

## Direct revenues continue to drive overall revenues...

**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 are expected to grow at a healthy pace in coming years
- OCF, EBITDA of 75% and double digit return ratio (with RoCE of 20%)

**Q1FY22 Results:** Mphasis reported robust Q1FY22 results.

- Dollar revenues increased 6.8% QoQ to US\$362.9 million
- Deal wins increased almost 2x, mainly led by large deal won
- Expects industry leading growth in direct and EBIT margin of 15.5-17%

**What should investors do?** Mphasis' share price has grown by ~4x over the past five years (from ~₹ 535 in Jul 2016 to ~₹ 2537 levels in July 2021).

- However, recent run up in price prompts us to maintain HOLD rating

**Target Price and Valuation:** We value Mphasis at ₹ 2725 i.e. 29x 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 bode 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 are expected to drive direct revenues at 22% CAGR in in FY21-23E
- Improving revenue trajectory, higher offshoring, pricing and automation are expected to boost margins (126 bps to 17.3% in FY21-23E)

**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 ₹ 5,065



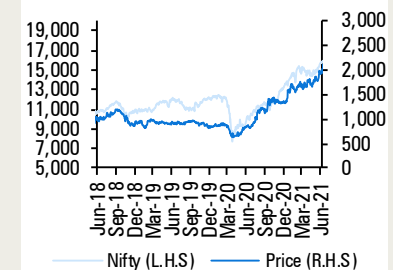
### Particulars

Particular	Amount
Market Cap (₹ crore)	47,645
Total Debt (₹ crore)	513
Cash and Invests (₹ crore)	2,597
EV (₹ crore)	45,562
52 week H/L	2692/ 975
Equity Capital (₹ crore)	186
Face Value (₹)	₹ 10

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	56.2	56.1	56.0	56.0
FII	22.1	22.8	21.8	20.8
DII	16.2	16.0	17.2	18.5
Public	5.5	5.2	5.0	4.8

### 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) more than expected cost savings

### Research Analyst

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## Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	7,731.0	8,843.5	9,722.3	9.8%	11,378.9	13,018.5	15.7%
EBITDA	1,323.8	1,650.4	1,802.9	14.9%	2,162.0	2,577.7	19.6%
EBITDA Margins (%)	17.1	18.7	18.5		19.0	19.8	
Net Profit	1,073.4	1,184.8	1,216.8	14.0%	1,482.7	1,751.2	20.0%
Diluted EPS (₹)	55.5	63.1	64.4		78.5	92.7	
P/E (x)	45.7	39.9	38.9		31.9	27.0	
RoE (%)	20.4	20.3	18.6		21.0	22.9	
RoCE (%)	24.1	22.3	21.8		23.9	25.9	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Earnings Conference Call highlights

- The company has seen healthy deal wins in the quarter mainly led by large deal won in the UK (US\$250 million) for a period of 10 years. Apart from healthy deal wins, Mphasis has witnessed an increase in deal in size of wins (almost tripped on a YoY basis) while the tenure has also increased. We believe this bodes well for long term revenue growth
- The company is garnering higher deals by having a customer centric personalised approach, focus on digital technologies, acquiring large deals, client mining (US\$100 million & US\$50 million clients increased by two each) and proactive search of deals (~80%)
- The company is seeing improving traction in Hi Tech Travel and transportation apart from BFS. This, coupled with market share gains via vendor consolidation, expansion in Europe, low legacy exposure, pricing improvement traction in Blackstone portfolio give us confidence that the direct channel will grow at a CAGR of 22% over FY21-23E
- However, sustained de-growth in DXC from 15% to ~5% of total revenues is expected to moderate overall revenue growth of the company (CAGR of 15% in dollar terms over FY21-23E)
- In the current quarter, margins were impacted due to some Covid related cost, which is expected to recede in coming quarters
- In terms of margins, there are headwinds in terms of attrition, investment due to geographic expansion, transition cost (due to growth focus) and supply side constraints
- However, we expect improving revenue trajectory, higher offshoring, pricing improvement automation to help offset the margin pressure. Hence, we expect margins to improve by 126 bps to 17.3% over FY21-23E

## Financial summary

Exhibit 1: Profit and loss statement ₹ crore				
	FY20	FY21	FY22E	FY23E
<b>Total Revenues</b>	<b>8,844</b>	<b>9,722</b>	<b>11,379</b>	<b>13,018</b>
Growth (%)	14.4	9.9	17.0	14.4
Employee Benefit Expense	4,922.6	5,629.8	6,406.3	7,225.2
Other Expenses	2,270.5	2,289.7	2,810.6	3,215.6
<b>EBITDA</b>	<b>1,650</b>	<b>1,803</b>	<b>2,162</b>	<b>2,578</b>
Growth (%)	24.7	9.2	19.9	19.2
Depreciation	231.6	241.8	283.0	323.8
Other Income	177.8	132.9	159.9	143.1
Interest	81.2	63.4	62.0	62.0
PBT before Excep Items	1,515.4	1,630.6	1,976.9	2,335.0
Growth (%)	7.7	7.6	21.2	18.1
Tax	330.5	413.8	494.2	583.7
PAT before Excep Items	1,184.8	1,216.8	1,482.7	1,751.2
Exceptional items	-	-	-	-
<b>PAT</b>	<b>1,185</b>	<b>1,217</b>	<b>1,483</b>	<b>1,751</b>
Growth (%)	10.4	2.7	21.9	18.1
<b>Diluted EPS</b>	<b>63.1</b>	<b>64.4</b>	<b>78.5</b>	<b>92.7</b>
EPS (Growth %)	13.6	2.1	21.9	18.1

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore				
	FY20	FY21	FY22E	FY23E
<b>Profit before Tax</b>	<b>1,515</b>	<b>1,631</b>	<b>1,977</b>	<b>2,335</b>
Depreciation	232	242	283	324
(inc)/dec in Current Assets	67	(90)	(729)	(605)
(inc)/dec in current Liabilities	(24)	45	540	413
Income Taxes Paid	(396)	(345)	(494)	(584)
Others	(72)	(28)	(47)	(55)
<b>CF from operations</b>	<b>1,321</b>	<b>1,455</b>	<b>1,530</b>	<b>1,828</b>
Other Investments	265	(697)	109	117
(Purchase)/Sale of Fixed Assets	(124)	(125)	(125)	(143)
<b>CF from investing Activities</b>	<b>141</b>	<b>(822)</b>	<b>(16)</b>	<b>(26)</b>
Inc / (Dec) in Equity Capital	15	27	-	-
Inc / (Dec) in sec.loan Funds	(22)	(41)	(30)	(30)
Dividend & Dividend tax	(607)	(653)	(964)	(1,138)
Interest Paid on Loans	(78)	(62)	(62)	(62)
<b>CF from Financial Activities</b>	<b>(692)</b>	<b>(729)</b>	<b>(1,056)</b>	<b>(1,230)</b>
Net change in cash	770	(96)	458	571
Opening cash	352	999	771	1,096
<b>Closing cash</b>	<b>990</b>	<b>771</b>	<b>1,096</b>	<b>1,535</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet ₹ crore				
	FY20	FY21	FY22E	FY23E
Equity	187	187	187	187
Reserves & Surplus	5,643	6,340	6,859	7,472
Networth	5,830	6,527	7,046	7,659
Total debt	571	513	483	453
Other liabilities	757	729	990	1,128
<b>Source of funds</b>	<b>7,158</b>	<b>7,769</b>	<b>8,519</b>	<b>9,240</b>
Net Block	794	779	822	851
CWIP	7	3	3	3
Intangible assets under developr	89	107	40	(37)
Long term Loans and advances	64	55	64	73
Other non current assets	1,246	1,181	1,467	1,634
Current Investments	978	1,535	1,535	1,535
Goodwill	2,140	2,133	2,133	2,133
Inventories	-	-	-	-
Debtors	1,770	1,850	2,166	2,478
Cash Balance	990	771	1,096	1,535
Bank Balance	136	291	291	291
Short term Loans and advances	141	147	172	197
Other current assets	399	546	639	731
Trade payables	667	596	698	799
Other Current liabilities	922	984	1,152	1,318
Provisions	7	50	58	67
<b>Application of funds</b>	<b>7,158</b>	<b>7,769</b>	<b>8,519</b>	<b>9,240</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios ₹ crore				
	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Diluted EPS	63.1	64.4	78.5	92.7
BV	312.8	349.6	377.4	410.2
DPS	35.0	65.0	51.0	60.3
Cash Per Share	60.4	56.9	74.3	97.8
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.7	18.5	19.0	19.8
PAT Margin	13.4	12.5	13.0	13.5
Debtor days	73	69	69	69
Creditor days	28	22	22	22
<b>Return Ratios (%)</b>				
RoE	20.3	18.6	21.0	22.9
RoCE	22.3	21.8	23.9	25.9
RoIC	28.1	30.2	33.6	38.4
<b>Valuation Ratios (x)</b>				
P/E	39.9	38.9	31.9	27.0
EV / EBITDA	27.9	25.3	20.9	17.4
Market Cap / Sales	5.4	4.9	4.2	3.7
Price to Book Value	8.1	7.3	6.7	6.2
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.1	0.07	0.06
Debt / EBITDA	0.3	0.3	0.2	0.2
Quick Ratio	1.4	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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