

July 23, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		HOLD	
Target Price	2,382		2,421	
Sales (Rs. m)	1,42,441	1,61,324	1,44,465	1,64,153
% Chng.	(1.4)	(1.7)		
EBITDA (Rs. m)	24,860	28,490	25,096	28,948
% Chng.	(0.9)	(1.6)		
EPS (Rs.)	89.2	103.5	90.0	105.3
% Chng.	(0.9)	(1.6)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	97,222	1,19,616	1,42,441	1,61,324
EBITDA (Rs. m)	18,026	21,176	24,860	28,490
Margin (%)	18.5	17.7	17.5	17.7
PAT (Rs. m)	12,165	14,310	16,688	19,370
EPS (Rs.)	65.3	76.5	89.2	103.5
Gr. (%)	2.7	17.1	16.6	16.1
DPS (Rs.)	65.0	46.0	19.0	19.0
Yield (%)	2.9	2.0	0.8	0.8
RoE (%)	19.7	21.2	22.0	21.6
RoCE (%)	25.3	26.1	26.8	26.6
EV/Sales (x)	4.3	3.5	2.9	2.5
EV/EBITDA (x)	22.9	19.9	16.7	14.2
PE (x)	34.8	29.8	25.5	22.0
P/BV (x)	6.5	6.1	5.2	4.4

Key Data

[MBFL.BO](#) | [MPHL IN](#)

52-W High / Low	Rs.3,660 / Rs.2,071
Sensex / Nifty	56,072 / 16,719
Market Cap	Rs.428bn/ \$ 5,362m
Shares Outstanding	188m
3M Avg. Daily Value	Rs.1270.14m

Shareholding Pattern (%)

Promoter's	55.72
Foreign	20.48
Domestic Institution	18.16
Public & Others	5.64
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.5)	(24.7)	(4.2)
Relative	(6.4)	(22.3)	(9.5)

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Modest revenue growth, resilient margins

Quick Pointers:

- Resilient EBIT margin at 15.3%, 10bps QoQ (vs 15.25-17% guidance for FY23)
- Modest revenue growth and soft TCv point towards normalizing demand

Mphasis reported miss on revenue growth of 2% QoQ CC (Ple: 3%). Soft revenue growth was due to slowdown in mortgage business and decline in Insurance vertical (-6.1% QoQ USD). Direct business grew 2.4% QoQ CC, while DXC continued to decline -4.4% QoQ CC. Deal TCv was modest at \$302mn (-13% QoQ, -40.2% YoY). Company also won \$60mn cloud transformation deal from one of the top clients in July-22 (not included in Q1 TCv). Management mentioned that pipeline is strong (6% QoQ, 10% YoY) and growth is expected to accelerate in rest of the year. Margins were resilient at 15.3%, 10bps QoQ despite ongoing supply side pressures. Utilization (excluding trainees) dipped by 300bps QoQ to 74% and is expected to improve in coming quarters. We expect margins to remain near lower end of guidance and model 15.2% EBIT margin for FY23.

Our EPS estimates decrease by 1%/2% led by cut in revenue estimates due to miss in Q1 revenue and some exposure (not significant) to mortgage and capital markets business, which are likely to be impacted by worsening macro environment. We continue to value Mphasis on 23x (FY24 EPS) to arrive at TP of Rs. 2382. Mphasis is currently trading at 25x/22x on FY23/24 EPS of 89/104 respectively with Revenue/EPS CAGR of 14%/16% over FY22-24E. Maintain 'Hold'.

- Muted performance in BCM and Insurance vertical:** Growth was led by TMT (2.2% QoQ USD), Logistics and Transportation (2.6% QoQ USD) and Others (7.2% QoQ USD). BCM was soft at 0.7% QoQ USD partly due to slowdown in mortgage and refinancing business. Mphasis aims to reduce this impact via new business lines such as home equity loans in Mortgage LOB. In BCM vertical, company is more focused on consumer banking, payments, financial services in asset and wealth management compared to pure investment banking capital markets and trading. Insurance vertical (-6.1% QoQ USD) declined on a high base in Q4FY22, due to completion of a project milestone.
- Demand environment:** Management mentioned that clients are now focusing on reducing their run spends creating opportunities like zero-cost transformation and higher outsourcing to offshore/nearshore, the need for faster time to market and globalization of talent models. They are seeing some softness in Europe reflected in stretched timelines for conversion of TCv in to revenue. However, as the company is strategic partner for most of its top clients and given robust deal pipeline, management believes growth will improve in rest of the three quarters.
- Margin levers ahead:** Price increases, offshore led apps growth, utilization improvement, pyramid correction, reduction of amortization and ESOP costs as % of revenue.

Exhibit 1: Q1FY23: Quick view on results

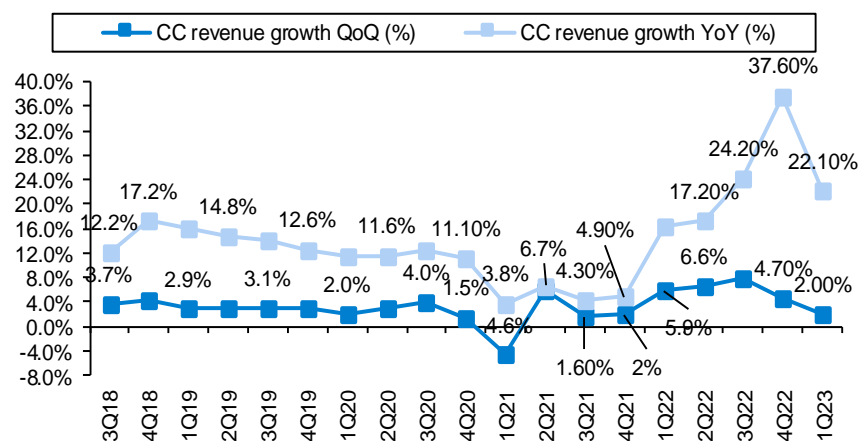
Y/e March	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.	% var from est	Ple
Consolidated Sales - pre forex (US\$ m)	436	431	1.2%	362.9	20.1%	-0.9%	439.9
Consolidated Sales - post forex (Rs m)	34,113	32,777	4.1%	26,909	26.8%	-0.3%	34,204
EBITDA	6012	5772	4.2%	4895	22.8%	1.2%	5938
EBIT	5,204	4,973	4.6%	4,271	21.8%	1.4%	5,131
<i>EBIT margin</i>	<i>15.3%</i>	<i>15.2%</i>	<i>8 bps</i>	<i>15.9%</i>	<i>-62 bps</i>	<i>26 bps</i>	<i>15.0%</i>
PBT (Rs m)	5,329	5,157	3.3%	4,581	16.3%	1.0%	5,277
PAT (Rs m)	4,019	3,921	2.5%	3,397	18.3%	1.8%	3,946
EPS (Rs)	21.2	21.0	1.1%	17.91	18.3%	1.8%	20.81

Source: Company, PL

Exhibit 2: Change in Estimates

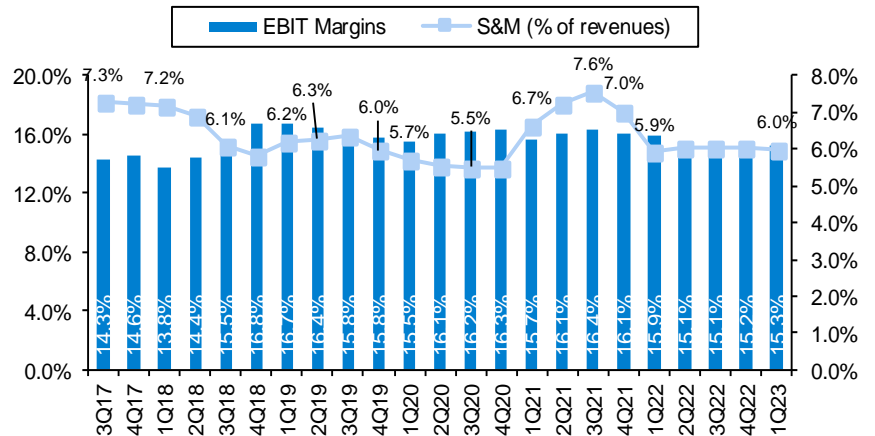
Y/e March	FY23E	FY24E
USD revenues (US\$ m)		
- New	1,829	2,063
- Old	1,859	2,099
<i>Change (%)</i>	<i>-1.6%</i>	<i>-1.7%</i>
EBIT Margin		
- New	15.2%	15.6%
- Old	15.2%	15.6%
<i>Change (%)</i>	<i>6 bps</i>	<i>0 bps</i>
Recurring EPS - Fully diluted (Rs)		
- New	89.3	103.5
- Old	90.0	105.3
<i>Change (%)</i>	<i>-0.9%</i>	<i>-1.6%</i>

Source: PL

Exhibit 3: Moderation in direct core business


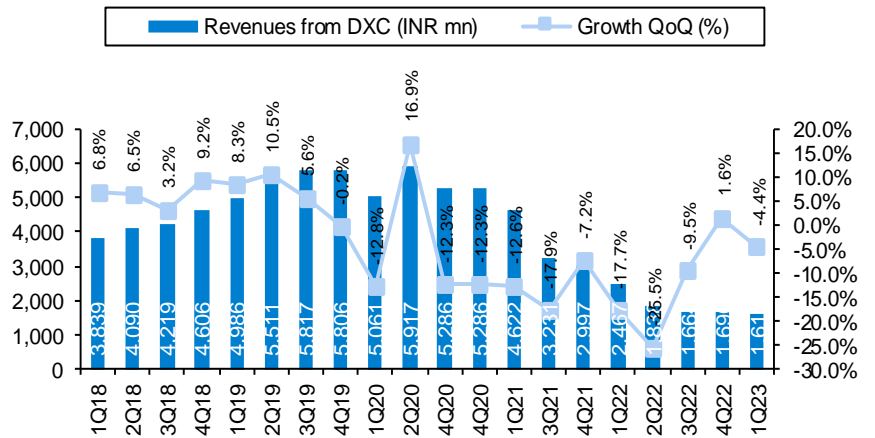
Source: Company, PL

Exhibit 4: Stable Margin Performance



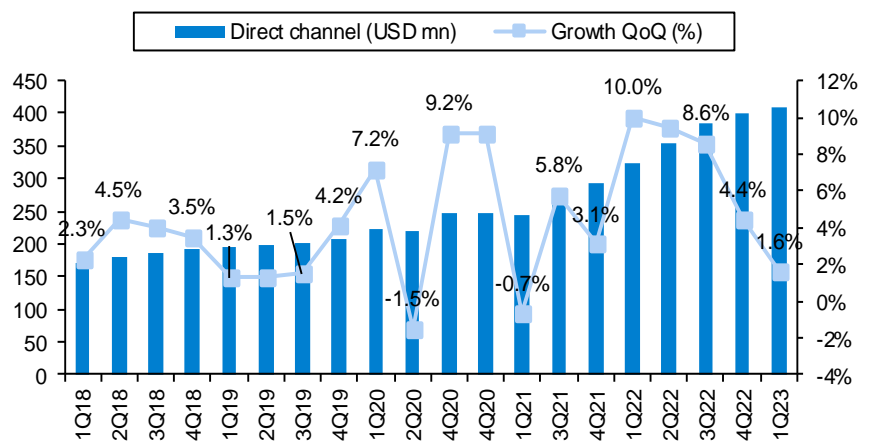
Source: Company, PL

Exhibit 5: DXC now accounts to 4.7% of total revenue

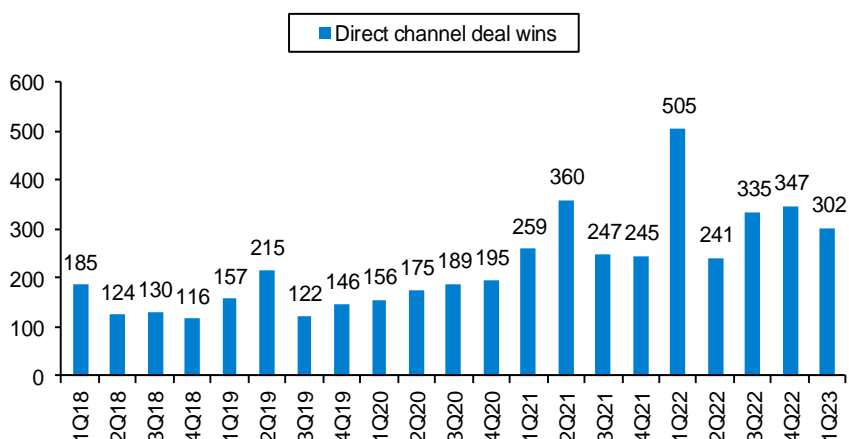


Source: Company, PL

Exhibit 6: Soft growth in Direct channel



Source: Company, PL

Exhibit 7: Muted growth deal TCV in Q1FY23


Source: Company, PL

Exhibit 8: Revenue by service offerings

(Rs m)	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
Application Services	22,388	21,232	5.4%	16,562	35.2%
Business Process Services	7,532	7,555	-0.3%	7,172	5.0%
Infrastructure Services	3,989	3,661	9.0%	3,015	32.3%
% of Total					
Application Services	65.6%	64.8%	85 bps	61.5%	408 bps
Business Process Services	22.1%	23.0%	-97 bps	26.7%	-457 bps
Infrastructure Services	11.7%	11.2%	52 bps	11.2%	49 bps

Source: Company, PL

Exhibit 9: Vertical-wise revenues

(Rs m)	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
Banking and Capital Market	18,097	17,403	4.0%	13,706	32.0%
Insurance	3,003	3,098	-3.1%	2,446	22.8%
Information, Communication & Entertainment	4,539	4,300	5.6%	3,801	19.4%
Emerging Industries	8,270	7,648	8.1%	6,797	21.7%
% of Total					
Banking and Capital Market	53.1%	53.1%	-5 bps	50.9%	212 bps
Insurance	8.8%	9.5%	-65 bps	9.1%	-29 bps
Information, Communication & Entertainment	13.3%	13.1%	19 bps	14.1%	-82 bps
Emerging Industries	24.2%	23.3%	91 bps	25.3%	-102 bps
Gross Profit Margin					
Banking and Capital Market	22.6%	26.1%	-351 bps	22.6%	0 bps
Insurance	29.9%	27.1%	284 bps	29.9%	0 bps
IT, Communication & Entertainment	13.3%	24.3%	-1096 bps	13.3%	0 bps
Emerging Industries	39.3%	31.7%	752 bps	39.3%	0 bps

Source: Company, PL

Exhibit 10: Geography-wise revenues

(Rs m)	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
Americas	27,920	26,429	5.6%	20,410	36.8%
EMEA	3,299	3,465	-4.8%	3,243	1.7%
India	1,698	1,582	7.3%	1,840	-7.7%
RoW	992	972	2.1%	1,256	-21.0%
Total	33,909	32,448	4.5%	26,749	26.8%
% of Total					
America	82.3%	81.5%	89 bps	76.3%	604 bps
EMEA	9.7%	10.7%	-95 bps	12.1%	-239 bps
India	5.0%	4.9%	13 bps	6.9%	-187 bps
RoW	2.9%	3.0%	-7 bps	4.7%	-177 bps
Total	100.0%	100.0%		100.0%	

Source: Company, PL

Exhibit 11: Segment-wise revenues

(Rs m)	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
Direct International	31,721	30,221	5.0%	23,802	33.3%
HP Channel	1,615	1,690	-4.4%	2,467	-34.5%
Direct Others	572	537	6.5%	479	19.4%
% of Total					
Direct International	93.0%	92.2%	79 bps	88.5%	453 bps
HP Channel	4.7%	5.2%	-42 bps	9.2%	-443 bps
Direct Others	1.7%	1.6%	4 bps	1.8%	-10 bps

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	97,222	1,19,616	1,42,441	1,61,324
YoY gr. (%)	9.9	23.0	19.1	13.3
Employee Cost	67,723	84,664	1,01,016	1,15,250
Gross Profit	29,499	34,952	41,425	46,074
Margin (%)	30.3	29.2	29.1	28.6
SG&A Expenses	4,686	6,656	7,866	8,196
Other Expenses	1	1	1	-
EBITDA	18,026	21,176	24,860	28,490
YoY gr. (%)	9.2	17.5	17.4	14.6
Margin (%)	18.5	17.7	17.5	17.7
Depreciation and Amortization	2,418	2,906	3,156	3,252
EBIT	15,608	18,270	21,703	25,238
Margin (%)	16.1	15.3	15.2	15.6
Net Interest	-	-	-	-
Other Income	696	861	569	658
Profit Before Tax	16,304	19,131	22,272	25,896
Margin (%)	16.8	16.0	15.6	16.1
Total Tax	4,139	4,821	5,584	6,527
Effective tax rate (%)	25.4	25.2	25.1	25.2
Profit after tax	12,165	14,310	16,688	19,370
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,165	14,310	16,688	19,370
YoY gr. (%)	2.7	17.6	16.6	16.1
Margin (%)	12.5	12.0	11.7	12.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,165	14,310	16,688	19,370
YoY gr. (%)	2.7	17.6	16.6	16.1
Margin (%)	12.5	12.0	11.7	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,165	14,310	16,688	19,370
Equity Shares O/s (m)	186	187	187	187
EPS (Rs)	65.3	76.5	89.2	103.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	7,826	10,388	10,980	12,247
Tangibles	7,826	10,388	10,980	12,247
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	7,826	10,388	10,980	12,247
Tangibles	7,826	10,388	10,980	12,247
Intangibles	-	-	-	-
Capital Work In Progress	-	-	-	-
Goodwill	21,326	27,348	27,348	27,348
Non-Current Investments	-	-	-	-
Net Deferred tax assets	1,261	1,616	1,616	1,616
Other Non-Current Assets	12,174	18,239	18,239	18,239
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	18,505	22,831	26,147	29,613
Cash & Bank Balance	10,622	9,682	16,339	26,817
Other Current Assets	-	69	-	-
Total Assets	93,989	1,06,401	1,20,611	1,38,465
Equity				
Equity Share Capital	1,870	1,878	1,878	1,878
Other Equity	63,397	67,554	80,095	95,307
Total Network	65,267	69,432	81,973	97,185
Non-Current Liabilities				
Long Term borrowings	-	5,272	5,272	5,272
Provisions	-	-	-	-
Other non current liabilities	7,285	7,965	7,965	7,965
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	21,437	23,732	25,400	28,044
Other current liabilities	-	-	-	-
Total Equity & Liabilities	93,989	1,06,401	1,20,611	1,38,465

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	16,304	19,131	22,284	25,896
Add. Depreciation	2,418	2,906	3,156	3,252
Add. Interest	634	744	532	600
Less Financial Other Income	696	861	569	658
Add. Other	-	-	-	-
Op. profit before WC changes	19,356	22,781	25,972	29,748
Net Changes-WC	(19,430)	(1,438)	(5,292)	(3,466)
Direct tax	(4,139)	(4,821)	(5,584)	(6,527)
Net cash from Op. activities	(4,213)	16,522	15,096	19,755
Capital expenditures	(1,268)	(11,490)	(3,749)	(4,518)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(1,268)	(11,490)	(3,749)	(4,518)
Issue of share cap. / premium	5	8	-	-
Debt changes	-	5,272	-	-
Dividend paid	(14,153)	(8,605)	(4,158)	(4,158)
Interest paid	(634)	(744)	(532)	(600)
Others	9,851	(1,903)	-	-
Net cash from Fin. activities	(4,931)	(5,972)	(4,690)	(4,758)
Net change in cash	(10,412)	(940)	6,657	10,478
Free Cash Flow	(5,481)	5,032	11,347	15,237

Source: Company Data, PL Research

Key Financial Metrics

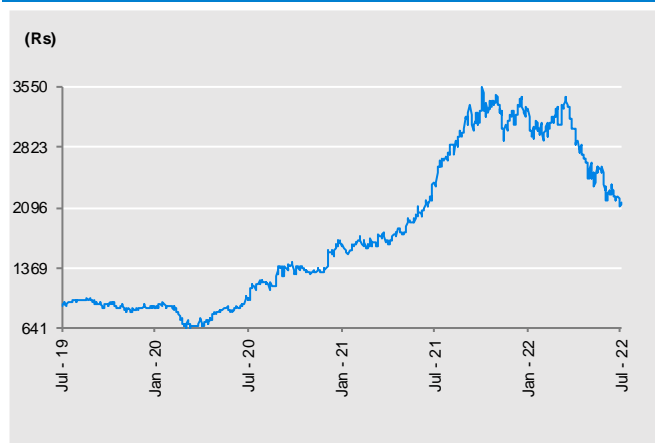
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	65.3	76.5	89.2	103.5
CEPS	78.3	92.0	106.1	120.9
BVPS	350.5	371.2	438.2	519.5
FCF	(29.4)	26.9	60.7	81.5
DPS	65.0	46.0	19.0	19.0
Return Ratio(%)				
RoCE	25.3	26.1	26.8	26.6
ROIC	33.7	37.3	39.0	33.9
RoE	19.7	21.2	22.0	21.6
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.2)
Debtor (Days)	69	70	67	67
Valuation(x)				
PER	34.8	29.8	25.5	22.0
P/B	6.5	6.1	5.2	4.4
P/CEPS	78.9	92.7	106.9	121.8
EV/EBITDA	22.9	19.9	16.7	14.2
EV/Sales	4.3	3.5	2.9	2.5
Dividend Yield (%)	2.9	2.0	0.8	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	28,693	31,237	32,777	34,113
YoY gr. (%)	13.7	23.7	21.8	9.2
Raw Material Expenses	20,428	21,961	23,014	23,941
Gross Profit	8,265	9,276	9,763	10,172
Margin (%)	28.8	29.7	29.8	29.8
EBITDA	4,978	5,531	5,772	6,000
YoY gr. (%)	6.6	18.4	17.9	8.5
Margin (%)	17.3	17.7	17.6	17.6
Depreciation / Depletion	657	826	799	808
EBIT	4,321	4,705	4,973	5,192
Margin (%)	15.1	15.1	15.2	15.2
Net Interest	-	-	-	-
Other Income	277	90	184	125
Profit before Tax	4,598	4,795	5,157	5,317
Margin (%)	16.0	15.4	15.7	15.6
Total Tax	1,182	1,219	1,236	1,310
Effective tax rate (%)	25.7	25.4	24.0	24.6
Profit after Tax	3,416	3,576	3,921	4,007
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,416	3,576	3,921	4,007
YoY gr. (%)	7.8	12.8	15.4	12.1
Margin (%)	11.9	11.4	12.0	11.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,416	3,576	3,921	4,007
YoY gr. (%)	7.8	12.8	15.4	12.1
Margin (%)	11.9	11.4	12.0	11.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,416	3,576	3,921	4,007
Avg. Shares O/s (m)	187	187	187	187
EPS (Rs)	18.3	19.1	21.0	21.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	Hold	2,421	2,241
2	29-Apr-22	BUY	3,379	2,843
3	05-Apr-22	BUY	3,755	3,312
4	21-Jan-22	BUY	3,868	3,051
5	04-Jan-22	BUY	3,772	3,423
6	22-Oct-21	BUY	3,674	3,396
7	05-Oct-21	BUY	3,690	3,089
8	22-Sep-21	BUY	3,573	3,251
9	06-Aug-21	BUY	3,348	2,695
10	25-Jul-21	BUY	2,770	2,530

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,342	1,009
2	Coforge	BUY	4,095	3,488
3	Cyient	Hold	776	799
4	HCL Technologies	Hold	982	928
5	Infosys	Accumulate	1,646	1,479
6	L&T Technology Services	Hold	3,184	3,093
7	Larsen & Toubro Infotech	Accumulate	4,280	3,874
8	Mindtree	Accumulate	3,131	2,901
9	Mphasis	Hold	2,421	2,241
10	Persistent Systems	Hold	3,490	3,329
11	Redington (India)	BUY	162	127
12	Sonata Software	Accumulate	694	655
13	Tata Consultancy Services	Accumulate	3,607	3,265
14	TeamLease Services	Accumulate	3,642	3,300
15	Tech Mahindra	Hold	1,065	1,011
16	Wipro	Hold	418	412
17	Zensar Technologies	Hold	279	270

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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