

Mphasis

Refer to important disclosures at the end of this report

Mortgage weakness to weigh on Q2; Expect growth to pick up in H2

We interacted with Mr. Manish Dugar, CFO, to get his perspective on the demand environment, revenue growth, and margin outlook.

- Deal win momentum, deal pipeline buildup, and client conversation remain steady. The company highlighted pockets of weakness – mortgage, deferment in spending on horizon-3 initiatives, and furloughs announced by few clients – which may weigh on near-term growth.
- Focus on proactive large deal origination, steady expansion in competencies, client mining, new logo additions, and steady increase in deal sizes and tenure led to healthy deal TCV wins and revenue conversion. The company expects Q2 growth to be better than Q1.
- Mphasis remains confident of delivering EBITM within the guided range of 15.25-17% for FY23. EBITM was 15.3% in Q1 and is expected to remain stable with an upward bias, considering better utilization, offshore shift, flattening pyramid, pricing benefits, and lower ESOP charges.
- Weakness in mortgage business and furloughs in few accounts are likely to weigh on near-term revenue growth. We retain Buy with a TP of Rs2,800 at 25x Jun'24E EPS, given continued wallet share gains and steady expansion in addressable markets with competency build-up.

Weakness in mortgage business to weigh on near-term growth: Mphasis has not experienced deterioration in the demand environment. Mortgage (uptick in interest rates in the US), deferment in spending on horizon-3 initiatives (such as Quantum Computing, Blockchain, etc), and furloughs announced by few clients (Manufacturing/Hi-tech) to align spending with their business projections remain areas of weakness in the near term. The company is seeing elongated sales cycle and slower TCV-to-revenue conversion in Europe, particularly in the UK. Despite challenges in mortgage, hi-tech, and Europe, management is confident of sustaining healthy revenue growth momentum in the direct business, supported by healthy demand, continued market share gains across clients, robust spending plans of its high-quality client base, expansion of the addressable market with competency build-up, healthy deal wins and pipeline, steady progress in client mining across buckets, and consistent new client wins. Management has refrained from giving exact exposure to the mortgage business, but it indicated that the refinancing business is currently less than half of the overall mortgage business. Management highlighted tribes-led GTM strategy, competency-driven positioning, and steady expansion in competencies helped it expand addressable spending and gain wallet share across key clients, especially in new areas of tech spend. Mphasis is organized around accounts and not around traditional verticals/horizontals, which improves agility and responsiveness. Scale-up of Top 5/10 clients over the past few years and four clients contributing over \$100mn in FY22 reflect the initial success of the approach. Management indicated that over 80% of its deal TCV in FY22 came through proactive deal pursuits, where win rates are much higher at ~50% compared to competitive RFP situations. Deal pipeline remains strong on account of strong influx of new-gen tribe deals over the past two years. Insurance revenue growth remained weaker than expectations due to the decline in DXC and completion of few transformational projects. Management expects expansion into specialty insurance, brokerage, and life and annuity would drive more sustained revenue growth performance. Management expects expansion of capabilities, geographic presence, leadership augmentation, and portfolio of IP-driven AI/ML innovation to support revenue growth momentum.

Confident to operate within the guided range of 15.25-17% EBITM for FY23; See upside over the medium term: Mphasis has guided for EBITM to be in the range of 15.25-17% through all four quarters of FY23, considering the benefits accruing from employee pyramid correction, higher utilization, offshoring, pricing benefits, and lower ESOPs and amortization charges, which should offset headwinds emanating from wage hikes, backfilling costs, planned investments in capability augmentation, and geographic expansion. Management 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.

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

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	97,222	119,616	142,285	163,380	188,757
EBITDA	18,027	21,177	25,479	29,828	34,435
EBITDA Margin (%)	18.5	17.7	17.9	18.3	18.2
APAT	12,166	14,310	17,030	20,201	23,522
EPS (Rs)	65.2	76.3	90.5	107.4	125.1
EPS (% chg)	2.6	17.2	18.6	18.6	16.4
ROE (%)	19.7	21.2	23.3	24.8	25.8
P/E (x)	34.8	29.7	25.0	21.1	18.1
EV/EBITDA (x)	22.3	19.2	15.8	13.2	11.3
P/BV (x)	6.5	6.1	5.5	5.0	4.4

Source: Company, Emkay Research

CMP	Target Price
Rs 2,265 as of (August 23, 2022)	Rs 2,800 (■) 12 months
Rating	Upside
BUY (■)	23.6 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	90.5	107.4
Consensus	92.3	108.7
Mean Consensus TP (12M)	Rs 2,662	

Stock Details

Bloomberg Code	MPHL IN
Face Value (Rs)	10
Shares outstanding (mn)	188
52 Week H/L	3,660 / 2,071
M Cap (Rs bn/USD bn)	426 / 5.33
Daily Avg Volume (nos.)	590,107
Daily Avg Turnover (US\$ mn)	17.1

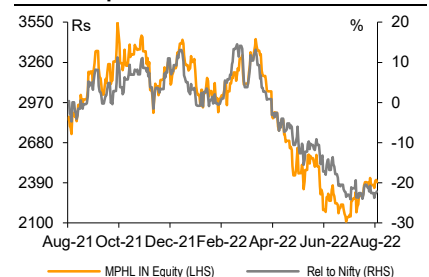
Shareholding Pattern Jun '22

Promoters	55.7%
FIIIs	20.5%
DIIIs	18.2%
Public and Others	5.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(10)	(27)	(20)
Rel. to Nifty	(5)	(17)	(29)	(25)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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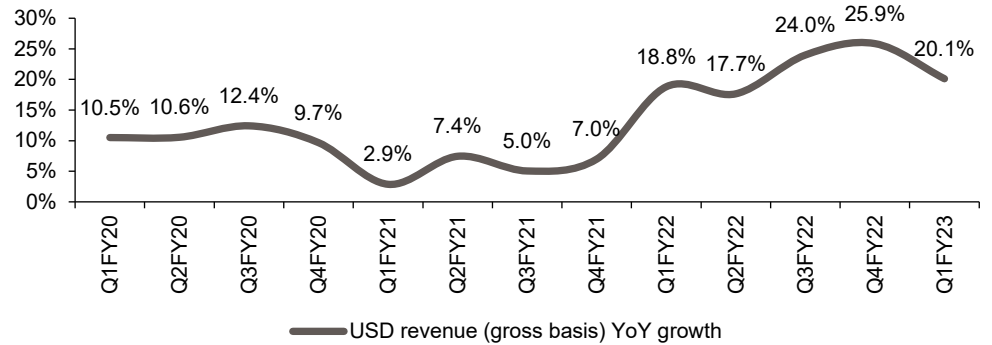
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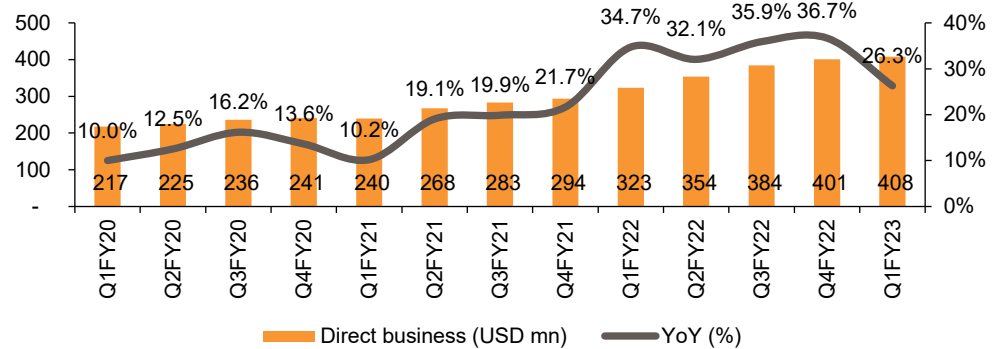
Story in Charts

Exhibit 1: USD revenue YoY growth moderates



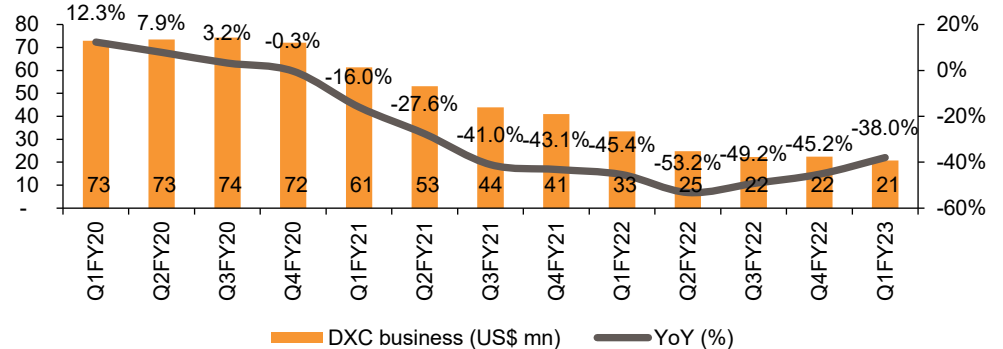
Source: Company, Emkay Research

Exhibit 2: Management is confident of sustaining revenue growth momentum in direct business



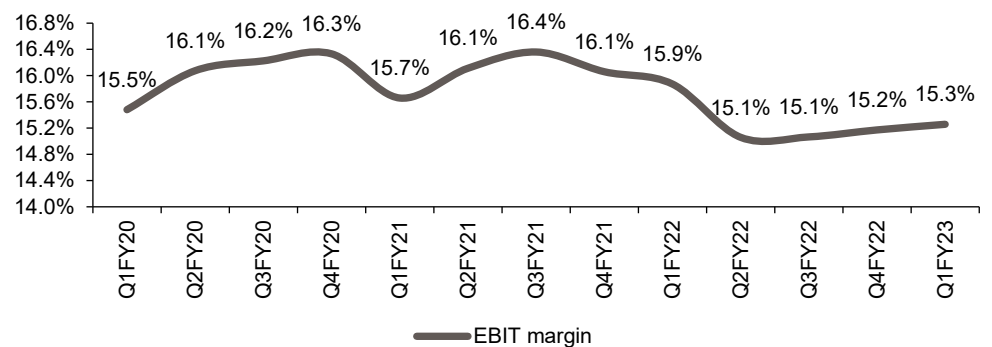
Source: Company, Emkay Research

Exhibit 3: DXC revenue has declined substantially over the past few quarters

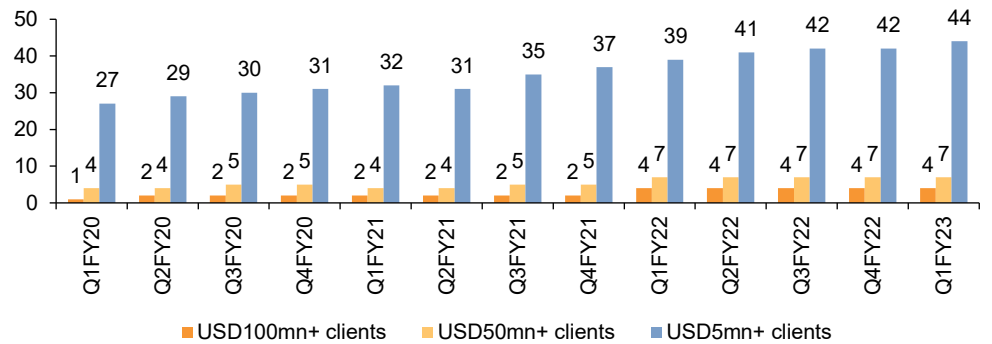


Source: Company, Emkay Research

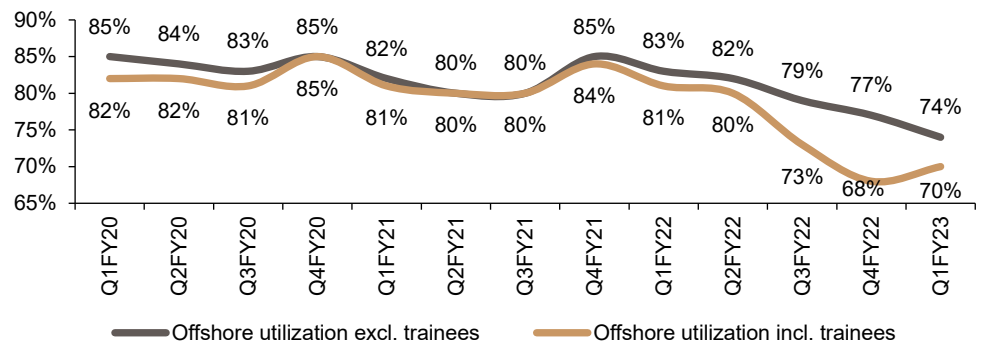
Exhibit 4: EBITM grew by 10bps sequentially in Q1



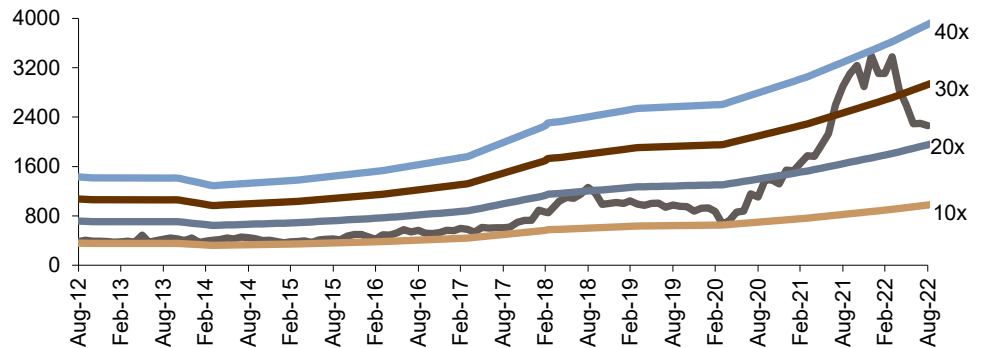
Source: Company, Emkay Research

Exhibit 5: Steady improvements across client buckets over the quarters

Source: Company, Emkay Research

Exhibit 6: Utilization is likely to improve in the coming quarters

Source: Company, Emkay Research

Exhibit 7: Mphasis one-year forward P/E chart

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	97,222	119,616	142,285	163,380	188,757
Expenditure	79,195	98,439	116,807	133,552	154,322
EBITDA	18,027	21,177	25,479	29,828	34,435
Depreciation	2,418	2,908	3,317	3,679	4,165
EBIT	15,609	18,269	22,161	26,149	30,270
Other Income	695	860	750	1,150	1,516
Interest expenses	0	0	0	0	0
PBT	16,304	19,130	22,912	27,299	31,786
Tax	4,138	4,820	5,881	7,098	8,264
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	12,166	14,310	17,030	20,201	23,522
Adjusted PAT	12,166	14,310	17,030	20,201	23,522

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	1,870	1,878	1,878	1,878	1,878
Reserves & surplus	63,397	67,553	75,180	84,096	94,452
Net worth	65,267	69,431	77,058	85,974	96,331
Minority Interest	0	0	0	0	0
Loan Funds	5,135	5,272	5,000	5,000	5,000
Net deferred tax liability	(918)	(898)	(898)	(898)	(898)
Total Liabilities	69,484	73,806	81,160	90,077	100,433
Net block	30,195	37,736	37,559	37,130	38,615
Investment	18,460	18,130	20,778	20,778	20,778
Current Assets	44,042	49,969	57,587	69,389	81,215
Cash & bank balance	10,622	9,494	11,546	19,302	26,262
Other Current Assets	16,140	23,636	24,797	26,820	29,254
Current liabilities & Provision	23,245	32,139	34,827	37,284	40,239
Net current assets	20,797	17,830	22,760	32,105	40,977
Misc. exp	0	0	0	0	0
Total Assets	69,484	73,806	81,160	90,077	100,433

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	15,609	18,269	22,161	26,149	30,270
Other Non-Cash items	2,141	3,215	3,466	3,564	3,866
Chg in working cap	(453)	(1,501)	(2,878)	(1,589)	(1,912)
Operating Cashflow	14,545	17,157	17,618	22,176	25,476
Capital expenditure	(2,057)	(6,411)	(3,094)	(3,250)	(5,650)
Free Cash Flow	12,488	10,747	14,524	18,926	19,826
Investments	(4,824)	4,495	(2,648)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(6,685)	(1,594)	(5,059)	(2,345)	(4,561)
Equity Capital Raised	268	442	0	0	0
Loans Taken / (Repaid)	(1,736)	(1,411)	(272)	0	0
Dividend paid (incl tax)	(6,527)	(12,177)	(9,404)	(11,285)	(13,165)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(8,615)	(13,887)	(10,507)	(12,075)	(13,955)
Net chg in cash	(754)	1,676	2,052	7,756	6,960
Opening cash position	11,257	10,622	9,494	11,546	19,302
Closing cash position	10,622	12,405	11,546	19,302	26,262

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	18.5	17.7	17.9	18.3	18.2
EBIT Margin	16.1	15.3	15.6	16.0	16.0
Effective Tax Rate	25.4	25.2	25.7	26.0	26.0
Net Margin	12.5	12.0	12.0	12.4	12.5
ROCE	24.8	26.7	29.6	31.9	33.4
ROE	19.7	21.2	23.3	24.8	25.8
RoIC	30.0	31.6	34.7	39.2	43.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	65.2	76.3	90.5	107.4	125.1
CEPS	78.1	91.8	108.2	127.0	147.2
BVPS	349.5	370.4	409.7	457.1	512.2
DPS	65.0	46.0	50.0	60.0	70.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	34.8	29.7	25.0	21.1	18.1
P/CEPS	29.1	24.8	21.0	17.9	15.5
P/BV	6.5	6.1	5.5	5.0	4.4
EV / Sales	4.1	3.4	2.8	2.4	2.1
EV / EBITDA	22.3	19.2	15.8	13.2	11.3
Dividend Yield (%)	2.9	2.0	2.2	2.6	3.1

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBIDTA	(1.2)	(0.9)	(0.9)	(1.0)	(1.1)
Working Cap Cycle (days)	38.2	25.4	28.8	28.6	28.5

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9.9	23.0	19.0	14.8	15.5
EBITDA	9.2	17.5	20.3	17.1	15.4
EBIT	10.0	17.0	21.3	18.0	15.8
PAT	2.7	17.6	19.0	18.6	16.4

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	26,909	28,693	31,237	32,777	34,113
EBITDA	4,895	4,978	5,532	5,772	6,001
EBITDA Margin (%)	18.2	17.3	17.7	17.6	17.6
PAT	3,398	3,416	3,577	3,921	4,020
EPS (Rs)	18.2	18.2	19.1	20.9	21.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	56.0	56.0	55.9	55.8	55.7
FII	20.8	20.9	21.1	21.1	20.5
DII	18.5	17.9	17.8	18.0	18.2
Public and Others	4.8	5.3	5.2	5.1	5.6

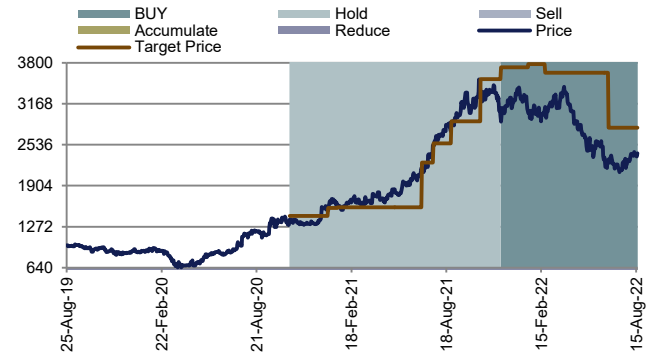
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Jul-22	2,276	2,800	12m	Buy	Dipeshkumar Mehta
23-Jun-22	2,311	2,800	12m	Buy	Dipeshkumar Mehta
29-Apr-22	2,843	3,650	12m	Buy	Dipeshkumar Mehta
1-Apr-22	3,344	3,650	12m	Buy	Dipeshkumar Mehta
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	2,895	2,900	12m	Hold	Dipeshkumar Mehta
24-Jul-21	2,530	2,560	12m	Hold	Dipeshkumar Mehta
2-Jul-21	2,155	2,260	12m	Hold	Dipeshkumar Mehta
14-May-21	1,789	1,570	12m	Hold	Dipeshkumar Mehta
26-Apr-21	1,724	1,570	12m	Hold	Dipeshkumar Mehta
5-Apr-21	1,755	1,570	12m	Hold	Dipeshkumar Mehta
18-Mar-21	1,638	1,570	12m	Hold	Dipeshkumar Mehta
22-Jan-21	1,599	1,570	12m	Hold	Dipeshkumar Mehta
4-Jan-21	1,519	1,560	12m	Hold	Dipeshkumar Mehta
18-Dec-20	1,373	1,440	12m	Hold	Dipeshkumar Mehta
23-Nov-20	1,315	1,440	12m	Hold	Dipeshkumar Mehta
23-Oct-20	1,382	1,440	12m	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



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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	12.09	12.00	-1%	-9	100.00	
BirlaSoft	0.00	0.02	NA	2	0.21	0
Coforge	0.12	0.00	-100%	-12	0.00	0
Firstsource Solutions	0.00	0.03	NA	3	0.22	0
HCL Tech	1.00	1.03	3%	3	8.52	0
Infosys	5.56	5.64	1%	8	46.61	0
L&T Infotech	0.21	0.00	-100%	-21	0.00	0
Mindtree	0.20	0.30	45%	9	2.44	0
Mphasis	0.19	0.21	10%	2	1.71	0
Oracle Financial Services*	0.07	0.00	-100%	-7	0.00	0
Persistent Systems	0.18	0.18	1%	0	1.51	0
TCS	3.30	3.25	-1%	-5	26.87	0
Tech Mahindra	0.65	0.67	3%	2	5.57	0
Wipro	0.61	0.67	11%	6	5.57	0
Cash	0.00	0.09	NA	9	0.77	0

Source: Emkay Research

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

Sector portfolio NAV

	Base 1-Apr-19	23-Aug-21	21-Feb-22	24-May-22	22-Jul-22	Latest 22-Aug-22
EAP - Information Technology	100.0	227.1	228.9	193.3	192.0	200.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	212.4	212.6	178.4	177.8	186.2

*Performance measurement base date 1st April 2019

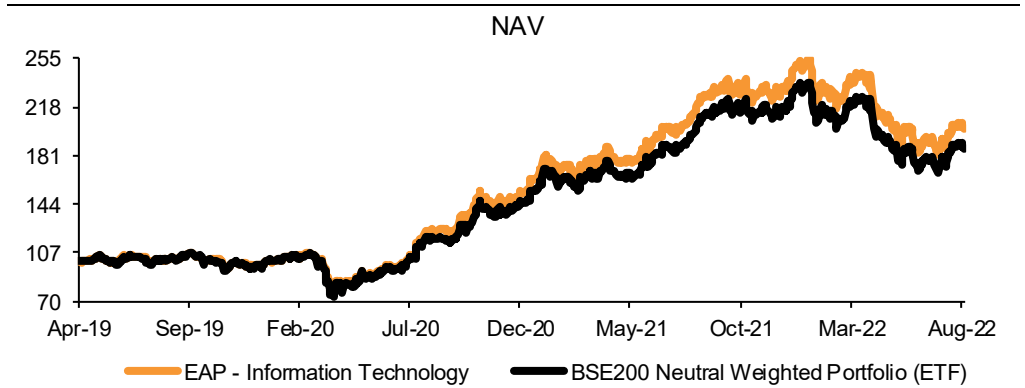
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	4.7%	4.0%	-12.2%	-11.5%
BSE200 Neutral Weighted Portfolio (ETF)	4.7%	4.3%	-12.4%	-12.4%

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%

Completed Date: 23 Aug 2022 22:32:06 (SGT)

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