

September 22, 2021

Event Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	3,573		3,348	
Sales (Rs. m)	1,37,390	1,57,878	1,34,350	1,54,182
% Chng.	2.3	2.4		
EBITDA (Rs. m)	24,510	28,137	24,010	27,520
% Chng.	2.1	2.2		
EPS (Rs.)	91.7	106.5	89.8	104.1
% Chng.	2.1	2.2		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	97,222	1,15,666	1,37,390	1,57,878
EBITDA (Rs. m)	18,026	21,065	24,510	28,137
Margin (%)	18.5	18.2	17.8	17.8
PAT (Rs. m)	12,165	14,627	17,150	19,914
EPS (Rs.)	65.3	78.2	91.7	106.5
Gr. (%)	2.7	19.7	17.3	16.1
DPS (Rs.)	65.0	19.0	19.0	19.0
Yield (%)	2.0	0.6	0.6	0.6
RoE (%)	19.7	20.7	20.8	20.5
RoCE (%)	25.3	25.2	24.7	24.7
EV/Sales (x)	6.1	5.1	4.3	3.7
EV/EBITDA (x)	33.0	28.2	24.0	20.5
PE (x)	49.8	41.6	35.5	30.5
P/BV (x)	9.3	8.0	6.8	5.8

Key Data

MBFL.BO | MPHL IN

52-W High / Low	Rs.3,303 / Rs.1,233
Sensex / Nifty	58,927 / 17,547
Market Cap	Rs.609bn/ \$ 8,238m
Shares Outstanding	187m
3M Avg. Daily Value	Rs.4492.76m

Shareholding Pattern (%)

Promoter's	55.99
Foreign	20.80
Domestic Institution	18.46
Public & Others	4.75
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	15.2	96.5	140.2
Relative	8.2	65.9	53.8

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Focusing on high growth areas...

Quick Pointers:

- Blink acquisition is attractively valued at 2.68x EV/Sales (USD 94 million consideration and CY21 revenue of ~33-35mn)
- TAM to expand because of cross-selling opportunities to Blink's marquee clientele (exhibit 2); upstream capabilities (research, strategy, design) to expand wallet share in Mphasis's existing clientele.

Mphasis acquired 100% stake in Blink Interactive (a US based company found in 2000) providing research, strategy and design of user experience in hardware and software products. Blink has designed marquee products such as Amazon Alexa, Microsoft X-box etc. Though Blink's revenue is currently only 2.7% of Mphasis revenue, this acquisition offers significant growth opportunities such as 1) Combination of Blink's upstream and Mphasis downstream expertise will enable the combined entity to participate in end-to-end process of design to implementation, thus increasing addressable market size, 2) Blink brings blue-chip logos from hi-tech and consumer industries and 3) cross-selling opportunities to existing BCM and insurance clients. Blink reinforces Mphasis four-pillar strategy to drive sustainable, scalable growth.

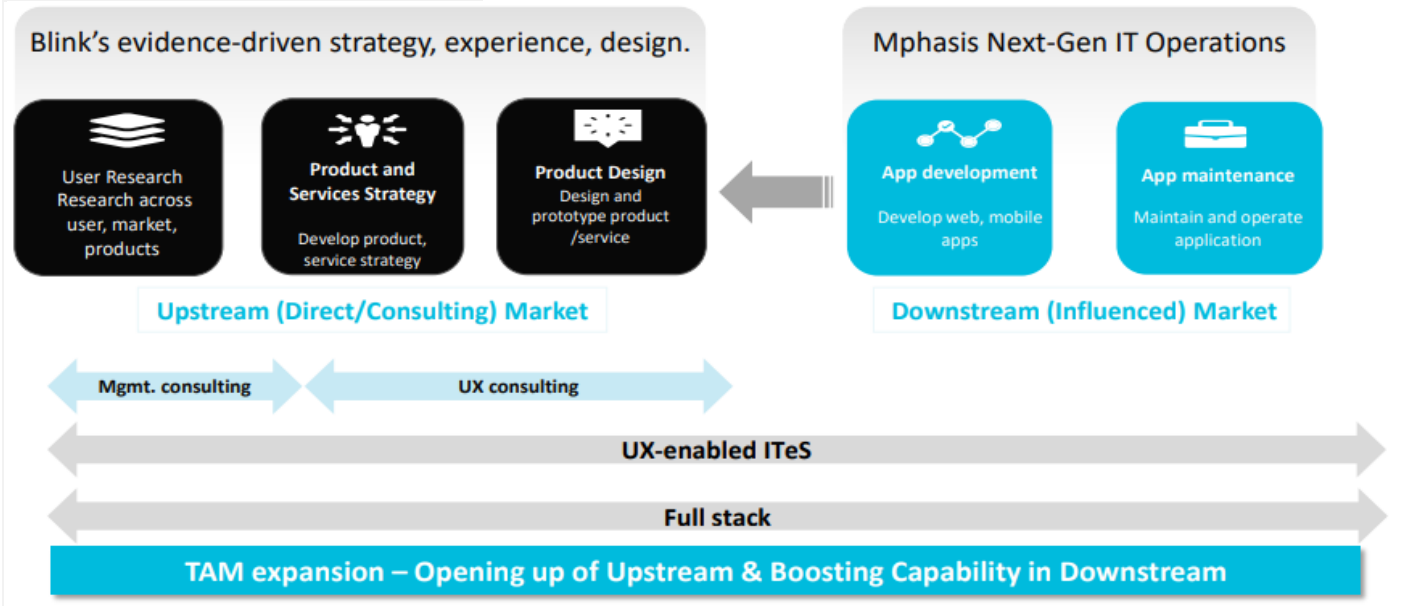
Blink has significantly higher gross margins despite being onsite-centric, given high quality revenues. However, there will be 100bps impact on EBIT margin spread across two years equally divided between performance based retention cost of new Blink leadership and acquisition charge. We note that Mphasis EBIT margin guidance of 15.5-17% remains unchanged after considering impact of this acquisition. We maintain our margin estimate of ~16% for FY22/23/24.

Our EPS estimates change by 2.1%/2.2% for FY23/24, led by increase in revenue growth estimates by 2.3%/2.4% for FY23/24. We arrive at DCF based target price of Rs3573 (earlier: Rs3348) Mphasis is currently trading at multiples of 41.6/35.5x on EPS of 78.2/91.7 on FY22/23 respectively. Maintain 'BUY'.

- Mphasis acquired Blink interactive:** Mphasis acquired 100% stake in Blink Interactive, a US based (Seattle) corporation found in 2000, providing research, strategy and design of user experience in hardware and software products. **Blink's key differentiation is evidence driven design methodology involved in designing marquee products such as Amazon Alexa, Microsoft X-box etc.** The company has strong and tenured leadership and 130+ employees (100% US) with experience studios across US (Seattle, San Diego, Francisco, Austin and Boston).
- Strategic rationale for acquisition:** This acquisition offers multiple growth opportunities and synergy benefits for Mphasis.

- **TAM expansion:** As Blink caters to upstream process of research, strategy, conceptualization and design, it gives Mphasis opportunity to engage with clients in early phase of project initiation and participate in end-to-end project delivery from research & design to engineering and implementation, thus providing opportunity to expand wallet share within Blink's existing clients.
- **Marquee client base:** Acquisition provides access to Blink's marquee client base such as 1) Facebook, 2) Amazon, 3) Google, 4) Microsoft, 5) T Mobile, 6) Dell, 7) EBay, 8) HP etc. Mphasis can provide downstream IT services (App development, App maintenance) to these clients thus expanding TAM for combined entity. (Exhibit 2)
- **Cross-selling to Mphasis existing client base:** Mphasis can leverage Blink's expertise to provide upstream services to their existing banking clients.
- **Leadership accretive:** The two founders – CEO, Karen Clark Cole and Chief Innovation Officer – Kelly Franznick alongside senior leadership team with 20+ years of experience will expand, strengthen, design and bring business leadership for Mphasis.
- **Revenue growth accretive:** Blink operates in user experience space with high demand momentum. Revenue growth is accretive given Blink has grown at over 42% CAGR over FY17-20 years and strong market synergies with Blink will expand Mphasis addressable market share. Blink's estimated revenue for CY21 is US\$30-35 mn (2.7% of Mphasis FY21 revenue).
- Acquisition is **gross margin accretive:** Blink has significantly higher gross margins despite being onsite-centric, given high quality revenues. However, there will be **100bps impact on EBIT margin spread across two years** equally divided between performance based retention cost of new Blink leadership and acquisition charge. **We note that Mphasis EBIT margin guidance of 15.5-17% remains unchanged after considering impact of this acquisition.**
- **Attractive valuations:** With total consideration of USD 94mn (including earn-outs), Blink is valued at 2.68X EV/Sales. The acquisition closed on 21st September 2021. Entire consideration will be paid in cash.

Exhibit 1: TAM expansion for Mphasis led by upstream capabilities of Blink



Source: Company, PL

Exhibit 2: Blink's marquee client base



Source: Company, PL

Exhibit 3: Key Metrics of Blink Interactive

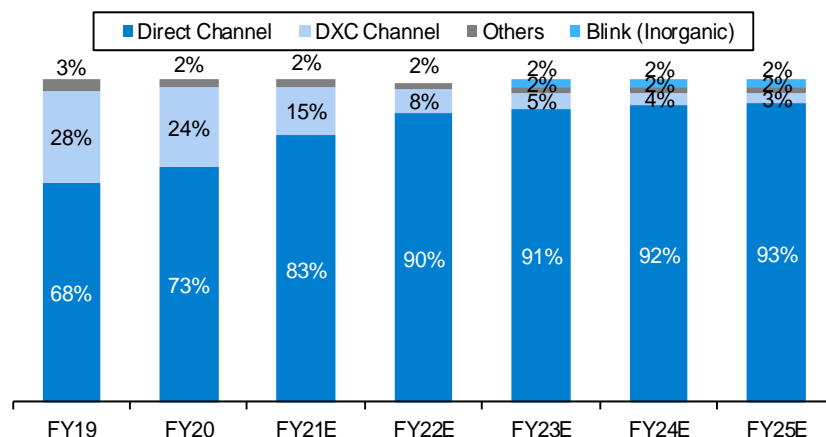
65	~42%	30%	\$33-35M
Clients in CY20	Revenue CAGR over 2017-20	NPS with avg. score of 8.3	Est revenue for CY21

Source: Company, PL

Exhibit 4: Blink to grow at 14/20% in FY23/24

	FY19	FY20	FY21	FY22E	FY23E	FY24E
US \$ mn revenue						
DXC	316	301	200	117	92	79
Direct Channel	763	900	1087	1395	1638	1885
Others	39	30	26	27	29	34
Blink Interactive				17	40	48
Growth YoY						
DXC	22%	-5%	-34%	-41%	-21%	-15%
Direct Channel	10%	18%	21%	28%	17%	15%
Others	3%	-23%	-13%	3%	8%	17%
Blink Interactive						20%
Revenue share (%)						
Direct Channel	68%	73%	83%	90%	91%	92%
DXC	28%	24%	15%	8%	5%	4%
Others	3%	2%	2%	2%	2%	2%
Blink Interactive					2%	2%

Source: Company, PL

Exhibit 5: Blink to contribute 2-2.5% to Mphasis revenues


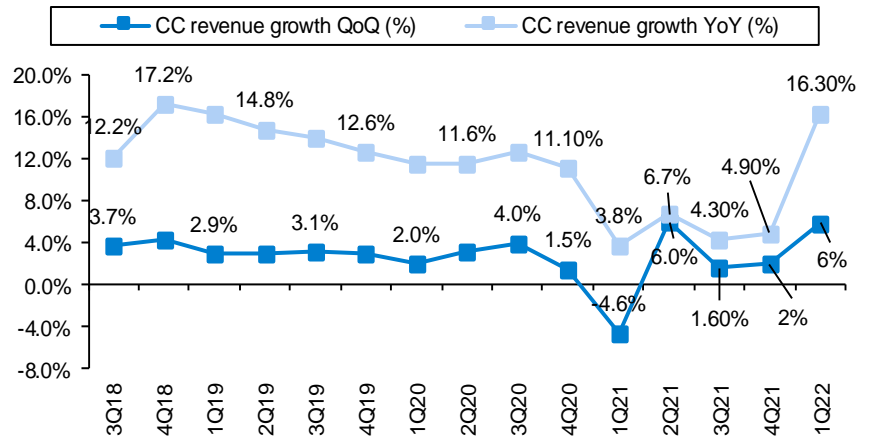
Source: Company, PL

Exhibit 6: Change in Estimates

Y/e March	FY22E	FY23E	FY24E
USD revenues (US\$ m)			
- New	1,556	1,799	2,045
- Old	1,539	1,759	1,997
<i>Change (%)</i>	<i>1.1%</i>	<i>2.3%</i>	<i>2.4%</i>
EBIT Margin			
- New	16.1%	16.0%	16.1%
- Old	16.4%	16.0%	16.1%
<i>Change (%)</i>	<i>-26 bps</i>	<i>0 bps</i>	<i>0 bps</i>
Recurring EPS - Fully diluted (Rs)			
- New	78.2	91.7	106.5
- Old	78.6	89.8	104.1
<i>Change (%)</i>	<i>-0.5%</i>	<i>2.1%</i>	<i>2.2%</i>

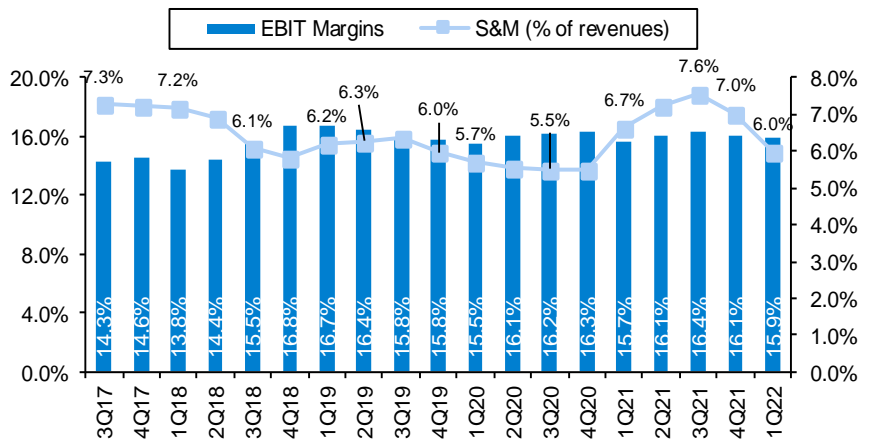
Source: PL

Exhibit 7: Strong growth in revenue led by Direct core business



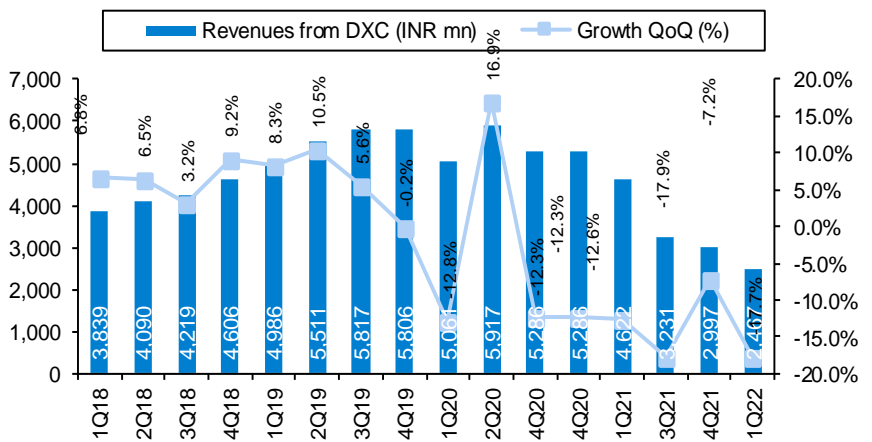
Source: Company, PL

Exhibit 8: Stable Margin Performance



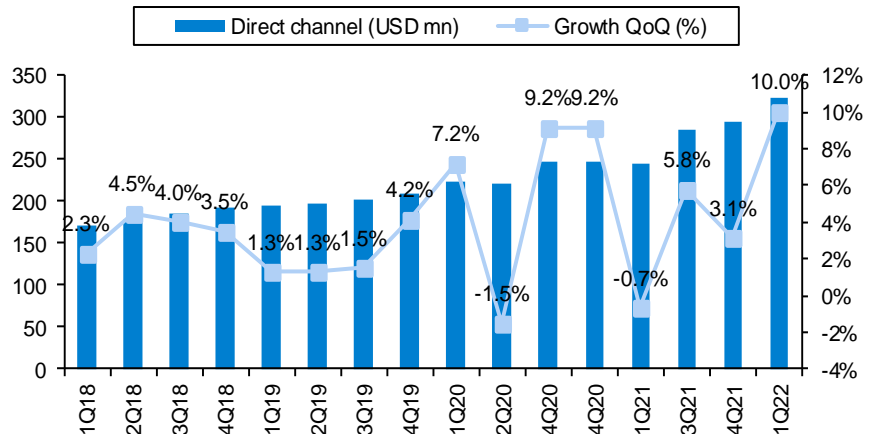
Source: Company, PL

Exhibit 9: DXC to decline to mid-single digits revenue share by end of FY22



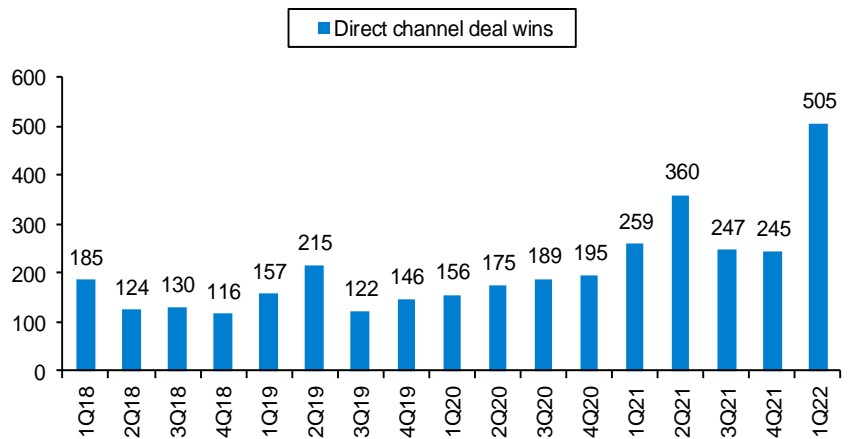
Source: Company, PL

Exhibit 10: Strong growth momentum in Direct channel



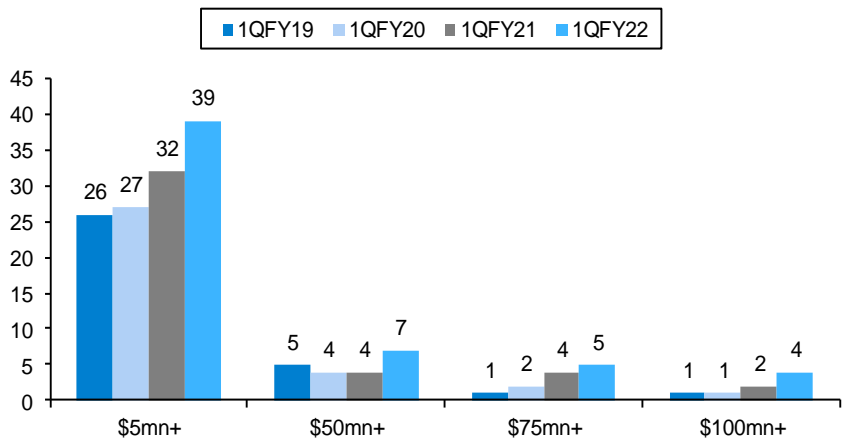
Source: Company, PL

Exhibit 11: LTM new deal TCV +65% YoY



Source: Company, PL

Exhibit 12: Increased client mining traction indicate market share gains



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	97,222	1,15,666	1,37,390	1,57,878
YoY gr. (%)	9.9	19.0	18.8	14.9
Employee Cost	67,723	82,196	98,318	1,13,186
Gross Profit	29,499	33,470	39,072	44,693
Margin (%)	30.3	28.9	28.4	28.3
SG&A Expenses	4,686	5,508	6,561	7,357
Other Expenses	1	-	-	-
EBITDA	18,026	21,065	24,510	28,137
YoY gr. (%)	9.2	16.9	16.4	14.8
Margin (%)	18.5	18.2	17.8	17.8
Depreciation and Amortization	2,418	2,451	2,554	2,669
EBIT	15,608	18,613	21,956	25,468
Margin (%)	16.1	16.1	16.0	16.1
Net Interest	-	-	-	-
Other Income	696	1,016	1,020	1,214
Profit Before Tax	16,304	19,629	22,976	26,682
Margin (%)	16.8	17.0	16.7	16.9
Total Tax	4,139	5,003	5,826	6,768
Effective tax rate (%)	25.4	25.5	25.4	25.4
Profit after tax	12,165	14,627	17,150	19,914
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,165	14,627	17,150	19,914
YoY gr. (%)	2.7	20.2	17.3	16.1
Margin (%)	12.5	12.6	12.5	12.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,165	14,627	17,150	19,914
YoY gr. (%)	2.7	20.2	17.3	16.1
Margin (%)	12.5	12.6	12.5	12.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,165	14,627	17,150	19,914
Equity Shares O/s (m)	186	187	187	187
EPS (Rs)	65.3	78.2	91.7	106.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	7,826	9,056	10,591	11,985
Tangibles	7,826	9,056	10,591	11,985
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	7,826	9,056	10,591	11,985
Tangibles	7,826	9,056	10,591	11,985
Intangibles	-	-	-	-
Capital Work In Progress	-	-	-	-
Goodwill	21,326	21,688	21,688	21,688
Non-Current Investments	-	-	-	-
Net Deferred tax assets	1,261	1,401	1,401	1,401
Other Non-Current Assets	12,174	23,784	23,784	23,784
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	18,505	21,232	25,220	28,980
Cash & Bank Balance	10,622	21,036	25,634	36,235
Other Current Assets	-	-	-	-
Total Assets	93,989	1,14,390	1,27,552	1,46,177
Equity				
Equity Share Capital	1,870	1,872	1,872	1,872
Other Equity	63,397	74,236	87,228	1,02,984
Total Network	65,267	76,108	89,100	1,04,856
Non-Current Liabilities				
Long Term borrowings	-	6,188	6,188	6,188
Provisions	-	-	-	-
Other non current liabilities	7,285	7,571	7,571	7,571
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	21,437	24,523	24,693	27,561
Other current liabilities	-	-	-	-
Total Equity & Liabilities	93,989	1,14,390	1,27,552	1,46,177

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	16,304	19,629	22,976	26,682
Add. Depreciation	2,418	2,451	2,554	2,669
Add. Interest	634	457	400	600
Less Financial Other Income	696	1,016	1,020	1,214
Add. Other	-	-	-	-
Op. profit before WC changes	19,356	22,538	25,930	29,951
Net Changes-WC	(19,430)	(4,883)	(6,859)	(3,761)
Direct tax	(4,139)	(5,003)	(5,826)	(6,768)
Net cash from Op. activities	(4,213)	12,652	13,246	19,422
Capital expenditures	(1,268)	(4,043)	(4,089)	(4,063)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(1,268)	(4,043)	(4,089)	(4,063)
Issue of share cap. / premium	5	2	-	-
Debt changes	-	6,188	-	-
Dividend paid	(14,153)	(4,158)	(4,158)	(4,158)
Interest paid	(634)	(457)	(400)	(600)
Others	9,851	231	-	-
Net cash from Fin. activities	(4,931)	1,805	(4,558)	(4,758)
Net change in cash	(10,412)	10,414	4,598	10,600
Free Cash Flow	(5,481)	8,608	9,157	15,359

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	24,743	25,243	25,243	26,909
YoY gr. (%)	5.5	7.6	10.3	8.8
Raw Material Expenses	17,073	17,415	17,415	19,261
Gross Profit	7,670	7,828	7,828	7,648
Margin (%)	31.0	31.0	31.0	28.4
EBITDA	4,653	4,671	4,671	4,895
YoY gr. (%)	4.8	5.2	11.8	5.2
Margin (%)	18.8	18.5	18.5	18.2
Depreciation / Depletion	606	617	617	624
EBIT	4,047	4,054	4,054	4,271
Margin (%)	16.4	16.1	16.1	15.9
Net Interest	-	-	-	-
Other Income	218	182	182	310
Profit before Tax	4,265	4,236	4,236	4,581
Margin (%)	17.2	16.8	16.8	17.0
Total Tax	1,011	1,067	1,067	1,184
Effective tax rate (%)	23.7	25.2	25.2	25.8
Profit after Tax	3,254	3,169	3,169	3,397
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,254	3,169	3,169	3,397
YoY gr. (%)	(7.9)	(10.3)	15.2	4.4
Margin (%)	13.2	12.6	12.6	12.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,254	3,169	3,169	3,397
YoY gr. (%)	(7.9)	(10.3)	15.2	4.4
Margin (%)	13.2	12.6	12.6	12.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,254	3,169	3,169	3,397
Avg. Shares O/s (m)	186	186	186	187
EPS (Rs)	17.5	17.0	17.0	18.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	65.3	78.2	91.7	106.5
CEPS	78.3	91.3	105.3	120.7
BVPS	350.5	406.9	476.3	560.6
FCF	(29.4)	46.0	49.0	82.1
DPS	65.0	19.0	19.0	19.0
Return Ratio(%)				
RoCE	25.3	25.2	24.7	24.7
ROIC	33.7	34.3	33.1	29.8
RoE	19.7	20.7	20.8	20.5
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Debtor (Days)	69	67	67	67
Valuation(x)				
PER	49.8	41.6	35.5	30.5
P/B	9.3	8.0	6.8	5.8
P/CEPS	78.3	91.3	105.3	120.7
EV/EBITDA	33.0	28.2	24.0	20.5
EV/Sales	6.1	5.1	4.3	3.7
Dividend Yield (%)	2.0	0.6	0.6	0.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Aug-21	BUY	3,348	2,695
2	25-Jul-21	BUY	2,770	2,530
3	02-Jul-21	BUY	2,335	2,161
4	14-May-21	BUY	1,935	1,789
5	27-Apr-21	BUY	1,869	1,724
6	05-Apr-21	BUY	1,869	1,749
7	05-Feb-21	BUY	1,902	1,590
8	25-Jan-21	BUY	1,719	1,599
9	04-Jan-21	BUY	1,802	1,530
10	26-Oct-20	BUY	1,711	1,382

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	5,393	4,790
2	Cyient	BUY	1,088	967
3	HCL Technologies	BUY	1,239	1,050
4	Infosys	BUY	1,847	1,650
5	L&T Technology Services	BUY	4,791	4,339
6	Larsen & Toubro Infotech	BUY	5,416	4,763
7	Mindtree	BUY	3,450	2,842
8	Mphasis	BUY	3,348	2,695
9	Persistent Systems	BUY	3,603	3,118
10	Redington (India)	BUY	397	330
11	Sonata Software	BUY	927	842
12	Tata Consultancy Services	BUY	3,807	3,310
13	TeamLease Services	BUY	4,716	3,954
14	Tech Mahindra	BUY	1,509	1,265
15	Wipro	BUY	665	598
16	Zensar Technologies	BUY	424	429

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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