

Mphasis

Refer to important disclosures at the end of this report

Strong demand environment to sustain

- Mr. Nitin Rakesh, CEO, and Mr. Manish Duggar, CFO, in an interaction with us, highlighted that cloud migration, data, core modernization and customer experience are major tech consumption trends, and the company's investments have enabled it to capitalize on growth opportunities in those areas and sustain growth momentum.
- Focus on proactive large deal origination, client mining, new logo additions and a steady increase in deal sizes and tenure led to robust deal TCV wins and revenue conversion. Traction in BFSI, Hitech, Travel and Healthcare augurs well for sustainable growth.
- Mphasis remains confident of delivering organic EBITM within 15.5-17% in FY22. The integration of Blink will have an incremental 100bps negative impact for the first two years. It expects margins to remain stable with an upward bias, considering the offshore shift, flattening pyramid and lower dilutive impact from Blink, with growing revenue negating wage inflation.
- We retain Buy on Mphasis with a TP of Rs3,650 (33x Mar'24E EPS) on continued strength in the Direct business with stable margins. Overall revenue growth should converge with the Direct business as the share of the DXC business shrinks further.

Client-centric approach yielding results; Direct business growth momentum intact: Mphasis remains fairly confident of sustaining growth momentum on the back of 1) broad-based demand with Europe & multiple verticals (TMT, Logistics & Transportation) aiding growth besides anchor vertical (BFS) and geography (US), 2) robust deal intake and pipeline, 3) continued wallet share gains with key clients, and 4) new logo acquisitions. Management noted a steady gain in market share with key clients, aided by the company's competency-driven positioning and preferred partner status, which has allowed it to capture additional market share, especially in new areas of tech spend. Mphasis has reinvigorated its focus on new client acquisitions with dedicated leadership across five select verticals, namely BFS, Insurance, Logistic, Hi-Tech and Healthcare. Each of these five verticals has its respective client acquisition strategies, led by dedicated sales, delivery and domain NCA leadership. The logistics and transportation vertical is seeing good traction in the areas of supply chain, airlines and rail road. Mphasis recently launched an airline data platform in partnership with AWS, which facilitates data ingestion, data processing & transformation, data delivery and security. The platform is seeing increased traction and has onboarded 4 out of the top 10 airlines. The insurance vertical's performance was disappointing in the past as the business was concentrated around property & casualty insurance. With Mphasis now expanding into life retirement, brokering, producers and underwriter sub segments, the company expects growth momentum to pick up. The Hi-tech vertical is seeing strong traction across medical devices and instrumentation, ISVs and consumer electronics sub-segments. It plans to emulate the success of Hi-tech in the Healthcare vertical (1-2 anchor clients currently) and flawless execution of a recently-won large deal (TCV \$92mn, 3 year tenure) could drive strong traction.

Confident to deliver EBITM within guided range in FY22; see upside over medium term: Mphasis retained its EBITM guidance range of 15.5-17% in FY22 for the organic business, with additional headwinds of 100bps from the integration of Blink (retention payment and amortization charges). It expects stable EBITM with an upward bias over the medium term, considering benefits accruing from revenue growth-led operating leverage, employee pyramid correction and offshoring, negating pressure from wage inflation, planned investments in capability augmentation, leadership breadth and depth, and geographic expansion.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	88,435	97,222	119,317	144,444	167,635
EBITDA	16,504	18,027	21,219	25,767	30,515
EBITDA Margin (%)	18.7	18.5	17.8	17.8	18.2
APAT	11,848	12,166	14,163	17,230	20,734
EPS (Rs)	63.5	65.2	75.5	91.9	110.6
EPS (% chg)	10.2	2.6	15.9	21.7	20.3
ROE (%)	21.4	19.7	20.7	22.9	24.6
P/E (x)	46.5	45.3	39.1	32.1	26.7
EV/EBITDA (x)	32.4	29.4	25.2	20.5	17.1
P/BV (x)	9.4	8.4	7.8	7.0	6.2

Source: Company, Emkay Research

CMP	Target Price
Rs 2,952 as of (February 25, 2022)	Rs 3,650 (■) 12 months
Rating	Upside
BUY (■)	23.6 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	75.5	91.9
Consensus	75.9	94.6
Mean Consensus TP (12M)	Rs 3,724	

Stock Details

Bloomberg Code	MPHL IN
Face Value (Rs)	10
Shares outstanding (mn)	188
52 Week H/L	3,660 / 1,387
M Cap (Rs bn/USD bn)	554 / 7.32
Daily Avg Volume (nos.)	770,325
Daily Avg Turnover (US\$ mn)	31.5

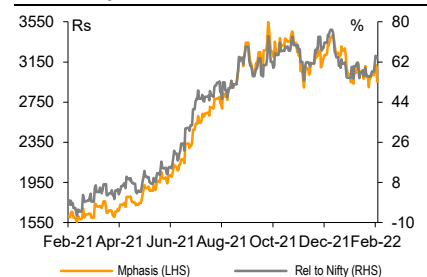
Shareholding Pattern Dec '21

Promoters	55.9%
FIIIs	21.1%
DIIIs	17.8%
Public and Others	5.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	(8)	6	76
Rel. to Nifty	6	(1)	9	62

Relative price chart



Source: Bloomberg

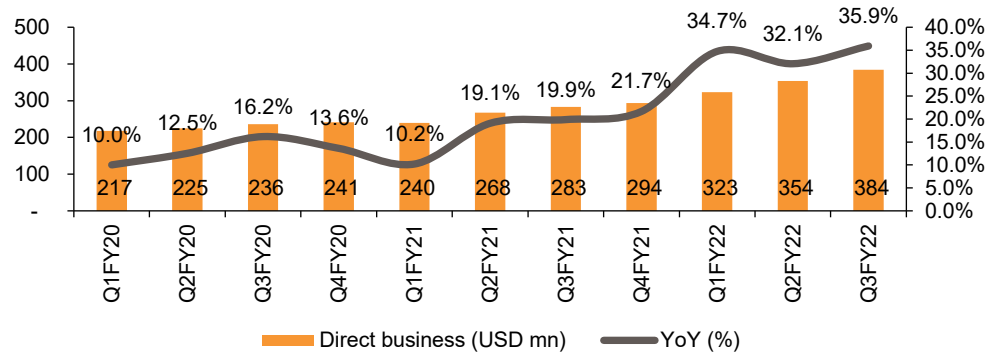
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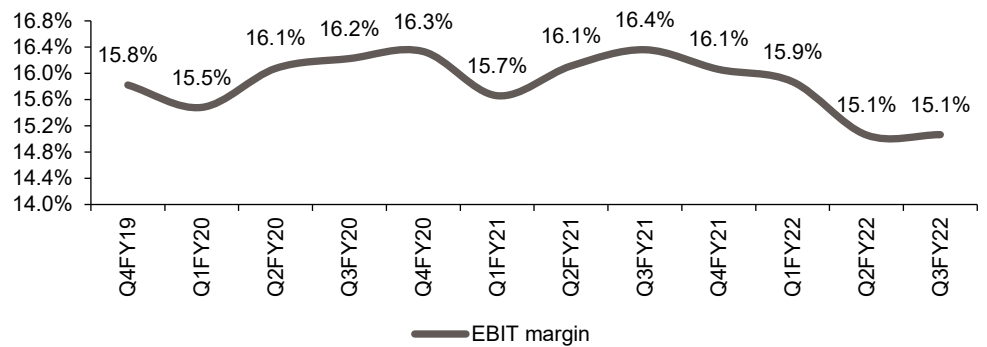
Story in Charts

Exhibit 1: Strong growth momentum continued in Direct business



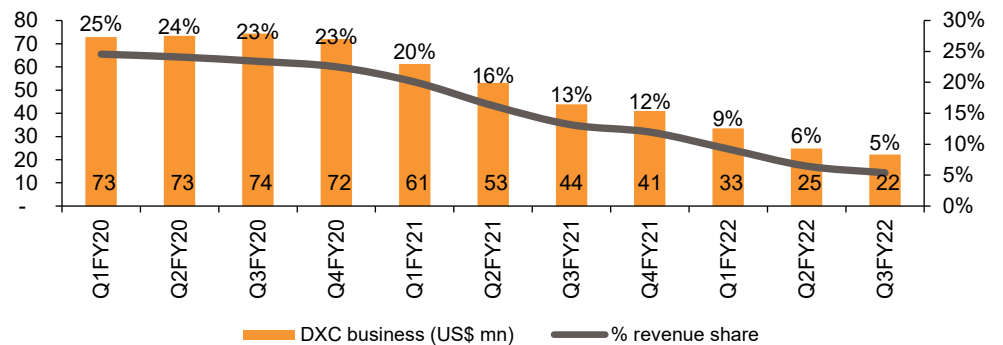
Source: Company, Emkay Research

Exhibit 2: EBITM is expected to sustain with positive bias



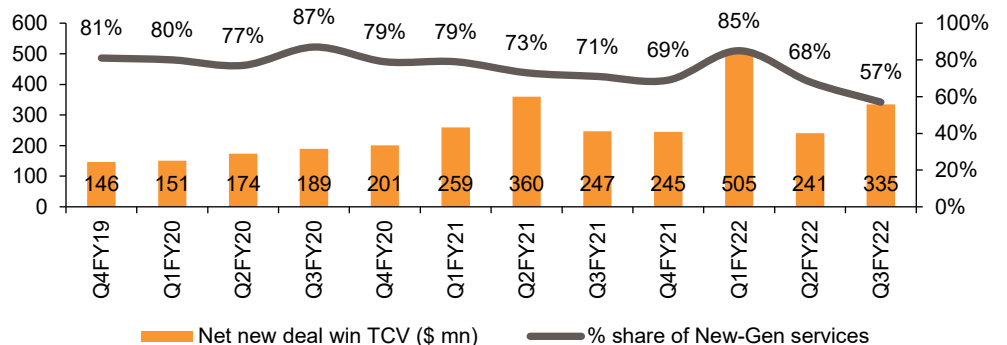
Source: Company, Emkay Research

Exhibit 3: DXC business continued its downward trajectory



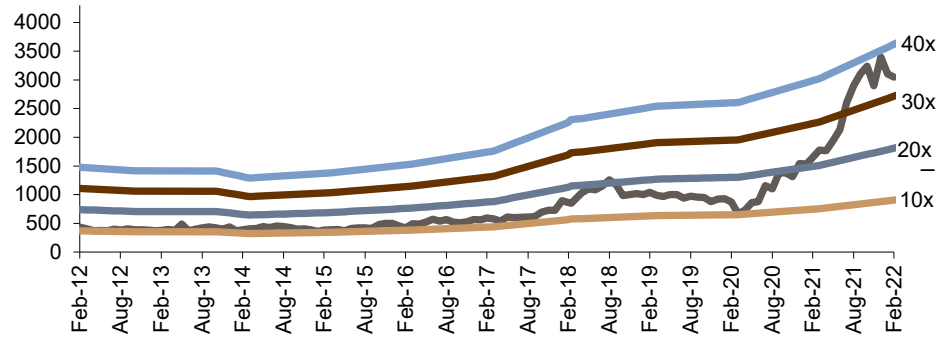
Source: Company, Emkay Research

Exhibit 4: Deal intake has remained robust over the quarters



Source: Company, Emkay Research

Exhibit 5: Mphasis 1 year forward P/E chart



Source: Company, Emkay Research

Exhibit 6: Valuation Summary

Co Name	Reco.	CMP (Rs)	Target Price (Rs)	% upside	Revenue CAGR	EPS CAGR	P/E (x)			EV/EBITDA (x)			ROE		
					(FY21-24E)	(FY21-24E)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
TCS	BUY	3,521	4,000	13.6	16.0	17.5	33.9	28.5	24.8	23.6	20.0	17.0	39.2	41.9	42.8
Infosys	BUY	1,694	2,100	24.0	18.3	18.0	31.6	26.5	22.7	20.9	17.5	14.8	29.6	32.9	32.9
Wipro	BUY	555	670	20.7	18.8	13.7	24.9	22.0	19.2	16.4	13.8	12.0	20.4	20.1	20.4
HCL Tech	BUY	1,130	1,430	26.6	14.0	12.5	23.1	19.9	17.3	14.4	12.3	10.8	20.8	22.8	24.4
Tech Mahindra	BUY	1,390	1,730	24.5	15.7	15.6	22.1	20.1	17.7	14.1	11.8	10.3	21.0	20.9	21.3
L&T Infotech	HOLD	5,715	6,500	13.7	22.9	20.1	43.5	35.3	29.8	31.9	25.5	21.5	29.1	30.3	29.9
Mphasis	BUY	3,050	3,650	19.7	19.9	19.3	40.4	33.2	27.6	26.1	21.2	17.7	20.7	22.9	24.6
Mindtree	HOLD	3,784	4,300	13.6	24.3	24.4	38.9	33.1	29.1	27.2	22.5	19.2	33.4	32.0	30.0
Persistent Systems	BUY	3,874	4,600	18.8	26.7	30.3	44.3	35.8	29.7	29.3	22.8	18.7	22.2	23.5	24.1
Coforge	HOLD	4,502	5,050	12.2	25.9	26.3	41.5	33.4	27.5	24.2	19.1	16.1	25.1	27.4	29.0
Birlasoft	BUY	404	530	31.3	17.7	26.7	25.6	21.5	17.6	15.5	12.5	10.1	19.1	19.8	21.0
Firstsource Solutions	BUY	126	180	43.2	15.2	15.0	16.4	14.2	12.1	10.2	8.6	7.2	18.4	19.5	20.8
eClerx	BUY	2,191	2,620	19.6	19.0	21.6	18.2	16.3	15.0	10.1	9.0	8.2	27.2	28.8	29.3
Route Mobile	BUY	1,447	2,150	48.6	28.1	34.0	55.6	41.1	28.3	36.3	27.0	18.8	14.3	12.7	16.2

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	88,435	97,222	119,317	144,444	167,635
Expenditure	71,931	79,195	98,099	118,677	137,120
EBITDA	16,504	18,027	21,219	25,767	30,515
Depreciation	2,316	2,418	2,939	3,323	3,693
EBIT	14,188	15,609	18,280	22,444	26,822
Other Income	966	695	792	840	1,197
Interest expenses	0	0	0	0	0
PBT	15,154	16,304	19,072	23,284	28,019
Tax	3,306	4,138	4,909	6,054	7,285
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	11,848	12,166	14,163	17,230	20,734
Adjusted PAT	11,848	12,166	14,163	17,230	20,734

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	1,865	1,870	1,870	1,870	1,870
Reserves & surplus	56,431	63,397	69,498	77,354	87,215
Net worth	58,296	65,267	71,369	79,225	89,085
Minority Interest	0	0	0	0	0
Loan Funds	5,713	5,135	5,000	5,000	5,000
Net deferred tax liability	(2,020)	(918)	(918)	(918)	(918)
Total Liabilities	61,989	69,484	75,451	83,307	93,167
Net block	30,135	30,195	37,116	37,003	36,800
Investment	13,257	18,460	18,114	20,114	20,114
Current Assets	41,819	44,042	46,753	55,511	68,148
Cash & bank balance	11,257	10,622	8,692	12,530	20,719
Other Current Assets	14,744	16,140	18,420	20,930	23,153
Current liabilities & Provision	23,389	23,245	26,597	29,385	31,958
Net current assets	18,431	20,797	20,157	26,126	36,190
Misc. exp	0	0	0	0	0
Total Assets	61,989	69,484	75,451	83,307	93,167

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	14,188	15,609	18,280	22,444	26,822
Other Non-Cash items	1,594	2,141	3,057	3,240	3,434
Chg in working cap	422	(453)	(1,290)	(2,131)	(1,874)
Operating Cashflow	13,210	14,545	15,930	18,339	22,294
Capital expenditure	(1,243)	(2,057)	(9,892)	(3,210)	(3,490)
Free Cash Flow	11,967	12,488	6,038	15,129	18,804
Investments	899	(4,824)	346	(2,000)	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(132)	(6,685)	(8,965)	(4,467)	(2,572)
Equity Capital Raised	151	268	0	0	0
Loans Taken / (Repaid)	(1,553)	(1,736)	(135)	0	0
Dividend paid (incl tax)	(6,065)	(6,527)	(8,061)	(9,374)	(10,873)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(8,247)	(8,615)	(8,896)	(10,034)	(11,533)
Net chg in cash	4,831	(754)	(1,931)	3,839	8,189
Opening cash position	6,416	11,257	10,622	8,692	12,530
Closing cash position	11,257	10,622	8,692	12,530	20,719

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	18.7	18.5	17.8	17.8	18.2
EBIT Margin	16.0	16.1	15.3	15.5	16.0
Effective Tax Rate	21.8	25.4	25.7	26.0	26.0
Net Margin	13.4	12.5	11.9	11.9	12.4
ROCE	25.4	24.8	26.3	29.3	31.8
ROE	21.4	19.7	20.7	22.9	24.6
RoIC	38.0	40.2	41.1	45.3	52.1

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	63.5	65.2	75.5	91.9	110.6
CEPS	75.9	78.1	91.2	109.6	130.3
BVPS	312.5	349.5	380.7	422.6	475.2
DPS	35.0	65.0	43.0	50.0	58.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	46.5	45.3	39.1	32.1	26.7
P/CEPS	40.9	39.8	34.1	28.4	23.9
P/BV	9.4	8.4	7.8	7.0	6.2
EV / Sales	6.1	5.5	4.5	3.7	3.1
EV / EBITDA	32.4	29.4	25.2	20.5	17.1
Dividend Yield (%)	1.2	2.2	1.5	1.7	2.0

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Net Debt/EBIDTA	(0.9)	(1.2)	(0.9)	(1.0)	(1.1)
Working Cap Cycle (days)	29.6	38.2	35.1	34.4	33.7

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	14.4	9.9	22.7	21.1	16.1
EBITDA	24.7	9.2	17.7	21.4	18.4
EBIT	13.7	10.0	17.1	22.8	19.5
PAT	10.4	2.7	16.4	21.7	20.3

Quarterly (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Revenue	24,743	25,243	26,909	28,693	31,237
EBITDA	4,654	4,671	4,895	4,978	5,532
EBITDA Margin (%)	18.8	18.5	18.2	17.3	17.7
PAT	3,255	3,169	3,398	3,416	3,577
EPS (Rs)	17.4	17.0	18.2	18.2	19.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	56.1	56.0	56.0	56.0	55.9
FII	22.8	21.8	20.8	20.9	21.1
DII	16.0	17.2	18.5	17.9	17.8
Public and Others	5.1	5.0	4.8	5.3	5.2

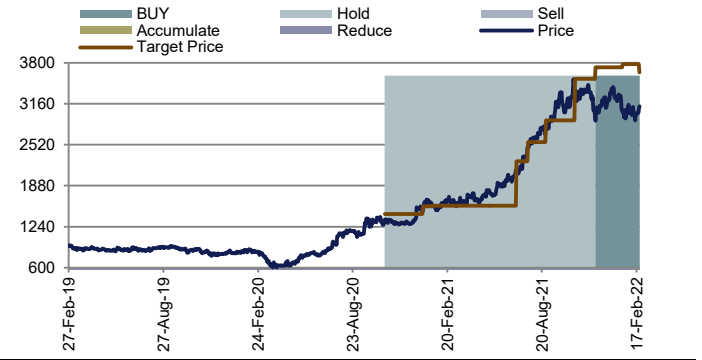
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Feb-22	3,122	3,650	12m	Buy	Dipeshkumar Mehta
21-Jan-22	3,025	3,780	12m	Buy	Dipeshkumar Mehta
1-Jan-22	3,397	3,730	12m	Buy	Dipeshkumar Mehta
30-Nov-21	2,895	3,730	12m	Buy	Dipeshkumar Mehta
22-Oct-21	3,255	3,550	12m	Hold	Dipeshkumar Mehta
2-Oct-21	3,026	2,900	12m	Hold	Dipeshkumar Mehta
22-Sep-21	3,251	2,900	12m	Hold	Dipeshkumar Mehta
27-Aug-21	2,832	2,900	12m	Hold	Dipeshkumar Mehta
24-Jul-21	2,475	2,560	12m	Hold	Dipeshkumar Mehta
2-Jul-21	2,108	2,260	12m	Hold	Dipeshkumar Mehta
14-May-21	1,750	1,570	12m	Hold	Dipeshkumar Mehta
26-Apr-21	1,687	1,570	12m	Hold	Dipeshkumar Mehta
5-Apr-21	1,717	1,570	12m	Hold	Dipeshkumar Mehta
18-Mar-21	1,602	1,570	12m	Hold	Dipeshkumar Mehta
22-Jan-21	1,564	1,570	12m	Hold	Dipeshkumar Mehta
4-Jan-21	1,486	1,560	12m	Hold	Dipeshkumar Mehta
18-Dec-20	1,343	1,440	12m	Hold	Dipeshkumar Mehta
23-Nov-20	1,287	1,440	12m	Hold	Dipeshkumar Mehta
23-Oct-20	1,352	1,440	12m	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



Analyst: Dipesh Mehta

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Sector

IT Services, ITes and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Information Technology	14.22	14.22	0%	0	100.00	
BirlaSoft	0.00	0.04	NA	4	0.26	0
Coforge	0.12	0.00	-100%	-12	0.00	0
Firstsource Solutions	0.00	0.05	NA	5	0.32	0
HCL Tech	1.27	1.36	7%	9	9.54	0
Infosys	6.52	6.68	2%	16	46.99	0
L&T Infotech	0.27	0.00	-100%	-27	0.00	0
Mindtree	0.23	0.13	-42%	-10	0.94	0
Mphasis	0.26	0.29	11%	3	2.01	0
Oracle Financial Services*	0.08	0.00	-100%	-8	0.00	0
Persistent Systems	0.00	0.23	NA	23	1.64	0
TCS	3.74	3.70	-1%	-4	26.05	0
Tech Mahindra	0.88	0.95	8%	7	6.68	0
Wipro	0.84	0.79	-6%	-5	5.56	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	24-Feb-21	24-Aug-21	24-Nov-21	24-Jan-22	24-Feb-22
EAP - Information Technology	100.0	166.7	225.9	224.5	230.7	217.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	157.2	211.3	210.1	214.1	201.4

*Performance measurement base date 1st April 2019

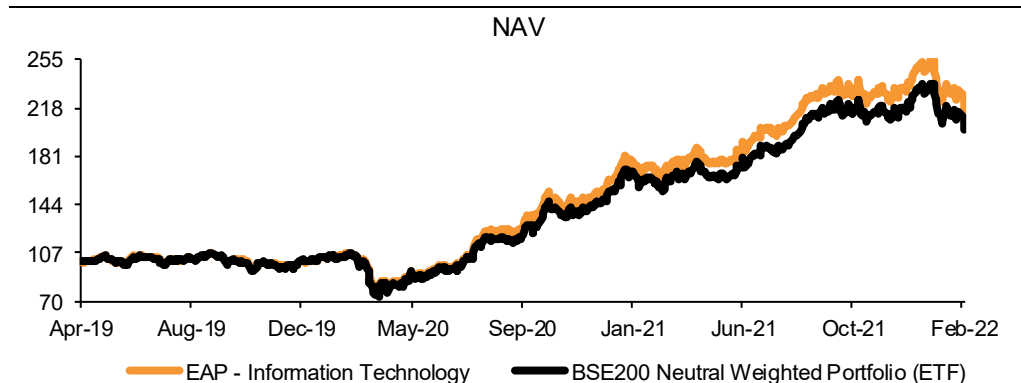
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	-5.9%	-3.3%	-3.9%	30.2%
BSE200 Neutral Weighted Portfolio (ETF)	-5.9%	-4.2%	-4.7%	28.1%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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