and raise the Target Price to Rs3,590 (vs. the prior Rs3,470), valuing the stock at 32x FY24E earnings. We have shifted to a 1-year target price, from the earlier 2-year. As we enter 2HFY22, instead of rolling forward our valuation, we maintain it based on FY24E earnings and shift to a 1-year target price of Rs3,590.

Revised vs. Old Estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Old	Revised	Change (%)	Old	Revised	Change (%)	Old	Revised	Change (%)
Revenue US\$	1,546.00	1,565	1.2	1,782.00	1,824	2.3	2,022.00	2,086	3.2
Revenue	1,14,452	1,16,854	2.1	1,33,621	1,36,790	2.4	1,53,696	15,8,527	3.1
EBIT	18,735	18,320	(2.2)	22,306	22,073	(1.0)	25,644	26,676	4.0
EBIT Margin (%)	16.4	15.7	(90)bps	16.7	16.1	(60)bps	16.7	16.8	10bps
Reported Net Profit	14,786	14,513	(1.8)	17,395	17,179	(1.2)	20,499	21,169	3.3
Net Profit Margin (%)	12.9	12.4	(60)bps	13.0	12.6	(40)bps	13.3	13.4	10bps
EPS Rs	78.5	77	(1.8)	92	91	(1.3)	108	112	3.1

Source: RSec Research

ESG Analysis

While analyzing 20 key criteria (10 points each) under ESG Matrix, we have assigned an overall score of 75.5% to Mphasis. Under **"Environmental Head"**, we have assigned 83% score, as the company scores high in climate change and carbon emission. Under **"Social Head"**, we have assigned 70% score, as the company scores high on customer satisfaction, despite scoring low on employee engagement and human rights front. Under **"Governance Head"**, we have assigned 80% score due to high score in audit committee structure and political contribution and low score on executive compensation front.

For detailed report on our ESG analysis of Mphasis, please click here ([please refer to page no.43 for detailed ESG analysis](#)).

Institutional Equity Research

Mphasis

IT | India

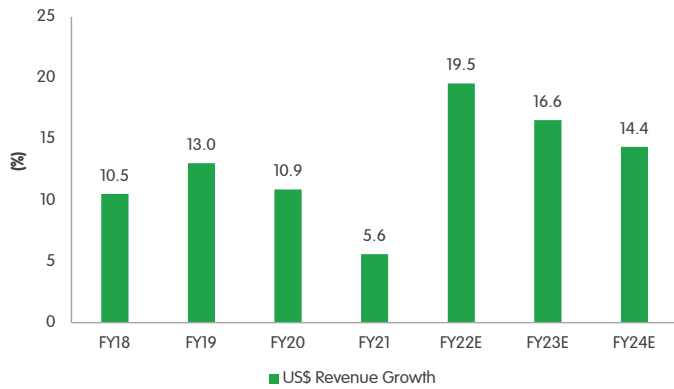
CMP* (Rs)	3,246
Upside/ (Downside) (%)	11
Bloomberg Ticker	MPHL IN

BUY 

Target Price: Rs3,590

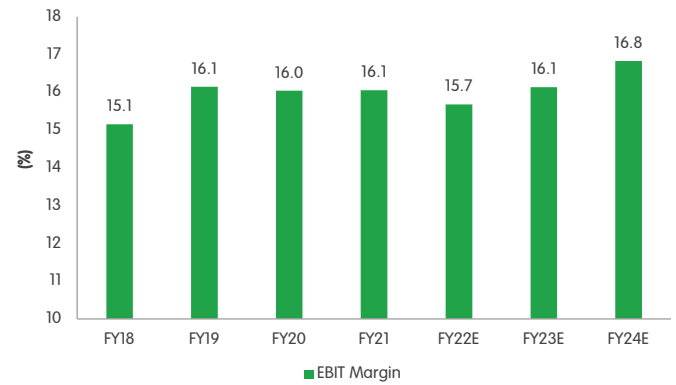
Key Charts

Exhibit 1: US\$ Revenue Growth



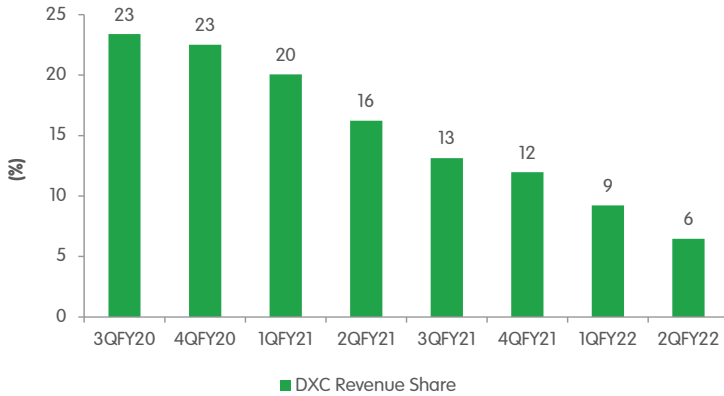
Source: Company, RSec Research

Exhibit 2: EBIT Margin



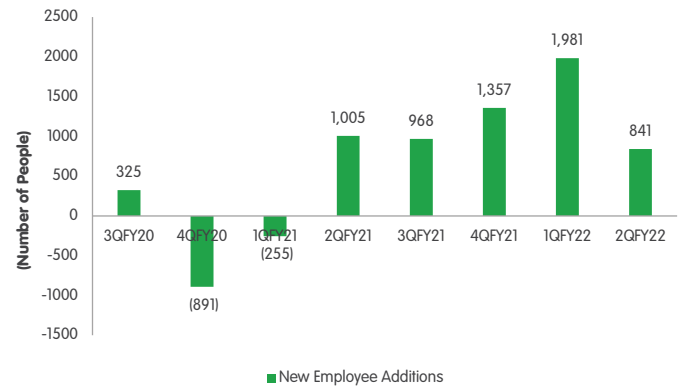
Source: Company, RSec Research

Exhibit 3: DXC Revenue Share



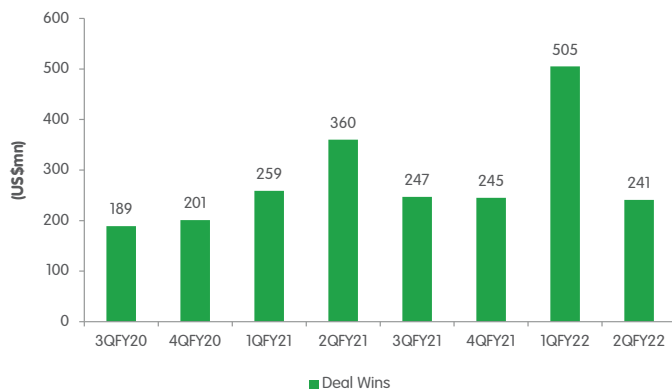
Source: Company, RSec Research

Exhibit 4: New Employee Addition



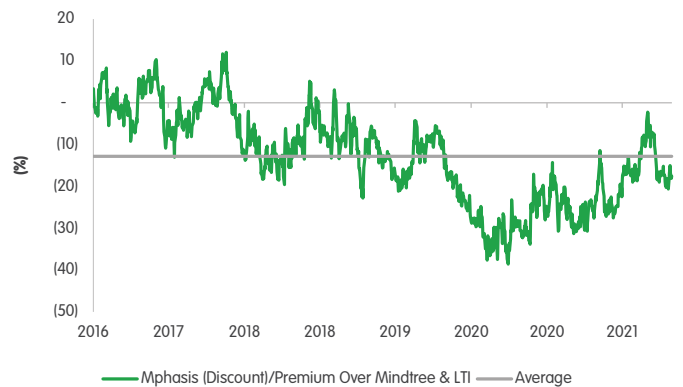
Source: Company, RSec Research

Exhibit 5: Deal wins



Source: Company, RSec Research

Exhibit 6: Mphasis discount / premium over Mindtree/LTI



Source: Company, RSec Research; Bloomberg

Institutional Equity Research

Mphasis

IT | India

CMP* (Rs)	3,246
Upside/ (Downside) (%)	11
Bloomberg Ticker	MPHL IN

BUY 

Target Price: Rs3,590

Profit & Loss Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues (US\$ mn)	1,239.6	1,308.9	1,564.8	1,823.9	2,085.9
Growth (%)	10.9	5.6	19.5	16.6	14.4
Net Revenues	88,436	97,222	1,16,854	1,36,790	1,58,527
Growth (%)	14.4	9.9	20.2	17.1	15.9
Employee Costs & Other expenses	62,951	67,723	81,647	94,031	1,08,976
SG&A and Other Operating Expenses	8,980	11,472	13,799	16,997	19,070
EBITDA	16,505	18,027	21,408	25,762	30,481
EBITDA (%)	18.7	18.5	18.3	18.8	19.2
EBITDA Growth (%)	24.7	9.2	18.8	20.3	18.3
D&A	2,318	2,418	3,087	3,688	3,805
EBIT	14,187	15,609	18,320	22,073	26,676
EBIT (%)	16.0	16.1	15.7	16.1	16.8
EBIT Growth (%)	13.7	10.0	17.4	20.5	20.9
Other Income	967	696	1,053	947	1,699
PBT	15,154	16,305	19,373	23,020	28,375
Tax (incl deferred)	3,730	4,139	4,860	5,842	7,205
PAT	11,424	12,166	14,513	17,179	21,169
PAT Growth (%)	6.4	6.5	19.3	18.4	23.2
EPS (Rs)	60.8	64.4	77.1	91.0	111.8
EPS Growth (%)	9.6	5.9	19.7	18.0	22.9

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS					
Share Capital - Equity	1,865	1,870	1,870	1,870	1,870
Reserves	56,431	63,398	65,777	71,755	80,776
Total Shareholders' Funds	58,296	65,268	67,647	73,625	82,646
Debt	5,714	5,134	5,134	5,134	5,134
Lease liabilities	7,378	7,019	7,019	7,019	7,019
Total Debt	13,092	12,153	12,153	12,153	12,153
Current Liabilities	12,769	11,927	16,422	19,458	22,654
Provisions	2,242	3,494	2,933	3,475	4,045
Total Current Liabilities	2,242	3,494	2,933	3,475	4,045
TOTAL SOURCES OF FUNDS	86,399	92,842	99,155	1,08,710	1,21,499
APPLICATION OF FUNDS					
Goodwill	21,405	21,326	21,326	21,326	21,326
Net Block	2,494	3,193	2,668	2,138	1,852
CWIP & Right to use assets	6,789	5,708	4,782	3,675	2,534
Investments	13,257	18,460	18,460	18,460	18,460
Deferred Tax Assets	2,157	1,261	1,261	1,261	1,261
LT Loans & Advances, Others	11,866	13,563	13,563	13,563	13,563
Total Non Current Assets	57,968	63,511	62,060	60,423	58,996
Debtors & Unbilled Revenues	16,947	18,021	24,047	28,491	33,173
Cash & Bank	11,484	11,310	13,048	19,796	29,330
Total Current Assets	28,431	29,331	37,095	48,287	62,503
TOTAL APPLICATION OF FUNDS	86,399	92,842	99,155	1,08,710	1,21,499

Institutional Equity Research

Mphasis

IT | India

CMP* (Rs)	3,246
Upside/ (Downside) (%)	11
Bloomberg Ticker	MPHL IN

BUY 

Target Price: Rs3,590

Cash Flow Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	15,154	16,305	19,373	23,020	28,375
Non-operating & EO items	(721)	(277)	0	0	0
Depreciation	2,316	2,418	3,087	3,688	3,805
Working Capital Change	423	(453)	(2,092)	(867)	(913)
Income Tax paid	(3,960)	(3,448)	(4,860)	(5,842)	(7,205)
Cash Flow from Operations (a)	13,212	14,544	15,508	20,000	24,061
Capex	(1,243)	(1,252)	(1,636)	(2,052)	(2,378)
Acquisitions	0	(805)	0	0	0
Change in Investments	2,651	(6,162)	0	0	0
Cash Flow from Investing (b)	1,408	(8,219)	(1,636)	(2,052)	(2,378)
Debt Issuance/(Repaid)	(2,333)	(2,356)	0	0	0
Share capital Issuance/(buyback)	151	268	0	0	0
Dividend	(6,065)	(6,527)	(12,134)	(11,200)	(12,148)
Cash Flow from Financing (c)	(8,247)	(8,615)	(12,134)	(11,200)	(12,148)
NET CASH FLOW (a+b+c)	6,373	(2,289)	1,738	6,748	9,534
EO items, others	(10)	(120)	0	0	0
Opening Cash Balance	3,519	9,882	7,473	9,211	15,959
Closing Cash Balance	9,882	7,473	9,211	15,959	25,493
Free Cash Flow	11,969	13,292	13,872	17,948	21,683

Key Ratio

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
EBITDA Margin	18.7	18.5	18.3	18.8	19.2
EBIT Margin	16.0	16.1	15.7	16.1	16.8
APAT Margin	12.9	12.5	12.4	12.6	13.4
RoE	21.3	22.0	23.5	25.8	30.0
RoCE	18.3	16.4	18.5	20.7	23.4
ROA	16.6	15.3	16.2	17.9	20.4
Efficiency					
Tax Rate (%)	24.6	25.4	25.1	25.4	25.4
Debtors (days)	28	28	31	32	34
Unbilled Receivables (days)	38	34	38	39	42
Current Liabilities (days)	50	41	47	48	52
FCF/NI (%)	104.8	109.3	95.6	104.5	102.4
Net Debt/EBITDA (x)	(0.7)	(1.0)	(0.9)	(1.0)	(1.2)
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
Per Share Data (Rs)					
EPS	60.8	64.4	77.1	91.0	111.8
DPS	35.0	65.0	60.0	65.0	70.0
BV	310.4	345.6	359.3	389.9	436.3
FCF	45.3	64.2	71.2	74.3	96.0
Valuation (x)					
P/E	53.4	50.4	42.1	35.7	29.0
P/BV	10.5	9.4	9.0	8.3	7.4
EV/EBITDA	36.2	32.6	27.5	22.8	19.1
FCF/EV (%)	1.9	2.1	2.5	2.9	3.6
FCF/mkt cap (%)	2.0	2.2	2.3	3.0	3.6
Dividend Yield (%)	1.1	2.0	1.8	2.0	2.2

Institutional Equity Research

Mphasis

IT | India

CMP* (Rs)	3,246
Upside/ (Downside) (%)	11
Bloomberg Ticker	MPHL IN

BUY 

Target Price: Rs3,590

Change in Ratings

We have changed our rating system and included **HOLD** recommendation. We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

Rating History

Date	Reco	CMP	TP
13-Aug-21	BUY	2,767	3,470
20-Jul-20	BUY	999	1,200

[PLEASE CLICK HERE FOR PREVIOUS REPORTS](#)**Rating Guides**

Rating	Expected absolute returns (%) over 12 months
BUY	≥10%
HOLD	0% to <10%
SELL	<0%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies)?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.