

Estimate change



TP change



Rating change



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	MPHL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USD\$b)	208.7 / 2.4
52-Week Range (INR)	1173 / 612
1, 6, 12 Rel. Per (%)	20/32/21
12M Avg Val (INR M)	238

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	88.4	96.1	107.3
EBIT	14.2	14.9	17.0
PAT	11.8	11.7	13.8
EPS (INR)	61.5	62.4	73.4
EPS Gr. (%)	9.6	1.6	17.5
BV/Sh. (INR)	312.6	341.5	381.9

Ratios

RoE (%)	21.4	19.2	20.8
RoCE (%)	18.3	16.0	17.8
Payout (%)	56.9	48.0	54.5

Valuations

P/E (x)	18.2	17.9	15.2
P/BV (x)	3.6	3.3	2.9
EV/EBITDA (x)	11.9	11.0	9.0
Div Yield (%)	3.1	2.7	3.6

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	56.2	56.2	52.2
DII	14.2	14.2	8.0
FII	23.7	23.9	29.9
Others	6.0	5.8	9.8

FII Includes depository receipts

CMP: INR1,118
TP: INR 1,174 (+5%)
Neutral

Deal wins and outlook surprise!

Expect one of the best performances in FY21

- Revenue decline of 4.6% (QoQ, CC) was in-line as weakness in the DXC channel was overshadowed by largely stable performance in Direct. Deal wins (USD259m) during the quarter were the strongest ever at 66% YoY. Guidance on the ability to defend margins, a strong order book, and a robust deal pipeline even after a couple of large deal wins is encouraging. This should translate into one of the best performances in the industry in FY21.
- We upgrade our FY21/FY22E EPS by ~4%/2%, largely driven by: (a) recent large deal wins and (b) an optimistic outlook. Maintain **Neutral**.

Largely in-line revenue and margins

- In 1QFY21, revenue (USD) / EBIT (INR) / PAT increased by 3%/12%/4% YoY v/s our expectation of 2%/8%/7% YoY.
- Overall revenue declined 4.6% QoQ (CC) in line with our expectations. Direct International (DI) revenues were largely stable, while DXC revenue witnessed sharp decline (16% QoQ, CC).
- Barring Banking and Capital Markets (BCM), all the other verticals reported sharp sequential revenue decline.
- While revenue from the Top client declined ~11% QoQ, the Top 2–5 clients reported healthy growth of 3% QoQ.
- The EBIT margin contracted ~60bp QoQ and came in ~50bp ahead of our estimates. EBIT margin contraction was largely led by a sharp fall in utilization (300–400bp QoQ).
- While S&M expenses remained stable (as % of revenue), pressure at the gross margin level was partially offset by G&A rationalization (~150bp QoQ).
- 1Q witnessed the strongest order bookings ever, with deal wins of USD259m in the Direct channel; of this, 79% are in new-generation offerings.

Key highlights from management commentary

- 1QFY21 revenue was impacted as enterprises reprioritized IT spends and cut down on discretionary spends.
- Management indicated that the worst is behind, and revenue should grow sequentially. A couple of large deal wins (USD100–200m+ TCV), a healthy order book, and a robust pipeline drive this confidence.
- The company expects the EBIT margin to remain stable, in the range of 15.5–16.5% in FY21, despite large deal ramp-ups over the next few quarters.
- Large deal wins and new client additions were led by Direct International.
- The Banking and Capital Markets, Insurance, and Logistics/Transportation verticals are expected to do well going forward.
- While MRC of USD250m (up to Sep'21) is still due, management expects the DXC business to remain under pressure.
- The Blackstone portfolio now contributes 4–5% to overall revenues and is expected to double over three years.

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Valuation and view – Expect one of the best performances in FY21

- Strong deal wins and a healthy deal pipeline would likely drive decent growth in the near term. While the DXC business (~20% of revenues) is expected to be under pressure in the near term, Direct International should continue to drive overall performance. Guidance on the ability to defend margins is a key positive.
- High exposure to largely stable verticals (BFSI, ~57% of revenues) should also help mitigate risks to an extent.
- The stock is currently trading at ~18x FY21E EPS. We value the stock at ~16x FY22E EPS. Maintain **Neutral**.

Quarterly Performance

Y/E March	FY20				FY21E				FY20	FY21E	Est. Var. (% / Jun 20)	(INR m) bp
	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20E	Dec 20E	Mar 21E				
Revenue (USD m)	297	305	318	320	305	312	324	334	1,239	1,275	303	0.7
QoQ (%)	1.8	2.6	4.3	0.6	-4.5	2.0	4.0	3.0	10.8	2.9	-5.1	65bp
Revenue (INR m)	20,626	21,581	22,767	23,462	22,882	23,512	24,467	25,210	88,436	96,072	22,886	0.0
YoY (%)	13.3	12.7	15.5	15.9	10.9	8.9	7.5	7.5	14.4	8.6	11.0	-2bp
GPM (%)	28.4	28.8	28.7	29.3	28.9	29.5	29.7	29.7	28.8	29.5	28.6	34bp
SGA (%)	10.2	10.0	10.0	10.4	10.7	11.5	11.6	11.6	10.2	11.3	10.9	-20bp
EBITDA	3,743	4,052	4,269	4,441	4,178	4,244	4,439	4,573	16,505	17,434	4,054	3.1
EBITDA Margin (%)	18.1	18.8	18.8	18.9	18.3	18.0	18.1	18.1	18.7	18.1	17.7	55bp
EBIT	3,193	3,470	3,694	3,831	3,583	3,637	3,798	3,914	14,188	14,932	3,459	3.6
EBIT Margin (%)	15.5	16.1	16.2	16.3	15.7	15.5	15.5	15.5	16.0	15.5	15.1	54bp
Other income	541	351	362	526	377	408	397	383	1,780	1,565	364	3.7
ETR (%)	25.1	24.2	24.0	14.9	27.0	25.0	25.0	25.0	21.8	25.5	24.5	246bp
PAT	2,647	2,733	2,937	3,532	2,750	2,884	3,002	3,083	11,849	11,720	2,844	-3.3
QoQ (%)	-0.5	3.3	7.5	20.3	-22.1	4.9	4.1	2.7			-19.5	
YoY (%)	2.5	0.9	5.7	32.7	3.9	5.5	2.2	-12.7	10.4	-1.1	7.5	
EPS (INR)	14.2	14.2	15.2	18.8	14.7	15.4	16.0	16.4	62.4	62.4	15.2	-3.3

Key Perf. Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Margins										
Gross Margin	28	29	29	29	29	30	30	30	29	29
EBIT Margin	15	16	16	16	16	15	16	16	16	16
Net Margin	13	13	13	15	12	12	12	12	13	12
Operating metrics										
Headcount	25,499	26,963	27,289	26,398	26,143				26,398	
Deal Win TCV (USD m)	151	174	189	201	259				715	
Key Verticals (YoY %)										
BFS	5	10	16	13	12				11	
Insurance	15	10	7	4	-12				9	
IT, Comm, Ent	6	5	5	-4	-12				3	
Key Geographies (YoY %)										
North America	10	9	11	8	0				10	
Europe	3	4	15	18	15				10	

Key highlights from management commentary

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- 1Q witnessed the strongest order bookings ever, with deal wins of USD259m in the Direct channel; of this, 79% are in new-generation offerings.

Exhibit 1: BPO reports strong growth, while other services decline

Services	Contribution to rev (%)	Growth – QoQ (%)	Growth - YoY (%)
Application Services	63.8	-5.0	0.4
BPO	21.1	11.6	44.6
Infrastructure Services	15.1	-18.9	-20.7

Source: Company, MOFSL

Exhibit 2: Barring RoW, other geographies report sequential decline

Geographies	Contribution to rev (%)	Growth - QoQ (%)	Growth - YoY (%)
North America	76.8	-3.8	0.3
Europe	11.9	-7.6	14.9
India	4.1	-21.4	-15.2
Rest of the world	7.1	6.5	33.3

Source: Company, MOFSL

Exhibit 3: While BCM stands strong, other verticals decline sequentially, led by Insurance

Verticals	Contribution to rev (%)	Growth - QoQ (%)	Growth - YoY (%)
Banking and Capital Markets	48.8	2.1	12.3
Insurance	10.0	-16.7	-12.3
IT, Communication and Entertainment (ITCE)	14.1	-10.2	-12.2
Logistics & Transportation	14.0	-8.4	11.9
Others	13.1	-5.7	-5.2

Source: Company, MOFSL

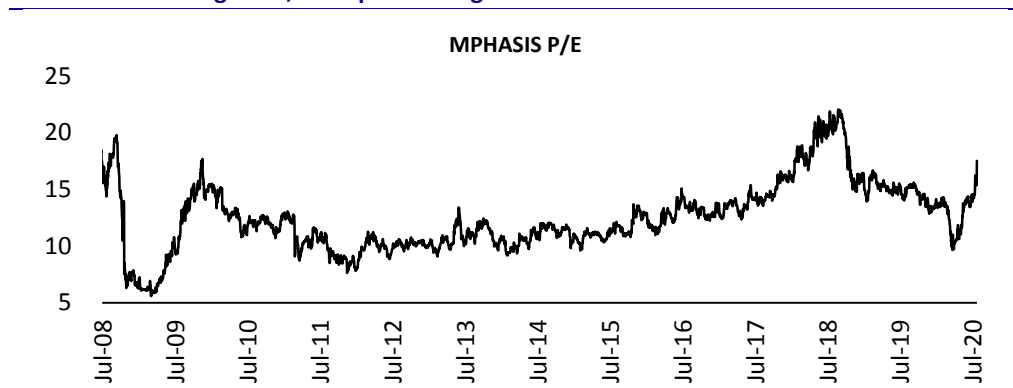
Exhibit 4: Top client declines, while Top 2-5 clients are growth drivers

	Contribution to rev (%)	Growth - QoQ (%)	Growth - YoY (%)
Top Client	12.0	-11.8	-11.8
Top 2-5 Clients	27.0	3.1	15.7
Top 6-10 Clients	9.0	-4.5	2.9

Source: Company, MOFSL

Valuation and view – Expect one of the best performances in FY21

- Strong deal wins and a healthy deal pipeline would likely drive decent growth in the near term. While the DXC business (~20% of revenues) is expected to be under pressure in the near term, Direct International should continue to drive overall performance. Guidance on the ability to defend margins is a key positive.
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- The stock is currently trading at ~18x FY21E EPS. We value the stock at ~16x FY22E EPS. Maintain **Neutral**.

Exhibit 5: Over long term, multiples average to ~14x

Source: Bloomberg, MOSL

Exhibit 6: Revision to our estimates

Change in Estimates	Revised		Earlier		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
INR/USD	75.9	77.0	76.0	77.0	-0.2%	0.0%
USD Revenue - m	1,275	1,402	1,203	1,300	6.0%	7.9%
USD Revenue - growth	2.9	10.0	-2.9	8.0	578bp	195bp
EBIT Margin (%)	15.5	15.8	15.3	15.7	27bp	16bp
EPS - INR	62.4	73.4	59.9	72.5	4.2%	1.3%

Source: MOFSL

Exhibit 7: Operating Metrics

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Geographical Contribution (%)					
Americas	78.8	79.2	77.5	76.3	76.8
EMEA	10.7	10.1	11.5	12.3	11.9
India	5.0	5.3	5.1	5.0	4.1
RoW	5.5	5.4	5.9	6.4	7.1
Vertical Contribution (%)					
Banking and Capital market	44.7	45.8	45.5	45.7	48.8
Insurance	11.7	11.2	11.2	11.4	10.0
IT, Comm. & Entertainment	16.6	16.1	15.7	15.0	14.1
Logistics & Transportation	12.9	13.4	13.9	14.6	14.0
Others	14.2	13.4	13.6	13.2	13.1
Revenue by Project Type (%)					
Time and Material	63.1	59.7	57.8	56.9	58.7
Transaction Based	13.3	14.3	15.5	15.2	15.2
Fixed Price	23.6	26.0	26.7	27.9	26.1
Revenue by Delivery Location (%)					
Onsite	58.2	58.2	58.1	57.1	59.9
Offshore	41.8	41.8	41.9	42.9	40.1
Secondary Market Segment (%)					
Direct International	73.2	73.8	74.2	75.4	78.5
<i>Direct Core</i>	61.1	60.8	60.8	61.7	63.2
<i>Direct Others</i>	12.1	13.0	13.4	13.7	15.3
DXC	24.6	24.1	23.4	22.5	20.1
Others	2.2	2.1	2.4	2.1	1.5
Service Type (%)					
Application services	65.4	64.0	61.0	64.1	63.8
BPO	15.0	16.3	18.1	18.0	21.1
Infrastructure services	19.7	19.7	20.9	17.8	15.1
Client Contribution (%)					
Top Client	14	14	13	13	12
Top 2-5 Clients	24	24	25	25	27
Top 6-10 Clients	9	9	9	9	9
New Clients added	14	8	14	9	6
Clients Contributing More than:					
\$100m+	1	2	2	2	2
\$75m+	2	2	3	3	4
\$50m+	4	4	5	5	4
\$20m+	7	7	7	7	7
\$10m+	14	14	15	15	16
\$5m+	27	29	30	31	32
\$1m+	72	76	77	76	79
Headcount					
Onsite - billable					
Tech services	4,648	4,708	4,575	4,221	3,783
BPO	522	822	1,244	1,199	1,382
Offshore - billable					
Tech services	11,832	12,550	12,780	12,734	12,473
BPO	3,983	4,094	4,553	4,286	4,592
Total billable headcount	20,985	22,174	23,152	22,440	22,230
Total headcount	25,500	26,964	27,289	26,398	26,143

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21E	Mar 22E
Revenues	57,949	60,879	60,763	65,459	77,310	88,436	96,072	1,07,309
Change (%)	-6.9	5.1	-0.2	7.7	18.1	14.4	8.6	11.7
Cost Of Goods Sold	42,540	44,708	43,649	47,309.0	55,734.0	62,951.0	67,745	75,497
SG&A Expenses	6,708	7,201	7,426	7,525	8,337	8,980	10,894	12,038
Amort. of Stock Compensation	0	0	0	0	0	0	0	0
Amortization of Goodwill	0	0	0	0	0	0	0	0
EBITDA	8,701	8,970	9,688	10,625	13,239	16,505	17,434	19,775
% of Net Sales	15.0	14.7	15.9	16	17	19	18.1	18.4
Depreciation	980	744	592	709	759	2,317	2,502	2,807
Interest	0	0	0	0.0	0.0	0.0	0	0
Other Income	1,687	1,712	2,246	1,490	1,592	967	793	1,400
EO Item (net)	0	0	0	0	0	0	0	0
PBT	9,408	9,938	11,342	11,406	14,072	15,155	15,725	18,368
Tax	2,630	2,696	3,155	2,900	3,339	3,306	4,005	4,592
Rate (%)	28.0	27.1	27.8	25	24	22	25.5	25.0
PAT	6,778	7,242	8,187	8,506	10,733	11,849	11,720	13,776
Extra-ordinary items								
Net Income	6,778	7,242	8,187	8,506	10,733	11,849	11,720	13,776
Change (%)	-8.6	6.9	13.0	3.9	26.2	10.4	-1.1	17.5

Balance Sheet							(INR m)	
Y/E	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21E	Mar 22E
Share Capital	2,101	2,102	2,104	1,933	1,862	1,865	1,866	1,793
Reserves	52,697	60,828	59,420	52,885	50,636	56,431	61,866	66,688
Net Worth	54,798	62,930	61,524	54,818	52,498	58,296	63,732	68,481
Loans	6,253	5,338	2,760	3,949	5,456	13,092	11,604	10,604
Capital Employed	61,051	68,268	64,284	58,767	57,954	71,388	75,336	79,085
Gross Block	10,055	9,300	3,400	4,304	5,357	12,965	14,212	16,012
Less : Depreciation	8,499	8,128	1,167	2,478	3,244	4,235	6,356	9,163
Net Block	1,556	1,172	2,233	1,826	2,113	8,730	7,856	6,849
CWIP	318	953	387	399	406	553	428	417
Goodwill	21,781	22,942	14,069	17,015	19,585	21,405	21,357	21,357
Investments	14,431	21,118	23,956	17,821	13,292	13,257	20,731	20,731
Deferred tax assets	826	941	3,527	1,057	814	2,157	1,754	1,754
Curr. Assets	35,014	31,968	28,998	31,742	36,531	40,297	37,857	43,651
Debtors	11,371	12,333	10,871	13,560	17,687	16,947	17,911	19,424
Cash	13,311	8,783	6,315	7,148	6,618	11,550	8,163	12,444
Loans & Advances	10,332	10,852	11,812	11,034	12,226	11,800	11,783	11,783
Current Liab. & Prov	12,875	10,826	8,888	11,093	14,787	15,011	14,647	15,674
Net Current Assets	22,139	21,142	20,110	20,649	21,744	25,286	23,210	27,977
Application of Funds	61,051	68,268	64,282	58,767	57,954	71,388	75,336	79,085

Financials and valuations

Ratios

Y/E	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21E	Mar 22E
Basic (INR)								
EPS	32.3	34.5	38.9	44.0	56.1	61.5	62.4	73.4
Cash EPS	36.9	38.0	41.7	47.7	61.7	76.0	76.2	92.5
Book Value	260.8	299.4	292.4	283.6	281.9	312.6	341.5	381.9
DPS	16.0	20.0	17.0	20.0	27.0	35.0	30.0	40.0
Payout %	49.6	58.0	43.7	45.4	48.5	56.9	48.0	54.5
Valuation (x)								
P/E	34.7	32.4	28.7	25.4	19.9	18.2	17.9	15.2
Cash P/E	30.3	29.4	26.8	23.5	18.1	14.7	14.7	12.1
EV/EBITDA	24.5	23.5	21.4	18.4	14.6	11.9	11.0	9.0
EV/Sales	3.7	3.5	3.4	3.0	2.5	2.2	2.0	1.7
Price/Book Value	4.3	3.7	3.8	3.9	4.0	3.6	3.3	2.9
Dividend Yield (%)	1.4	1.8	1.5	1.8	2.4	3.1	2.7	3.6
Profitability Ratios (%)								
RoE	12.8	12.3	13.2	14.6	20.0	21.4	19.2	20.8
RoCE	11.5	11.2	12.4	13.8	18.4	18.3	16.0	17.8
RoIC	16.7	17.0	18.5	22.1	26.8	26.5	24.2	27.8
Turnover Ratios								
Debtors (Days)	77	71	70	68	74	71	66	63
Fixed Asset Turnover (x)	31.0	44.6	35.7	32.3	39.3	16.3	11.6	14.6
Leverage Ratio								
Debt/Equity Ratio(x)	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.2

Cash Flow Statement

(INR m)

Y/E	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21E	Mar 22E
CF from Operations	7,900	7,871	6,193	11,685	11,735	12,823	14,625	16,583
Chg. in Wkg. Capital	-50	-3,531	-1,436	294	-1,625	1,390	-1,311	-486
Net Operating CF	7,850	4,340	4,757	11,979	10,110	14,213	13,313	16,097
Net Purchase of FA	-614	-995	-1,087	-314	-1,053	-9,081	-1,503	-1,789
Free Cash Flow	7,236	3,345	3,670	11,665	9,057	5,132	11,811	14,307
Net Purchase of Invest.	3,807	-7,848	6,035	3,189	1,959	-1,785	-7,426	0
Net Cash from Invest.	3,193	-8,843	4,948	2,875	906	-10,866	-8,929	-1,789
Proceeds from equity	0	5,933	-5,305	-10,577	4,427	1,783	432	-73
Proceeds from LTB/STB	1,601	-915	-2,578	1,189	1,507	7,636	-1,488	-1,000
Dividend Payments	-4,033	-5,045	-4,290	-4,637	-17,482	-7,836	-6,716	-8,955
Net CF from Financing	-2,432	-26	-12,172	-14,024	-11,547	1,584	-7,772	-10,028
Free Cash Flow	7,236	3,345	3,670	11,665	9,057	5,132	11,811	14,307
Net Cash Flow	8,610	-4,529	-2,467	830	-531	4,931	-3,388	4,280
Opening Cash Balance	4,697	13,307	8,778	6,311	7,140	6,609	11,540	8,153
Add: Net Cash	8,610	-4,529	-2,467	830	-531	4,931	-3,388	4,280
Closing Cash Balance	13,307	8,778	6,311	7,140	6,609	11,540	8,153	12,432

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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