

Highwire drives Q2; elearning/Platform to grow organically hereon

- MPS reported slight beat on results in Q2, with a 34.9% QoQ growth in revenue (our estm: 31.9% QoQ) largely led by inorganic contribution from acquired Highwire business while organic business biz segments remained in flat to slightly negative growth range.
- OPM declined 360bps QoQ to 17.0% (our estm: 15.0%) due to decline in margins of all 3 biz segments where-in Platform business was impacted by lower EBITDA margin of acquired Highwire Biz (early double digit).
- MPS expects Highwire business to deliver improved profitability (40-45% EBITDA margins) by end of FY22 led by cost take-outs (IT, Rent, Other inefficiencies), limited incremental cost for revenue growth (cross sell leverage) and cost arbitrage opportunities by off-shoring.
- Post Highwire integration, MPS would focus on revival of profitability across all business segments, that will drive overall earnings momentum which we believe is achievable given the past robust turn-around track record. Improved business visibility, strong margin revival potential and attractive valuations, make strong investment case, we maintain our Buy rating with TP of Rs550, valued at 12x FY23 Earnings per share of Rs45.5.

Margin Improvement to drive earnings: Multiple Levers available

MPS expects sequential margin improvement hereon over next six quarters (till end FY22). This strong outlook for margin improvement is driven by plans to double margins from current level in Platform biz by FY22 (partially led by improvement in Highwire margins), and revival in revenue run rate led margin improvement in elearning Business. The Platform business is expected to deliver margin improvement led by high client stickiness and limited marginal cost. Within the acquired Highwire business, MPS has observed multiple cost inefficiencies (IT, Rent, etc) and cost saving potential from off-shoring. Going forward, MPS plans to scale the profitability to 40-45% by these stakeouts and off-shoring. The elearning Business is also expected to return back to profits in H2FY21 as business momentum is guided to improve as spends revives by Corporate clients. Content business is expected to remain a cash cow although the growth may remain broadly around ~5% over 3 years' horizon. OPM improvement is expected despite it is planning to invest in each of the platform to evolve them (built an active roadmap) in terms of features.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	1,103	882	25.1	818	34.9
Total Expense	856	617	38.7	611	40.1
EBITDA	248	265	(6.6)	207	19.6
Depreciation	60	39	56.1	39	55.3
EBIT	188	227	(17.2)	169	11.4
Other Income	13	64	(80.3)	25	(49.0)
Interest	5	5	(5.7)	4	19.0
EBT	195	286	(31.6)	189	3.3
Tax	56	65	(13.0)	51	11.7
RPAT	139	221	(37.1)	139	0.2
APAT	139	221	(37.1)	139	0.2
			(bps)		(bps)
Gross Margin (%)	49.6	53.8	(414)	51.6	(201)
EBITDA Margin (%)	22.5	30.1	(761)	25.3	(288)
NPM (%)	12.6	25.1	(1246)	17.0	(436)
Tax Rate (%)	28.9	22.7	619	26.7	217
EBIT Margin (%)	17.0	25.7	(869)	20.6	(359)

CMP	Rs 378
Target / Upside	Rs 550 / 46%
NIFTY	12,631

Scrip Details

Equity / FV	Rs 181mn / Rs 10
Market Cap	Rs 7bn
	USD 95mn
52-week High/Low	Rs 529/ 154
Avg. Volume (no)	12,086
Bloom Code	MPS IN

Price Performance	1M	3M	12M
Absolute (%)	(8)	(4)	(26)
Rel to NIFTY (%)	(8)	(4)	(20)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	67.8	67.8	67.8
MF/Banks/FIs	3.5	3.5	3.5
FIIIs	5.8	5.4	5.5
Public / Others	22.9	23.3	23.3

Valuation (x)

	FY21E	FY22E	FY23E
P/E	11.4	9.4	8.3
EV/EBITDA	7.0	5.8	5.0
ROE (%)	16.7	20.0	20.9
RoACE (%)	16.9	20.1	20.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	4,201	4,749	5,202
EBITDA	982	1,106	1,198
PAT	596	721	821
EPS (Rs.)	33.0	40.0	45.5

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Exhibit 1: Quarterly performance versus estimates

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Revenues (in US\$ mn)	14.9	14.2	NA	4.4	NA	Revenue beat led by strong inorganic contribution from Highwire acquisition OPM beat led by lower than expected impact of Highwire's Margin. (improved post-acq) PAT beat slightly negated by lower than expected Other Income of Rs.8mn v/s Rs.20mn
Sales	1,103	1,079	NA	2.3	NA	
EBIT	188	162	NA	15.9	NA	
EBIT, margin	17.0	15.0	NA	199.5	NA	
PAT	139	128	NA	8.6	NA	

Source: DART, Company

Change in Estimates

Factoring the higher than expected Highwire profitability and revival in E-learning business and commentary for E-learning and Platforms margins, we have increased our revenue growth estimates by 280bps for FY21 but retained our estimates for FY22E and increased OPM estimates by 115bps for FY21E and a small upgrade in margins for FY22E. We introduce FY23E estimates with 8.1% YoY growth in revenues and 10bps upgrade in OPM at 18.2% over FY22E profitability.

Exhibit 2: Change in Estimates

(Rs mn)	FY20A	FY21E			FY22E			FY23E
	Actual	Old	New	% change	Old	New	% change	Introduce
Revenue (\$ mn)	46.9	55.4	56.7	2.4	63.1	63.3	0.3	68.4
Growth, YoY %	(9.7)	18.0	20.8	280	14.0	11.7	(233)	8.1
INR Revenue	3,317	4,133	4,201	1.7	4,736	4,749	0.3	5,202
Growth, YoY %	(8.5)	24.6	26.7	206	14.6	13.0	(155)	9.5
EBIT	636	699	759	8.5	843	860	2.0	945
EBIT margins, %	19.2	16.9	18.1	115	17.8	18.1	31	18.2
Net Profit (excluding exceptional item)	599	565	596	5.4	751	721	(4.0)	821
EPS (Rs. per share)	32.2	30.4	33.0	8.8	40.4	40.0	(0.9)	45.5

Source: DART, Company

Valuation

We value MPS at 12x on FY23E earnings (EPS of Rs45.5). We believe the stock is attractively priced at just 8x on FY23E earnings and implies strong potential Dividend yield of over 7% and a cash per share of Rs 70.

Exhibit 3: Key Assumption in our growth estimates

Assumption table	FY20A	FY21E	FY22E	FY23E
USD Revenue growth (%)	(9.7)	20.8	11.7	8.1
INR Revenue growth (%)	(8.5)	26.7	13.0	9.5
EBIT Margin	19.2	18.1	18.1	18.2
INR/US\$ realised rate	70.7	74.1	75.0	76.0

Source: DART, Company

Exhibit 4: Quarterly and YTD Trend (Rs mn)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY %	QoQ %	YTFY20	YTFY21	YoY %
Revenue (\$ mn)	12.0	12.7	11.8	10.5	10.8	14.9	17.2	37.8	24.7	25.7	3.8
Revenue	836	882	837	762	818	1,103	25.1	34.9	1,718	1,921	11.8
Expenditure	633	617	651	627	611	856	38.7	40.1	1,249	1,466	17.4
Employee Cost	428	408	406	415	396	556	36.3	40.5	836	952	13.9
as % of sales	51.1	46.2	48.5	54.5	48.4	50.4			48.6	49.5	
Other expenditure	205	209	245	212	215	300	43.4	39.4	414	515	24.4
as % of sales	24.5	23.7	29.3	27.8	26.3	27.2			24.1	26.8	
EBITDA	204	265	186	135	207	248	(6.6)	19.6	469	455	(3.0)
Depreciation	39	39	39	38	39	60	56.1	55.3	77	99	28.3
EBIT	165	227	147	97	169	188	(17.2)	11.4	392	356	(9.1)
Other Income	57	64	34	44	25	13	(80.3)	(49.0)	121	38	(69.0)
Interest	5	5	5	6	4	5	(5.7)	19.0	11	9	(13.2)
PBT	217	286	176	136	189	195	(31.6)	3.3	503	385	(23.5)
Tax	63	65	47	41	51	56	(13.0)	11.7	128	107	(16.3)
Reported PAT	154	221	130	94	139	139	(37.1)	0.2	375	278	(25.9)
EPS	8.3	11.9	7.0	5.1	7.5	7.5	(37.0)	0.2	20.1	14.9	(25.8)
Margins (%)											
EBIDTA	24.4	30.1	22.2	17.7	25.3	22.5	(7.6)	(2.9)	54.4	47.8	(6.6)
EBIT	19.8	25.7	17.6	12.7	20.6	17.0	(8.7)	(3.6)	45.5	37.6	(7.8)
PBT	25.9	32.4	21.0	17.8	23.1	17.7	(14.7)	(5.4)	58.3	40.8	(17.5)
PAT	18.4	25.1	15.5	12.4	17.0	12.6	(12.5)	(4.4)	43.4	29.6	(13.9)
Effective Tax rate	29.0	22.7	26.4	30.5	26.7	28.9	6.2	2.2	51.7	55.6	3.9

Source: DART, Company

What to expect next Quarter

We expect growth of 3% QoQ in revenue in Q1FY21 led by traction in E-Learning and Platform business. Profitability is expected to improve to 17.5% led by improvement in E-Learning and Highwire margins.

Exhibit 5: What to expect next quarter

Particulars (Rs. Mn)	Q3FY21E	Q2FY21	Q3FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	15.3	14.9	11.8	3.0	30.4
Sales	1,126	1,103	837	2.0	34.6
EBIT	197	188	147	4.9	34.1
PAT	153	139	130	9.9	18.0
EPS (Rs)	8.5	7.5	7.0	13.4	21.8
EBIT Margin (%)	17.5	17.0	17.6	48 bps	-7 bps

Source: DART, Company

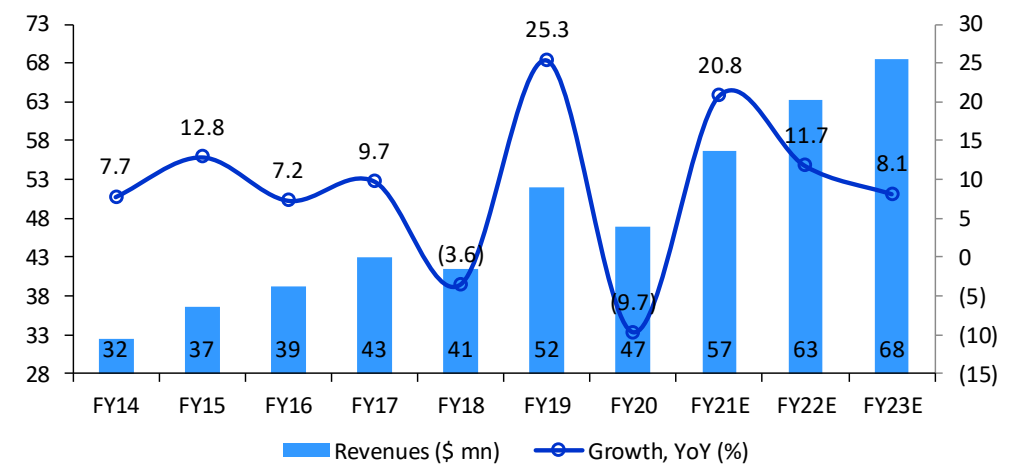
Con-Call Key Takeaways

- **Content Solutions Biz (49% of rev):** Content Solutions de-grew by 1.5% QoQ to Rs.540mn. The Segmental EBIT margins declined by 270bps to 32.3%. Management highlighted that the segment remains the cash cow. The strategy by MPS within Content Solutions business is on getting new customer and mining the existing ones. North America biz witnessed recovery in Content solutions biz.
- **Outlook for Content Solutions Biz:** H2FY21 is expected to be better for Content Solutions business but broadly will have smaller growth on Net basis as some slippage happens in the business consistently given the ongoing disruption in the publishing segment. As per current assessment, it can deliver modest growth (~5%) over 3-year horizon (with potential volatility on annual basis).
- **Platform Solutions Biz (39% of rev):** Platform business grew by 215.4% on QoQ basis to Rs.430mn and now contributes 39% of Revenue. The current quarter growth included large inorganic contribution of Highwire acquisition while within the organic biz only Think platform grew double digit QoQ basis along with double digit margins. The growth from Think platform was led by Zero ticketing backlog, demand for customised projects, active engagement from client, better user experience and reliability. The other two platforms; Digicore and Mag+ remained flattish.
- **Outlook for Platform Solutions Biz:** MPS is positive about margin expansion back to pre-acquisition level to 40%+ (it used to deliver in past) from current 19% (lower due to impact from TIS (partial) and Highwire integration). It plans to double margins from current level by FY22 as 1) marginal cost for revenue growth is limited 2) higher client stickiness due to high switching cost and long switching process (12-18months) and improvement in margins of Highwire which will be led by off-shoring and cost takeout's. Cross-selling potential is very high as total 200 customers – Digicore has 12 clients, Highwire has 100 clients (more revenue per biz.) while Think has 70. The revenue potential is significant in this segment and can grow multi-fold of its current size over a period of time. In terms of scale the business still has potential as evident from Large size of its Competitors Revenues across platforms. Eg: Digi Core competitor - \$40mn, while for Highwire, Think and Mag+ it is around \$50 mn, \$10 mn, and \$10mn.
- **E-Learning Solutions Biz (12% of revenue):** E-learning business stabilized with a flattish growth of 0.3% QoQ to Rs.134mn. The business is expected to revive here on with as talks for large opportunity engagements (Education/Corporate clients) have re-started and the pipeline and order book remains healthy.
- **Outlook for E-Learning Business:** MPS is expecting sequential margin improvement and wiping out of losses (Rs. 30 at PBT level) in E-learning biz led by revenue traction in H2YF21 (and potential pentup demand in early FY22). The major growth may largely come in FY22 as the macros normalises. The first objective here is to reach back to pre-pandemic quarterly run rate of 10mn\$ and then look for growth drivers thereon. MPS highlighted that customized approach here on making content more exciting is a niche and booming space. The peak potential margins for such E-learning business are 20-25%.
- **Highwire Biz:** Highwire achieved early double digit profitability during Q2 in very first quarter of integration with stable revenues (estimated at about \$3.5mn). The company was loss making at time of acquisition with revenues at \$17mn. For the year the revenue run rate may see about 15%-20% slippage on run rate basis as has been observed in other past acquisition but can also be smaller/gradual in this case, given high switching cost for customer and also the fact that the MPS would try to add more services for same budgets (value add) to retain the customer. On profitability front this can go to 40-45% EBITDA margins levels by cost efficiency, wage arbitrage and increased offshoring.

- Overall business:** The business is stabilising now as after significant revenue impact from Top15 client declines in last year, things have improve through new client’s addition and business recovery in some clients. Overall profitability of the business can improve given the favourable mix (Platform business now ~39% of business against about 16-17% in past) and while growth potential has enhanced by widened scope in the Platform business post Highwire integration (cross sell, up sell rather than decreasing the pricing) and long term opportunity in the eLearning space.
- Cash and Payouts:** Post the buyback payment of Rs.421mn (including transaction cost), the current cash per share is Rs.70 per share.
- Investment:** MPS believes that the platforms require reinvests to revamp the businesses. (unlike old cycle of publishing to publishing /E-learning and from there to publishing / E-learning / platform).

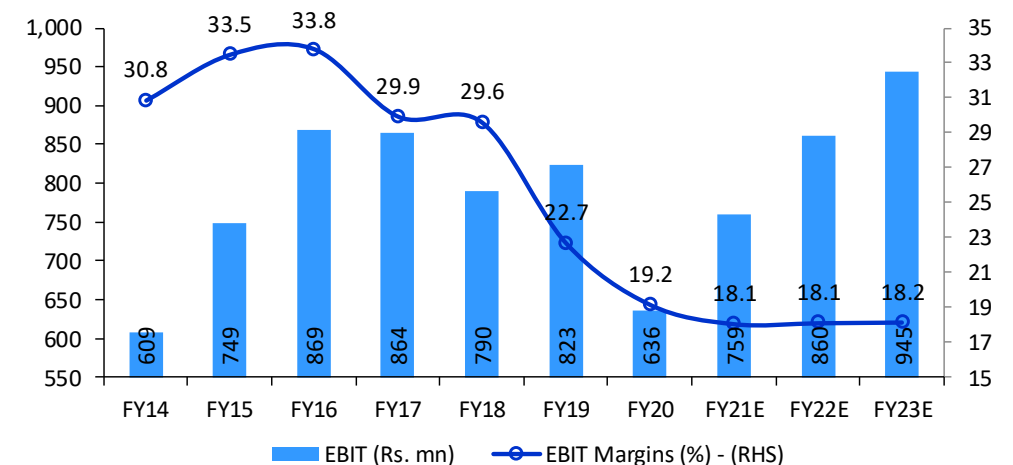
Charts

Exhibit 6: Revenues traction to be led by eLearning business in future (\$ Mn)



Source: DART, Company

Exhibit 7: Profitability to stabilize in FY22E with scale up in eLearning segment



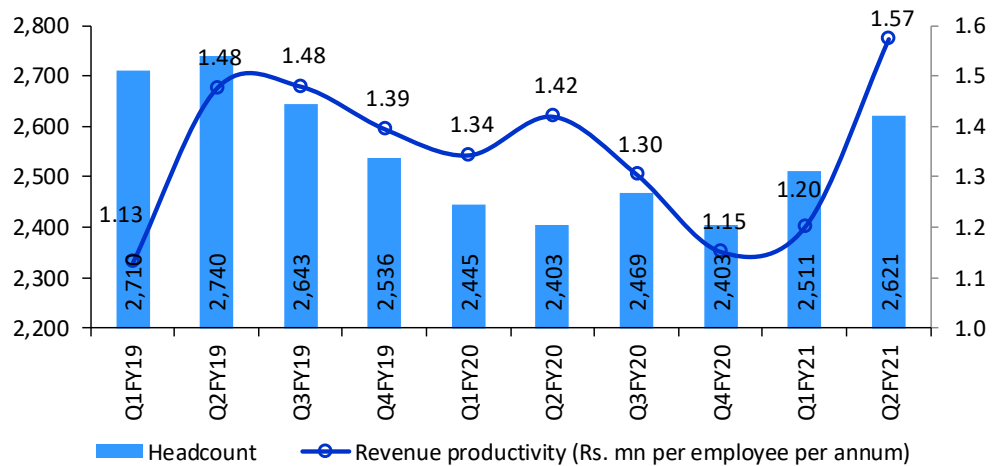
Source: DART, Company

Exhibit 8: Client concentration has improved after Highwire acquisition



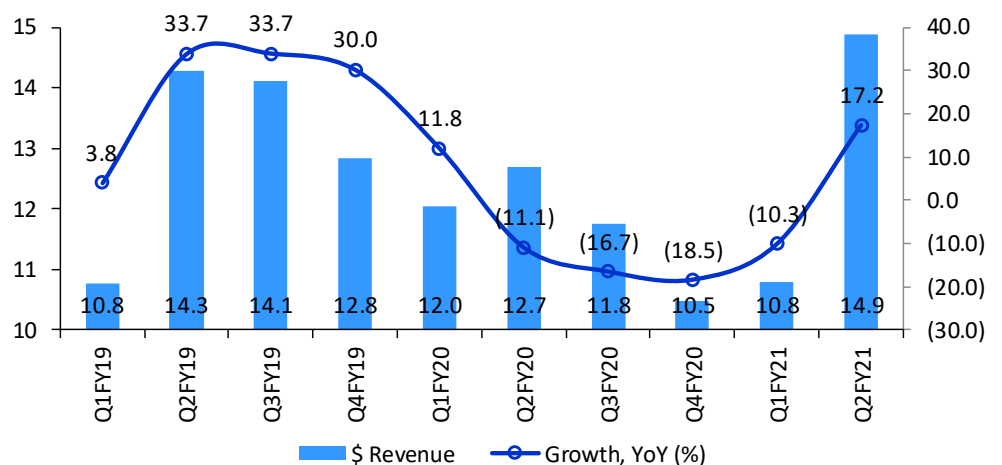
Source: DART, Company

Exhibit 9: Productivity has improved after Acquisition Highwire



Source: DART, Company

Exhibit 10: Revenue grew 17.2% YoY to \$14.9 mn led by inorganic contribution



Source: DART, Company

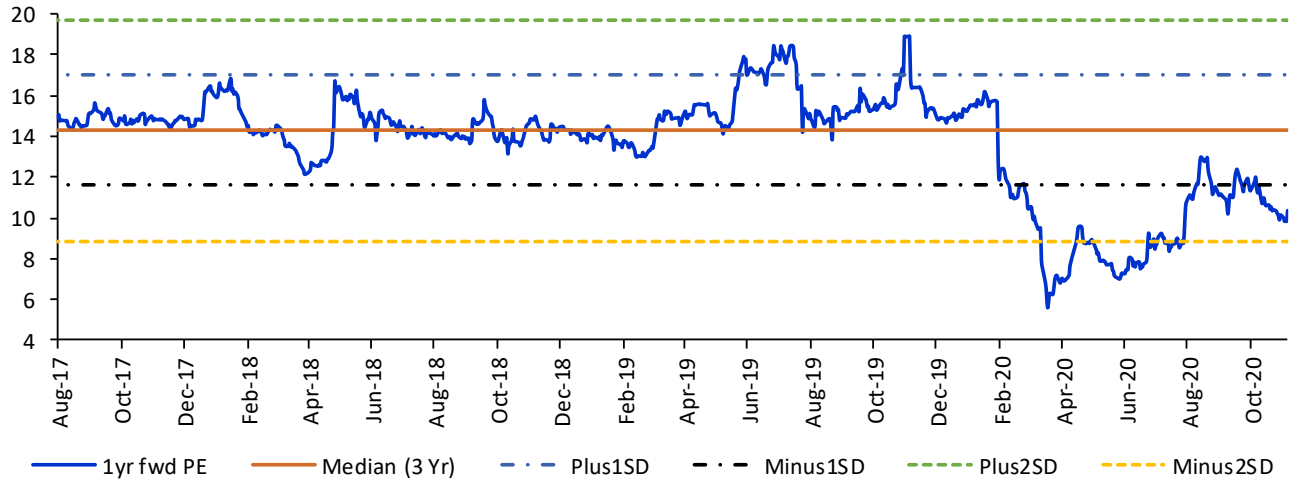
Exhibit 11: Operating Metrics

Operating Metrics	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
\$ Revenue	10.8	14.3	14.1	12.8	12.0	12.7	11.8	10.5	10.8	14.9
Growth, YoY (%)	3.8	33.7	33.7	30.0	11.8	(11.1)	(16.7)	(18.5)	(10.3)	17.2
Growth, QoQ (%)	8.9	32.6	(1.3)	(8.9)	(6.3)	5.5	(7.4)	(10.9)	3.2	37.8
Geography Amount (\$mn)										
North America	5.2	7.7	7.9	6.6	5.9	7.0	7.5	6.9	7.2	10.3
Europe	4.7	6.0	5.4	5.9	5.2	4.7	3.4	2.9	2.9	3.9
Rest of the World	0.9	0.4	0.8	0.4	1.0	1.0	0.8	0.6	0.6	0.7
Geography Growth (YoY)										
North America	(17.0)	28.9	24.8	25.1	14.1	(9.5)	(4.7)	5.4	22.7	47.0
Europe	20.2	40.4	33.7	35.9	9.2	(21.7)	(36.4)	(50.4)	(43.7)	(17.6)
Rest of the World	315.2	0.3	301.2	30.0	11.8	137.0	(2.8)	63.0	(32.7)	(26.7)
Client Amount (\$mn)										
Top 5 Clients	6.9	7.7	5.6	7.4	4.6	5.5	5.3	5.0	5.5	5.4
Top 6-10 Clients	1.5	2.6	2.0	2.3	1.8	2.0	1.6	1.5	1.5	1.8
Top 11-15 Clients	0.8	1.6	1.4	1.0	1.3	1.1	1.1	0.8	0.6	1.2
Non-Top 15 Clients	1.6	2.4	5.1	2.1	4.3	4.1	3.8	3.1	3.1	6.5
Client Growth (YoY)										
Top 5 Clients	18.6	24.5	(4.5)	45.0	(33.6)	(29.2)	(6.2)	(32.6)	20.4	(1.9)
Top 6-10 Clients	(9.2)	50.4	10.1	23.1	19.8	(21.0)	(16.7)	(36.6)	(16.3)	(12.1)
Top 11-15 Clients	(9.2)	110.1	67.2	4.0	75.6	(27.3)	(25.0)	(18.5)	(51.1)	4.2
Non-Top 15 Clients	(22.2)	19.6	153.4	9.4	168.3	67.3	(25.9)	52.8	(27.7)	61.2
Currency Mix (%)										
USD	78	68	71	83	71	73	75	76	81	79
GBP	13	10	11	13	10	8	7	6	5	10
EURO	2	9	8	2	8	10	7	6	7	5
Others	7	13	10	2	11	9	11	12	7	6
Segment Amount (INR mn)										
Content Solution	535	604	598	592	500	545	503	487	548	540
Platform Solutions	112	173	188	123	147	145	130	110	136	430
eLearning business (TIS)	75	229	210	188	190	192	204	165	134	134
Segmental Profit Margin (%)										
Content Solution	37.5	41.0	33.7	36.0	29.1	37.2	26.5	33.7	35.0	32.3
Platform Solutions	49.4	41.7	40.8	17.4	35.0	41.9	29.9	8.1	33.2	19.1
eLearning business (TIS)	0.0	(5.6)	(5.0)	3.9	10.4	12.9	14.1	(5.0)	(11.2)	(13.8)
Other Metrics										
DSO	58	66	73	68	56	53	67	72	62	60
Client Billed	423	512	581	298	514	541	550	546	474	582

Source: DART, Company

Band Chart

Exhibit 12: MPS PER Band Chart: Stock is attractively priced at about 10x on 1 year forward basis.



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	3,317	4,201	4,749	5,202
Total Expense	2,527	3,219	3,643	4,005
COGS	1,656	2,091	2,394	2,573
Employees Cost	0	0	0	0
Other expenses	871	1,128	1,249	1,431
EBIDTA	790	982	1,106	1,198
Depreciation	154	223	246	253
EBIT	636	759	860	945
Interest	22	20	18	16
Other Income	200	74	119	168
Exc. / E.O. items	0	0	0	0
EBT	814	812	961	1,097
Tax	216	216	240	276
RPAT	599	596	721	821
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	599	596	721	821

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	186	181	181	181
Minority Interest	0	0	0	0
Reserves & Surplus	3,483	3,288	3,558	3,928
Net Worth	3,669	3,469	3,739	4,109
Total Debt	128	128	128	128
Net Deferred Tax Liability	(56)	(56)	(56)	(56)
Total Capital Employed	3,741	3,540	3,810	4,180

Applications of Funds

Net Block	1,139	1,510	1,364	1,211
CWIP	0	0	0	0
Investments	857	867	877	887
Current Assets, Loans & Advances	2,338	1,870	2,353	2,939
Inventories	0	0	0	0
Receivables	623	806	885	969
Cash and Bank Balances	945	293	698	1,199
Loans and Advances	35	35	35	35
Other Current Assets	736	736	736	736
Less: Current Liabilities & Provisions	594	707	784	857
Payables	122	138	156	171
Other Current Liabilities	472	569	628	686
	<i>sub total</i>			
Net Current Assets	1,744	1,163	1,569	2,082
Total Assets	3,741	3,540	3,810	4,180

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	50.1	50.2	49.6	50.5
EBIDTA Margin	23.8	23.4	23.3	23.0
EBIT Margin	19.2	18.1	18.1	18.2
Tax rate	26.5	26.6	25.0	25.2
Net Profit Margin	18.0	14.2	15.2	15.8
(B) As Percentage of Net Sales (%)				
COGS	49.9	49.8	50.4	49.5
Employee	0.0	0.0	0.0	0.0
Other	26.3	26.8	26.3	27.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	29.6	37.6	47.8	59.0
Inventory days	0	0	0	0
Debtors days	69	70	68	68
Average Cost of Debt	33.6	15.8	14.1	12.5
Payable days	13	12	12	12
Working Capital days	192	101	121	146
FA T/O	2.9	2.8	3.5	4.3
(D) Measures of Investment				
AEPS (Rs)	32.2	33.0	40.0	45.5
CEPS (Rs)	40.4	45.4	53.6	59.5
DPS (Rs)	50.0	25.0	25.0	25.0
Dividend Payout (%)	155.5	75.6	62.5	54.9
BVPS (Rs)	197.1	192.3	207.3	227.8
RoANW (%)	14.3	16.7	20.0	20.9
RoACE (%)	19.0	16.9	20.1	20.9
RoAIC (%)	19.0	25.1	27.1	31.0
(E) Valuation Ratios				
CMP (Rs)	378	378	378	378
P/E	11.7	11.4	9.4	8.3
Mcap (Rs Mn)	7,027	7,027	7,027	7,027
MCap/ Sales	2.1	1.7	1.5	1.4
EV	6,210	6,861	6,457	5,955
EV/Sales	1.9	1.6	1.4	1.1
EV/EBITDA	7.9	7.0	5.8	5.0
P/BV	1.9	2.0	1.8	1.7
Dividend Yield (%)	13.2	6.6	6.6	6.6
(F) Growth Rate (%)				
Revenue	(8.5)	26.7	13.0	9.5
EBITDA	(15.4)	24.3	12.7	8.2
EBIT	(22.7)	19.3	13.4	9.8
PBT	(24.2)	(0.2)	18.4	14.1
APAT	(21.3)	(0.4)	21.0	13.8
EPS	(21.3)	2.8	21.0	13.8
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	527	696	864	910
CFI	1,516	(530)	9	58
CFF	(1,753)	(561)	(559)	(557)
FCFF	481	102	764	810
Opening Cash	475	766	370	684
Closing Cash	766	370	684	1,095

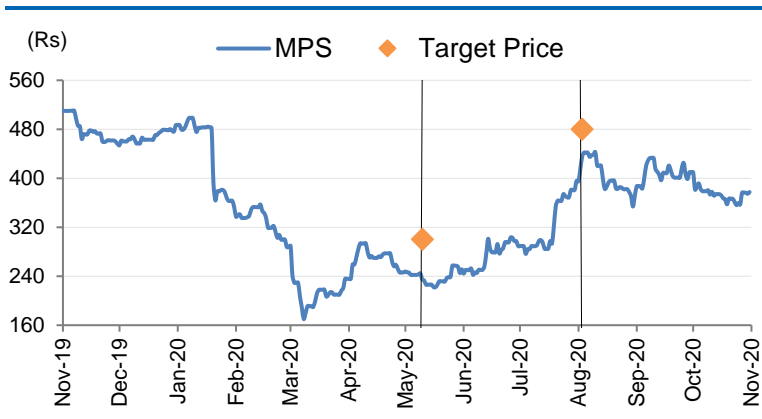
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-20	Buy	300	235
Aug-20	Buy	480	435

*Price as on recommendation date

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