

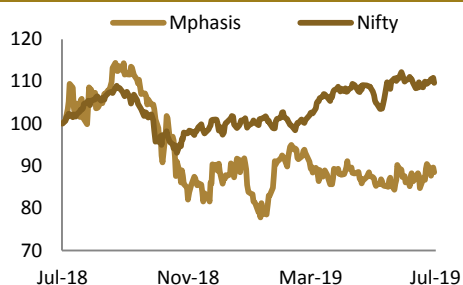
Market statistics

Current stock price (`)	930
Shares O/S (cr.)	18.6
Mcap (` cr)	17,327
52W H/L (`)	1278/855
6m avg. volume	255,894
Bloomberg	MPHL.IN

Shareholding pattern

Promoters	52.23
Domestic Institution	8.02
Foreign Institution	29.91
Non-institution	9.84
of which more than 1%	

Mphasis vs. Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	20.0	21.3	21.7
EPS (`)	57.7	62.8	71.0
CEPS (`)	61.7	75.0	84.2
P/E (x)	17.2	14.8	13.1
P/BV (x)	3.5	3.0	2.7
EV/EBITDA (x)	15.5	11.9	10.4
Income growth (%)	18.1	12.7	11.2
EBITDA growth (%)	24.6	24.3	12.6
PAT growth (%)	28.2	9.0	13.1

Mphasis reported 2% QoQ revenue growth in cc terms. Direct Core/HP business segments reported 2.7%/2.5% growth on a cc basis despite headwinds in Digital Risk business. EBIT margin declined 34bps to 15.5%, largely due higher US visa processing fees, mid-cycle salary increments, one-time client specific provision for receivables and transition impact of certain large deals. Revenues from Blackstone portfolio accounted to 6% of Mphasis's direct core revenues in Q1FY20 (5% in Q4FY19). Management expects Blackstone portfolio companies to reach 10% of its overall revenues over next few quarters. Deal wins have been going strong for MPHL with wins totaling US\$616mn in FY19, up 12% YoY. We maintain our Buy rating on the stock, given the confidence in its business growth and compelling valuations (at 14.8x FY20E EPS).

Slight miss on revenue front. Mphasis reported US\$ revenues of US\$297mn (up 1.8% QoQ) on account of 2.7% cc QoQ growth in the Direct core channel. Digital risk grew at 1% QoQ cc (~US\$23mn quarterly run rate) & management expects it to grow at ~US\$27-29mn in coming quarter. On the back of robust deal wins & strong deal win pipeline, management strong growth from Direct International (above industry average). TCV deal win for the quarter stood at US\$151mn (vs US\$146mn in Q4FY19), 80% of the deal wins in New-Gen Services (Book to Bill ratio of 0.7x). Deal wins have been going strong for MPHL with wins totaling USD616 mn in FY19, up 12% YoY. Client additions in this quarter moderated, added 7 in banking, 1 in insurance & 5 in ICE. Since last 8-10 quarters revenue contribution from top, top 5 & top 10 clients is increasing, we believe that will help Mphasis to expand their margins.

Growth and margin visibility. Gross Margin remained flat QoQ and declined 200bps YoY to 25.9%. Gross margin for the quarter has been impacted by higher US visa processing fees, mid-cycle salary increments, one-time client specific provision for receivables and transition impact of certain large deals. EBIT margins declined by 34 bps sequentially to 15.5% and below our expectations, within their target band of 15%-17%).

Weak growth in Insurance, ICE: Among verticals, insurance & ICE posted a weak growth. Insurance declined 0.8% in US\$ terms, ICE 2.3%. Banking grew by 2.6% in US\$ terms as compared to 3.8% in last quarter. Management cited that customers are investing for enhancing digital capabilities and as a result driving growth for the BFSI segment. Mphasis plans to expand into the insurance vertical, which is a strong vertical for DXC. The company also plans to expand into other verticals over time.

Mphasis has capability to grow DXC channel further: DXC reported 4.5% revenue decline in US\$ terms in FY2019. The company has increased focus on cost optimization and has indicated cutting down on subcontractor spends and reduction in vendor count. Despite challenges faced by DXC, Mphasis is confident of gaining share and growing in the account. Management mentioned that spend is of \$3bn & they are still just at 10% of that spend.

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 (guided for 15-17% EBIT margins in FY20), confident management commentary and strong leading indicators, we believe that the recent correction in stock price provides a good opportunity to enter this stock. We believe recovery in digital business will be gradual while direct core business will be the key growth driver. Good growth in the core business and growing revenue contribution from the Blackstone portfolio provide visibility on growth. **We maintain our BUY rating on the stock, given confidence in its business growth and compelling valuations.**

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in



Exhibit 1: Quarterly details

` mn	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	Comments
Revenues (In US\$m)	268.7	291.7	296.9	1.8	10.5	Core/HP business segments reported 2.7%/2.5% growth on a cc basis.
Revenues	18,202	20,250	20,626	1.9	13.3	
- Operating costs	15,001	16,846	16,883	0.2	12.5	
EBITDA	3,201	3,404	3,743	10.0	16.9	Margins decreased due to higher US visa fees, salary hikes, one-time provision for receivables & impact of certain large deals
EBITDA margin (%)	17.6	16.8	18.1	134bps	56bps	
- Interest expense	42	59	199	237.3	373.8	
- Depreciation	179	200	550	175.0	207.3	Includes a forex gain of `42mn for the quarter vs `1mn loss in 4Q.
+ Other income, net (incl forex)	449	332	541	63.0	20.5	
PBT	3,429	3,477	3,535	1.7	3.1	
- Taxes	846	815	888	9.0	5.0	Tax rate to remain in the range of 25-26%
Effective tax rate (%)	24.7	23.4	25.1	168bps	45bps	
PAT	2,583	2,662	2,647	(0.6)	2.5	
Net margin (%)	14.2	13.1	12.8	(31)bps	(136)bps	
Reported profits	2,583	2,662	2,647	(0.6)	2.5	

Source: Company.

Exhibit 2: Change in estimates

` mn	FY20E			FY21E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	1,258	1,254	(0.3)	1,405	1,394	(0.8)
Revenue	88,082	87,131	(1.1)	98,383	96,879	(1.5)
EBITDA margin (%)	16.9	18.9	200bps	17.4	19.1	165bps
EPS (`)	65.5	62.8	(4.1)	73.9	71.0	(3.9)

Source: Trust Research

Geography wise Revenues: Business in US was up 3.4% QoQ while Europe declined 4.9%. RoW decreased 2.7% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
US	79.5	80.1	80.2	79.1	79.1	80.1	78.3	77.6	78.8
Europe	9.8	9.5	9.8	11.0	11.5	10.8	11.1	11.4	10.7
RoW	10.7	10.4	10.0	9.9	9.4	9.1	10.4	11.0	10.5
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	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Application maintenance	35.6	34.6	33.1	31.2	30.2	34.4	35.8	33.5	32.1
Application development	24.7	24.0	26.3	26.2	27.5	27.7	29.8	31.4	33.2
Customer service	1.5	1.7	1.4	1.3	1.2	1.0	1.1	1.1	1.1
Service/ technical help desk	5.4	7.2	7.6	7.4	8.2	6.5	6.7	7.1	7.5
Transaction processing service	7.0	6.8	7.0	6.9	6.6	6.3	6.2	6.3	6.3
Infrastructure management services	13.8	13.4	13.2	15.2	14.8	14.2	12.7	12.7	12.2
Knowledge processes	12.1	12.3	11.4	11.8	11.5	9.9	7.6	7.9	7.6
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 increased by 1,015 to 25,499.

Details	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Applications (onsite)	2,373	2,363	2,392	2,456	2,550	2,991	3,539	3,277	3,246
BPO (onsite)	1,044	998	981	950	914	914	884	851	951
ITO (onsite)	277	676	1,106	1,120	1,087	1,312	1,210	1,293	1,522
Applications (offshore)	8,668	8,486	8,228	8,281	8,680	8,962	9,286	9,742	10,312
BPO (offshore)	5,191	5,360	5,304	5,139	5,092	5,140	5,236	5,384	5,474
ITO (offshore)	3,055	3,011	3,062	3,121	3,075	2,994	2,843	2,723	2,789
S&M	346	330	300	278	270	270	292	293	282
G&A	943	932	897	894	898	895	925	921	923
Total	21,897	22,156	22,270	22,239	22,566	23,478	24,215	24,484	25,499

Source: Company

Client Concentration: Mphasis added 19 clients this quarter (12 from the Direct channel). MPHL added 6 clients in Emerging Industries and added 7 client in Banking and Capital Market.

Exhibit 5: Client details

Details	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Top client (%)	12.0	12.0	12.0	13.0	13.0	14.0	14.0	14.0	15.0
Top 5 clients (%)	40.0	40.0	39.0	40.0	41.0	43.0	46.0	47.0	48.0
Top 10 clients (%)	55.0	54.0	55.0	56.0	56.0	58.0	59.0	60.0	61.0
Top 20 clients (%)	65.0	66.0	66.0	69.0	68.0	69.0	70.0	70.0	69.0
US\$1mn+	90	90	88	90	93	95	96	94	96
US\$5mn+	39	37	38	37	37	36	33	33	33
US\$10mn+	15	15	17	17	18	19	19	17	17
US\$20mn+	7	7	8	8	8	8	8	8	8
Client added	12	5	6	5	12	12	20	23	19

Source: Company

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

Details	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Applications (onsite)	83	84	85	85	86	85	90	90
ITO (onsite)	77	86	88	86	86	81	86	78
Applications (offshore)	21	22	22	22	22	23	23	23
BPO (offshore)	11	11	11	10	10	10	11	11
ITO (offshore)	19	20	22	24	23	24	24	24

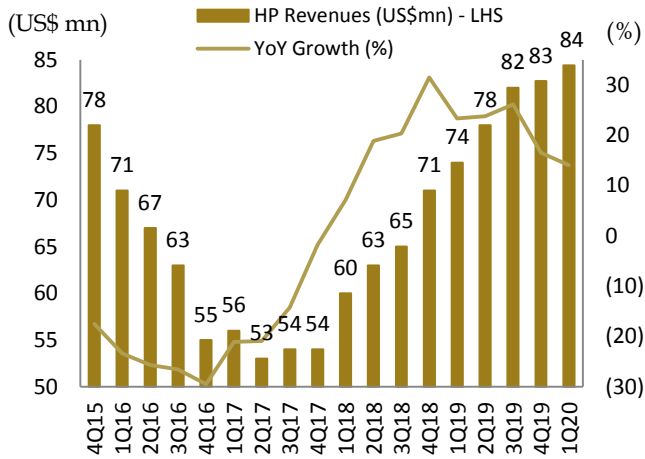
Source: Company

Mphasis has capability to grow DXC channel further: DXC reported 4.5% revenue decline in US\$ terms in FY19. The company has increased focus on cost optimization and has indicated cutting down on subcontractor spends and reduction in vendor count. Despite challenges faced by DXC, Mphasis is confident of gaining share and growing in the account. Management mentioned that spend is of \$3bn & they are still just at 10% of that spend. They will plan to use multiple levers such as insourcing etc to gain traction. Mphasis also does not expect pricing pressures from expiry of minimum revenue contribution in 2021 as per MSA with DXC due to the strategic nature of relationship.

Direct International (Ex- Digital Risk) Management cited this segment to be primary driver for long term growth of the company. Growth in this segment was mainly driven by three pillars- 1) Strategic customers 2) Blackstone portfolio 3) New client acquisition group. Growth is broad based across all segments in this vertical. DXC/HP Channel: Focus on continuous transformation of the relationship with huge opportunity in the segment which will be driving growth.

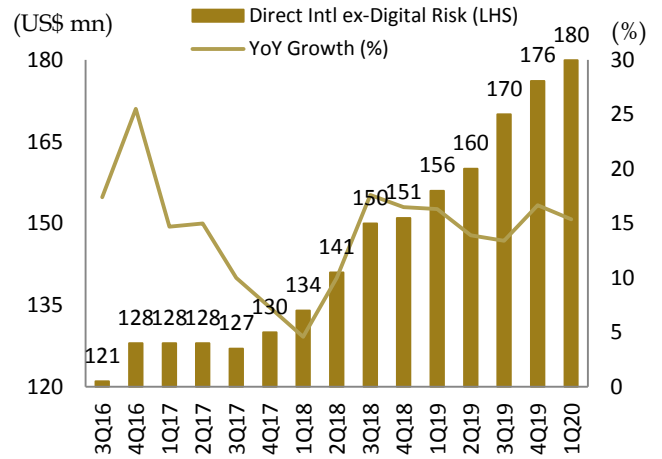


Exhibit 7: HP/DXC revenue to accelerate from FY20



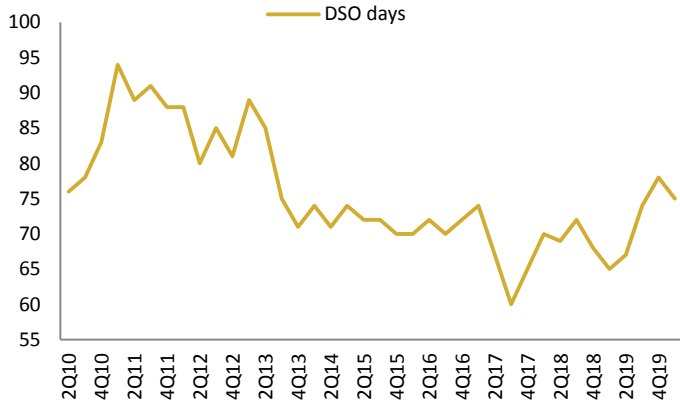
Source: Company, Trust

Exhibit 8: Direct Intl. (excl. Digital Risk) continues growing



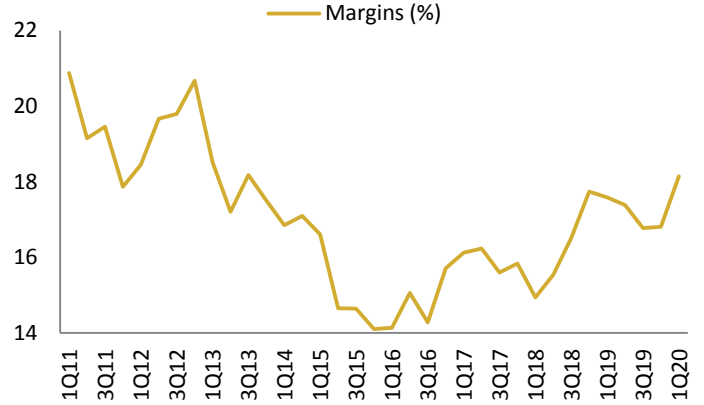
Source: Company, Trust

Exhibit 9: DSO days was down 3 days QoQ to 75



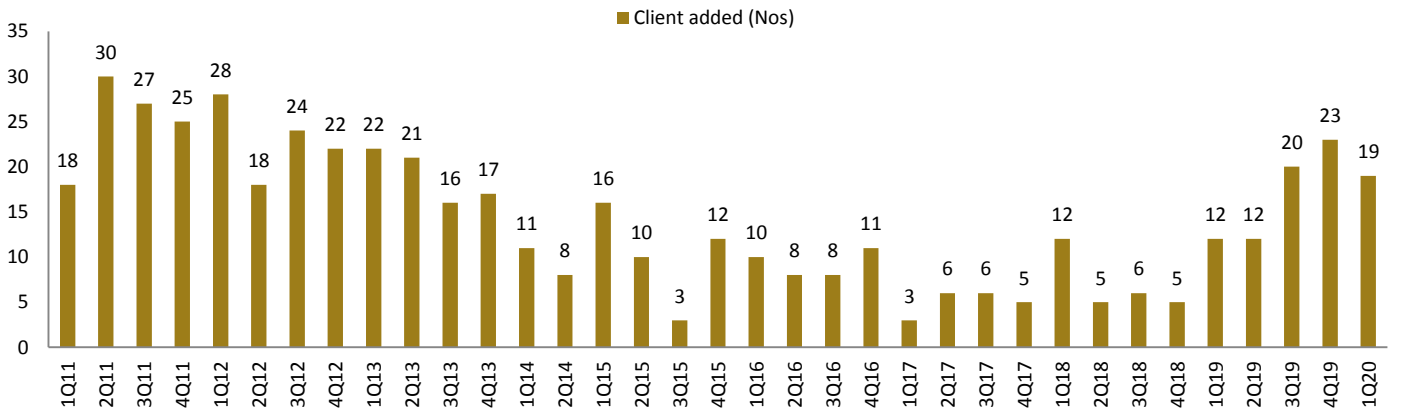
Source: Company, Trust

Exhibit 10: Margin affected QoQ due to visa cost & wage hike



Source: Company, Trust

Exhibit 11: Client addition at MPHL has been robust over the past 3 quarters compared to the recent past



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Revenues	60,763	65,459	77,311	87,131	96,879
Op. Expenses	51,075	54,834	64,071	70,680	78,348
EBITDA	9,688	10,625	13,240	16,451	18,531
Other Income	2,385	1,620	1,747	1,864	2,064
Depreciation	592	709	759	2,281	2,481
EBIT	11,481	11,536	14,228	16,035	18,115
Interest	139	130	155	424	466
PBT	11,342	11,406	14,073	15,611	17,648
Tax	3,155	2,900	3,339	3,907	4,412
PAT	8,187	8,506	10,734	11,704	13,236
Ex. ordinary	152	131	-	-	-
Adj Pat	8,035	8,375	10,734	11,704	13,236

Key Parameters

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (`)					
EPS	38.9	44.0	57.7	62.8	71.0
CEPS	41.7	47.7	61.7	75.0	84.2
BVPS	292.4	283.6	282.0	308.5	344.2
DPS	17.0	20.0	27.0	27.0	30.0
Payout (%)	51.1	53.2	54.8	50.3	49.5
Valuation (x)					
P/E	14.9	19.2	17.2	14.8	13.1
P/BV	2.0	3.0	3.5	3.0	2.7
EV/EBITDA	12.1	16.3	15.5	11.9	10.4
Dividend Yield (%)	2.9	2.4	2.7	2.9	3.2
Return ratio (%)					
EBITDA Margin	15.9	16.2	17.1	18.9	19.1
PAT Margin	13.5	13.0	13.9	13.4	13.7
ROAE	13.2	14.6	20.0	21.3	21.7
ROACE	17.5	18.8	24.4	25.3	25.1
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.5)	(0.4)	(0.3)	(0.3)	(0.4)
Current ratio	3.7	2.8	2.1	2.3	2.5
Growth Ratios (%)					
Income growth	(0.2)	7.7	18.1	12.7	11.2
EBITDA growth	8.0	9.7	24.6	24.3	12.6
PAT growth	20.0	4.2	28.2	9.0	13.1
Turnover Ratios					
Inventor Days	0	0	-	-	-
Debtors Days	38	40	42	41	41
Payable days	8	9	9	9	8

* MPHL had a 5-month FY14

Balance Sheet (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Equity Share Capital	2,104	1,933	1,862	1,864	1,866
Reserves & Surplus	59,420	52,885	50,636	55,631	62,352
Total Shareholders Fund	61,524	54,818	52,498	57,495	64,218
Non- current liabilities	(2,766)	(41)	461	63	168
Long term Borrowings	11	38	40	40	40
Deferred tax liabilities	(3,369)	(1,007)	(786)	(945)	(945)
Other LT liabilities & prov	592	928	1,207	968	1,073
Current Liabilities	10,886	14,020	19,937	18,400	19,808
Short-term borrowings	2,602	3,899	5,426	5,426	5,426
Trade payables	3,878	5,024	7,850	6,390	7,084
Other cur liabilities & Prov	4,406	5,097	6,661	6,584	7,298
Total Liabilities	69,644	68,796	72,897	75,958	84,193
Assets					
Non- current Assets	25,120	29,336	31,866	34,306	35,421
Fixed assets	2,244	1,848	2,142	2,342	2,362
Non-current investments	15,324	20,184	22,176	22,176	22,176
Long-term loans & adv	1,111	1,140	709	1,671	1,858
Other non-current assets	6,441	6,164	6,839	8,116	9,024
Current assets	44,523	39,460	41,031	41,652	48,773
Current investments	22,701	14,651	10,700	10,700	10,700
Trade receivables	6,310	8,116	9,554	9,071	10,086
Inventories	-	-	-	-	-
Cash & bank balances	6,133	4,642	3,520	8,274	12,858
Short-term loans & adv	707	824	1,257	1,194	1,327
Other current assets	8,672	11,227	16,000	12,413	13,802
Total Assets	69,644	68,796	72,897	75,958	84,193

Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	11,342	11,406	14,073	15,611	17,648
Depreciation	(2,566)	3,071	980	2,122	2,481
Others	(152)	(131)	-	-	-
CF before W.cap	8,624	14,346	15,053	17,732	20,129
Inc/dec in W.cap	2,870	2,057	2,217	(117)	2,120
Op CF after W.cap	5,755	12,289	12,836	17,849	18,009
Less Taxes	3,155	2,900	3,339	3,907	4,412
Net CF From Operations	2,600	9,389	9,497	13,942	13,597
Inc/(dec) in F.A + CWIP	1,108	313	1,053	2,481	2,500
(Pur)/sale of Investments	(6,034)	(3,190)	(1,959)	-	-
CF from Invst Activities	4,926	2,877	906	(2,481)	(2,500)
Loan Raised/(repaid)	(501)	1,324	1,529	-	-
Equity Raised	(5,256)	(10,559)	(7,173)	(819)	35
Dividend	4,185	4,523	5,881	5,888	6,548
CF from Fin Activities	(9,943)	(13,757)	(11,525)	(6,707)	(6,513)
Net inc/(dec) in cash	(2,417)	(1,491)	(1,122)	4,754	4,584
Op. bal of cash	8,550	6,133	4,642	3,520	8,274
Cl. balance of cash	6,133	4,642	3,520	8,274	12,858



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
Sales				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
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

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Analyst Ownership of Stock	No
Served as Director or Employee	No

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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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