

Order book continues to be strong...

About the stock: Mphasis Ltd (Mphasis) offers application services, BPO and infrastructure services BFSI, Technology, communication & logistic services.

- The company's direct international revenues have grown 22.5% YoY in FY21 and is expected to grow at a healthy pace in coming years
- OCF, EBITDA of 75% and double digit return ratio (with RoCE of 20%)

Q3FY22 Results: Mphasis reported strong Q3FY22 results.

- Dollar revenues increased 8.8% QoQ to US\$414 million
- Adjusted margins (ex-impact of Blink) were at 15.9%
- Eighth consecutive quarter of US\$200mn+ new deal wins

What should investors do? Mphasis' share price has grown by ~6.5x over the past five years (from ~₹ 461 in January 2017 to ~₹ 3015 levels in January 2022).

- We change our recommendation on the stock from HOLD to BUY

Target Price and Valuation: We value Mphasis at ₹ 3550 i.e. 32x P/E on FY23E EPS

Key triggers for future price performance:

- Strategy to mine top 10/20 clients, adding high potential new logos, increase in deal sizes & expansion in Europe bodes well for long term growth
- Further, management stability, improving deal size, market share gains via vendor consolidation, low legacy exposure and exposure to lesser impacted vertical to drive 23.4% CAGR growth in direct revenues in FY21-24E
- Improving revenue trajectory, higher offshoring, pricing, and automation to boost margins (90 bps to 17.0% in FY21-24E)

Alternate Stock Idea: Apart from Mphasis, in our IT coverage we like LTI.

- Industry leading growth and healthy margins prompt us to be positive on the stock
- BUY with a target price of ₹ 8,050



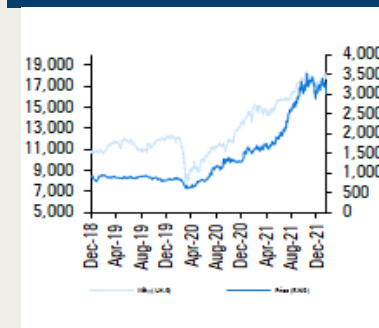
Particulars

Particular	Amount
Market Cap (₹ crore)	56,622.0
Total Debt (₹ crore)	513.5
Cash and Invests (₹ crore)	2,596.8
EV (₹ crore)	54,538.6
52 week H/L	3659/ 1400
Equity Capital (₹ crore)	187.0
Face Value (₹)	₹ 10

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	56.0	56.0	56.0	56.0
FII	21.8	20.8	20.9	21.1
DII	17.2	18.5	18.0	17.0
Public	5.0	4.8	5.2	5.9

Price Chart



Recent event & key risks

- Industry leading growth in direct and EBIT margin 15.5-17%
- Key Risk:** (i) Muted digital demand prospects, (ii) Lower than expected margins

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Key Financial Summary

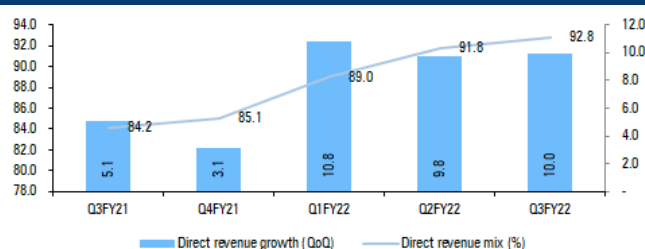
(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
Net Sales	7,731	8,844	9,722	9.8%	11,968	14,026	15,906	17.8%
EBITDA	1,324	1,650	1,803	14.9%	2,166	2,637	3,070	19.4%
EBITDA Margins (%)	17.1	18.7	18.5		18.1	18.8	19.3	
Net Profit	1,073	1,185	1,217	14.0%	1,475	1,815	2,117	20.3%
Diluted EPS (₹)	55.5	63.1	64.4		77.6	95.5	111.4	
P/E (x)	54.3	47.4	46.3		38.3	31.1	26.7	
RoE (%)	20.4	20.3	18.6		20.9	23.6	25.1	
RoCE (%)	24.1	22.3	21.8		23.7	26.6	28.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

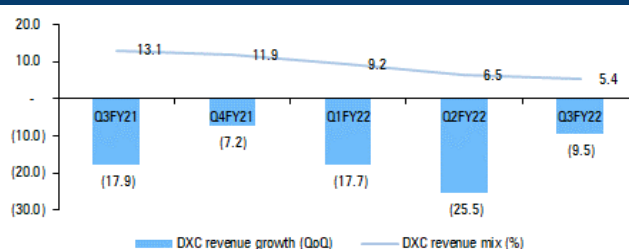
- Revenue for the quarter was at US\$414 mn, up 7.5% QoQ while in rupee terms, revenues came in at ₹ 3,096 up 8.8% QoQ. The company consolidated Blink in the quarter. Hence, the organic growth was 6.3% QoQ, while the rest was contributed by Blink
- Revenue was driven by US market (80% of the mix), which grew 12% QoQ, a third consecutive quarter of 8% sequential growth, since Blink is part of US, it has also contributed growth in this geography. In terms of verticals, BFSI (55% of the mix) contributed to the growth as it grew 10.2% QoQ growth. Blink is a part of the BFSI segment. Hence, it has also contributed for the growth in the segment. Direct revenue (93% of mix) grew 10% QoQ while DXC revenues (5.4% mix) declined 9.5% QoQ
- Reported EBIT margins for the quarter were 15.1%, which were flattish QoQ. There was an impact of 80 bps QoQ in the quarter because of Blink consolidation and adjusted to that margins were 15.9% for the quarter
- The TCV (new bookings) for the quarter was at US\$335 mn. It includes one large deal of US\$92 mn from the US healthcare vertical. The company won four large deals in the quarter. The TCV has been consistently growing as it is consecutive eighth quarter of US\$200 mn+ TCV for the company.
- The company indicated that there is no scarcity of large deals in the market as they still see large deals coming their way as well as large deal availability in the market. As per the management, recent mix of deals skewed towards short deals as it indicates the urgency on the client side
- The management indicated that there would be short-term headwinds on the margin front due to recent acquisition of Blink (performance based retention & amortisation costs) as well as due to supply side crunch. However, they maintained their EBIT margin guidance band of 15.5-17%
- The company indicated that due to hybrid model being offered to the employees, the company is increasing their hiring from the smaller towns to facilitate the flexibility. Mphasis also guided for 5,500 fresher hiring in FY22E, which will provide some tailwind to the margin
- The company maintained that DXC revenue share will continue to go down and it would stabilise in low single digit. The company also mentioned that their margins in the last two years were also impacted due to cost of redeployment of employees coming out of DXC. However, the large part of those costs are largely behind now
- The company also announced its partnership with CrossTower, one of the world's leading crypto exchanges. In the partnership, Mphasis will build a Centre of Excellence (CoE) focused on Web 3.0 and a series of block-chain based products that will be launched and traded on the CrossTower platform

Exhibit 1: Direct now forms ~93% of revenue mix...



Source: Company, ICICI Direct Research

Exhibit 2: ..while DXC falls to 5.4%



Source: Company, ICICI Direct Research

Exhibit 1: P&L

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	3,124	2,474	26.2	2,869	8.9	Organic revenue growth was 6.3% Q
Employee expense	2,196	1,707	28.6	2,043	7.5	
Gross Margin	928	767	20.9	827	12.2	
Gross margin (%)	29.7	31.0	-130 bps	28.8	89 bps	
other expense	374	302	24.1	329	13.9	
EBITDA	553	465	18.9	498	11.1	
EBITDA Margin (%)	17.7	18.8	-110 bps	17.3	27 bps	
Depreciation & amortisation	83	61	36.3	66	25.7	
EBIT	471	405	16.3	432	8.9	
EBIT Margin (%)	15.1	16.4	-129 bps	15.1	1 bps	Adjusted EBIT margins were 15.9% , reported numbers were lower due to impact of Blink
Other income (less interest)	9	22	-58.7	28	-67.5	
PBT	480	427	12.4	460	4.3	
Tax paid	122	101	20.6	118	3.1	
PAT	358	326	9.9	342	4.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			FY24E	Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	11,510	11,968	4.0	13,472	14,026	4.1	15,906	Revenue contribution from Blink incorporated
EBITDA	2,187	2,166	-1.0	2,600	2,637	1.4	3,070	
EBITDA Margin (%)	19.0	18.1	81 bps	19.3	18.8	41 bps	19.3	fresher additions and elevated offshoring will ease some margin pressure in FY24
PAT	1,499	1,475	-1.6	1,797	1,815	1.0	2,117	
EPS (₹)	78.9	77.6	-1.7	95	95.5	1.1	111	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement ₹ crore				
	FY21	FY22E	FY23E	FY24E
Total Revenues	9,722	11,968	14,026	15,906
Growth (%)	10	23	17	13
Employee Benefit Expense	5,630	6,846	7,925	8,907
Other Expenses	2,290	2,956	3,464	3,929
EBITDA	1,803	2,166	2,637	3,070
Growth (%)	9	20	22	16
Depreciation	242	298	323	366
Other Income	133	160	168	180
Interest	63	62	62	62
PBT before Excep Items	1,631	1,966	2,420	2,822
Growth (%)	8	21	23	17
Tax	414	492	605	706
PAT before Excep Items	1,217	1,475	1,815	2,117
Exceptional items	-	-	-	-
PAT	1,217	1,475	1,815	2,117
Growth (%)	3	21	23	17
Diluted EPS	64	78	95	111
EPS (Growth %)	2	20	23	17

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore				
	FY21	FY22E	FY23E	FY24E
Profit before Tax	1,631	1,966	2,420	2,822
Depreciation	242	298	323	366
(inc)/dec in Current Assets	(90)	(946)	(759)	(693)
(inc)/dec in current Liabilities	45	688	518	473
Income Taxes Paid	(345)	(492)	(605)	(706)
Others	(28)	(47)	(55)	(68)
CF from operations	1,455	1,467	1,842	2,195
Other Investments	(697)	109	117	130
(Purchase)/Sale of Fixed Assets	(125)	(132)	(154)	(175)
CF from investing Activities	(822)	(23)	(37)	(45)
Inc / (Dec) in Equity Capital	27	-	-	-
Inc / (Dec) in sec.loan Funds	(41)	(30)	(30)	(30)
Dividend & Dividend tax	(653)	(959)	(1,180)	(1,376)
Interest Paid on Loans	(62)	(62)	(62)	(62)
CF from Financial Activities	(729)	(1,051)	(1,272)	(1,468)
Net change in cash	(96)	394	533	682
Opening cash	999	771	1,032	1,432
Closing cash	771	1,032	1,432	1,981

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet ₹ crore				
	FY21	FY22E	FY23E	FY24E
Equity	187	187	187	187
Reserves & Surplus	6,340	6,856	7,491	8,232
Networth	6,527	7,043	7,678	8,419
Total debt	513	483	453	423
Other liabilities	729	1,040	1,213	1,371
Source of funds	7,769	8,566	9,344	10,213
Net Block	779	817	853	875
CWIP	3	3	3	3
Intangible assets under developme	107	37	(34)	(115)
Long term Loans and advances	55	67	79	90
Other non current assets	1,181	1,527	1,736	1,927
Current Investments	1,535	1,535	1,535	1,535
Goodwill	2,133	2,133	2,133	2,133
Inventories	-	-	-	-
Debtors	1,850	2,278	2,670	3,027
Cash Balance	771	1,032	1,432	1,981
Bank Balance	291	291	291	291
Short term Loans and advances	147	181	212	240
Other current assets	546	672	788	893
Trade payables	596	734	860	976
Other Current liabilities	984	1,211	1,420	1,610
Provisions	50	61	72	81
Application of funds	7,769	8,566	9,344	10,213

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios ₹ crore				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Diluted EPS	64.4	77.6	95.5	111.4
BV	349.6	376.1	410.0	449.6
DPS	65.0	50.4	62.1	72.4
Cash Per Share	56.9	70.7	92.0	121.3
Operating Ratios (%)				
EBITDA Margin	18.5	18.1	18.8	19.3
PAT Margin	12.5	12.3	12.9	13.3
Debtor days	69	69	69	69
Creditor days	22	22	22	22
Return Ratios (%)				
RoE	18.6	20.9	23.6	25.1
RoCE	21.8	23.7	26.6	28.2
RoIC	30.2	32.8	38.0	42.2
Valuation Ratios (x)				
P/E	46.3	38.3	31.1	26.7
EV / EBITDA	30.3	25.0	20.4	17.3
Market Cap / Sales	5.8	4.7	4.0	3.6
Price to Book Value	8.6	8.0	7.4	6.7
Solvency Ratios				
Debt / Equity	0.1	0.07	0.06	0.05
Debt / EBITDA	0.3	0.2	0.2	0.1
Quick Ratio	1.6	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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