

Healthy Q4FY20 performance...

Mphasis reported a healthy set of Q4FY20 numbers. The company reported 1.5% QoQ growth in revenue in constant currency mainly led by 2.7% QoQ growth in direct international business partly offset by 1% QoQ fall in HP/DXC channel. Operating margin rose 10 bps to 16.3% while operating profit rose 3.7% QoQ. Net profit grew 20.3% QoQ to ₹ 353 crore, mainly led by lower tax and higher other income. The company declared a dividend of ₹ 35/share. Mphasis has won \$201 million of TCV in direct international of which 79% of deal wins is in new generation services business.

Lower exposure to impacted verticals

Mphasis has major exposure to BFSI (~60% of revenues) and information, communication & entertainment (~15% of revenues), which are relatively less impacted by Covid 19 pandemic vs. aviation & travel verticals. This has helped Mphasis report healthy Q4FY20 numbers. However, in the near term, we expect revenues to be impacted by lower ramp ups in deals won, challenges in deal won lack of client approval in BPS side (24% of revenues), ramp downs in infrastructure (12% of revenues) and lower discretionary spend. While we expect direct international to have improved performance in H2FY21E mainly led by ramp of deal won & Blackstone portfolio, we expect the company's DXC/HP channel (26% of revenues) to be impacted by the ongoing crisis. Hence, we expect flat revenues in FY21E and expect 9% revenue growth in FY22E led by an improved performance in direct international channel mainly led by digital acceleration. The company also has healthy cash on its balance sheet. It may use it to grow via inorganic route. However, we have not factored in the same.

Margins to stabilise in FY22E

The company is undertaking various measures for cost rationalisation like lower travel cost and lower discretionary spend. However, subdued revenues in DXC channel and anticipated utilisation pressure in the near term will impact FY21E margins. Hence, we expect FY21E EBIT margins to decline 90 bps YoY to 15.1% and see a recovery in FY22E leading to an improvement of ~90 bps YoY to 16.0%.

Valuation & Outlook

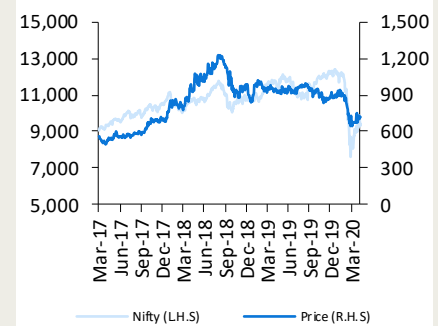
The company reported a healthy Q4FY20 performance. Although in the near term we expect revenues to be impacted by pressure in BPS business, DXC channel, we expect deal wins in direct international to partly offset near-term challenges. Also, we expect deals to ramp up in H2FY21E. As most deal wins by the company have higher proportion of digital business, we expect accelerated growth in medium term. Further, healthy balance sheet could help the company in inorganic revenue growth opportunities. This coupled with healthy capital allocation prompt us to upgrade the stock from HOLD to BUY with a revised target price of ₹ 930 (13x FY22E EPS).



Particulars

Particular	Amount
Market Capitalisation (₹crore)	15,519
Total Debt (₹crore)	571
Cash and Investments (₹crore)	2,103
EV (₹crore)	13,987
52 week H/L	1015/ 612
Equity Capital (₹crore)	186
Face Value (₹)	₹10

Price Performance



Key Highlights

- Direct international revenues to drive FY22E revenues
- Expect margins to improve in FY22E
- Upgrade from HOLD to BUY rating with target price of ₹ 930

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Key Financial Summary

(₹Crore)	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	6,076.4	6,545.8	7,731.0	8,843.5	9,139.2	9,983.8	6.3%
EBITDA	968.8	1,062.4	1,323.8	1,650.4	1,622.2	1,857.0	6.1%
EBITDA Margins (%)	15.9	16.2	17.1	18.7	17.8	18.6	
Net Profit	791.6	837.5	1,073.4	1,184.8	1,115.7	1,313.0	5.3%
Diluted EPS (₹)	37.6	43.3	55.5	63.1	59.4	69.9	
P/E (x)	21.3	18.5	14.5	12.7	13.5	11.5	
RoE (%)	12.9	15.3	20.4	20.3	17.6	19.3	
RoCE (%)	17.4	19.3	24.1	22.3	20.3	22.2	

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Total Revenues	7,731	8,844	9,139	9,984
Growth (%)	18.1	14.4	3.3	9.2
Employee Benefit Expense	4,298.7	4,922.6	5,232.2	5,581.0
Other Expenses	2,108.5	2,270.5	2,284.8	2,545.9
EBITDA	1,324	1,650	1,622	1,857
Growth (%)	24.6	24.7	-1.7	14.5
Depreciation	75.8	231.6	239.4	261.5
Other Income	176.7	177.8	171.7	222.2
Interest	17.4	81.2	67.0	67.0
PBT before Exceptional Item	1,407.3	1,515.4	1,487.5	1,750.7
Growth (%)	23.4	7.7	-1.8	17.7
Tax	334.0	330.5	371.9	437.7
PAT before Exceptional Item	1,073.4	1,184.8	1,115.7	1,313.0
Exceptional items	-	-	-	-
PAT	1,073	1,185	1,116	1,313
Growth (%)	28.2	10.4	-5.8	17.7
Diluted EPS	55.5	63.1	59.4	69.9
EPS (Growth %)	28.2	13.6	-5.8	17.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Profit before Tax	1,407	1,515	1,488	1,751
Depreciation	76	232	239	261
(inc)/dec in Current Assets	(516)	67	(324)	(243)
(inc)/dec in current Liabilities	374	(24)	303	245
Income Taxes Paid	(343)	(396)	(372)	(438)
Others	(49)	(72)	(93)	(143)
CF from operations	950	1,321	1,241	1,433
Other Investments	371	265	160	210
(Purchase)/Sale of Fixed Assets	(81)	(124)	(279)	(295)
CF from investing Activities	289	141	(119)	(84)
Inc / (Dec) in Equity Capital	(985)	15	-	-
Inc / (Dec) in sec.loan Funds	125	(22)	(29)	-
Dividend & Dividend tax	(465)	(607)	(614)	(853)
Interest Paid on Loans	(16)	(78)	(67)	(67)
CF from Financial Activities	(1,342)	(692)	(709)	(920)
Net change in cash	(103)	770	413	429
Opening cash	464	352	990	1,403
Closing cash	352	990	1,403	1,831

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Equity	186	187	187	187
Reserves & Surplus	5,064	5,643	6,145	6,605
Networth	5,250	5,830	6,332	6,791
Total debt	543	571	543	543
Other liabilities	128	757	771	842
Source of funds	5,920	7,158	7,645	8,175
Net Block	120	794	807	816
CWIP	2	7	7	7
Intangible assets under developm	92	89	115	139
Long term Loans and advances	71	64	91	100
Other non current assets	1,024	1,246	1,276	1,362
Current Investments	1,070	978	978	978
Goodwill	1,958	2,140	2,140	2,140
Inventories	-	-	-	-
Debtors	1,849	1,770	1,928	1,997
Cash Balance	352	990	1,403	1,831
Bank Balance	290	136	136	136
Short term Loans and advances	126	141	146	159
Other current assets	417	399	503	569
Trade payables	785	667	926	1,012
Other Current liabilities	658	922	950	1,038
Provisions	8	7	8	9
Application of funds	5,920	7,158	7,645	8,175

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Diluted EPS	55.5	63.1	59.4	69.9
BV	271.6	312.8	339.7	364.4
DPS	27.0	35.0	32.7	45.4
Cash Per Share	33.2	60.4	82.5	105.5
Operating Ratios (%)				
EBITDA Margin	17.1	18.7	17.8	18.6
PAT Margin	13.9	13.4	12.2	13.2
Debtor days	87	73	77	73
Creditor days	37	28	37	37
Return Ratios (%)				
RoE	20.4	20.3	17.6	19.3
RoCE	24.1	22.3	20.3	22.2
RoIC	29.7	28.1	27.0	30.5
Valuation Ratios (x)				
P/E	14.5	12.6	13.4	11.4
EV / EBITDA	10.8	8.5	8.3	7.1
Market Cap / Sales	2.0	1.8	1.7	1.6
Price to Book Value	3.0	2.6	2.4	2.2
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.1
Debt / EBITDA	0.4	0.3	0.3	0.3
Quick Ratio	1.6	1.4	1.4	1.3

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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