

Mphasis

Large deal acceleration

We maintain BUY on Mphasis (MPHL), following a strong 2Q performance and high growth visibility ahead. We are positive on MPHL, based on (1) large deal wins (TCV of USD 1bn+ TTM new deal wins with highest-ever TCV in 2Q), with the increasing deal size in NewGen/Digital wins and deal pipeline (+75% YoY) providing high growth visibility, (2) strong BFS portfolio driven by consolidation deals in large accounts as well as the mortgage segment, (3) services re-alignment, integrated deals (Apps, IMS, BPM) and the focus on hyperscaler partnerships have supported 3x growth in cloud deal pipeline (27% and 60% of cloud pipeline includes AWS/Azure channel), and (4) increased focus in Europe geography. MPHL's valuation discount to mid-tier IT is expected to reduce, supported by an improving mix of high-growth Direct business limiting the impact from DXC and on FCF yield >6%, ~30% RoIC, FY20-23E EPS CAGR at 14% (16.5% over FY21-23E). Our target price of Rs 1,655 is valued at 20x Sep-22E EPS.

- **2QFY21 highlights:** (1) Revenue came at USD 327mn, +6.0/+6.7% QoQ/YoY (CC terms), led by Direct business (82% of revenue) growth at +10.9/+18.4% QoQ/YoY (CC terms), offset by DXC-HP (16% of revenue) de-growth at -15.5/-28.9% QoQ/YoY (CC terms). (2) EBIT margin stood at 16.1%, +45/+3bps QoQ/YoY, supported by better gross margins (higher offshore) and APAT stood at Rs 2.99bn, +8.8% QoQ. (3) Deal wins in Direct International were strong at USD 360mn (the highest-ever including USD 216mn TCV signed in Jul-20).
- **Outlook:** We have factored 7.0/13.6/9.2% growth in revenue, based on Direct business growth at 18/20/14% and DXC-HP at -32/-22/-27% for FY21/22/23E respectively and factored in EBIT% at 16.1/16.2/16.4% for FY21/22/23E, resulting in 14% EPS CAGR over FY20-23E.

Quarterly Financial summary

YE March	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	327	305	7.4	305	7.2	1,119	1,240	1,326	1,506	1,645
Net Sales	24.35	21.58	12.8	22.88	6.4	77.31	88.44	98.88	114.43	127.47
EBIT	3.92	3.47	13.1	3.58	9.5	12.48	14.19	15.89	18.55	20.95
APAT	2.99	2.73	9.5	2.75	8.8	10.73	11.42	12.42	14.75	16.87
Diluted EPS (Rs)	16.1	14.7	9.5	14.8	8.8	57.6	61.3	66.6	79.2	90.5
P/E (x)						24.0	22.5	20.7	17.5	15.3
EV / EBITDA (x)						18.5	14.6	12.9	10.9	9.4
RoE (%)						20.0	20.6	20.3	21.7	22.0

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	1,284	1,326	3.3	1,467	1,506	2.6	1,621	1,645	1.5
Revenue	95.73	98.88	3.3	111.50	114.43	2.6	125.64	127.47	1.5
EBIT	15.29	15.89	3.9	18.37	18.55	1.0	20.84	20.95	0.6
EBIT margin (%)	16.0	16.1	10bps	16.5	16.2	-26bps	16.6	16.4	-15bps
APAT	11.47	12.42	8.3	14.32	14.75	3.0	16.83	16.87	0.3
EPS (Rs)	61.6	66.6	8.2	76.8	79.2	3.0	90.3	90.5	0.2

Source: Company, HSIE Research

BUY

CMP (as on 23 Oct 2020)	Rs 1,382
Target Price	Rs 1,655
NIFTY	11,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,670	Rs 1,655
EPS %	FY21E +8.2	FY22E +3.0

KEY STOCK DATA

Bloomberg code	MPHL IN
No. of Shares (mn)	187
MCap (Rs bn) / (\$ mn)	256/3,503
6m avg traded value (Rs mn)	494
52 Week high / low	Rs 1,465/612

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	41.1	98.6	49.0
Relative (%)	34.4	70.9	44.9

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	56.18	56.16
FIs & Local MFs	14.22	16.17
FPIs	23.65	22.14
Public & Others	5.95	5.53
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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