

# Mphasis

## Growth vectors intact

We maintain BUY on Mphasis (MPHL), based on strong growth outlook in Direct International (85% of revenue) and despite the uncertainty around the diminishing DXC portfolio (13% of revenue). Key indicators for Direct International growth are (1) deal pipeline increase by 49% and 9MFY21 net new TCW growth of 68% YoY, (2) increase in large & integrated deal component and broad-based growth (T10 and >USD5mn accounts), (3) acceleration in sub-segments such as Europe geography and Direct-Hi-tech sub-vertical, and (4) recent wins expected to improve the growth prospects of Insurance vertical. Operating performance of MPHL remains consistent within its 15.5-16.5% EBIT band and presents an upward bias with levers such as offshore/utilisation. 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 >5%, ~30% RoIC, FY21-23E EPS CAGR at 16%. Our target price is Rs 1,740, valuing MPHL at 20x Dec-22E EPS.

- 3QFY21 highlights:** (1) Revenue came in at USD 334mn, +1.6/+4.3% QoQ/YoY (CC terms), led by Direct business (85% of revenue) growth at +5.3/+19.0% QoQ/YoY (CC terms), offset by DXC-HP (13% of revenue) de-growth at -18.2/-42.2% QoQ/YoY (CC terms). (2) EBIT margin stood at 16.4%, +25/+13bps QoQ/YoY, supported by better gross margins and APAT stood at Rs 3.26bn, +8.8% QoQ. (3) The management maintained operating margins outlook in the band of 15.5-16.5%; however, higher demand for offshore service might be upside risk to the margin. (4) Deal wins in Direct International were strong at USD 247mn, growing +25% YoY (+59% YoY on TTM basis), which was fourth consecutive quarter of net new TCW>USD 200mn. Pipeline continues to be healthy, which will add revenue visibility, offsetting the risks in DXC portfolio beyond 2QFY22.
- Outlook:** We have factored in 5.9/13.4/9.8% growth in revenue, based on Direct business growth at 18/20.1/14.1% and DXC-HP at -35.5/-22.5/-25% for FY21/22/23E respectively, and factored in EBIT% at 16.1/16.5/16.5% for FY21/22/23E, resulting in 17% EPS CAGR over FY21-23E.

### Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	334	318	4.9	327	1.9	1,119	1,240	1,313	1,489	1,634
Net Sales	24.74	22.77	8.7	24.35	1.6	77.31	88.44	97.60	112.45	126.67
EBIT	4.05	3.69	9.6	3.92	3.2	12.48	14.19	15.70	18.59	20.87
APAT	3.26	2.94	10.9	2.99	8.8	10.73	11.42	12.33	14.83	16.81
Diluted EPS (Rs)	17.5	15.8	10.9	16.1	8.8	57.6	61.3	66.1	79.6	90.2
P/E (x)						27.8	26.1	24.2	20.1	17.7
EV / EBITDA (x)						21.5	17.0	15.2	12.7	11.2
RoE (%)						20.0	20.6	20.1	21.8	21.9

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	1,328	1,313	-1.2	1,511	1,489	-1.5	1,651	1,634	-1.0
Revenue	98.61	97.60	-1.0	114.12	112.45	-1.5	127.98	126.67	-1.0
EBIT	15.51	15.70	1.3	18.28	18.59	1.7	21.40	20.87	-2.5
EBIT margin (%)	15.7	16.1	36bps	16.0	16.5	52bps	16.7	16.5	-24bps
APAT	12.16	12.33	1.4	14.58	14.83	1.8	17.18	16.81	-2.2
EPS (Rs)	65.2	66.1	1.4	78.2	79.6	1.8	92.2	90.2	-2.2

Source: Company, HSIE Research

BUY

CMP (as on 22 Jan 2021)	Rs 1,599
Target Price	Rs 1,740
NIFTY	14,372

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,765	Rs 1,740
EPS %	FY21E	FY22E
	+1.4	+1.8

### KEY STOCK DATA

Bloomberg code	MPHL IN
No. of Shares (mn)	187
MCap (Rs bn) / (\$ mn)	299/4,093
6m avg traded value (Rs mn)	678
52 Week high / low	Rs 1,735/612

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.5	60.7	79.9
Relative (%)	(2.1)	31.6	61.0

### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	56.16	56.12
FIs & Local MFs	16.17	15.98
FPIs	22.14	22.75
Public & Others	5.53	5.15
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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