

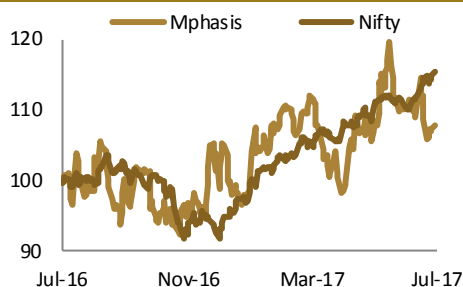
Market statistics

Current stock price (`)	614
Shares O/S (cr.)	19.3
Mcap (` cr)	11,851
52W H/L (`)	654/425
6m avg. volume	132,642
Bloomberg	MPHL.IN

Shareholding pattern

Promoters	60.44
Domestic Institution	10.15
Foreign Institution	21.03
Non-institution	8.38
of which more than 1%	
Aberdeen Global Indian Equity Fund	4.89
LIC Market Plus 1 Growth Fund	1.78

Mphasis vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	13.2	13.0	15.1
EPS (`)	38.9	38.9	43.6
CEPS (`)	41.7	42.8	47.9
P/E (x)	14.9	15.8	14.1
P/BV (x)	2.0	2.2	2.1
EV/EBITDA (x)	12.1	13.5	11.9
Income growth (%)	(0.2)	2.2	8.2
EBITDA growth (%)	8.0	(5.0)	11.0
PAT growth (%)	20.0	(6.5)	12.4

Mphasis' US\$ revenues increased 4.3% QoQ – primarily due to an increase in HP/DXC business (up 10.1% QoQ in US\$ terms). Direct Core revenue grew 4.1%. We believe weak sentiment will continue looking at a declining headcount. HP's enterprise services business is likely to be stable from here onwards. Margin was at 14.9% (down 89bps QoQ). We maintain our SELL rating on the stock on account of sluggish business fundamentals, underinvestment in business, increasing concentration of revenues and medium term risks to profitability.

Mixed quarter. Mphasis reported US\$ revenues of US\$230.9mn (up 4.3% QoQ). Management indicated that HP channel revenues will be stable from here onwards. Business mix of Direct vs HP QoQ changed from 76:24 in 4Q to 74:26 in this quarter. HP channel revenue increased 6.8% QoQ in INR terms. Direct International business net of rupee depreciation increased by 4.1% during Q1FY18 – MPHL won deals with TCV of US\$183mn in Q1FY18 with the deals in focus areas of Digital, NextGen and GRC services. EBIT margin for Q1 was 13.8% (14.6% in Q4FY17). Business in Europe was up 7.3% QoQ while US increased 4.8%. RoW declined 1.7% QoQ. Operating margins declined 89bps QoQ at 14.9% on lower utilization (down 100bps QoQ) and lower profitability in the HP-DXC channel (ICE segment gross margins at 17.9% in the quarter versus company average of 24%).

Operating metrics getting weaker, though cash supports downside: Consolidated headcount decreased by 97 to 21,897. Mphasis added 12 clients this quarter (7 from the Direct channel). Net Cash & equivalents stand at ` 109/share (18% of the MCap is in form of cash). DSO's increased 5 QoQ to 70 days this quarter. Utilisation and SG&A efficiencies are unlikely to provide much margin leverage going forward. Growth in the direct channel business going forward would be a positive. Mphasis ended the quarter with cash balance of US\$328mn.

Other details: New deal wins of US\$183mn TCV in Q1FY18 (US\$365mn in FY17, total deal wins of US\$303mn TCV in FY16, higher by 20.5% YoY), which we believe is not enough significant for MPHL to grow at a decent pace going forward, considering the growth rate in the Direct business. We believe the growth challenges in revenue growth would continue into FY18 as well. Management strengthened investment in Direct Channel (DC) with senior-level hiring from larger peers. Over the past 12-18 months, Mphasis management has taken a few initiatives: (1) enhanced focus on top 15 clients, (2) separated client mining and hunting teams, and (3) changed leadership in Digital Risk (DR) business. These steps have helped deal signings and revived growth in DI business.

HP channel revenue to become stable from here on, acquisition being used to prop up declining revenue: HP channel (26% share) revenue would be stable from here onwards, after more than four years of decline. HP continued to lose contracts in services business which has impacted Mphasis. The company has started considering tuck-in acquisitions; after successful integration of Digital Risk. Challenge at Digital Risk continues with sixth straight quarter revenue decline (Q1FY18 segment revenues down 12% QoQ).

Valuation: MPHL does not compare well versus some of the other mid-cap IT companies. Valuations, though being cheap compared to some of the performing mid-caps, the revenue growth story is weak, while risks to its margins are higher. We maintain our Sell recommendation on the stock. We have low comfort on sustainability of growth in Direct International business given Mphasis' underinvestment in digital and lack of differentiation. We maintain our SELL rating on the stock.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in



Exhibit 1: Quarterly details

` mn	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)	Comments
Revenues (In US\$m)	224.5	221.5	230.9	4.3	2.9	Direct International – mature business increased by 4.1% QoQ. Won deals worth US\$183mn. HP business increased 10.1%.
Revenues	15,167	15,059	15,360	2.0	1.3	
- Operating costs	12,722	12,675	13,065	3.1	2.7	
EBITDA	2,445	2,384	2,295	(3.7)	(6.1)	Margins declined on lower utilization (down 100bps QoQ) and lower profitability in the HP-DXC channel
EBITDA margin (%)	16.1	15.8	14.9	(89)bps	(118)bps	
- Interest expense	53	17	21	23.5	(60.4)	
- Depreciation	137	184	181	(1.6)	32.1	Includes a forex gain of `16mn for the quarter vs `25mn in 4Q.
+ Other income, net (incl forex)	572	485	469	(3.3)	(18.0)	
PBT	2,827	2,668	2,562	(4.0)	(9.4)	
- Taxes	784	734	690	(6.0)	(12.0)	Tax rate to remain in the range of 27-28%
Effective tax rate (%)	27.7	27.5	26.9	(58)bps	(80)bps	
PAT	2,043	1,934	1,872	(3.2)	(8.4)	
Net margin (%)	13.5	12.8	12.2	(66)	(128)	
Reported profits	2,043	1,841	1,872	1.7	(8.4)	

Source: Company.

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	920	950	3.3	1,000	1,033	3.3
Revenue	60,725	62,087	2.2	66,018	67,176	1.8
EBITDA margin (%)	16.0	14.8	(115)bps	16.2	15.2	(95)bps
EPS (`)	39.4	38.9	(1.3)	44.1	43.6	(1.1)

Source: Trust Research

Geography wise Revenues: Business in Europe was up 7.3% QoQ while US increased 4.8%. RoW declined 1.7% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
US	73.9	75.1	76.3	76.8	77.1	77.6	78.0	79.1	79.5
Europe	9.8	9.3	10.3	10.7	10.7	10.5	9.6	9.5	9.8
RoW	16.3	15.6	13.4	12.4	12.2	11.9	12.4	11.4	10.7
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	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Application maintenance	29.2	30.3	32.8	34.1	35.8	35.4	37.0	36.9	35.6
Application development	24.8	24.0	22.7	24.5	23.2	23.9	23.1	24.5	24.7
Customer service	5.3	4.3	2.3	2.0	1.9	1.8	1.9	1.8	1.5
Service/ technical help desk	2.0	1.8	1.7	2.3	2.1	2.4	2.3	2.2	5.4
Transaction processing service	6.5	6.7	7.0	7.1	7.0	7.0	6.2	6.5	7.0
Infrastructure management services	14.9	15.0	14.9	13.6	13.6	13.6	14.2	13.8	13.8
Knowledge processes	17.2	17.9	18.7	16.4	16.4	15.9	15.4	14.3	12.1
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 97 to 21,897.

Details	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Applications (onsite)	2,366	2,370	2,311	2,322	2,340	2,357	2,299	2,353	2,373
BPO (onsite)	1,646	1,675	1,564	1,359	1,236	1,189	1,127	1,040	1,044
ITO (onsite)	169	167	195	212	215	281	251	274	277
Applications (offshore)	8,261	8,488	8,423	8,441	8,495	8,468	8,615	8,807	8,668
BPO (offshore)	16,093	6,159	6,019	5,511	5,682	5,561	5,351	5,176	5,191
ITO (offshore)	4,244	3,953	3,730	3,209	3,158	3,196	3,136	3,074	3,055
S&M	316	327	313	300	289	300	315	325	346
G&A	1,041	994	957	948	943	939	940	945	943
Total	34,136	24,133	23,512	22,302	22,358	22,291	22,034	21,994	21,897

Source: Company

Client Concentration: Mphasis added 12 clients this quarter (7 from the Direct channel). MPHL added 4 clients each in Emerging Industries and Banking & Capital Market and added 2 clients each in Insurance and Information Technology.

Exhibit 5: Client details

Details	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Top client (%)	9.0	9.0	10.0	11.0	11.0	12.0	11.0	11.0	12.0
Top 5 clients (%)	35.0	36.0	37.0	38.0	39.0	40.0	40.0	40.0	40.0
Top 10 clients (%)	47.0	47.0	48.0	51.0	53.0	54.0	55.0	55.0	55.0
Top 20 clients (%)	60.0	60.0	61.0	61.0	63.0	65.0	65.0	66.0	65.0
US\$1mn+	98	100	102	103	102	98	92	90	90
US\$5mn+	36	39	35	35	28	28	30	36	39
US\$10mn+	20	19	18	14	15	14	14	14	15
US\$20mn+	8	7	8	8	9	14	8	7	7
Client added	10	8	8	11	3	6	6	5	12

Source: Company

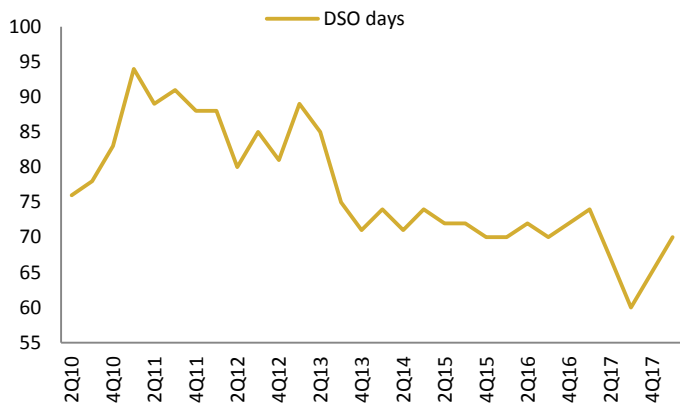
Exhibit 6: Billing rates (US\$/hr)

Details	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Applications (onsite)	72	72	76	76	77	78	78	80
ITO (onsite)	66	63	67	68	68	71	73	74
Applications (offshore)	21	21	22	21	22	21	22	21
BPO (offshore)	6	10	10	10	10	11	11	11
ITO (offshore)	21	19	18	19	19	18	18	19

Source: Company

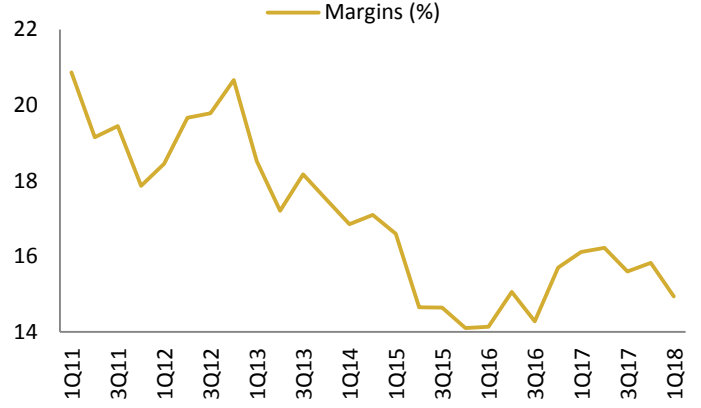


Exhibit 7: DSO days was up 5 QoQ to 70



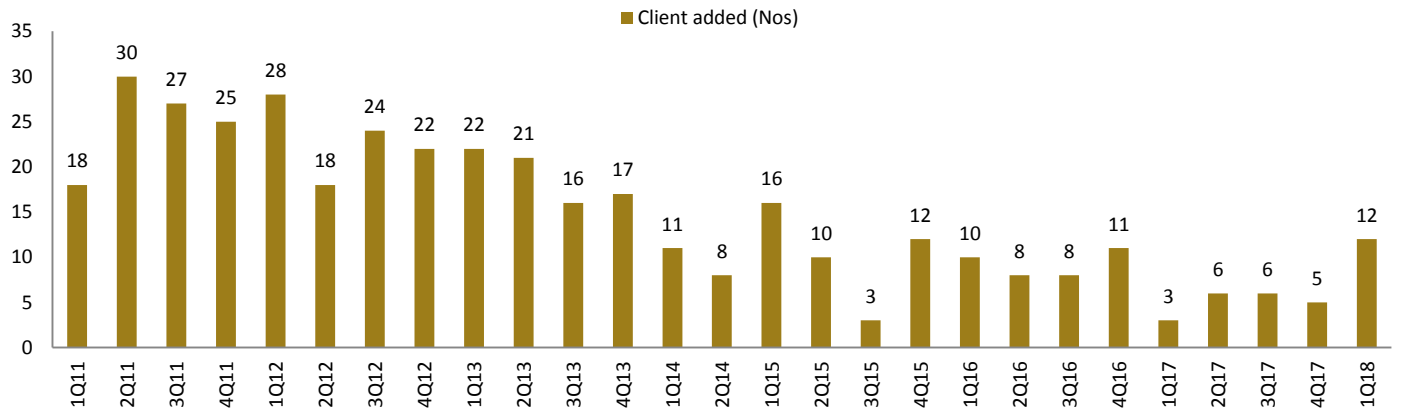
Source: Company, Trust

Exhibit 8: Margin was down QoQ on lower utilisation



Source: Company, Trust

Exhibit 9: Client addition at MPHL has been weak over the past 7-8 quarters compared to the past, strong this quarter



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	57,949	60,879	60,763	62,087	67,176
Op. Expenses	49,248	51,909	51,075	52,880	56,961
EBITDA	8,701	8,970	9,688	9,206	10,215
Other Income	1,967	1,954	2,385	2,026	2,426
Depreciation	980	744	592	757	834
EBIT	9,688	10,180	11,481	10,476	11,807
Interest	280	242	139	84	84
PBT	9,408	9,938	11,342	10,392	11,723
Tax	2,630	2,696	3,155	2,882	3,282
PAT	6,778	7,242	8,187	7,509	8,441
Ex. ordinary	32	495	152	-	-
Adj Pat	6,746	6,747	8,035	7,509	8,441

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	32.2	34.4	38.9	38.9	43.6
CEPS	36.8	38.0	41.7	42.8	47.9
BVPS	260.3	299.3	292.4	278.0	299.3
DPS	16.0	20.0	17.0	18.0	19.0
Payout (%)	58.0	67.9	51.1	54.2	51.0
Valuation (x)					
P/E	11.5	13.7	14.9	15.8	14.1
P/BV	1.4	1.6	2.0	2.2	2.1
EV/EBITDA	8.1	10.5	12.1	13.5	11.9
Dividend Yield (%)	4.3	4.0	2.9	2.9	3.1
Return ratio (%)					
EBITDA Margin	15.0	14.7	15.9	14.8	15.2
PAT Margin	11.6	11.9	13.5	12.1	12.6
ROAE	12.7	12.3	13.2	13.0	15.1
ROACE	16.7	15.9	17.5	17.4	20.2
Leverage Ratios (x)					
Long Term D/E	0.1	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.4)	(0.5)	(0.4)	(0.4)
Current ratio	2.7	3.3	3.7	3.2	3.4
Growth Ratios (%)					
Income growth	123.4	5.1	(0.2)	2.2	8.2
EBITDA growth	97.9	3.1	8.0	(5.0)	11.0
PAT growth	122.9	(0.8)	20.0	(6.5)	12.4
Turnover Ratios					
Inventor Days	-	0	0	-	-
Debtors Days	45	38	38	38	38
Payable days	8	9	8	8	8

* MPHL had a 5-month FY14

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Sources of Funds					
Equity Share Capital	2,101	2,102	2,104	1,932	1,935
Reserves & Surplus	52,696	60,829	59,420	51,787	55,973
Total Shareholders Fund	54,798	62,931	61,524	53,719	57,908
Non- current liabilities	3,375	2,378	(2,766)	(2,723)	(2,667)
Long term Borrowings	3,094	1,789	11	11	11
Deferred tax liabilities	(326)	(211)	(3,369)	(3,458)	(3,458)
Other LT liabilities & prov	607	801	592	724	780
Current Liabilities	15,168	12,844	10,886	11,294	11,965
Short-term borrowings	1,250	1,325	2,602	2,602	2,602
Trade payables	4,064	4,525	3,878	4,057	4,370
Other cur liabilities & Prov	9,854	6,993	4,406	4,636	4,994
Total Liabilities	73,341	78,153	69,644	62,291	67,206
Assets					
Non- current Assets	33,862	36,385	25,120	25,744	26,351
Fixed assets	1,760	1,728	2,244	2,595	2,561
Non-current investments	24,280	26,696	15,324	15,324	15,324
Long-term loans & adv	6,715	6,881	1,111	1,191	1,288
Other non-current assets	1,106	1,079	6,441	6,634	7,178
Current assets	39,479	41,768	44,523	36,547	40,855
Current investments	11,932	17,364	22,701	11,671	11,671
Trade receivables	6,252	6,489	6,310	6,634	7,178
Inventories	-	41	-	-	-
Cash & bank balances	13,208	8,549	6,133	8,546	11,516
Short-term loans & adv	2,508	2,508	707	851	920
Other current assets	5,579	6,817	8,672	8,845	9,570
Total Assets	73,341	78,153	69,644	62,291	67,207

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	9,408	9,938	11,342	10,392	11,723
Depreciation	980	859	(2,566)	667	834
Others	538	(495)	(152)	-	-
CF before W.cap	10,926	10,302	8,624	11,059	12,557
Inc/dec in W.cap	122	3,861	2,870	372	1,253
Op CF after W.cap	10,804	6,440	5,755	10,687	11,304
Less Taxes	2,630	2,696	3,155	2,882	3,282
Net CF From Operations	8,174	3,744	2,600	7,805	8,021
Inc/(dec) in F.A + CWIP	614	712	1,108	1,108	800
(Pur)/sale of Investments	(3,807)	7,847	(6,034)	(11,030)	-
CF from Invst Activities	3,193	(8,559)	4,926	9,922	(800)
Loan Raised/(repaid)	357	(1,230)	(501)	-	-
Equity Raised	835	1,385	(5,256)	(11,245)	49
Dividend	3,934	-	4,185	4,070	4,301
CF from Fin Activities	(2,741)	155	(9,943)	(15,314)	(4,252)
Net inc/(dec) in cash	8,626	(4,660)	(2,417)	2,413	2,970
Op. bal of cash	4,583	13,209	8,550	6,133	8,546
Cl. balance of cash	13,208	8,549	6,133	8,546	11,516



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	Consumer Durable & FMCG	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :- Recommendation Interpretation

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

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/ subsidiary companies to registration or licensing requirements within such jurisdictions.