

Market statistics

Current stock price (₹)	804
Shares O/S (cr.)	18.6
Mcap (₹ cr)	15,370
52W H/L (₹)	1015/612
Bloomberg	MPHL.IN

Mphasis reported an in-line revenue growth in cc terms. Despite DXC-HP portfolio underperformance & uncertainty, (1) Continuity of strong growth vectors in Direct Core, (2) Industry tailwinds in Digital Risk, and (3) Attractive valuations (12.2x FY22E, Dividend yield >4%) support our constructive stance. MPHL reiterated that developments at DXC have no material impact on their relationship or business coming from that channel. They expect to grow this channel in line with industry growth, while direct channel will grow in double digits. We maintain our Buy rating on the stock, given the confidence in its business growth.

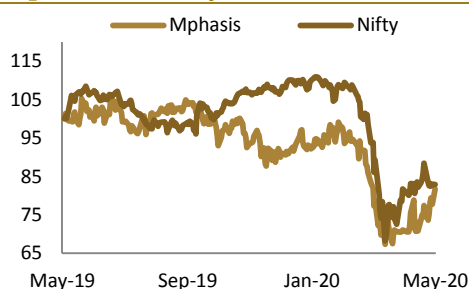
Shareholding pattern

Promoters	56.18
Domestic Institution	14.17
Foreign Institution	23.87
Non-institution	5.78
of which more than 1%	

Quarterly details. Strong wins in Direct International - Mphasis' revenue growth was +1.5/11.1% QoQ/YoY cc, supported by (1) Strong growth in Direct Core at +2.6/13.6% QoQ/YoY, (2) DXC-HP channel posting -1%/+2.1% QoQ/YoY cc, and (3) Digital Risk growing 3.5% QoQ. 4Q TCV bookings of Direct International was US\$201mn, +6.3/53.4% QoQ/YoY (16.1% in FY20), 79% of 4Q TCV were in new-generation areas, increase of large deals (>USD 25mn) and improving annuity.

Blackstone channel scaling up well. The PE giant has driven growth within its portfolio companies by leveraging the ecosystem to drive new logos. We believe the channel could consistently grow in healthy double digits and play a more meaningful role in MPHL's growth as it scales.

Mphasis vs. Nifty



Direct Core well placed to grow above market: We believe that the Direct Core channel, which forms largest chunk of MPHL's overall revenue, is well placed to grow above market, led by a) farming strategic clients and b) growing the new client portfolio, while revenue from new clients nearly doubled over the past six quarters. For FY20, revenue growth was 11.7% cc with Direct Core growth at 15.4% cc, Digital Risk growth at 7% and DXC-HP channel growth at 7.5% cc. Within Direct Core, apart from the strategic accounts, new logo wins and Blackstone portfolio are contributing to the overall Direct Core growth. US\$5mn+ client bucket and US\$1mn+ client bucket expanded to 31 and 76, respectively in Direct International.

DXC-HP uncertainty persists, but downside protected: DXC-HP channel has decelerated following a stellar growth over FY17-19. Geographical diversification, industry focus and strategic partnership are expected to support the revenue run-rate. The downside is protected with the residual minimum revenue commitment of US\$300mn for the next 6 quarters within DXC (88% of DXC-HP channel).

Margins have to room to expand: Mphasis indicated that it can leverage travel costs, automation, offshore leverage, utilization and fresher hiring to manage margins. The company currently does not have plans to change the wage hike policy for employees.

Valuation: With strong historical revenue growth and expectations, differentiated growth channels in the form of Blackstone portfolio companies and long client relationships, improving margin profile, confident management commentary, we believe that that MPHL is a good stock to own at current levels. We believe recovery in digital business will be gradual while direct core business will be the key growth driver. Improvement in cash generation with OCF-EBITDA/FCF-APAT at 80/105% in FY20, respectively (vs. 72/65% in FY19). Dividend payout improved to 55% in FY20 (vs. 48% in FY19) adds to the positives. **We maintain our BUY rating on the stock, given confidence in its business growth, and a good dividend yield (~7% on an average over the last 3 years including Buybacks).**

Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	21.4	17.9	18.9
EPS (₹)	63.6	58.0	65.7
CEPS (₹)	76.0	71.5	80.4
P/E (x)	11.6	13.9	12.2
P/BV (x)	2.4	2.4	2.2
EV/EBITDA (x)	9.4	10.5	9.3
Income growth (%)	14.4	0.6	8.3
EBITDA growth (%)	24.7	(4.0)	10.7
PAT growth (%)	10.4	(8.7)	13.5

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Exhibit 1: Quarterly details

₹ mn	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	Comments
Revenues (In US\$mn)	291.7	318.1	319.9	0.6	9.7	MPHL reported 1.5% revenue growth on a cc basis.
Revenues	20,250	22,767	23,462	3.1	15.9	
- Operating costs	16,846	18,498	19,021	2.8	12.9	
EBITDA	3,404	4,269	4,441	4.0	30.5	
EBITDA margin (%)	16.8	18.8	18.9	18bps	212bps	
- Interest expense	59	190	207	8.9	250.8	
- Depreciation	200	575	610	6.1	205.0	Includes a forex gain of ₹43mn for the quarter vs ₹14mn in 3Q.
+ Other income, net (incl forex)	332	362	526	45.3	58.4	
PBT	3,477	3,866	4,150	7.3	19.4	
- Taxes	815	929	618	(33.5)	(24.2)	Tax rate to remain in the range of ~24%
Effective tax rate (%)	23.4	24.0	14.9	(914)bps	(855)bps	
PAT	2,662	2,937	3,532	20.3	32.7	
Net margin (%)	13.1	12.9	15.1	215bps	191bps	
Reported profits	2,662	2,937	3,532	20.3	32.7	

Source: Company.

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	1,392	1,219	(12.4)	1,535	1,319	(14.1)
Revenue	97,466	88,951	(8.7)	107,510	96,310	(10.4)
EBITDA margin (%)	18.7	17.8	(85)bps	19.1	18.2	(85)bps
EPS (₹)	67.3	58.0	(13.8)	76.6	65.7	(14.2)

Source: Trust Research

Geography wise Revenues: Europe has been a focus area for the company in the past few years. Increased sales efforts and investments have aided strong deal wins and revenue growth in Europe.

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
US	79.1	79.1	80.1	78.3	77.6	78.8	79.2	77.5	76.3
Europe	11.0	11.5	10.8	11.1	11.4	10.7	10.1	11.5	12.3
RoW	9.9	9.4	9.1	10.4	11.0	10.5	10.6	11.0	11.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Operating mix (%)

Details	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Application maintenance	31.2	30.2	34.4	35.8	33.5	32.1	30.3	28.6	31.1
Application development	26.2	27.5	27.7	29.8	31.4	33.2	33.4	32.2	32.9
Customer service	1.3	1.2	1.0	1.1	1.1	1.1	1.1	1.2	0.7
Service/ technical help desk	7.4	8.2	6.5	6.7	7.1	7.5	7.2	7.9	5.5
Transaction processing service	6.9	6.6	6.3	6.2	6.3	6.3	6.6	7.8	7.9
Infrastructure management services	15.2	14.8	14.2	12.7	12.7	12.2	12.6	13.0	12.4
Knowledge processes	11.8	11.5	9.9	7.6	7.9	7.6	8.9	9.4	9.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: Consolidated headcount decreased by 891 to 26,398.

Details	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Applications (onsite)	2,456	2,550	2,991	3,539	3,277	3,246	3,309	3,298	3,430
BPO (onsite)	950	914	914	884	851	951	1,080	1,398	1,365
ITO (onsite)	1,120	1,087	1,312	1,210	1,293	1,522	1,547	1,399	917
Applications (offshore)	8,281	8,680	8,962	9,286	9,742	10,312	10,995	10,980	10,876
BPO (offshore)	5,139	5,092	5,140	5,236	5,384	5,474	5,958	6,078	5,711
ITO (offshore)	3,121	3,075	2,994	2,843	2,723	2,789	2,867	2,927	2,896
S&M	278	270	270	292	293	282	280	280	279
G&A	894	898	895	925	921	923	927	929	924
Total	22,239	22,566	23,478	24,215	24,484	25,499	26,963	27,289	26,398

Source: Company

Client Concentration: Deal wins increased 16% YoY on TTM basis to US\$715mn. Management indicated that revenues from large deals (>US\$25mn) increased 50% in FY20. Deal wins have continued for the company in April as well.

Exhibit 5: Client details

Details	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Top client (%)	13.0	13.0	14.0	14.0	14.0	15.0	15.0	14.0	13.0
Top 5 clients (%)	40.0	41.0	43.0	46.0	47.0	48.0	49.0	48.0	48.0
Top 10 clients (%)	56.0	56.0	58.0	59.0	60.0	61.0	60.0	60.0	60.0
Top 20 clients (%)	69.0	68.0	69.0	70.0	70.0	69.0	70.0	69.0	69.0
US\$1mn+	90	93	95	96	94	96	104	106	107
US\$5mn+	37	37	36	33	33	33	35	36	37
US\$10mn+	17	18	19	19	17	17	17	17	17
US\$20mn+	8	8	8	8	8	8	8	8	8
Client added	5	12	12	20	23	19	15	15	12

Source: Company

Exhibit 6: Billing rates (US\$/hr)

Details	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Applications (onsite)	85	86	85	90	90	92	93	95
ITO (onsite)	86	86	81	86	78	77	75	78
Applications (offshore)	22	22	23	23	23	23	23	24
BPO (offshore)	10	10	10	11	11	12	12	12
ITO (offshore)	24	23	24	24	24	26	25	24

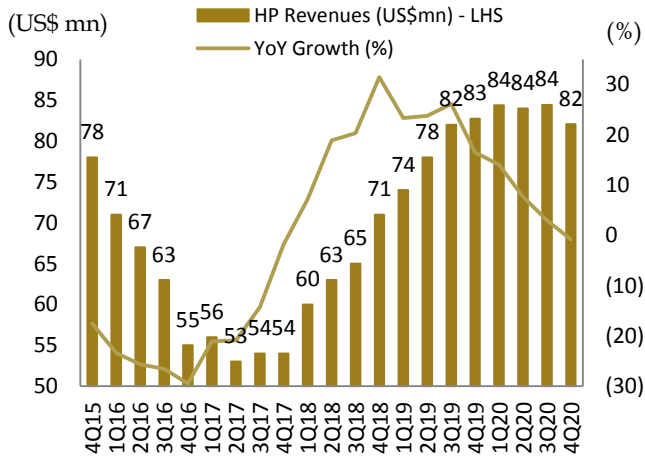
Source: Company

Direct Core well placed to grow above market: Direct International business has demonstrated consistent strong growth in recent quarters. We expect the near-term growth to be weak due to the pandemic impact. High client concentration is a medium-term risk. Resiliency of wallet share gains in strategic accounts will be tested during the pandemic. A strong deal win momentum provides comfort on near-term revenue growth. TCV of net new deal wins grew 37.7% YoY to US\$201mn helped by large deals.

Revenue outlook. Mphasis expects sequential revenue decline in the Jun 2020 quarter followed by sequential growth in the Sep 2020 quarter. Management attributed the weak near-term outlook mainly to supply-side constraints compared to demand. The company expects robust deal signings from acceleration of the digital transformation agenda of clients.

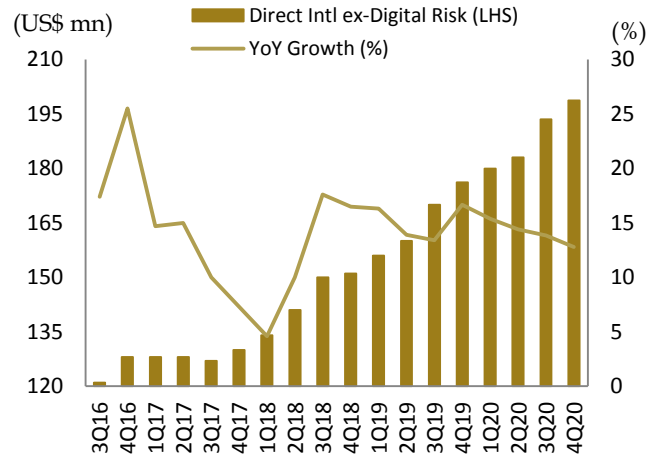


Exhibit 7: HP/DXC revenue flattening out



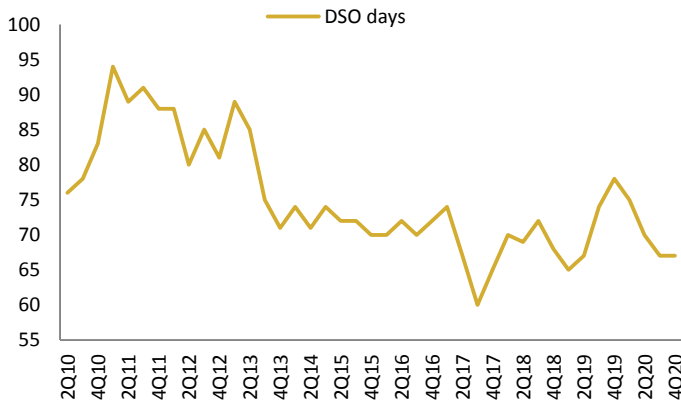
Source: Company, Trust

Exhibit 8: Direct Intl. (ex. Digital Risk) grows



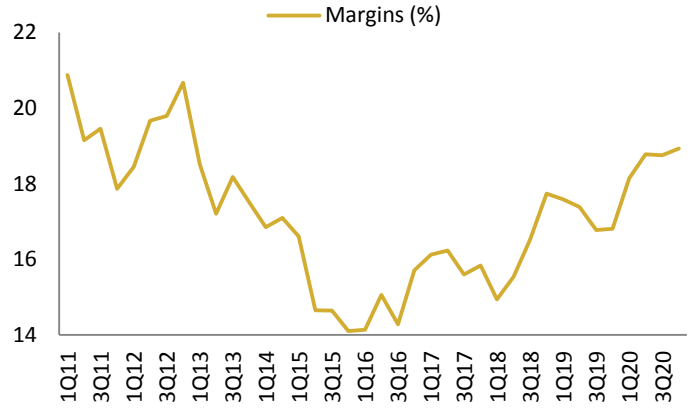
Source: Company, Trust

Exhibit 9: DSO days was flat QoQ to 67



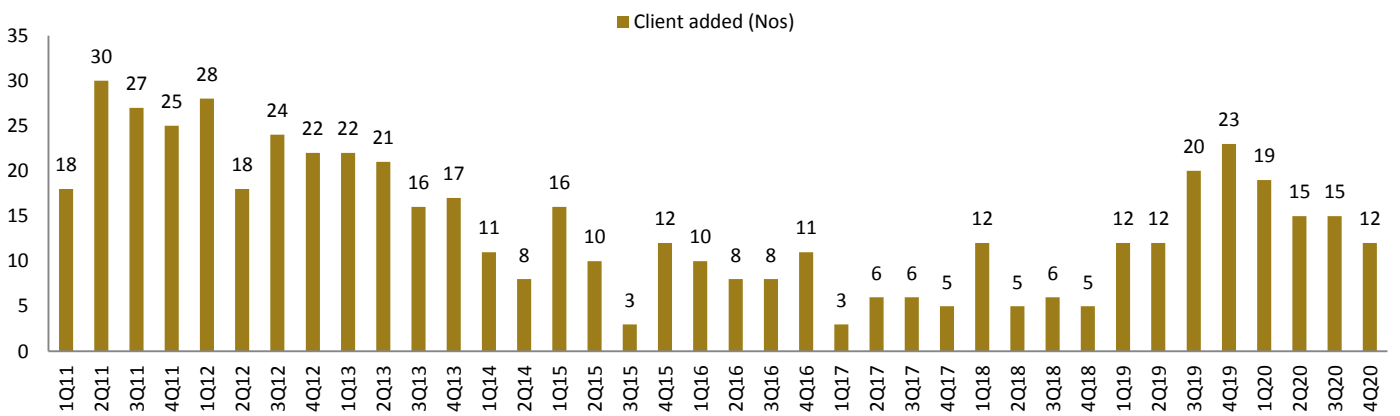
Source: Company, Trust

Exhibit 10: Margin was better compared to estimates



Source: Company, Trust

Exhibit 11: Client addition at MPHL has been robust over the past 6 quarters compared to the recent past



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	65,459	77,311	88,436	88,951	96,310
Op. Expenses	54,834	64,071	71,931	73,110	78,780
EBITDA	10,625	13,240	16,505	15,841	17,530
Other Income	1,620	1,747	1,780	1,750	2,100
Depreciation	709	759	2,317	2,532	2,732
EBIT	11,536	14,228	15,968	15,059	16,898
Interest	130	155	813	828	745
PBT	11,406	14,073	15,155	14,231	16,153
Tax	2,900	3,339	3,306	3,415	3,877
PAT	8,506	10,734	11,849	10,815	12,276
Ex. ordinary	131	-	-	-	-
Adj Pat	8,375	10,734	11,849	10,815	12,276

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	44.0	57.7	63.6	58.0	65.7
CEPS	47.7	61.7	76.0	71.5	80.4
BVPS	283.6	282.0	312.8	335.7	361.2
DPS	20.0	27.0	35.0	35.0	40.0
Payout (%)	53.2	54.8	55.1	60.4	60.9
Valuation (x)					
P/E	19.2	17.2	11.6	13.9	12.2
P/BV	3.0	3.5	2.4	2.4	2.2
EV/EBITDA	16.3	15.5	9.4	10.5	9.3
Dividend Yield (%)	2.4	2.7	4.8	4.4	5.0
Return ratio (%)					
EBIDTA Margin	16.2	17.1	18.7	17.8	18.2
PAT Margin	13.0	13.9	13.4	12.2	12.7
ROAE	14.6	20.0	21.4	17.9	18.9
ROACE	18.8	24.4	24.7	20.5	21.7
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.1	0.1	0.1
Net Debt/Equity	(0.4)	(0.3)	(0.2)	(0.2)	(0.2)
Current ratio	2.8	2.1	2.0	2.2	2.3
Growth Ratios (%)					
Income growth	7.7	18.1	14.4	0.6	8.3
EBITDA growth	9.7	24.6	24.7	(4.0)	10.7
PAT growth	4.2	28.2	10.4	(8.7)	13.5
Turnover Ratios					
Inventor Days	0	-	-	-	-
Debtors Days	40	42	37	50	58
Payable days	9	9	9	9	9

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Equity Share Capital	1,933	1,862	1,865	1,866	1,868
Reserves & Surplus	52,885	50,636	56,431	60,761	65,594
Total Shareholders Fund	54,818	52,498	58,296	62,628	67,461
Non-current liabilities	(41)	461	5,410	4,826	4,904
Long term Borrowings	38	40	5,844	5,844	5,844
Deferred tax liabilities	(1,007)	(786)	(2,020)	(2,020)	(2,020)
Other LT liabilities & prov	928	1,207	1,586	1,002	1,079
Current Liabilities	14,020	19,937	21,672	21,737	22,980
Short-term borrowings	3,899	5,426	5,713	5,713	5,713
Trade payables	5,024	7,850	6,667	6,610	7,123
Other cur liabilities & Prov	5,097	6,661	9,292	9,414	10,144
Total Liabilities	68,796	72,897	85,377	89,190	95,344
Assets					
Non-current Assets	29,336	31,866	41,247	41,189	41,582
Fixed assets	1,848	2,142	2,661	2,515	2,283
Non-current investments	20,184	22,176	31,120	31,120	31,120
Long-term loans & adv	1,140	709	641	731	792
Other non-current assets	6,164	6,839	6,826	6,824	7,388
Current assets	39,460	41,031	44,131	48,002	53,763
Current investments	14,651	10,700	9,778	9,778	9,778
Trade receivables	8,116	9,554	8,353	15,841	14,512
Inventories	-	-	-	-	-
Cash & bank balances	4,642	3,520	9,901	6,299	12,058
Short-term loans & adv	824	1,257	1,409	1,462	1,583
Other current assets	11,227	16,000	14,690	14,622	15,832
Total Assets	68,796	72,897	85,377	89,191	95,345

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	11,406	14,073	15,155	14,231	16,153
Depreciation	3,071	980	1,083	2,532	2,732
Others	(131)	-	-	-	-
CF before W.cap	14,346	15,053	16,238	16,763	18,885
Inc/dec in W.cap	2,057	2,217	(4,266)	8,080	(693)
Op CF after W.cap	12,289	12,836	20,504	8,683	19,578
Less Taxes	2,900	3,339	3,306	3,415	3,877
Net CF From Operations	9,389	9,497	17,198	5,268	15,701
Inc/(dec) in F.A + CWIP	313	1,053	2,836	2,386	2,500
(Pur)/sale of Investments	(3,190)	(1,959)	8,021	-	-
CF from Invst Activities	2,877	906	(10,857)	(2,386)	(2,500)
Loan Raised/(repaid)	1,324	1,529	6,091	-	-
Equity Raised	(10,559)	(7,173)	472	46	28
Dividend	4,523	5,881	6,524	6,529	7,470
CF from Fin Activities	(13,757)	(11,525)	40	(6,484)	(7,442)
Net inc/(dec) in cash	(1,491)	(1,122)	6,381	(3,602)	5,759
Op. bal of cash	6,133	4,642	3,520	9,901	6,299
Cl. balance of cash	4,642	3,520	9,901	6,299	12,058

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Recommendation **Expected absolute returns (%) over 12 months**

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

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