

April 27, 2021

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,869		1,869	
Sales (Rs. m)	1,12,062	1,27,732	1,12,062	1,27,732
% Chng.	-	-	-	-
EBITDA (Rs. m)	21,672	23,556	21,672	23,556
% Chng.	-	-	-	-
EPS (Rs.)	81.1	89.0	81.1	89.0
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	88,436	97,021	1,12,062	1,27,732
EBITDA (Rs. m)	16,505	18,219	21,672	23,556
Margin (%)	18.7	18.8	19.3	18.4
PAT (Rs. m)	11,849	12,464	15,095	16,565
EPS (Rs.)	63.6	66.9	81.1	89.0
Gr. (%)	14.8	5.3	21.2	9.7
DPS (Rs.)	35.0	19.0	19.0	19.0
Yield (%)	2.0	1.1	1.1	1.1
RoE (%)	21.4	21.0	22.9	21.3
RoCE (%)	25.6	25.9	27.8	26.0
EV/Sales (x)	3.4	3.1	2.6	2.2
EV/EBITDA (x)	18.2	16.6	13.6	12.1
PE (x)	27.1	25.8	21.3	19.4
P/BV (x)	5.5	5.3	4.5	3.8

Key Data

MBFL.BO | MPHL IN

52-W High / Low	Rs.1,837 / Rs.677
Sensex / Nifty	48,387 / 14,485
Market Cap	Rs.323bn/ \$ 4,316m
Shares Outstanding	187m
3M Avg. Daily Value	Rs.1572.18m

Shareholding Pattern (%)

Promoter's	56.12
Foreign	22.75
Domestic Institution	15.98
Public & Others	5.14
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.4	27.1	156.0
Relative	6.8	5.5	65.7

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Blackstone continuity reinstates growth outlook

Quick Pointers:

- Blackstone to remain invested in MPHL through new fund BCP Topco; also brought along marquee long term investors such as ADIA & UC.
- MPHL's addressable market share to go up with support of Blackstone portfolio companies.

Mphasis on 26th April 2021 announced that Blackstone entered into a definitive agreement to transfer 55% shareholding in Mphasis from its existing PE fund (Marble II PTE) to a different Blackstone PE fund (BCP Topco IX Pte). Blackstone also brought along marquee long term co-investors - Abu Dhabi Investment Authority (ADIA) and UC Investments. The same agreement will trigger a mandatory open offer; which Blackstone intends to subscribe at Rs 1677 per share (-1% discount to 23rd April close). Given Blackstone's decision to remain invested and that the new investment has horizon of 7 to 10 years, removes a major overhang of promoter's exit threat which will be comforting to minority shareholders.

We remain positive on the stock due to i) strong net new deal TCV of \$866 mn, +64% YoY, ii) potentially increasing addressable market share with support from Blackstone, iii) positive outlook of Blackstone towards MPHL as a long term value creation engine and iv) removing overhang of promoter exit considered sentimentally positive. As the offer price for open offer is below CMP, we believe that the 26% open offer will not be subscribed fully – enabling Blackstone to easily transfer 55% shareholding to its new funds. We continue to value Mphasis on 21X earnings multiple on Mar-23 EPS of INR 89 to arrive at a TP of INR 1869. Mphasis is currently trading at multiples of 21.3/19.4X on EPS of 81.1/89 on FY22/23 respectively. Maintain Buy.

Transaction details:

- MPHL announced on 26th April 2021, that PE fund Blackstone is selling its stake in MPHL from its existing entity - **Marble II Pte** (part of Blackstone Capital Partners VI fund) to a new entity – **BCP Topco IX Pte** (part of Blackstone Capital Partners VIII and Blackstone Capital Partners Asia funds). A wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA), UC Investments and other long-term investors will co-invest along with Blackstone.
- Currently, Marble II Pte. Ltd, existing promoter of the company holds 55.3% stake, after acquiring it from Hewlett Packard Enterprise in September 2016.
- This deal will result in transfer of 55.3% stake from Marble II Pte to the new entity owned by Blackstone and co-investors.
- Triggered offer:** Since the acquirer is acquiring voting rights share in excess of 25%, this transaction will trigger a mandatory open offer for purchase of up to 26% additional shares of the company from public shareholders – funds intend to acquire that at Rs 1677 per share (-1% discount to Friday close).

Mphasis management mentioned that Blackstone's sustained strategic partnership will help MPHL accelerate its growth and scale new heights. Sovereign and pension funds co-investing is a testimony of long-term commitment and a vote of confidence of a marquee set of shareholders.

This investment enables Blackstone to continue creating value for the long term with continuity in the management team and the board, and provide additional resources to further accelerate the MPHL's growth momentum

- **Total consideration:** Based on the open offer subscription, the blended purchase price will vary between INR 1,452 to INR 1,497 per share (12-14% discount to MPHL's 23rd Apr'21 closing price, 3-6% discount to 6-month average price) and the purchase consideration will vary between INR 152 bn to INR 210 bn (or, approximately \$2.0 bn to \$2.8 bn).
- **Open offer Size & Price:** 49mn equity shares constituting 26% of the Expanded Voting Share Capital, at a price of Rs 1,677.16 per share aggregating to a total consideration of Rs 82.6bn /\$1.1bn (assuming full acceptance).
- In case the open offer gets fully tendered, Marble II will retain 7.3% of MPHL as a public shareholder, so that the new promoter's (BCP Topco + ADIA + UC Investments) overall ownership in MPHL does not exceed 75%.

Concall Key Takeaways:

- **New Blackstone fund to remain invested for long term:** Blackstone first invested in 2016 in MPHL and believes it to be a 10-15year growth story. Marble II Pte had earlier tried to exit MPHL likely due to completion of fund tenure. New Blackstone fund buying into MPHL has a fund life of 7-10 years.
- Co-investors (ADIA, UC Investments) are long term investors with no specific-fund structure and thus no specific fund-life. They will remain minority partner in the entity while Blackstone will be majority shareholder.
- **Addressable market for MPHL likely to go up:** MPHL is uniquely positioned to capture more business from Blackstone given that i) it is the only IT services company in entire global investment portfolio of Blackstone and ii) has potential to receive business from enterprises (650) in Blackstone's portfolio. Additionally, University of California and ADIA – have multibillion AUMs. UC itself can be a very big client for MPHL in future.
- Management highlighted that they now have ability to do some large M&As going ahead. Previously they had done 2 small acquisitions (Datalytx, Stelligent) in last two years.
- **MPHL is long-term value creation engine for Blackstone:** Blackstone management mentioned that MPHL is backed by strong secular tailwinds from accelerated migration to cloud. It is well-positioned given good management team, strong order backlog (9MFY21 TCV deal wins up 64% YoY), long-term strategic customer base, deep domain expertise in financial services and a world-class suite of cloud and digital offerings. This investment will enable Blackstone to continue creating long term value with continuity in management team and board, plus provide additional resources to further accelerate company's growth momentum.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	88,436	97,021	1,12,062	1,27,732
YoY gr. (%)	14.4	9.7	15.5	14.0
Employee Cost	62,951	67,994	79,326	90,942
Gross Profit	25,485	29,027	32,736	36,790
Margin (%)	28.8	29.9	29.2	28.8
SG&A Expenses	4,093	4,429	5,107	6,131
Other Expenses	-	1	-	-
EBITDA	16,505	18,219	21,672	23,556
YoY gr. (%)	24.7	10.4	19.0	8.7
Margin (%)	18.7	18.8	19.3	18.4
Depreciation and Amortization	2,317	2,407	2,462	2,541
EBIT	14,188	15,811	19,209	21,015
Margin (%)	16.0	16.3	17.1	16.5
Net Interest	-	-	-	-
Other Income	967	811	1,027	1,200
Profit Before Tax	15,155	16,622	20,236	22,215
Margin (%)	17.1	17.1	18.1	17.4
Total Tax	3,306	4,158	5,141	5,650
Effective tax rate (%)	21.8	25.0	25.4	25.4
Profit after tax	11,849	12,464	15,095	16,565
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,849	12,464	15,095	16,565
YoY gr. (%)	10.6	5.2	21.1	9.7
Margin (%)	13.4	12.8	13.5	13.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,849	12,464	15,095	16,565
YoY gr. (%)	10.6	5.2	21.1	9.7
Margin (%)	13.4	12.8	13.5	13.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,849	12,464	15,095	16,565
Equity Shares O/s (m)	186	186	186	186
EPS (Rs)	63.6	66.9	81.1	89.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	8,897	9,082	10,112	11,124
Tangibles	8,897	9,082	10,112	11,124
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	8,897	9,082	10,112	11,124
Tangibles	8,897	9,082	10,112	11,124
Intangibles	-	-	-	-
Capital Work In Progress	-	-	-	-
Goodwill	21,405	21,304	21,304	21,304
Non-Current Investments	-	-	-	-
Net Deferred tax assets	2,157	1,318	1,318	1,318
Other Non-Current Assets	10,945	17,548	17,548	17,548
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	8,353	9,303	10,746	12,248
Cash & Bank Balance	21,035	21,310	28,572	38,485
Other Current Assets	-	-	-	-
Total Assets	87,535	93,448	1,05,288	1,19,910
Equity				
Equity Share Capital	1,865	1,867	1,867	1,867
Other Equity	56,431	58,569	69,527	81,956
Total Networth	58,296	60,436	71,394	83,823
Non-Current Liabilities				
Long Term borrowings	-	3,252	3,252	3,252
Provisions	-	-	-	-
Other non current liabilities	7,567	9,516	9,516	9,516
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	21,672	20,244	21,126	23,320
Other current liabilities	-	-	-	-
Total Equity & Liabilities	87,535	93,448	1,05,288	1,19,910

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	15,155	16,622	20,236	22,215
Add. Depreciation	2,317	2,407	2,462	2,541
Add. Interest	813	540	80	400
Less Financial Other Income	967	811	1,027	1,200
Add. Other	-	-	-	-
Op. profit before WC changes	18,285	19,570	22,779	25,156
Net Changes-WC	2,825	(5,873)	(2,666)	(1,503)
Direct tax	(3,306)	(4,158)	(5,141)	(5,650)
Net cash from Op. activities	17,804	9,539	14,971	18,004
Capital expenditures	(5,677)	(2,492)	(3,492)	(3,553)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(5,677)	(2,492)	(3,492)	(3,553)
Issue of share cap. / premium	3	2	-	-
Debt changes	-	3,252	-	-
Dividend paid	(7,621)	(4,137)	(4,137)	(4,137)
Interest paid	(813)	(540)	(80)	(400)
Others	223	(5,349)	-	-
Net cash from Fin. activities	(8,208)	(6,773)	(4,217)	(4,537)
Net change in cash	3,918	275	7,262	9,913
Free Cash Flow	12,126	7,047	11,479	14,450

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	63.6	66.9	81.1	89.0
CEPS	76.0	79.9	94.3	102.7
BVPS	312.8	324.6	383.6	450.4
FCF	65.1	37.8	61.7	77.6
DPS	35.0	19.0	19.0	19.0
Return Ratio(%)				
RoCE	25.6	25.9	27.8	26.0
ROIC	37.1	36.8	37.2	31.2
RoE	21.4	21.0	22.9	21.3
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.4)	(0.4)
Debtor (Days)	34	35	35	35
Valuation(x)				
PER	27.1	25.8	21.3	19.4
P/B	5.5	5.3	4.5	3.8
P/CEPS	74.9	78.7	93.0	101.2
EV/EBITDA	18.2	16.6	13.6	12.1
EV/Sales	3.4	3.1	2.6	2.2
Dividend Yield (%)	2.0	1.1	1.1	1.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21E
Net Revenue	22,882	24,354	24,743	25,042
YoY gr. (%)	6.0	7.0	5.5	9.4
Raw Material Expenses	16,261	16,974	17,073	17,686
Gross Profit	6,621	7,380	7,670	7,356
Margin (%)	28.9	30.3	31.0	29.4
EBITDA	4,178	4,524	4,653	4,864
YoY gr. (%)	3.1	6.0	4.8	16.4
Margin (%)	18.3	18.6	18.8	19.4
Depreciation / Depletion	595	600	606	606
EBIT	3,583	3,924	4,047	4,257
Margin (%)	15.7	16.1	16.4	17.0
Net Interest	-	-	-	-
Other Income	182	114	218	297
Profit before Tax	3,765	4,038	4,265	4,554
Margin (%)	16.5	16.6	17.2	18.2
Total Tax	1,015	1,046	1,011	1,086
Effective tax rate (%)	27.0	25.9	23.7	23.8
Profit after Tax	2,750	2,992	3,254	3,468
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,750	2,992	3,254	3,468
YoY gr. (%)	0.6	1.9	(7.9)	26.1
Margin (%)	12.0	12.3	13.2	13.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,750	2,992	3,254	3,468
YoY gr. (%)	0.6	1.9	(7.9)	26.1
Margin (%)	12.0	12.3	13.2	13.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,750	2,992	3,254	3,468
Avg. Shares O/s (m)	187	186	186	186
EPS (Rs)	14.7	16.1	17.5	18.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-21	BUY	1,869	1,749
2	05-Feb-21	BUY	1,902	1,590
3	25-Jan-21	BUY	1,719	1,599
4	04-Jan-21	BUY	1,802	1,530
5	26-Oct-20	BUY	1,711	1,382
6	05-Oct-20	BUY	1,693	1,345
7	01-Oct-20	BUY	1,693	1,383
8	27-Jul-20	BUY	1,302	1,118
9	04-Jul-20	Accumulate	943	887
10	15-May-20	Accumulate	852	803

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	3,020	2,924
2	Cyient	BUY	825	689
3	HCL Technologies	BUY	1,010	956
4	Infosys	BUY	1,632	1,397
5	L&T Technology Services	BUY	3,006	2,721
6	Larsen & Toubro Infotech	BUY	4,394	4,121
7	Mindtree	BUY	2,567	2,070
8	Mphasis	BUY	1,869	1,749
9	Persistent Systems	BUY	2,017	1,954
10	Redington (India)	BUY	189	184
11	Sonata Software	BUY	537	522
12	Tata Consultancy Services	BUY	3,636	3,247
13	TeamLease Services	BUY	4,002	3,774
14	Tech Mahindra	BUY	1,132	962
15	Wipro	BUY	500	431
16	Zensar Technologies	BUY	290	276

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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