

Weak Results; Large Deal Wins in Content biz to drive recovery

- MPS reported weak Q4FY20 results, with a 9.0% QoQ and 15.6% YoY decline in revenue (our estm: 1.3% QoQ growth), largely led by QoQ decline of 15% and 19% in Platform and E-Learning business. OPM contraction of about 480bps QoQ to 12.7%, (our estm: 19.8%) primarily due to sharp absolute revenue fall off directly impacting EBIT.
- Content solutions revenues fell 3.0% YoY in Q4 but expects positive momentum hereon as it has started rampup of a large deal won in the quarter (potential Top10 client in FY21; volume is 4-5x than its existing large client but pricing is discounted) and also witnessed enquiry for digitalization by laggard clients (volume for research has gone up).
- Platform segment declined by 15.1% QoQ as business faced full quarter impact of one of the large client that moved business in-house. With rest of the clients growing well, Platform is expected to perform well going forward. E-Learning biz is expected to witness sharp demand recovery starting H2FY21 as was witnessed in previous down cycle.
- While MPS have moved to Quarterly commentary due to uncertainty, we believe large deal provides visibility in near term (expects flat revenues for Q1FY21) and should drive recovery through the year. Given the attractive valuations and strong cash generation profile, we maintain our Buy rating with TP of Rs300, valued at 8x FY22 PER.

Underlying Demand Environment is patchy

E-Learning demand is expected to improve from H2FY21 onwards as individual courses and corporate demand moves up, as was witnessed post Dotcom bubble and 2008 crisis. Publishing business has witnessed impact of client exit in 4QFY20. While other clients are performing well, full year would imply negative growth. Content business is likely to outperform other segments despite pricing pressure as MPS implements stronger automation and expect business recovery in Journals (expected slower due to long deal cycle) and Books (faster recovery due to short deal cycle).

Margins to improve to original levels

Going forward, MPS will route volume via Dehradun location due to better productivity and lower cost which should help in recovery in profitability going forward. MPS do not see any structural risk to profitability across biz.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	762	903	(15.6)	837	(9.0)
Total Expense	627	675	(7.1)	651	(3.6)
EBITDA	135	228	(40.9)	186	(27.7)
Depreciation	38	27	38.4	39	(4.3)
EBIT	97	201	(51.6)	147	(33.9)
Other Income	44	122	(63.5)	34	29.2
Interest	6	1	307.1	5	9.6
EBT	136	321	(57.7)	176	(22.9)
Tax	41	95	(56.3)	47	(11.0)
RPAT	94	226	(58.3)	130	(27.2)
APAT	94	226	(58.3)	130	(27.2)
			(bps)		(bps)
Gross Margin (%)	45.5	54.5	(904)	51.5	(605)
EBITDA Margin (%)	17.7	25.2	(755)	22.2	(457)
NPM (%)	12.4	25.0	(1265)	15.5	(310)
Tax Rate (%)	30.5	29.5	98	26.4	409
EBIT Margin (%)	12.7	22.2	(947)	17.6	(481)

CMP	Rs 244
Target / Upside	Rs 300 / 23%
BSE Sensex	30,227
NSE Nifty	9,137

Script Details

Equity / FV	Rs 186mn / Rs 10
Market Cap	Rs 5bn
	USD 60mn
52-week High/Low	Rs 602/Rs 154
Avg. Volume (no)	6,270
NSE Symbol	MPSLTD
Bloomberg Code	MPS IN

Shareholding Pattern Mar'20(%)

Promoters	67.8
MF/Banks/FIs	0.5
FII	5.9
Public / Others	25.8

Valuation (x)

	FY20A	FY21E	FY22E
P/E	7.6	8.3	6.6
EV/EBITDA	4.7	5.5	4.2
ROE (%)	14.3	14.6	17.6
RoACE (%)	14.7	14.9	17.8

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	3,317	3,149	3,432
EBITDA	790	717	900
PAT	599	548	691
EPS (Rs.)	32.2	29.5	37.1

VP Research: Rahul Jain

Tel: +9122 40969771

E-mail: rahulj@dolatcapital.com

Associate: Divyesh Mehta

Tel: +91 22 40969768

E-mail: divyesh.mehta@dolatcapital.com

Exhibit 1: Quarterly performance versus estimates

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Revenues (in US\$ mn)	10.5	11.8	NA	(11.7)	NA	Revenues were weak due to unexpected decline in Platform biz Profitability declined as revenues slipped and cost measures not in place in Q4 OPM impact percolated to PAT well below expectations.
Sales	762	847	824	(10.1)	(7.6)	
EBIT	97	168	185	(42.0)	(47.6)	
EBIT Margin (%)	12.7	19.8	22.5			
PAT	94	156	158	(39.6)	(40.2)	

Source: Company, DART

Change in estimates

Factoring the weak Q4 performance and expected challenges in the discretionary spending in elearning business along with pricing pressure in Publishing business we have curtailed our revenue growth estimates by 14% for FY21/22E. Given the weak revenue traction we have also cut down our OPM estimates by 430bps/90bps for FY21/22 respectively.

Exhibit 2: Change in estimates

(Rs mn)	FY20			FY21E			FY22E		
	Old	Actual	% change	Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	48.3	46.9	(2.9)	49.8	42.6	(14.5)	53.0	45.8	(13.7)
YoY growth (%)	(7.1)	(9.7)		3.1	(9.3)		6.5	7.5	
Revenues	3,402	3,317	(2.5)	3,573	3,149	(11.9)	3,858	3,432	(11.0)
EBIT	706	636	(10.0)	794	563	(29.1)	863	738	(14.6)
EBIT Margin (%)	20.8	19.2		22.2	17.9		22.4	21.5	
Net profits	650	599	(8.0)	709	548	(22.6)	827	691	(16.5)
EPS (Rs)	34.9	32.2	(8.0)	38	29	(22.6)	44.4	37.1	(16.5)

Source: Company, DART

Exhibit 3: Key assumptions in our estimates

Metrics	FY21E	FY22E
USD Revenue growth (%)	(9.3)	7.5
INR Revenue growth (%)	(5.0)	9.0
EBIT Margin	17.9	21.5
INR/US\$ realized rate	74.0	75.0

Source: Company, DART

Exhibit 4: Quarterly and Full Year Performance Trends

Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenue (US\$ mn)	12.8	12.0	12.7	11.8	10.5	(18.5)	(10.9)	52.0	46.9	(9.7)
Sales	903	836	882	837	762	(15.6)	(9.0)	3,625	3,317	(8.5)
Expenditure	675	633	617	651	627	(7.1)	(3.6)	2,692	2,527	(6.1)
Employee Cost	411	428	408	406	415	1.1	2.4	1,645	1,656	0.7
<i>as % of sales</i>	45.5	51.1	46.2	48.5	54.5			45.4	49.9	
Other expenditure	265	205	209	245	212	(20.0)	(13.6)	1,047	871	(16.9)
<i>as % of sales</i>	29.3	24.5	23.7	29.3	27.8			28.9	26.3	
EBITDA	228	204	265	186	135	(40.9)	(27.7)	934	790	(15.4)
Depreciation	27	39	39	39	38			111	154	
EBIT	201	165	227	147	97	(51.6)	(33.9)	823	636	(22.7)
Other Income	122	57	64	34	44	(63.5)	29.2	253	200	
PBT	321	217	286	176	136	(57.7)	(22.9)	1,074	814	(24.2)
Total Tax	95	63	65	47	41	(56.3)	(11.0)	313	216	
Reported PAT	226	154	221	130	94	(58.3)	(27.2)	761	599	(21.3)
EPS	12.1	8.3	11.9	7.0	5.1	(58.2)	(27.1)	40.8	32.2	(21.2)
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	25.2	24.4	30.1	22.2	17.7	(337)	(782)	25.7	23.8	(194)
EBIT	22.2	19.8	25.7	17.6	12.7	(485)	(814)	22.7	19.2	(352)
PBT	35.5	25.9	32.4	21.0	17.8	(650)	(1,137)	29.6	24.5	(506)
PAT	25.0	18.4	25.1	15.5	12.4	(409)	(958)	21.0	18.0	(293)
Effective Tax rate	29.5	29.0	22.7	26.4	30.5	(251)	375	29.2	26.5	(268)

Source: DART, Company

What to expect next Quarter

We expect modest decline in revenues in Q1FY21 led by sustained weakness in the elearning business. Profitability is expected to improve as cost saving measures across vendors will be in effect in Q1.

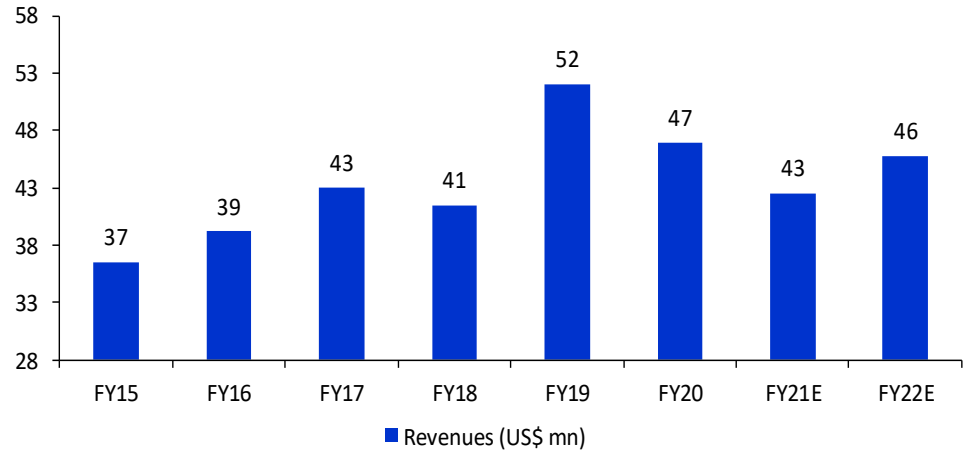
Exhibit 5: What to expect next Quarter

(Rs Mn)	Q1FY21E	Q4FY20	Q1FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	10.2	10.5	12.0	(2.7)	(15.4)
Sales	753	762	836	(1.1)	(9.9)
EBIT	109	97	165	12.2	(34.1)
PAT	112	94	154	18.8	(27.1)
EPS (Rs)	6.0	5.1	8.3	18.8	(27.1)
EBIT Margin (%)	14.5	12.7	19.8	171 bps	(530 bps)

Source: DART, Company

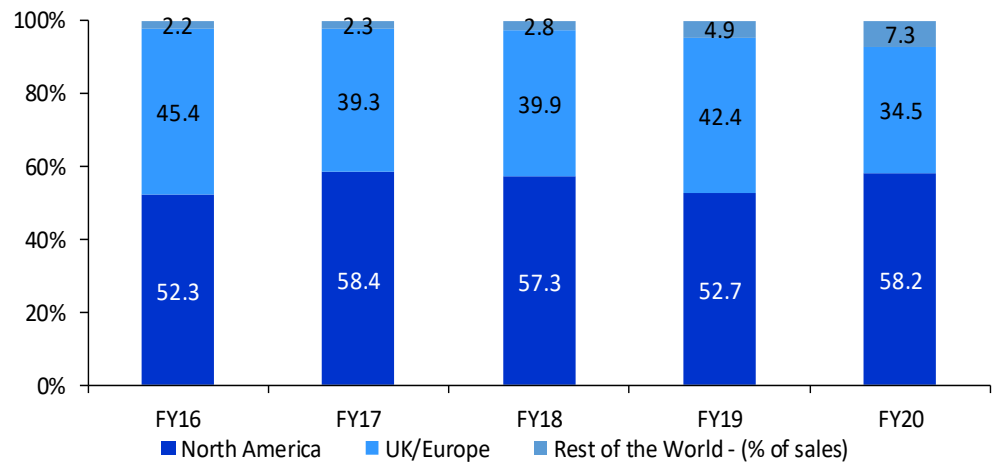
Charting the story

Exhibit 6: Revenues traction to be led by eLearning business in future (US\$ Mn)



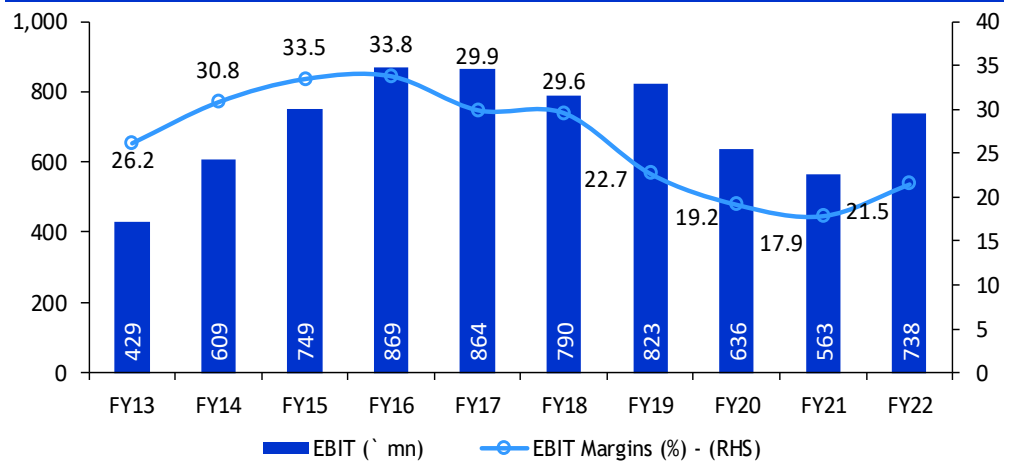
Source: Company, DART

Exhibit 7: Geographical revenue distribution improving with TIS integration



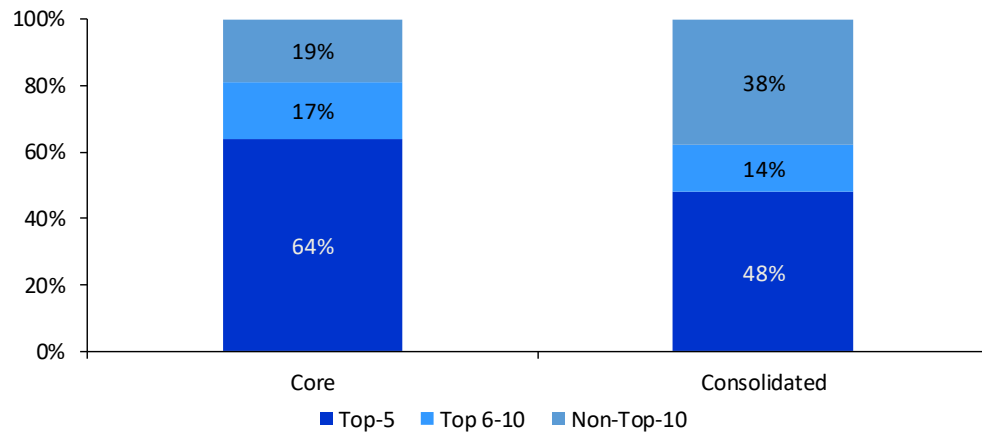
Source: Company, DART

Exhibit 8: Profitability to recover in FY22E with return of growth in the business



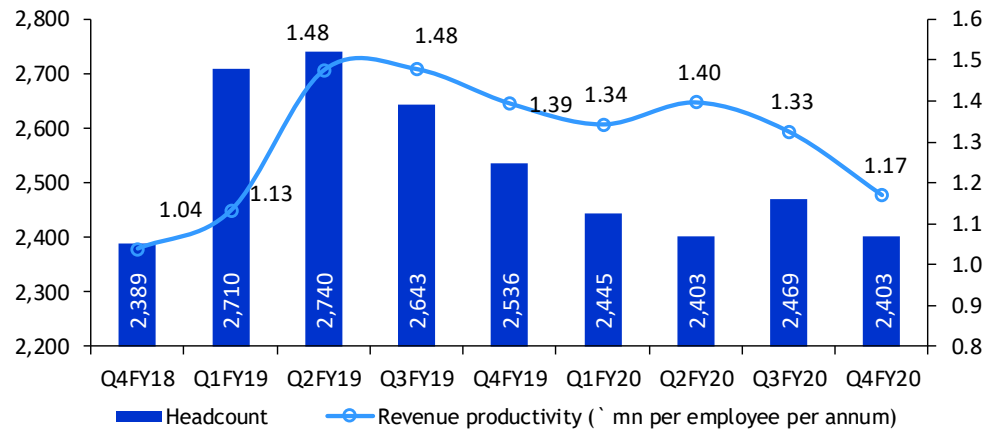
Source: Company, DART

Exhibit 9: Client concentration well under check as eLearning business is integrated



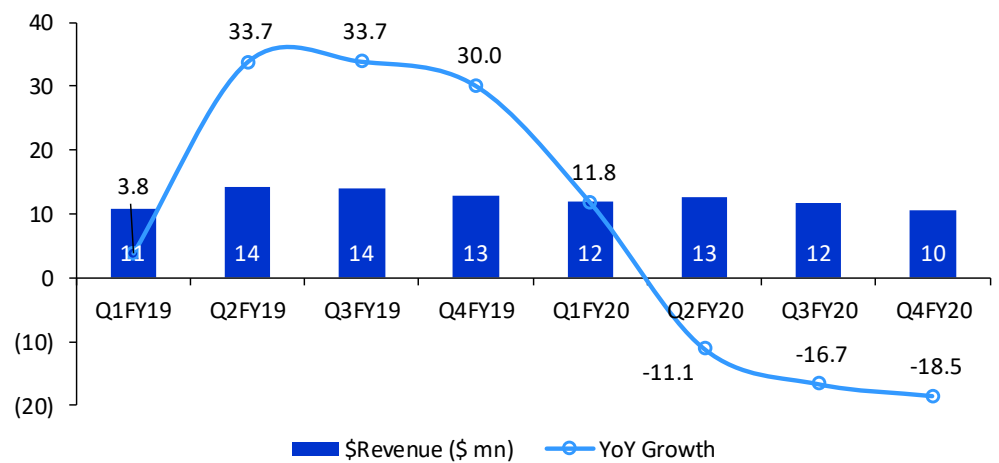
Source: Company, DART, Note: Core does not include eLearning business

Exhibit 10: Productivity to revive as headcount rationalization happens going fwd.



Source: Company, DART

Exhibit 11: Quarterly Revenue Trend



Source: DART, Company

Con-Call Key Takeaways

- **Content Business:** Content business has witnessed one large client enquiry towards digitization while largely most other publishing clients are digitized. During FY20, MPS witnessed decline in journals as well as books business. MPS expects faster recovery in business as it implements automation and bids aggressively. Book business recovery is expected to be quicker due to frequent RFP and Journal business recovery will be slower due to long term RFPs.
- **E-Learning Business:** E-Learning faced impact on Q4FY20. E-Learning demand is expected to improve from Q2FY21 onwards as individual courses and corporate demand is expected to move up, similar to what was witnessed in recovery cycle post Dot.com and 2008 crisis. E-Learning should dilute company level margins as share of revenue improves. Ideal (EBITDA) business margins are 25%.
- **Platform Business:** Platform Business witnessed loss of client (impacted full quarter) as the client went in-house. This was largely in expected lines as volume had been decreasing over time. Other clients are performing well. Ideal (EBITDA) business margins for the business is about 40% - so intact on structural basis as per management.
- **Operational Challenges:** MPS is working under 99% WFH mode. Implementation of WFH included certain costs for 700 laptops and internet connections. In certain areas, MPS has witnessed productivity decline of upto 20%. Going forward, MPS will route volume via Dehradun location due to better productivity and lower cost which should improve margins going forward.

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	3,625	3,317	3,149	3,432
Total Expense	2,692	2,527	2,432	2,533
COGS	1,645	1,656	1,586	1,630
Employees Cost	0	0	0	0
Other expenses	1,047	871	846	903
EBIDTA	934	790	717	900
Depreciation	111	154	154	162
EBIT	823	636	563	738
Interest	2	22	22	22
Other Income	253	200	193	208
Exc. / E.O. items	0	0	0	0
EBT	1,074	814	734	924
Tax	313	216	186	232
RPAT	761	599	548	691
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	761	599	548	691

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	186	186	186	186
Minority Interest	0	0	0	0
Reserves & Surplus	4,525	3,483	3,642	3,843
Net Worth	4,712	3,669	3,829	4,030
Total Debt	0	128	128	128
Net Deferred Tax Liability	(34)	(56)	(56)	(56)
Total Capital Employed	4,678	3,741	3,900	4,101

Applications of Funds

Net Block	1,031	1,139	1,135	1,123
CWIP	0	0	0	0
Investments	2,121	857	932	1,007
Current Assets, Loans & Advances	2,118	2,338	2,125	2,284
Inventories	0	0	0	0
Receivables	687	623	595	639
Cash and Bank Balances	767	945	759	874
Loans and Advances	74	35	35	35
Other Current Assets	589	736	736	736
Less: Current Liabilities & Provisions	591	594	293	317
Payables	133	122	104	113
Other Current Liabilities	458	472	189	205
Net Current Assets	1,527	1,744	1,832	1,967
Total Assets	4,678	3,741	3,900	4,101

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	54.6	50.1	49.6	52.5
EBIDTA Margin	25.7	23.8	22.8	26.2
EBIT Margin	22.7	19.2	17.9	21.5
Tax rate	29.2	26.5	25.3	25.2
Net Profit Margin	21.0	18.0	17.4	20.1
(B) As Percentage of Net Sales (%)				
COGS	45.4	49.9	50.4	47.5
Employee	0.0	0.0	0.0	0.0
Other	28.9	26.3	26.9	26.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	433.1	29.6	25.6	33.5
Inventory days	0	0	0	0
Debtors days	69	69	69	68
Average Cost of Debt		33.6	17.2	17.2
Payable days	13	13	12	12
Working Capital days	154	192	212	209
FA T/O	3.5	2.9	2.8	3.1
(D) Measures of Investment				
AEPS (Rs)	40.9	32.2	29.5	37.1
CEPS (Rs)	46.8	40.4	37.7	45.8
DPS (Rs)	25.0	53.3	17.4	21.9
Dividend Payout (%)	61.1	165.8	59.1	59.1
BVPS (Rs)	253.1	197.1	205.7	216.5
RoANW (%)	17.2	14.3	14.6	17.6
RoACE (%)	17.4	14.7	14.9	17.8
RoAIC (%)	20.6	19.0	19.0	23.2
(E) Valuation Ratios				
CMP (Rs)	244	244	244	244
P/E	6.0	7.6	8.3	6.6
Mcap (Rs Mn)	4,550	4,550	4,550	4,550
MCap/ Sales	1.3	1.4	1.4	1.3
EV	3,783	3,734	3,919	3,804
EV/Sales	1.0	1.1	1.2	1.1
EV/EBITDA	4.1	4.7	5.5	4.2
P/BV	1.0	1.2	1.2	1.1
Dividend Yield (%)	10.2	21.8	7.1	9.0
(F) Growth Rate (%)				
Revenue	35.8	(8.5)	(5.0)	9.0
EBITDA	7.2	(15.4)	(9.2)	25.4
EBIT	4.1	(22.7)	(11.4)	30.9
PBT	5.4	(24.2)	(9.8)	25.8
APAT	8.3	(21.3)	(8.4)	26.0
EPS	8.3	(21.3)	(8.4)	26.0
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	536	527	257	648
CFI	(39)	1,516	(32)	(17)
CFF	(270)	(1,753)	(411)	(512)
FCFF	(134)	481	107	498
Opening Cash	230	475	766	580
Closing Cash	474	766	580	699

E – Estimates

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
