



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Mphasis Ltd Q1 FY23 consolidated revenues came in at ₹3411 Cr, up 26.77% YoY and up 4.08% QoQ.
- Op Profit for Q1FY23 stood at ₹600 Cr, up 22.62% YoY and up 3.96% QoQ.
- Op margins for Q1FY23 came at 17.59%, -60bps YoY and -2 bps QoQ.
- PAT for Q1FY23 stood at ₹401.87 Cr, up 18.31% YoY and up 2.50% QoQ.

2. MANAGEMENT COMMENTARY:

- Management mentioned that company has healthy deal pipeline.
- Management continues to focus on hiring freshers for FY23.
- 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 expects tech spends to remain robust.
- Management continues to remain confident of sustaining margins in a range of 15.25% to 17%.

3. SEGMENTAL ANALYSIS:

- Q1FY23 Revenue Breakup: Banking & Financial Services (53.4%), Insurance (8.9%), Technology Media & Telecommunication (13.4%), Logistics & Transportation (13.0%), Others (11.4%).
- Q1FY23 Geographical Revenue Breakup: Americas (82.3%), EMEA (9.7%), India (5.0%), ROW (2.9%)
- In Q1 FY23, the revenue from direct segment was \$408 million, +26% YoY. Revenue from DXC Technology was \$21 million, -38% YoY.

4. CONCALL SUMMARY

- New TCV wins of \$302 Mn in Q1FY23, ~84% of Q1-23 deal wins in New Gen areas.
- Consistently maintaining average of > \$300M+ TCV wins in the past eight quarters.
- Blink is seeing decent growth with good synergy benefits.
- Revenue from top client is 11%, top 5 clients is 45% & top 10 clients is 60%.
- Company won 7 new clients QoQ in Q1FY23.
- In Q1FY23 headcount increased 17% YoY to 36,899.
- Management believes that attrition rate is still at elevated levels but it is gradually stabilizing now.

5. OTHER DEVELOPMENTS:

- Continued share gains with key clients; Strong Top-5/Top-10/Top-20 client LTM growth.
- Ongoing utilization & capacity management (using the pyramid) aligns with demand visibility and in line with company's strategy of continued supply side transformation.

6. VALUATION AND OUTLOOK:

Robust demand environment and healthy deal pipeline would drive Mphasis's next phase of growth. We believe company will continue to perform well over next few quarters due to strong deal win momentum. 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 21.9x FY24E earnings to arrive at the target of ₹2323.

RECOMMENDATION - BUY

CMP – 2019

TARGET – 2323 (15%)

Industry	IT - Software
NSE CODE	MPHASIS
BSE CODE	526299
Market Cap (₹ Cr)	40480.53
Shares Outstanding (in Cr)	18.81
52 wk High/Low (₹)	3659.75 / 2035
P/E	27.11
P/BV	5.60
Face Value (₹)	10.00
Book Value (₹)	384.43
EPS (FY22) (₹)	76.18
Dividend Yield (%)	1.36
Debt / Equity	0.08
Interest Coverage	26.71

SHAREHOLDING PATTERN

	Jun 22	Mar 22	Dec 21
Promoters	55.72	55.80	55.90
MF/ DII	13.22	13.42	13.24
FII/FPI	20.48	21.09	21.10
Retail & Others	5.64	5.07	5.21
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

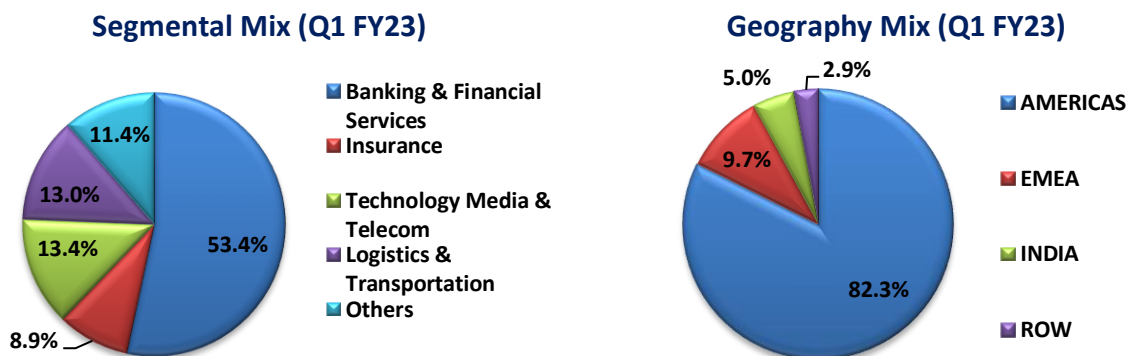
Y/E March	2022A	2023E	2024E
Crore			
Sales	11961.44	14114.50	16231.67
Sales Gr. (%)	23.03	18	15
EBITDA	2117.61	2540.61	2921.70
EBITDA %	19.04	18	18
PAT	1430.89	1729.21	1996.28
EPS (₹)	76.18	91.88	106.07
EPS Gr. (%)	17.11	20.6	15.4
BV/Sh. (₹)	363.74	385	415
Ratios			
RoE (%)	21.52	23.2	25.5
RoCE (%)	27.39	27.5	28.2
Valuation			
P/E (x)	44.32	22.4	19.4
P/BV (x)	9.28	5.34	4.96

Historical & Industrial Val Ratios

Historical P/E	23.76
Industry P/E	28.87
Historical P/B	4.62
Industry P/B	8.26



REVENUE SPLIT (Q1 FY23)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21		FY22				FY23		FY22	FY23E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E*		
Net sales	2,474	2,524	2,691	2,869	3,124	3,278	3,411	3,582	11,961	14,114
YoY change (%)	8.68%	7.59%	17.60%	17.81%	26.24%	29.85%	26.77%	24.84%	23.03%	18%
Total Expenditures	2,009	2,057	2,202	2,371	2,571	2,701	2,811	2,937	9,844	11,574
EBITDA	466	467	489	498	553	577	600	645	2,118	2,541
Margins (%)	19%	19%	18%	17%	18%	18%	18%	18%	18%	18%
Other income	37	33	47	44	31	39	36	36	160	160
Interest	15	14	16	16	22	21	23	22	74	75
Depreciation	61	62	62	66	83	80	80	80	291	320
PBT	427	424	458	460	480	516	533	579	1,913	2,306
Rate (%)	24%	25%	26%	26%	25%	24%	25%	25%	25%	25%
Adjusted PAT	326	317	340	341	358	392	402	434	1,431	1,729
EPS in Rs	17.43	16.94	18.15	18.23	19.08	20.88	21.37	23.06	76.19	91.88

Key Performance Indicators

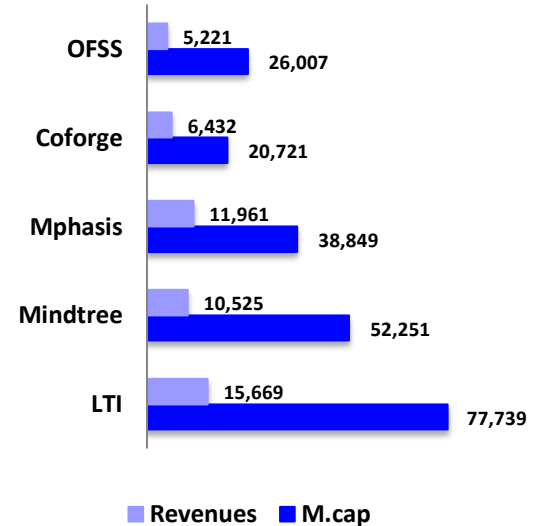
Deal Win TCV (USD Mn)	247	245	505	241	335	347	302		
Headcount	28,116	29,473	31,454	32,295	34,915	36,534	36,899		
Onsite/Offshore Rev Mix	58/42	57/43	59/41	58/42	59/41	58/42	58/42		
Top Client Contribution %	11	10	11	11	11	11	11		
New Clients Added	6	8	6	5	7	9	7		
DXC Revenue %	13.1	12.0	9.2	6.5	5.3	5.2	4.8		

Source: Company, Hem Securities Research.

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 19.2% of the total global IT spend in FY21.
- 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 2022-23, the government has allocated Rs. 88,568 crore (US\$ 11.58 billion) to the IT and telecom sector.
- Leading players in Indian IT Industry (Mid Cap Space) includes LTI, Mindtree, Mphasis, LTTs, OFSS etc.

KEY PLAYERS in Mid IT Space



PEER PERFORMANCE

(₹ Cr)

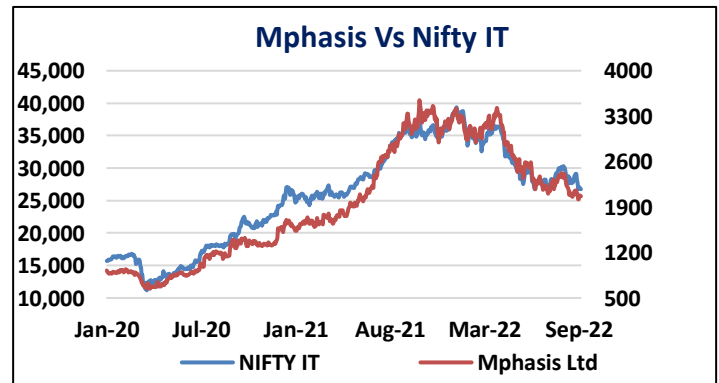
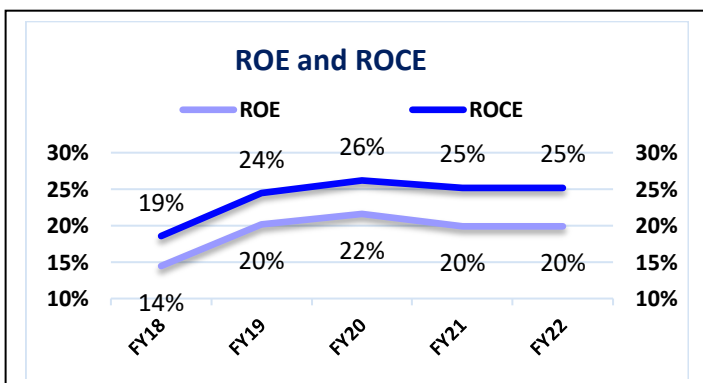
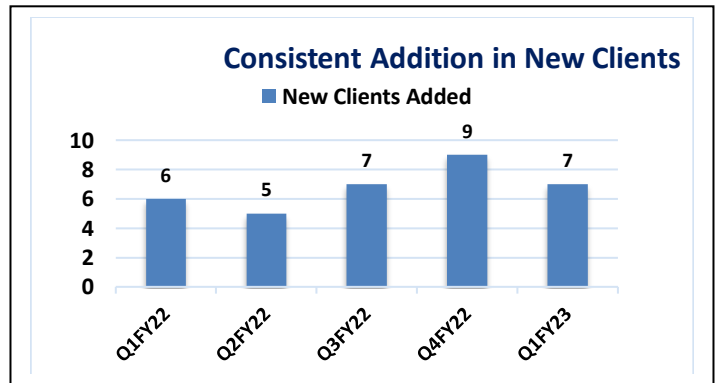
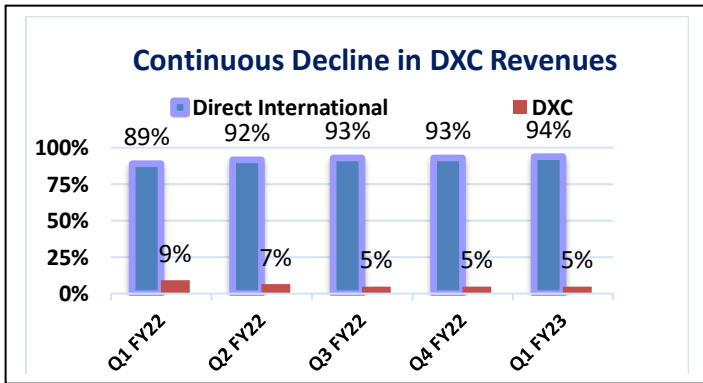
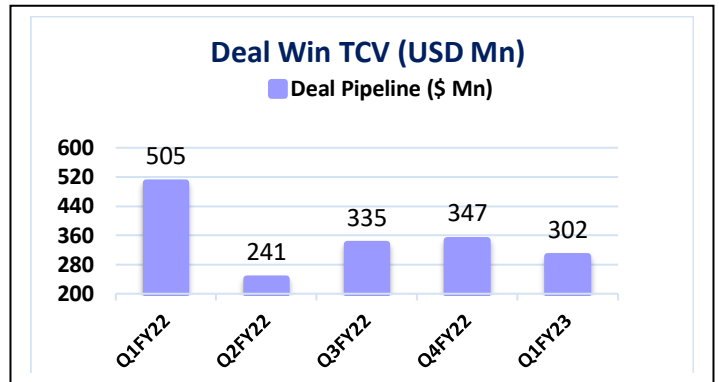
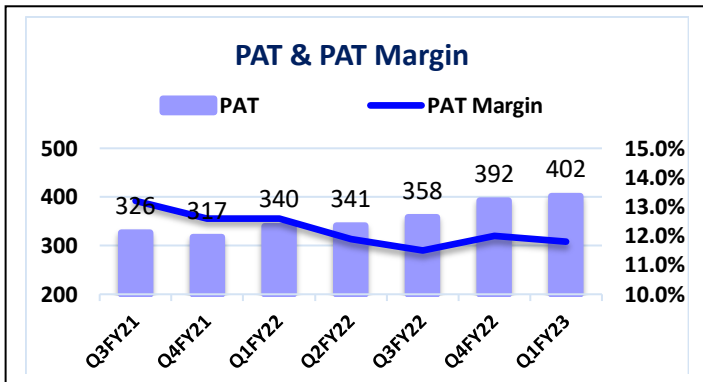
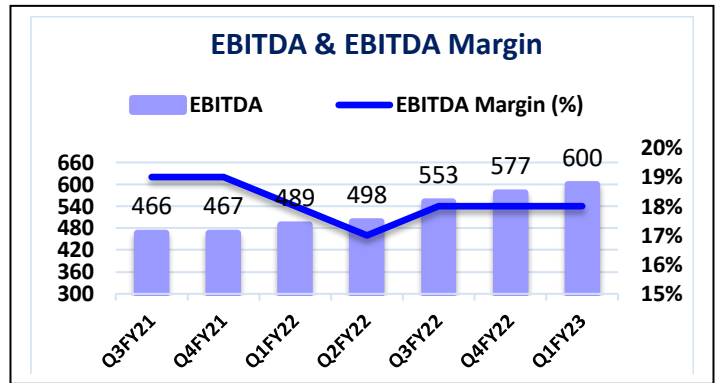
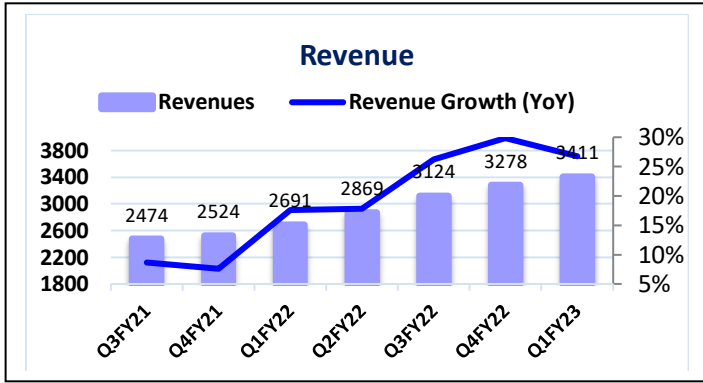
Particulars

	Mphasis Ltd.	Mindtree Ltd.	Larsen & Toubro Infotech Ltd.	Oracle Financial Services Software Ltd.	Coforge Ltd.
Market Cap	38849	5251	77739	26007	20721
Net Sales	11,961.4	10,525.3	15,668.7	5,221.5	6,432.0
EBITDA	2,117.6	2,195.6	3,050.6	2,492.7	1,101.9
PAT	1,430.9	1,652.9	2,296.8	1,888.8	661.7
EPS(₹)	76.2	100.3	131.2	219.0	108.7
EBITDA MARGIN %	19.0	23.8	22.5	50.4	17.9
PAT MARGIN %	12.0	15.7	14.7	36.2	11.1
ROCE %	27.4	46.2	39.1	36.4	33.4
ROE %	21.5	33.9	28.8	27.7	28.1
P/E TTM	27.1	31.2	34.4	14.9	32.0
P/B TTM	5.6	9.7	8.9	3.7	7.7
EV/EBITDA	16.2	19.4	20.8	8.18	16.9
Dividend Yield %	2.1	1.1	1.2	5.9	1.4
MCap/ Sales TTM	3.2	4.9	5.0	5.3	3.2

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Q1FY23, revenue grew by 27% YoY and net profit grew by 18% YoY.
- Operating margins at 17.6%, 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 \$302 Mn in Q1FY23. Also signed \$60mn+ cloud transformation deal in July (Q2FY23).
- Management's Focus on winning large-deals (>\$20M TCV). 11 large deals in last twelve months compared to 6 in the previous period.
- Company has aggressively hired during past few quarters and expects more aggressive hiring in coming quarters due to robust demand environment.
- Mphasis had total 7 new client wins this quarter. 1 Client added in \$150mn+ bucket, 1 Client added in \$20mn+ bucket, 2 Clients added in \$10mn+ bucket, 2 Clients added in \$5mn+ bucket and 1 Client added in \$1mn+ 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 15.25%-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 36,899 employees as of June, 2022 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), Ravi Vasantraj (Global Delivery Head), Elango R (President – North America), Eric Winston (Executive VP and Compliance Officer) etc.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)	
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	
Revenue from operations	6,545.84	7,819.37	8,843.54	9,722.31	11,961.44	14114.50	16231.67	
Growth YoY (%)	7.73	19.46	13.10	9.94	23.03	18	15	
Total Expenditure	5,486.78	6,495.54	7,193.15	7,919.45	9,843.84	11573.89	13309.97	
(%) of sales	83.82	83.07	81.34	81.46	82.30	82	82	
EBITDA	1,059.06	1,323.83	1,650.38	1,802.87	2,117.61	2540.61	2921.70	
EBITDA Growth (%)	1.41	22.55	21.84	5.89	17.68	19.98	15.00	
EBITDA Margin (%)	18.71	19.19	20.67	19.91	19.04	18%	18	
Depreciation	70.82	75.84	231.63	241.79	290.75	320	345	
EBIT	1,140.57	1,424.70	1,596.57	1,694.02	1,987.30	2220.61	2576.70	
EBIT Growth (%)	2.47	24.91	12.06	6.10	17.31	11.74	16.04	
Net Interest Expenses	13.00	17.37	81.19	63.42	74.40	75	75	
Other Income	165.41	176.71	177.82	132.95	160.45	160	160	
Earnings before Taxes	1,127.57	1,407.33	1,515.38	1,630.61	1,912.90	2305.61	2661.70	
EBT Margin (%)	17.23	18.00	17.14	16.77	15.99	16.34	16.40	
Tax-Total	290.08	333.97	330.54	413.80	482.01	576.40	665.43	
Rate of tax (%)	25.73	23.73	21.81	25.38	25.20	25	25	
Net Profit	837.50	1,073.35	1,184.84	1,216.81	1,430.89	1729.21	1996.28	
PAT Growth (%)	5.80	28.16	10.39	2.70	17.59	20.85	15.44	
PAT Margin (%)	12.79	13.73	13.40	12.52	11.96	12.25	12.30	
Minority Interest	0.00	0.00	0.00	0.00	0.00	0	0	
Adjusted PAT	837.50	1,073.35	1,184.84	1,216.81	1,430.89	1729.21	1996.28	
EPS	43.34	57.64	63.52	65.06	76.18	91.88	106.07	
EPS Growth (%)	15.19	33.01	10.20	2.42	17.11	0.206	0.154	

Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	193	186	187	187	188
Reserves	5,289	5,064	5,643	6,340	6,755
Net Worth	5482	5250	5830	6527	6943
Borrowings	390	543	571	513	527
Other Liabilities	1,109	1,576	2,339	2,324	3,214
Total Liabilities & Equity	6,980	7,368	8,740	9,365	10,684
Fixed Assets	1,884	2,170	3,013	3,020	3,774
CWIP	2	3	17	3	11
Investments	1,782	1,329	1,326	1,846	1,813
Other Assets	3,312	3,866	4,384	4,496	5,087
Total Assets	6,980	7,368	8,740	9,365	10,684

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2018	2019	2020	2021	2022
Profitability and return ratios					
Net profit margin (%)	12.79	13.73	13.40	12.52	11.96
EBITDA margin (%)	18.71	19.19	20.67	19.91	19.04
EBIT margin (%)	17.42	18.22	18.05	17.42	16.61
ROE (%)	14.46	20.16	21.60	19.88	21.52
ROCE (%)	18.57	24.43	26.19	25.21	27.39
Working Capital & liquidity ratios					
Payables (Days)	0.00	0.00	0.00	0.00	0.00
Inventory (Days)	0.00	0.00	0.00	0.00	0.00
Receivables (Days)	40.13	41.24	36.95	33.13	28.95
Current Ratio (x)	2.81	2.06	2.04	2.40	1.96
Valuations Ratios					
EV/sales (x)	2.44	2.34	1.34	3.37	5.27
EV/EBITDA (x)	13.06	12.21	6.48	16.95	27.65
P/E (x)	19.47	17.16	10.46	27.41	44.32
P/BV (x)	2.99	3.54	2.15	5.16	9.28
Dividend Yield (%)	2.37	2.73	5.27	3.64	1.36
Leverage Ratio					
Debt/Equity (x)	0.07	0.10	0.10	0.08	0.08

Cash Flow Statement					
Y/E March	2018	2019	2020	2021	2022
CF from Operating activities (A)	723	950	1,321	1,455	1,716
CF from Investing Activities (B)	507	280	142	-810	-282
CF from Financing Activities (C)	-1,380	-1,342	-825	-861	-1,389
Net Cash Flow	-149	-112	638	-217	45
Add: Opening Bal.	613	464	350	988	771
Closing Balance	464	352	988	771	827

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
23 Sep 2022	Buy	2323

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Name of the Research Analyst: ABHISHEK SHARDA

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2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
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