



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Mphasis Ltd Q3 FY22 consolidated revenues came in at ₹3124 Cr, up 26.2% YoY and up 8.8% QoQ.
- Op Profit for Q3FY22 stood at ₹553 Cr, up 18.8% YoY and up 11.1% QoQ.
- Op margins for Q3FY22 came at 17.7%, -111bps YoY and +35 bps QoQ.
- PAT for Q3FY22 stood at ₹358 Cr, up 9.8% YoY and up 4.75% QoQ.

### 2. MANAGEMENT COMMENTARY:

- Management mentioned that company has healthy deal pipeline, higher win rates and strong correlation between new TCV and
- Management aims to onboard ~55,000 freshers in FY22.
- Direct business will continue to drive the growth of the company led by robust deal wins in New Gen areas.
- Management believes more cross selling opportunities from M&A will help the company to achieve industry leading growth in FY23.
- Management continues to remain confident of sustaining margins in a range of 15.5% to 17%.

### 3. SEGMENTAL ANALYSIS:

- Q3FY22 Revenue Breakup: Banking & Financial Services (55%), Insurance (9%), Technology Media & Telecommunication (13%), Logistics & Transportation (13%), Others (10%).
- Q3FY22 Geographical Revenue Breakup: Americas (81%), EMEA (11%), India (5%), ROW (3%)
- In Q3 FY22, the revenue from direct segment was \$384 million, +36% YoY. Revenue from DXC Technology was \$22 million, -49.2% YoY.

### 4. CONCALL SUMMARY

- Company delivered 8th consecutive quarter of \$200 Mn + TCV wins.
- New TCV wins of \$335 Mn in Q3FY22, 4 large deals signed with largest at \$92 Mn TCV. On a LTM basis average deal size was \$71 Mn.
- The company is winning more multi million deals in New Gen areas majorly led by increased Tech spending across various enterprises.
- Blink acquisition led to 2 synergy deal wins in the quarter.
- Revenue from top client is 11%, top 5 clients is 43% & top 10 clients is 58%.
- Company won 7 new clients in Q3FY22
- In Q3FY22 headcount increased 8% QoQ and more than 50% of hirings in the quarter were freshers.
- The company is also witnessing higher attrition but management is proactively hiring across the pyramid to deal with supply side constraints.

### 5. OTHER DEVELOPMENTS:

- Mphasis has been investing in new technologies such as blockchain, NFT and also announced partnership with CrossTower.
- Company is building low cost near shore centers in Mexico, UK, Canada and Germany. Company is also expanding in India in Tier 3 and tier 4 cities.

### 6. VALUATION AND OUTLOOK:

Mphasis reported very strong numbers and beaten all the street estimates led by strong demand environment and robust deal wins. We believe company will continue to perform well over next few quarters due to robust demand environment. Also the confident commentary from management, declining revenue share of DXC and increase in average LTM size are other positive triggers for the stock.

We initiate a "BUY" rating on the stock and value the stock at 36.0x FY23E earnings to arrive at the target of ₹3490.

## RECOMMENDATION - BUY

CMP – 2984

TARGET – 3490 (17%)

Industry	IT - Software
NSE CODE	MPHASIS
BSE CODE	526299
Market Cap (₹ Cr)	56621.9
Shares Outstanding (in Cr)	18.75
52 wk High/Low (₹)	3659.75 / 1575.25
P/E	41.34
P/BV	8.74
Face Value (₹)	10.00
Book Value (₹)	342.01
EPS (FY21) (₹)	65.06
Dividend Yield (%)	3.64
Debt / Equity	0.08
Interest Coverage	26.71

## SHAREHOLDING PATTERN

	Dec 21	Sep 21	Jun 21
Promoters	55.90	55.95	55.99
MF/ DII	13.24	13.58	13.62
FII/FPI	21.10	20.85	20.80
Retail & Others	5.21	5.25	4.75
Promoter Pledging	0.00	0.00	0.00

## FINANCIAL SNAPSHOT (₹ Cr)

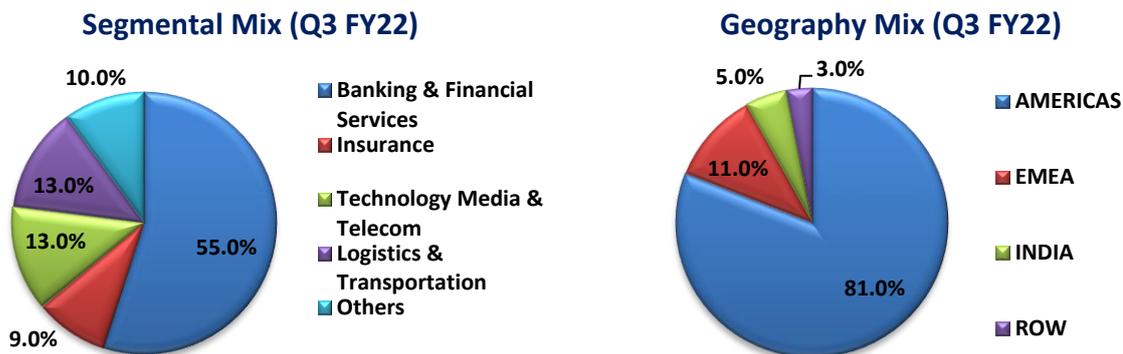
Y/E March	2021A	2022E	2023E
<b>Crore</b>			
Sales	9722.31	11964	14476
Sales Gr. (%)	9.94	23.05	21.00
EBITDA	1802.87	2130.43	2634.75
EBITDA %	19.91	17.80	18.20
PAT	1216.81	1435.07	1813.31
EPS (₹)	65.06	76.73	96.95
EPS Gr. (%)	2.42	17.93	26.35
BV/Sh. (₹)	345.80	375.20	405.40
<b>Ratios</b>			
RoE (%)	19.88	20.9	23.6
RoCE (%)	25.21	26.7	29.6
<b>Valuation</b>			
P/E (x)	27.41	42.0	35.0
P/BV (x)	5.16	6.9	5.8
EV/EBITDA	16.95	26.5	20.5

## Historical & Industrial Val Ratios

Historical P/E	17.97
Industry P/E	37.45
Historical P/B	3.16
Industry P/B	9.77



## REVENUE SPLIT (Q3 FY22)



## QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21				FY22				FY21	FY22E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
<b>Net sales</b>	<b>2,288</b>	<b>2,435</b>	<b>2,474</b>	<b>2,524</b>	<b>2,691</b>	<b>2,869</b>	<b>3,124</b>	<b>3,280</b>	<b>9,722</b>	<b>11,964</b>
YoY change (%)	10.94%	12.85%	8.68%	7.59%	17.60%	17.81%	26.24%	29.96%	9.94%	23.05%
<b>Total Expenditures</b>	<b>1,870</b>	<b>1,983</b>	<b>2,009</b>	<b>2,057</b>	<b>2,202</b>	<b>2,371</b>	<b>2,571</b>	<b>2,690</b>	<b>7,919</b>	<b>9,834</b>
<b>EBITDA</b>	<b>418</b>	<b>452</b>	<b>466</b>	<b>467</b>	<b>489</b>	<b>498</b>	<b>553</b>	<b>590</b>	<b>1,803</b>	<b>2,130</b>
Margins (%)	18%	19%	19%	19%	18%	17%	18%	18%	19%	17.8%
Depreciation	59	60	61	62	62	66	83	83	242	294
Interest	19	15	15	14	16	16	22	22	63	76
Other income	38	26	37	33	47	44	31	31	133	153
<b>PBT</b>	<b>377</b>	<b>404</b>	<b>427</b>	<b>424</b>	<b>458</b>	<b>460</b>	<b>480</b>	<b>516</b>	<b>1,631</b>	<b>1,913</b>
Rate (%)	27%	26%	24%	25%	26%	26%	25%	25%	25%	25%
<b>Adjusted PAT</b>	<b>275</b>	<b>299</b>	<b>326</b>	<b>317</b>	<b>340</b>	<b>341</b>	<b>358</b>	<b>387</b>	<b>1,217</b>	<b>1,435</b>
<b>EPS in Rs</b>	<b>14.75</b>	<b>16.03</b>	<b>17.43</b>	<b>16.94</b>	<b>18.15</b>	<b>18.23</b>	<b>19.08</b>	<b>20.64</b>	<b>65.06</b>	<b>76.73</b>

### Key Performance Indicators

<b>Deal Win TCV (USD Mn)</b>	259	360	247	245	505	241	335		
<b>Headcount</b>	26,143	27,148	28,116	29,473	31,454	32,295	34,915		
<b>Onsite/Offshore Rev Mix</b>	60/40	59/41	58/42	57/43	59/41	58/42	59/41		
<b>Top Client Contribution %</b>	12	12	11	10	11	11	11		
<b>New Clients Added</b>	6	5	6	8	6	5	7		
<b>DXC Revenue %</b>	20.1	16.2	13.1	12.0	9.2	6.5	5.3		

Source: Company, Hem Securities Research.

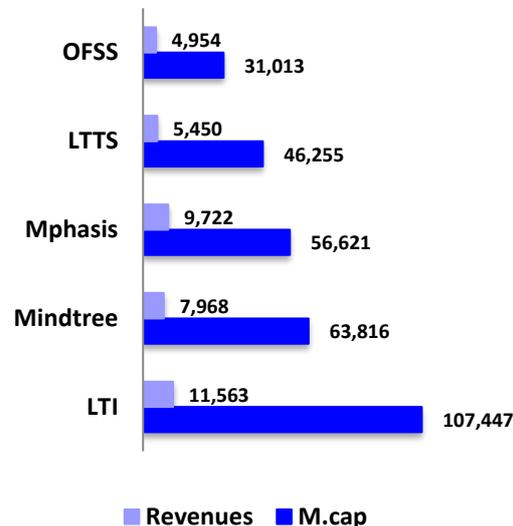
### \*Insights into the assumptions:

- We expect revenues to increase by 5% QoQ in Q4FY22 due to robust deal wins.
- We also believe that operating margins would sustain at these levels and might also improve due to management's guidance of operating margins to sustain in the range of 15.5-17%.

## INDUSTRY OVERVIEW

- India is the world's largest sourcing destination with largest qualified talent pool of technical graduates in the world.
- The IT sector is the largest employer within the private sector.
- The Indian IT industry accounted for 18.5% of the total global IT spend in FY20.
- Indian technology industry contributes ~8% share to the national GDP, with a 52% share of services exports, and a 50% share in total FDI.
- The priority tech spending areas are expected to be augmented reality and virtual reality (AR/VR), mixed reality, Internet of Things (IoT), artificial intelligence (AI), robotics and cloud.
- This push towards cloud services has boosted hyper-scale data centre investments, with global investments estimated to exceed ~US\$ 200 billion annually by 2025.
- The digital transformation deals have seen a 30% jump since the pandemic.
- In Budget 2021, the government has allocated Rs. 53,108 crore (US\$ 7.31 billion) to the IT and telecom sector.
- Leading players in Indian IT Industry includes Mindtree, Mphasis, LTTS, LTI, OFSS, Tata Elxsi etc.

## KEY PLAYERS in Mid IT Space



## PEER PERFORMANCE

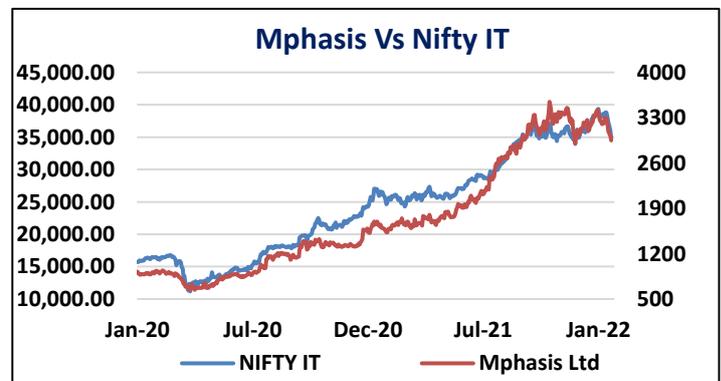
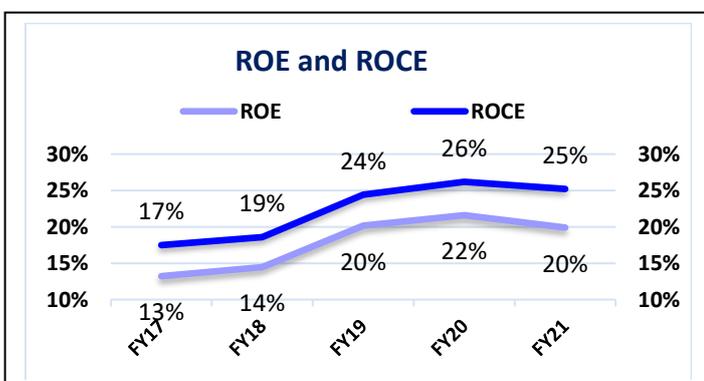
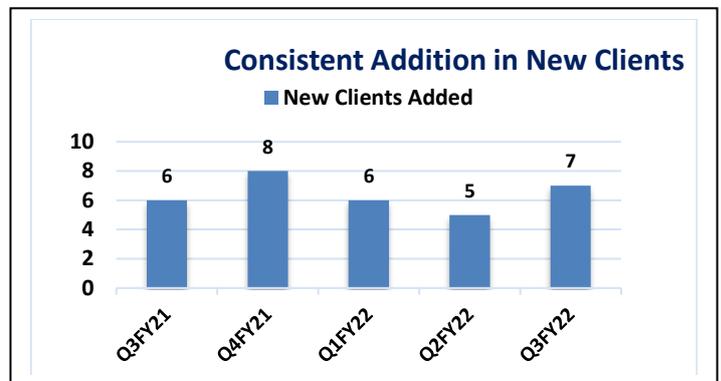
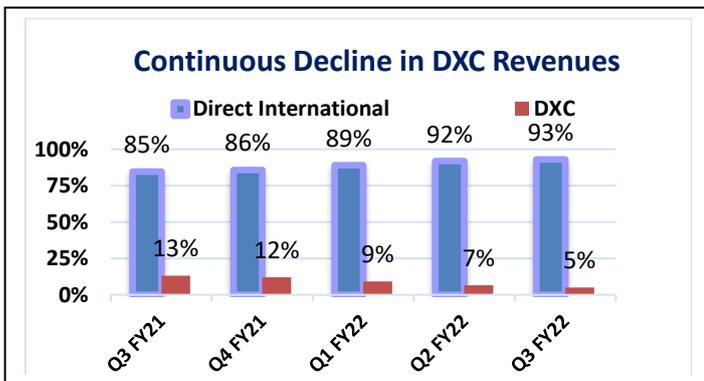
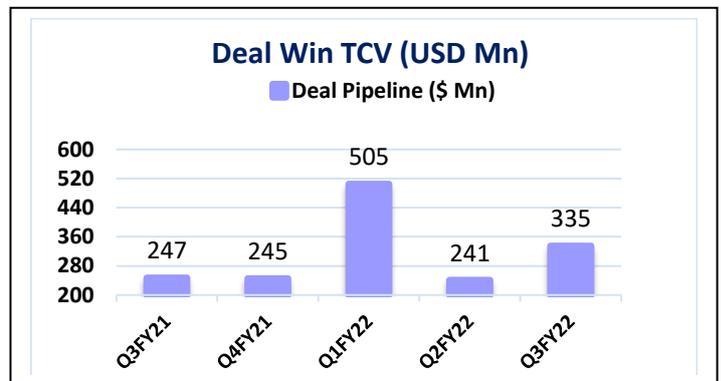
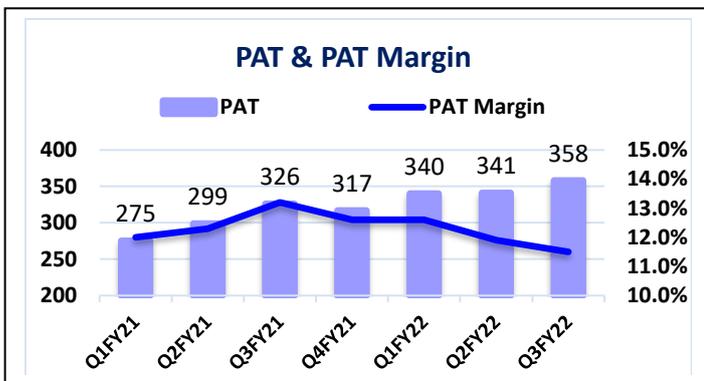
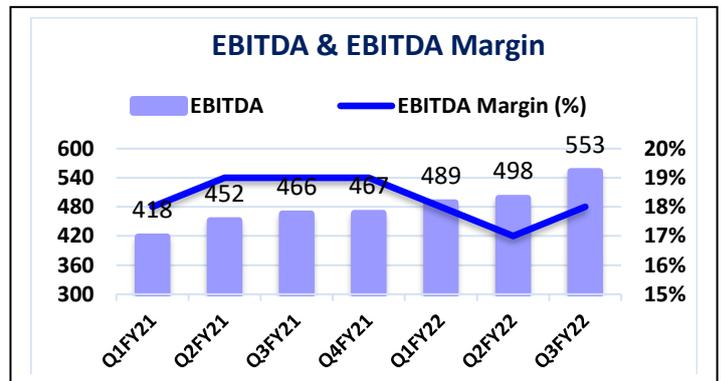
(₹ Cr)

Particulars	Peer Companies				
	Mphasis Ltd.	Mindtree Ltd.	Larsen & Toubro Infotech Ltd.	Oracle Financial Services Software Ltd.	Tata Elxsi Ltd.
Market Cap	56,621.9	63,815.9	1,07,447.6	31,013.9	47,557.1
Net Sales	9,722.3	7,967.8	12,369.8	4,983.9	849.4
EBITDA	1,802.9	1,656.7	2,712.0	2,413.6	523.5
PAT	1,216.8	1,110.5	1,936.1	1,761.9	368.1
EPS(₹)	65.1	67.4	110.6	204.7	59.1
EBITDA MARGIN %	19.9	22.7	24.2	52.2	30.8
PAT MARGIN %	12.5	13.9	15.7	35.4	20.2
ROCE %	25.2	41.4	41.7	37.2	42.5
ROE %	19.9	29.8	30.8	26.9	30.1
P/E TTM	41.8	45.6	51.0	17.0	88.8
P/B TTM	8.8	13.6	13.4	4.8	31.1
EV/EBITDA	25.7	27.8	33.1	9.76	57.9
Dividend Yield %	2.1	0.6	0.6	5.4	0.7
MCap/ Sales TTM	5.1	7.0	7.7	6.1	19.4

Source: Company, Hem Securities Research.



**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- Strong Q3FY22 numbers beating all the street estimates, revenue grew by 8.8% QoQ and net profit grew by 4.75% QoQ.
- Operating margins at 17.7% grew by 35 bps QoQ, commendable when other IT companies are facing pressure on operating margins. Management also commented that these margins are sustainable.
- Broad based growth witness across all verticals and geographies.
- Strong growth witnessed in Direct Business (36.1% YoY) while DXC continued to decline (currently at 5.3% of overall revenue).
- Strong growth in new TCV wins \$335 Mn in Q3FY22 (+39% QoQ and +35% YoY).
- LTM average deal size is also increasing consistently (currently at \$71 Mn from \$31 Mn in Q3FY20).
- Company has aggressively hired during past few quarters and expects more aggressively hiring in coming quarters due to robust demand environment.
- Mphasis had total 7 new client wins this quarter. 2 clients were added in \$10mn+ bucket and 1 in \$5mn+ bucket.
- Company building low cost near shore centers in Mexico, UK, Canada and Germany.
- Management kept the operating margin guidance intact to be in the range of 15.5%-17%.

## RISK / NEGATIVE FACTORS:

- Geographical Concentration Risk: Around 80% of revenues comes from America. So any political risk related to America or slowdown in their economic growth is a key concern.
- INR appreciating against USD, pricing pressure and retention of the skilled employees are other concerns. So any loss of clients can negatively impact their business.
- Client Concentration risk: Around 60% revenue comes from Top 10 clients while 11% revenue comes from Top Client.
- The Indian IT service industry is facing high attrition rates at this point of time, if attrition continues to increase for next few more quarters it may negatively impact company's business.

## COMPANY RECAP

- Mphasis is an Information Technology solutions provider that applies next-generation technology to help enterprises transform businesses globally.
- The company was formed in June 2000 after the merger of Mphasis Corporation and BFL Software Limited.
- The various industries that company provides IT services include Banking & Capital markets, Insurance, Hi-Tech, Healthcare & Life Sciences, Payments, Hospitality, Travel & Transportation, Communications, Energy & Utilities, Logistics, Manufacturing, Oil & Gas, and Public Sector.
- The various services that company provides includes Application Services, Blockchain, Cyber Security, Enterprise Automation, Devops, Product Engineering, Infrastructure services, Experience design, Cloud Services, Modernization, Next-Gen IT Operations etc.
- The major geographical revenue segments of company are America, EMEA, India and ROW.
- The company has 34,915 employees as of December, 2021 and company is aggressively hiring every quarter given robust demand environment.
- Company has very experienced and skilled leadership team including Nitin Rakesh (CEO & MD), Manish Dugar (CFO), Sundar Subrmanian (President – Global Delivery), Elango R (President – North America), Eric Winston (Executive VP and Compliance Officer) etc.



## ANNUAL PERFORMANCE

### Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
<b>Revenue from operations</b>	<b>6,076.36</b>	<b>6,545.84</b>	<b>7,819.37</b>	<b>8,843.54</b>	<b>9,722.31</b>	<b>11,964.20</b>	<b>14,476.68</b>
Growth YoY (%)	-0.07	7.73	19.46	13.10	9.94	23.05	21.00
<b>Total Expenditure</b>	<b>5,108.73</b>	<b>5,486.78</b>	<b>6,495.54</b>	<b>7,193.15</b>	<b>7,919.45</b>	<b>9,833.76</b>	<b>11,841.93</b>
(%) of sales	84.08	83.82	83.07	81.34	81.46	82.19	81.80
<b>EBITDA</b>	<b>967.63</b>	<b>1,059.06</b>	<b>1,323.83</b>	<b>1,650.38</b>	<b>1,802.87</b>	<b>2,130.43</b>	<b>2,634.73</b>
EBITDA Growth (%)	10.77	1.41	22.55	21.84	5.89	18.16	23.67
EBITDA Margin (%)	19.87	18.71	19.19	20.67	19.91	17.80	18.20
Depreciation	79.15	70.82	75.84	231.63	241.79	294	294
<b>EBIT</b>	<b>1,113.09</b>	<b>1,140.57</b>	<b>1,424.70</b>	<b>1,596.57</b>	<b>1,694.02</b>	<b>1,836.43</b>	<b>2,340.75</b>
EBIT Growth (%)	21.77	2.47	24.91	12.06	6.10	8.40	27.46
Net Interest Expenses	13.88	13.00	17.37	81.19	63.42	76	76
Other Income	239.78	165.41	176.71	177.82	132.95	153	153
<b>Earnings before Taxes</b>	<b>1,099.21</b>	<b>1,127.57</b>	<b>1,407.33</b>	<b>1,515.38</b>	<b>1,630.61</b>	<b>1,913.43</b>	<b>2,417.75</b>
EBT Margin (%)	18.09	17.23	18.00	17.14	16.77	15.99	16.70
Tax-Total	307.63	290.08	333.97	330.54	413.80	478.35	604.43
Rate of tax (%)	27.99	25.73	23.73	21.81	25.38	25.00	25.00
<b>Net Profit</b>	<b>791.58</b>	<b>837.50</b>	<b>1,073.35</b>	<b>1,184.84</b>	<b>1,216.81</b>	<b>1,435.07</b>	<b>1,813.31</b>
PAT Growth (%)	25.35	5.80	28.16	10.39	2.70	17.93	26.35
PAT Margin (%)	13.03	12.79	13.73	13.40	12.52	11.99	12.52
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Adjusted PAT</b>	<b>791.58</b>	<b>837.50</b>	<b>1,073.35</b>	<b>1,184.84</b>	<b>1,216.81</b>	<b>1,435.07</b>	<b>1,813.31</b>
<b>EPS</b>	<b>37.62</b>	<b>43.34</b>	<b>57.64</b>	<b>63.52</b>	<b>65.06</b>	<b>76.73</b>	<b>96.95</b>
EPS Growth (%)	25.21	15.19	33.01	10.20	2.42	17.93	26.35

### Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	210	193	186	187	187
Reserves	5,942	5,289	5,064	5,643	6,340
<b>Net Worth</b>	<b>6152</b>	<b>5482</b>	<b>5250</b>	<b>5830</b>	<b>6527</b>
Borrowings	260	390	543	571	513
Other Liabilities	889	1,109	1,576	2,339	2,324
<b>Total Liabilities &amp; Equity</b>	<b>7,301</b>	<b>6,980</b>	<b>7,368</b>	<b>8,740</b>	<b>9,365</b>
Fixed Assets	1,921	1,884	2,170	3,013	3,020
CWIP	1	2	3	17	3
Investments	2,396	1,782	1,329	1,326	1,846
Other Assets	2,983	3,312	3,866	4,384	4,496
<b>Total Assets</b>	<b>7,301</b>	<b>6,980</b>	<b>7,368</b>	<b>8,740</b>	<b>9,365</b>

Source: Company, Hem Securities Research.



## Ratios

Y/E March (Basic (INR))	2017	2018	2019	2020	2021
<b>Profitability and return ratios</b>					
Net profit margin (%)	13.03	12.79	13.73	13.40	12.52
EBITDA margin (%)	19.87	18.71	19.19	20.67	19.91
EBIT margin (%)	18.32	17.42	18.22	18.05	17.42
ROE (%)	13.22	14.46	20.16	21.60	19.88
ROCE (%)	17.49	18.57	24.43	26.19	25.21
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	39.25	0.00	49.87	39.51	31.19
Inventory (Days)	0.00	0.00	0.00	0.00	0.00
Receivables (Days)	38.35	40.13	41.24	36.95	33.13
Current Ratio (x)	4.09	2.81	2.06	2.04	2.40
<b>Valuations Ratios</b>					
EV/sales (x)	1.94	2.44	2.34	1.34	3.37
EV/EBITDA (x)	9.78	13.06	12.21	6.48	16.95
P/E (x)	15.36	19.47	17.16	10.46	27.41
P/BV (x)	1.98	2.99	3.54	2.15	5.16
Dividend Yield (%)	2.94	2.37	2.73	5.27	3.64
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.04	0.07	0.10	0.10	0.08

## Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021
<b>CF from Operating activities (A)</b>	<b>664</b>	<b>723</b>	<b>950</b>	<b>1,321</b>	<b>1,455</b>
<b>CF from Investing Activities (B)</b>	<b>267</b>	<b>507</b>	<b>280</b>	<b>142</b>	<b>-810</b>
<b>CF from Financing Activities (C)</b>	<b>-710</b>	<b>-1,380</b>	<b>-1,342</b>	<b>-825</b>	<b>-861</b>
Net Cash Flow	221	-149	-112	638	-217
Add: Opening Bal.	393	613	464	350	988
<b>Closing Balance</b>	<b>613</b>	<b>464</b>	<b>352</b>	<b>988</b>	<b>771</b>

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
8 Feb 2022	Buy	3490

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