

Order book continue to be healthy

About the stock: Mphasis Ltd (Mphasis) offers application services, BPO and infrastructure services, BFSI, Technology, communication & logistic services.

- The company's direct revenue increased 35.7% YoY on a reported basis & 34.4% in CC terms in FY22
- OCF, EBITDA of 75% and double digit return ratio (with RoCE of 20%)

Q1FY23 Results: Mphasis reported Q1FY23 results.

- Direct revenue grew 2.1% QoQ on reported basis in Dollar terms, while it was up 2.4% QoQ in CC terms
- EBIT margins came in at 15.3%, +10 bps QoQ
- TCV of US\$302 mn in Direct, consecutive 3rdth quarter of US\$300mn+ deal wins

What should investors do? Mphasis' share price has grown by ~3.7x over the past five years (from ~₹ 577 in July 2017 to ~₹ 2278 levels in July 2022).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Mphasis at ₹ 2730 i.e. 24x P/E on FY24E EPS

Key triggers for future price performance:

- Strategy to mine top 10, 20 clients, adding high potential new logos, rise in deal sizes & expansion in Europe bodes well for long term growth
- Further, the management stability, improving deal size, market share gains via vendor consolidation, low legacy exposure to drive 22.5% CAGR growth in direct revenues in FY22-24E
- Improving revenue trajectory, higher offshoring, pricing and automation to boost EBIT margins (+60 bps to 16.0% in FY22-24E)

Alternate Stock Idea: Apart from Mphasis, in our IT coverage we like LTI.

- Industry leading growth and healthy margins prompt us to be positive on the stock
- HOLD with a target price of ₹ 4,480

Key Financial Summary

| (₹ Crore) | FY20 | FY21 | FY22 | 5 Year CAGR (FY17-22) | FY23E | FY24E | 2 Year CAGR (FY21-24E) |
|--------------------|-------|-------|--------|-----------------------|--------|--------|------------------------|
| Net Sales | 8,844 | 9,722 | 11,961 | 14.5 | 14,575 | 17,205 | 19.9 |
| EBITDA | 1,650 | 1,803 | 2,118 | 16.9 | 2,522 | 3,149 | 21.9 |
| EBITDA Margins (%) | 18.7 | 18.5 | 17.7 | | 17.3 | 18.3 | |
| Net Profit | 1,185 | 1,217 | 1,431 | 12.6 | 1,719 | 2,153 | 22.7 |
| Diluted EPS (₹) | 63.1 | 64.4 | 75.6 | | 90.8 | 113.8 | |
| P/E (x) | 35.8 | 34.9 | 29.8 | | 24.8 | 19.8 | |
| RoE (%) | 20.3 | 18.6 | 20.6 | | 22.8 | 25.9 | |
| RoCE (%) | 22.3 | 21.8 | 23.7 | | 25.2 | 28.5 | |

Source: Company, ICICI Direct Research



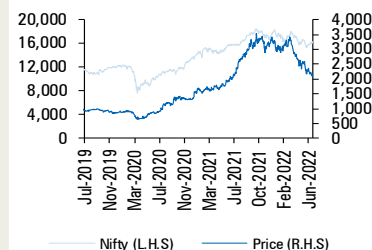
Particulars

| Particular | Amount |
|----------------------------|------------|
| Market Cap (₹ crore) | 43,091.9 |
| Total Debt (₹ crore) | 527.2 |
| Cash and Invests (₹ crore) | 2,384.6 |
| EV (₹ crore) | 41,234.5 |
| 52 week H/L | 3660/ 2072 |
| Equity Capital (₹ crore) | 187.8 |
| Face Value (₹) | ₹ 10 |

Shareholding pattern

| | Sep-21 | Dec-21 | Mar-22 | Jun-22 |
|-----------|--------|--------|--------|--------|
| Promoters | 56.0 | 56.0 | 55.8 | 55.8 |
| FII | 20.9 | 21.1 | 21.1 | 21.1 |
| DII | 18.0 | 17.0 | 18.0 | 18.0 |
| Public | 5.2 | 5.9 | 5.1 | 5.1 |

Price Chart



Recent event & key risks

- Continued strong momentum of deal wins
- Key Risk:** (i) Macroeconomic concerns in Europe, (ii) Lower than expected margins

Research Analyst

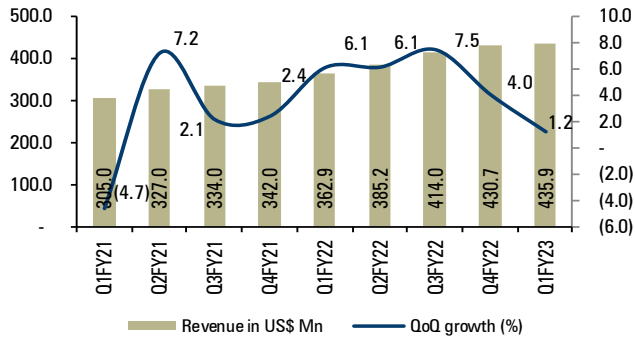
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Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter was at US\$435.9 million (mn), up 1.2% QoQ while in CC terms the growth was 2% QoQ. In rupee terms, revenues came in at ₹ 3,391 crore up 4.5% QoQ
- Revenue was driven by the US market (82% of the mix), which grew 5.6% QoQ, it was the 5th straight quarter of 5%+ QoQ growth. In terms of verticals, BFSI [banking and insurance together (62% of the mix)] contributed to growth as it grew 3.2% QoQ together
- Direct revenue (93.5% of mix) grew 5% QoQ while DXC revenues (4.8% mix) declined by 4.4% QoQ. In CC terms Direct revenue grew by 2.4% QoQ while DXC declined by 6.7% QoQ
- Company reported steady EBIT margins for the quarter were 15.3%, up ~10 bps QoQ & down by ~60 bps YoY. Adj. EBITDA margin after M&A expenses was 15.8%. The company maintained its EBIT margin guidance in the band of 15.5-17% for FY23
- The company is confident on margin improvement in the subsequent quarters and levers for the same are as follows: a) Pricing: the company indicated that pricing remains a key lever as new contracts are coming at a better price b) continued focus on offshore improvement c) improving utilization & d) pyramid correction by fresher hiring. The company also indicated that the ESOP related expenses will reduce in the upcoming quarters
- The TCV (new bookings) for the quarter was at US\$302 mn, down by 13% QoQ. The company indicated that out of this US\$60 mn deals were with Top 5 clients & one was a large deal with a TCV of US\$50 mn. This is the 3rd quarter of US\$300mn+ TCV
- The company added 365 net employees in the quarter. The company indicated that it may look leaner quarter from employee hiring perspective. The company mentioned that hiring should be looked from the context of underlying structural change in the business from last 2-3 years where DXC revenue mix is going down and there is lot of employees being absorbed from this business to direct business. The company indicated that that hiring will be similar in Q2 vs Q1 and only like to pick up from Q3 onwards
- The company indicated that attrition remained at elevated levels but it is seeing some green shoots there. It mentioned that lot of start-ups are facing fund crunch globally and there is influx of people from there, which is one of the levers for attrition to moderate in the subsequent quarters. It also indicated that with travel normalizing on shore attrition will moderate in 3-6 months.
- The company indicated Blink acquisition revenues are running ahead of our expectation and it is looking at continued synergy benefits and it is seeing a good progress. It mentioned that Blink business is already integrated into their direct business. The company said that growth into top 11-20 accounts could be an indicator of the Blink progress
- The company indicated that there is some pressure on the mortgage business which is visible in its BPO service line, on account of i) some deals are closed and renewals didn't happen in time ii) volatility in US in terms interest rates and yields, which needs to be settle down, till that we may see some pressure in this business. It is also important to note that it has some DXC revenue component attached and slowdown in DXC business is also impacting insurance business.
- The company indicated that it expects utilisation has a scope of improvement of 500bps in the medium term as freshers becomes billable.

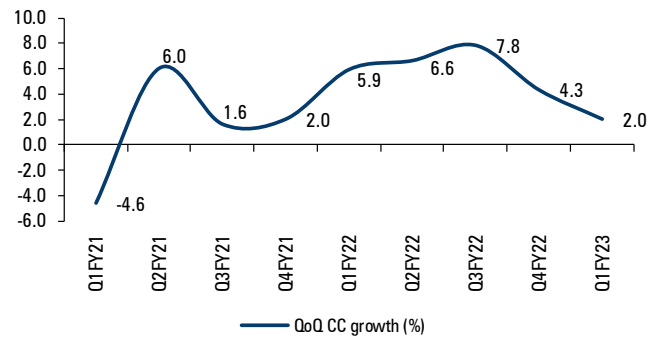
Key Metrics

Exhibit 1: Revenue with QoQ growth



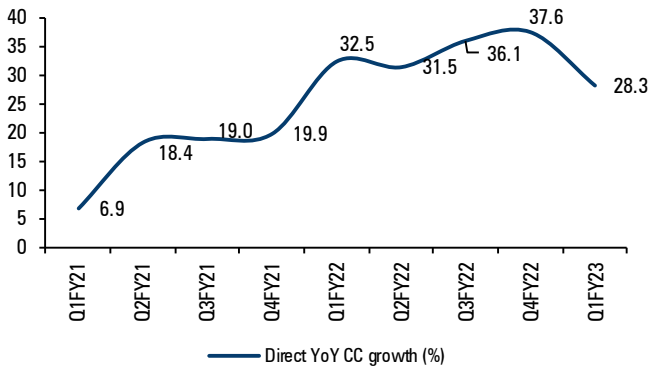
Source: Company, ICICI Direct Research

Exhibit 2: QoQ CC growth



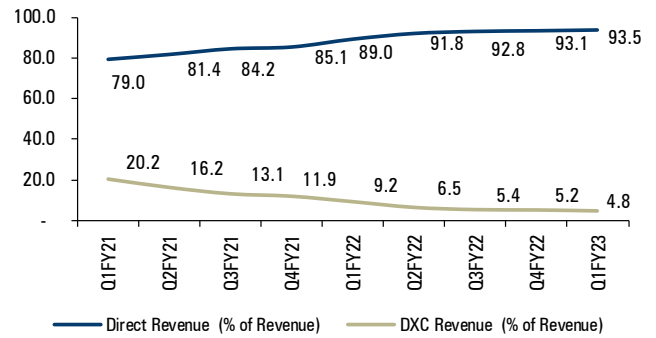
Source: Company, ICICI Direct Research

Exhibit 3: Direct YoY CC growth



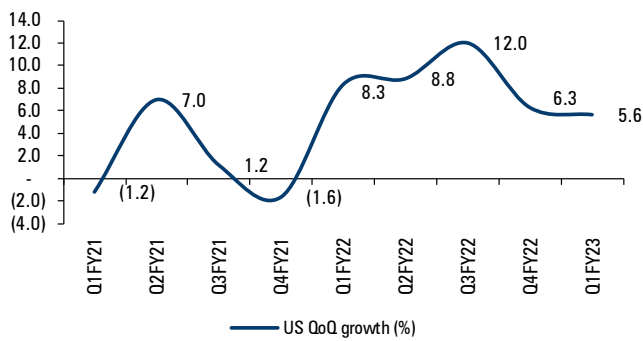
Source: Company, ICICI Direct Research

Exhibit 4: Direct & DXC Revenue Mix trend



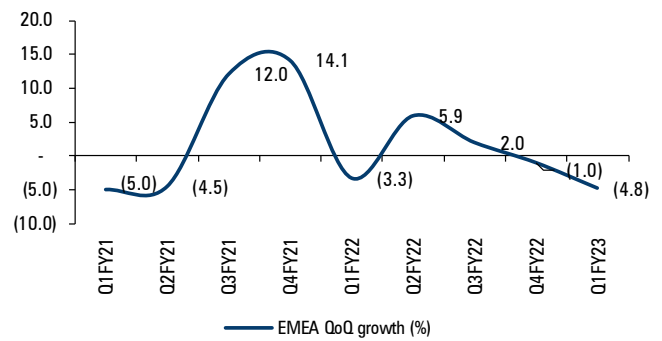
Source: Company, ICICI Direct Research

Exhibit 5: US QoQ growth



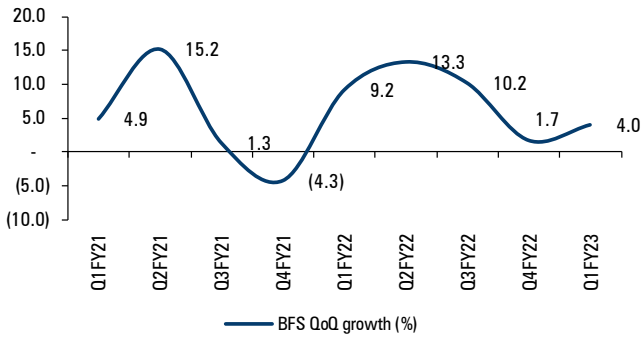
Source: Company, ICICI Direct Research

Exhibit 6: EMEA QoQ growth



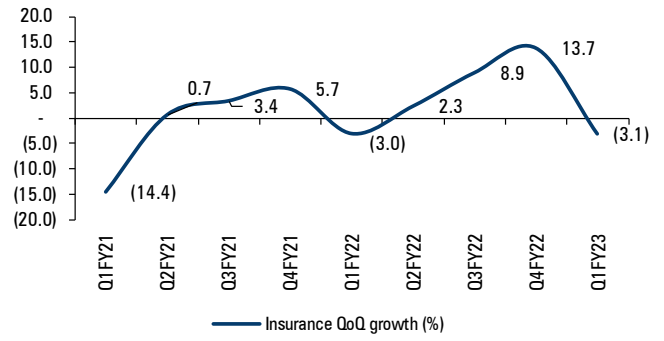
Source: Company, ICICI Direct Research

Exhibit 7: BFS QoQ growth



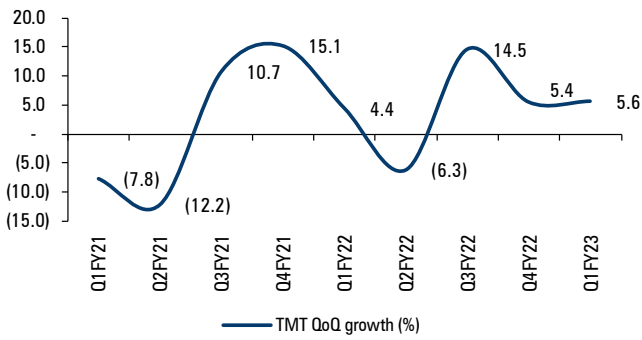
Source: Company, ICICI Direct Research

Exhibit 8: Insurance QoQ growth



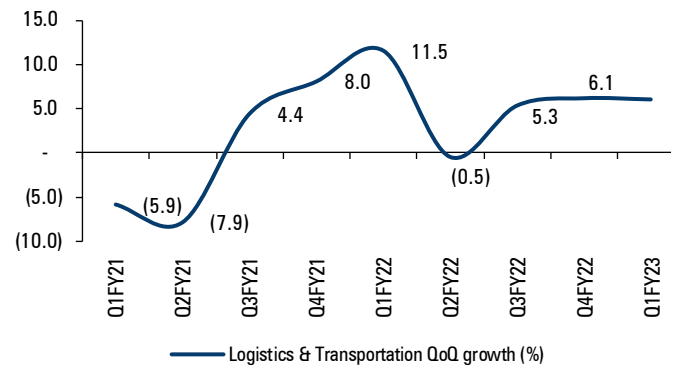
Source: Company, ICICI Direct Research

Exhibit 9: TMT QoQ growth



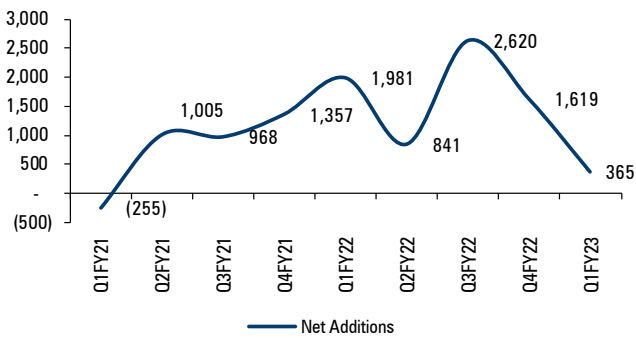
Source: Company, ICICI Direct Research

Exhibit 10: Logistics & Transportation QoQ growth



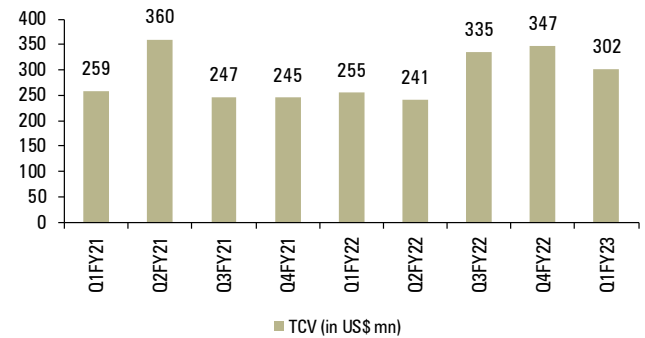
Source: Company, ICICI Direct Research

Exhibit 11: Net employee addition trend



Source: Company, ICICI Direct Research

Exhibit 12: TCV wins trend



Source: Company, ICICI Direct Research

Exhibit 1: P&L

| | Q1FY23 | Q1FY22 | YoY (%) | Q4FY22 | QoQ (%) | Comments |
|------------------------------|--------|--------|---------|--------|---------|---|
| Revenue | 3,411 | 2,691 | 26.8 | 3,278 | 4.1 | Direct revenue grew by 5% QoQ, 2.4% QoQ in CC |
| Employee expense | 2,394 | 1,926 | 24.3 | 2,301 | 4.0 | |
| Gross Margin | 1,017 | 765 | 33.0 | 976 | 4.2 | |
| Gross margin (%) | 29.8 | 28.4 | 139 bps | 29.8 | 3 bps | |
| Other expense | 417 | 275 | 51.5 | 399 | 4.5 | |
| EBITDA | 600 | 490 | 22.6 | 577 | 4.0 | |
| EBITDA Margin (%) | 17.6 | 18.2 | -60 bps | 17.6 | -11 bps | |
| Depreciation & amortisation | 80 | 62 | 27.6 | 80 | -0.4 | |
| EBIT | 520 | 427 | 21.8 | 497 | 4.6 | |
| EBIT Margin (%) | 15.3 | 15.9 | -62 bps | 15.2 | 8 bps | Margins were steady for the quarter |
| Other income (less interest) | 13 | 31 | -59.7 | 18 | -32.1 | |
| PBT | 533 | 458 | 16.3 | 516 | 3.3 | |
| Tax paid | 131 | 118 | 10.6 | 124 | 6.0 | |
| PAT | 402 | 340 | 18.3 | 392 | 2.5 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| (₹ Crore) | FY23E | | | FY24E | | | Comments |
|-----------------|--------|--------|----------|--------|--------|----------|----------|
| | Old | New | % Change | Old | New | % Change | |
| Revenue | 14,575 | 14,575 | 0.0 | 17,205 | 17,205 | 0.0 | |
| EBIT | 2,186 | 2,186 | 0.0 | 2,753 | 2,753 | 0.0 | |
| EBIT Margin (%) | 15.0 | 15.0 | 0 bps | 16.0 | 16.0 | 0 bps | |
| PAT | 1,719 | 1,719 | 0.0 | 2,153 | 2,153 | 0.0 | |
| EPS (₹) | 90.8 | 90.8 | 0.0 | 113.8 | 113.8 | 0.0 | |

Source: Company, ICICI Direct Research

Financial summary

| Exhibit 3: Profit and loss statement | | | | | ₹ crore |
|--------------------------------------|--------------|---------------|---------------|---------------|---------|
| | FY21 | FY22 | FY23E | FY24E | |
| Total Revenues | 9,722 | 11,961 | 14,575 | 17,205 | |
| Growth (%) | 10 | 23 | 22 | 18 | |
| Employee Benefit Expense | 5,630 | 7,035 | 8,454 | 9,807 | |
| Other Expenses | 2,290 | 2,809 | 3,600 | 4,250 | |
| EBITDA | 1,803 | 2,118 | 2,522 | 3,149 | |
| Growth (%) | 9 | 17 | 19 | 25 | |
| Depreciation | 242 | 291 | 335 | 396 | |
| Other Income | 133 | 160 | 168 | 180 | |
| Interest | 63 | 74 | 62 | 62 | |
| PBT before Excep Items | 1,631 | 1,913 | 2,292 | 2,871 | |
| Growth (%) | 8 | 17 | 20 | 25 | |
| Tax | 414 | 482 | 573 | 718 | |
| PAT before Excep Items | 1,217 | 1,431 | 1,719 | 2,153 | |
| Exceptional items | - | - | - | - | |
| PAT | 1,217 | 1,431 | 1,719 | 2,153 | |
| Growth (%) | 3 | 18 | 20 | 25 | |
| Diluted EPS | 64 | 76 | 91 | 114 | |
| EPS (Growth %) | 2 | 17 | 20 | 25 | |

Source: Company, ICICI Direct Research

| Exhibit 4: Cash flow statement | | | | | ₹ crore |
|-------------------------------------|--------------|----------------|----------------|----------------|---------|
| | FY21 | FY22 | FY23E | FY24E | |
| Profit before Tax | 1,631 | 1,913 | 2,292 | 2,871 | |
| Depreciation | 242 | 291 | 335 | 396 | |
| (inc)/dec in Current Assets | (90) | (660) | (1,166) | (970) | |
| (inc)/dec in current Liabilities | 45 | 510 | 455 | 662 | |
| Income Taxes Paid | (345) | (369) | (573) | (718) | |
| Others | (28) | 31 | (55) | (68) | |
| CF from operations | 1,455 | 1,716 | 1,287 | 2,174 | |
| Other Investments | (697) | (163) | 117 | 130 | |
| (Purchase)/Sale of Fixed Assets | (125) | (119) | (160) | (189) | |
| CF from investing Activities | (822) | (282) | (43) | (60) | |
| Inc / (Dec) in Equity Capital | 27 | 44 | - | - | |
| Inc / (Dec) in sec.loan Funds | (41) | 3 | (30) | (30) | |
| Dividend & Dividend tax | (653) | (1,218) | (1,118) | (1,400) | |
| Interest Paid on Loans | (62) | (74) | (62) | (62) | |
| CF from Financial Activities | (729) | (1,244) | (1,210) | (1,492) | |
| Net change in cash | (96) | 189 | 35 | 622 | |
| Opening cash | 999 | 771 | 827 | 717 | |
| Closing cash | 771 | 827 | 717 | 1,195 | |

Source: Company, ICICI Direct Research

| Exhibit 5: Balance sheet | | | | | ₹ crore |
|-----------------------------------|--------------|--------------|--------------|---------------|---------|
| | FY21 | FY22 | FY23E | FY24E | |
| Equity | 187 | 188 | 188 | 188 | |
| Reserves & Surplus | 6,340 | 6,755 | 7,357 | 8,111 | |
| Networth | 6,527 | 6,943 | 7,545 | 8,299 | |
| Total debt | 513 | 527 | 497 | 467 | |
| Other liabilities | 729 | 903 | 1,296 | 1,517 | |
| Source of funds | 7,769 | 8,373 | 9,338 | 10,283 | |
| Net Block | 779 | 869 | 913 | 938 | |
| CWIP | 3 | 11 | 11 | 11 | |
| Intangible assets under developme | 107 | 170 | 96 | 8 | |
| Long term Loans and advances | 55 | - | 82 | 97 | |
| Other non current assets | 1,181 | 1,255 | 1,858 | 2,125 | |
| Current Investments | 1,535 | 1,435 | 1,435 | 1,435 | |
| Goodwill | 2,133 | 2,735 | 2,735 | 2,735 | |
| Inventories | - | - | - | - | |
| Debtors | 1,850 | 2,227 | 2,774 | 3,275 | |
| Cash Balance | 771 | 827 | 717 | 1,195 | |
| Bank Balance | 291 | 123 | 123 | 123 | |
| Short term Loans and advances | 147 | 32 | 220 | 260 | |
| Other current assets | 546 | 1,073 | 819 | 966 | |
| Trade payables | 596 | 850 | 894 | 1,055 | |
| Other Current liabilities | 984 | 1,425 | 1,475 | 1,742 | |
| Provisions | 50 | 108 | 75 | 88 | |
| Application of funds | 7,769 | 8,373 | 9,338 | 10,283 | |

Source: Company, ICICI Direct Research

| Exhibit 6: Key ratios | | | | | ₹ crore |
|-----------------------------|-------|-------|-------|-------|---------|
| | FY21 | FY22 | FY23E | FY24E | |
| Per share data (₹) | | | | | |
| Diluted EPS | 64.4 | 75.6 | 90.8 | 113.8 | |
| BV | 349.6 | 370.6 | 402.7 | 443.0 | |
| DPS | 65.0 | 46.0 | 59.1 | 74.0 | |
| Cash Per Share | 56.9 | 50.7 | 44.8 | 70.3 | |
| Operating Ratios (%) | | | | | |
| EBITDA Margin | 18.5 | 17.7 | 17.3 | 18.3 | |
| PAT Margin | 12.5 | 12.0 | 11.8 | 12.5 | |
| Debtor days | 69 | 68 | 69 | 69 | |
| Creditor days | 22 | 26 | 22 | 22 | |
| Return Ratios (%) | | | | | |
| RoE | 18.6 | 20.6 | 22.8 | 25.9 | |
| RoCE | 21.8 | 23.7 | 25.2 | 28.5 | |
| RoIC | 30.2 | 30.6 | 31.0 | 36.6 | |
| Valuation Ratios (x) | | | | | |
| P/E | 43.5 | 37.1 | 30.9 | 24.7 | |
| EV / EBITDA | 28.4 | 24.5 | 20.6 | 16.3 | |
| Market Cap / Sales | 5.5 | 4.5 | 3.7 | 3.1 | |
| Price to Book Value | 8.1 | 7.6 | 7.0 | 6.4 | |
| Solvency Ratios | | | | | |
| Debt / Equity | 0.1 | 0.08 | 0.07 | 0.06 | |
| Debt / EBITDA | 0.3 | 0.2 | 0.2 | 0.1 | |
| Quick Ratio | 1.6 | 1.4 | 1.6 | 1.6 | |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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