

Mphasis

Refer to important disclosures at the end of this report

Near-term pain; Medium-term growth drivers in place

- Furloughs, lesser number of working days, deferred spending, and continued weakness in mortgage (uptick in interest rates in the US) would weigh on the sequential revenue growth trajectory in Q3. Management expects Q4 growth to be better than Q3 growth.
- Exposure to the interest rate-sensitive portion of the business is in a low single-digit percentage of revenue; hence, the incremental impact will be limited. MPHL has exposure to home equity loans and Home Equity Lines of Credit (HELOC), which may come under pressure if home prices correct sharply.
- Mphasis remains confident of delivering EBITM within the guided range of 15.25-17% for FY23 (15.3% in H1FY23); however, the pace of margin expansion would be slower due to growth moderation.
- We have revised our EPS estimates by 0.1% to -2.7% for FY23E-25E, considering the revised forex assumption for H2FY23 (Rs81.5/\$ vs. Rs80.25/\$ earlier) and lower growth assumptions. We have rolled forward our TP to Dec-24 and lowered the target multiple to 22x (earlier 23x), factoring growth moderation. We maintain BUY with a TP of Rs2,500 at 22x Dec-24E EPS (earlier Rs2,600), considering reasonable valuation, steady wallet share gains, and expansion in addressable markets with competency build-up.

Mortgage weakness and seasonal factors to weigh on near-term growth: Furloughs, lesser number of working days, deferred spending, and continued weakness in mortgage would weigh on sequential revenue growth in Q3. Management expects Q4 growth to be better than Q3 growth. Management highlighted that exposure to the interest rate-sensitive portion of the business is in a low single-digit percentage of revenue and, thus, expects incremental impact on growth to be limited. MPHL has exposure to home equity loans and HELOC, which may come under pressure if US home prices correct sharply. Mortgage weakness and macro uncertainties may weigh on near-term growth. However, over the medium term, growth drivers are in place: a) 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. b) Mphasis' account-centric growth strategy improves agility and responsiveness to capture growth opportunities. Scale-up of the Top-5/10 clients over the past few years and four clients contributing over USD100mn in Q2FY23 reflect the initial success of the approach. c) The company has recently hired Jayant Chauhan as head of M&As to strengthen its capabilities and offerings through M&As to accelerate growth. Net new deals intake shows growth moderation over the last few quarters (TTM deal intake TCV USD1.3bn, 4% YoY). However, the trajectory is expected to improve as the company has renewed its tribes stack recently, based on key trends and customer needs, and it is seeing a healthy deal pipeline (18% QoQ).

Confident to operate within the guided range of 15.25-17% EBITM for FY23: Mphasis has guided for EBITM of 15.25-17% in the remaining quarters of FY23. Management highlighted that Q2 exit utilization was ~400bps higher than average utilization in Q2. The company expects utilization to trend upward, but slower revenue growth may lead to gradual recovery. The company expects optimal utilization to be ~75%, factoring in the increase in fresher intake over the past few quarters. Management further indicated that attrition is moderating as supply-side pressures are easing. Management expects stable EBITM with an upward bias over the medium term, considering the 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	141,727	156,080	180,060
EBITDA	18,027	21,177	25,213	28,251	32,855
EBITDA Margin (%)	18.5	17.7	17.8	18.1	18.2
APAT	12,166	14,310	16,867	19,010	22,413
EPS (Rs)	65.2	76.3	89.7	101.1	119.2
EPS (% chg)	2.6	17.2	17.5	12.7	17.9
ROE (%)	19.7	21.2	23.1	23.5	25.1
P/E (x)	30.1	25.7	21.8	19.4	16.4
EV/EBITDA (x)	19.1	16.5	13.7	12.0	10.1
P/BV (x)	5.6	5.3	4.8	4.4	3.9

Source: Company, Emkay Research

CMP	Target Price
Rs 1,959	Rs 2,500 (▼)
as of (December 21, 2022)	12 months
Rating	Upside
BUY (■)	27.6 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	0.1/(2.7)
Target Price change (%)	(3.8)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	89.7	101.1
Consensus	90.4	104.7
Mean Consensus TP (12M)	Rs 2,409	

Stock Details

Bloomberg Code	MPHL IN
Face Value (Rs)	10
Shares outstanding (mn)	188
52 Week H/L	3,479 / 1,896
M Cap (Rs bn/USD bn)	369 / 4.46
Daily Avg Volume (nos.)	591,754
Daily Avg Turnover (US\$ mn)	14.5

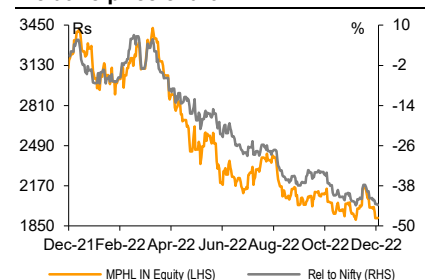
Shareholding Pattern Sep '22

Promoters	55.7%
FIIIs	20.7%
DIIIs	17.8%
Public and Others	5.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	(6)	(14)	(37)
Rel. to Nifty	2	(8)	(26)	(42)

Relative price chart



Source: Bloomberg

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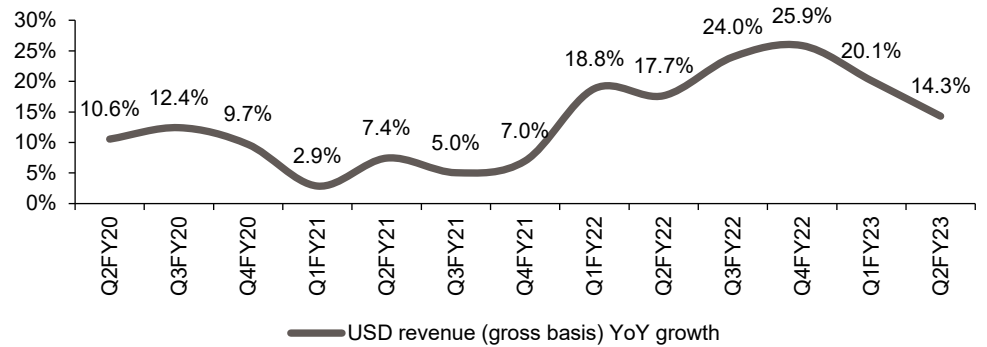
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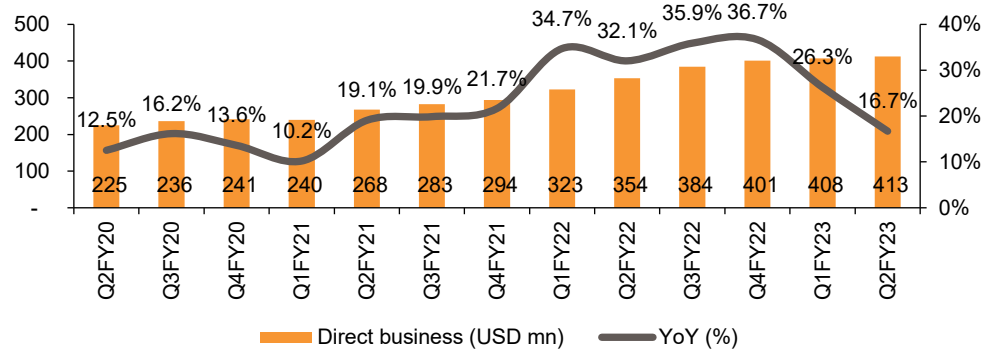
Story in charts

Exhibit 1: USD revenue YoY growth moderates



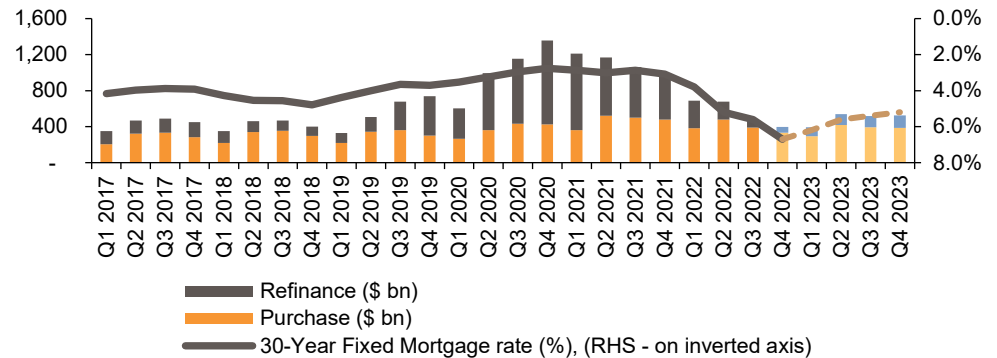
Source: Company, Emkay Research

Exhibit 2: Direct business is showing growth moderation due to weakness in mortgage; Management remains confident of sustaining revenue growth momentum over the medium term



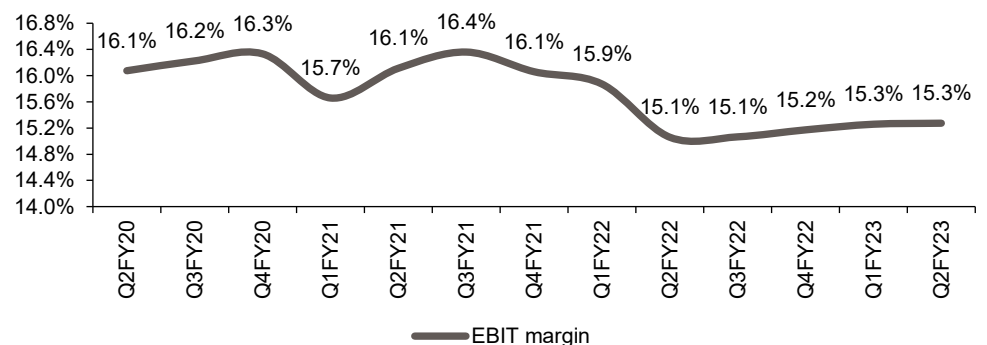
Source: Company, Emkay Research

Exhibit 3: Mortgage industry has seen material weakness over the last few quarters; Business is likely to bottom out in Q4CY22



Source: Mortgage Bankers Association, Freddie Mac, Company, Emkay Research

Exhibit 4: Confident to operate within the guided range of 15.25-17% EBITM for FY23



Source: Company, Emkay Research

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Exhibit 5: Changes in estimates

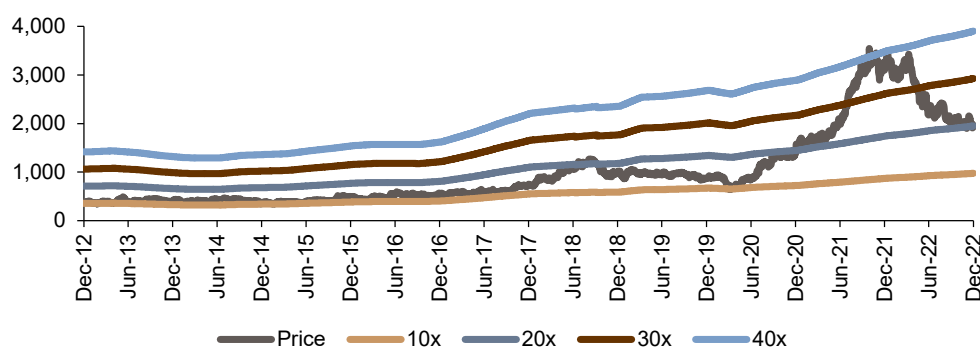
(Rs mn, except EPS)	FY23E			FY24E			FY25E		
	Old	New	% change	Old	New	% change	Old	New	% change
Reported Revenue (USD mn)	1,788	1,767	-1.2%	1,987	1,926	-3.1%	2,265	2,195	-3.1%
YoY, %	12.2%	10.9%		11.1%	9.0%		14.0%	14.0%	
Revenue	142,043	141,727	-0.2%	160,112	156,080	-2.5%	185,295	180,060	-2.8%
EBIT	21,948	21,963	0.1%	25,330	24,735	-2.3%	29,695	28,868	-2.8%
EBIT margin, %	15.5	15.5		15.8	15.8		16.0	16.0	
Net Profits	16,855	16,867	0.1%	19,543	19,010	-2.7%	23,037	22,413	-2.7%
EPS	89.6	89.7	0.1%	103.9	101.1	-2.7%	122.5	119.2	-2.7%

Source: Company, Emkay Research

Exhibit 6: Key assumptions

Key Assumptions	FY23E	FY24E	FY25E
Revenue Growth (US\$ mn)	10.9%	9.0%	14.0%
USD/INR	80.2	81.0	82.0
INR Revenue Growth	18.5%	10.1%	15.4%
EBIT margin	15.5%	15.8%	16.0%
EPS growth (%)	17.5%	12.7%	17.9%

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	141,727	156,080	180,060
Expenditure	79,195	98,439	116,514	127,829	147,205
EBITDA	18,027	21,177	25,213	28,251	32,855
Depreciation	2,418	2,908	3,249	3,516	3,986
EBIT	15,609	18,269	21,963	24,735	28,868
Other Income	695	860	624	954	1,420
Interest expenses	0	0	0	0	0
PBT	16,304	19,130	22,587	25,690	30,288
Tax	4,138	4,820	5,720	6,679	7,875
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	12,166	14,310	16,867	19,010	22,413
Adjusted PAT	12,166	14,310	16,867	19,010	22,413

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	75,016	82,742	91,990
Net worth	65,267	69,431	76,895	84,620	93,868
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	80,997	88,722	97,970
Net block	30,195	37,736	37,427	36,961	38,825
Investment	18,460	18,130	20,778	20,778	20,778
Current Assets	44,042	49,969	57,491	67,353	77,530
Cash & bank balance	10,622	9,494	11,557	18,667	24,244
Other Current Assets	16,140	23,636	24,744	26,120	28,420
Current liabilities & Provision	23,245	32,139	34,762	36,434	39,226
Net current assets	20,797	17,830	22,729	30,920	38,304
Misc. exp	0	0	0	0	0
Total Assets	69,484	73,806	80,997	88,722	97,970

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	15,609	18,269	21,963	24,735	28,868
Other Non-Cash items	2,141	3,215	3,529	3,458	3,745
Chg in working cap	(453)	(1,501)	(2,836)	(1,081)	(1,807)
Operating Cashflow	14,545	17,157	17,560	21,387	24,352
Capital expenditure	(2,057)	(6,411)	(2,894)	(3,050)	(5,850)
Free Cash Flow	12,488	10,747	14,666	18,337	18,502
Investments	(4,824)	4,495	(2,648)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(6,685)	(1,594)	(4,904)	(2,153)	(4,794)
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)	(10,593)	(12,125)	(13,980)
Net chg in cash	(754)	1,676	2,063	7,110	5,578
Opening cash position	11,257	10,622	9,494	11,557	18,667
Closing cash position	10,622	12,405	11,557	18,667	24,244

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	18.5	17.7	17.8	18.1	18.2
EBIT Margin	16.1	15.3	15.5	15.8	16.0
Effective Tax Rate	25.4	25.2	25.3	26.0	26.0
Net Margin	12.5	12.0	11.9	12.2	12.4
ROCE	24.8	26.7	29.2	30.3	32.4
ROE	19.7	21.2	23.1	23.5	25.1
RoIC	30.0	31.6	34.6	37.4	41.8

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	65.2	76.3	89.7	101.1	119.2
CEPS	78.1	91.8	107.0	119.8	140.4
BVPS	349.5	370.4	408.8	449.9	499.1
DPS	65.0	46.0	50.0	60.0	70.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	30.1	25.7	21.8	19.4	16.4
P/CEPS	25.1	21.3	18.3	16.4	14.0
P/BV	5.6	5.3	4.8	4.4	3.9
EV / Sales	3.5	2.9	2.4	2.2	1.8
EV / EBITDA	19.1	16.5	13.7	12.0	10.1
Dividend Yield (%)	3.3	2.3	2.6	3.1	3.6

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA	(1.2)	(0.9)	(0.9)	(1.1)	(1.1)
Working Cap Cycle (days)	38.2	25.4	28.8	28.7	28.5

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9.9	23.0	18.5	10.1	15.4
EBITDA	9.2	17.5	19.1	12.0	16.3
EBIT	10.0	17.0	20.2	12.6	16.7
PAT	2.7	17.6	17.9	12.7	17.9

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	28,693	31,237	32,777	34,113	35,198
EBITDA	4,978	5,532	5,772	6,001	6,177
EBITDA Margin (%)	17.3	17.7	17.6	17.6	17.5
PAT	3,416	3,577	3,921	4,020	4,184
EPS (Rs)	18.2	19.1	20.9	21.4	22.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	56.0	55.9	55.8	55.7	55.7
FII	20.9	21.1	21.1	20.5	20.7
DII	17.9	17.8	18.0	18.2	17.8
Public and Others	5.3	5.2	5.1	5.6	5.8

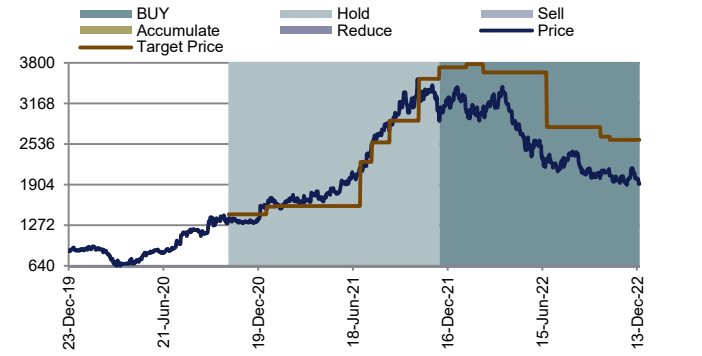
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Oct-22	2,043	2,600	12m	Buy	Dipeshkumar Mehta
4-Oct-22	2,068	2,650	12m	Buy	Dipeshkumar Mehta
23-Aug-22	2,265	2,800	12m	Buy	Dipeshkumar Mehta
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



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	11.20	10.67	-5%	-54	100.00	
BirlaSoft	0.00	0.01	NA	1	0.10	0
Coforge	0.13	0.00	-100%	-13	0.00	0
Firstsource Solutions	0.00	0.02	NA	2	0.15	0
HCL Tech	1.00	1.02	2%	2	9.09	0
Infosys	5.05	5.06	0%	1	45.16	0
LTI Mindtree*	0.18	0.18	-1%	0	1.61	0
Mphasis	0.15	0.16	8%	1	1.43	0
Oracle Financial Services*	0.06	0.00	-100%	-6	0.00	0
Persistent Systems	0.18	0.17	-5%	-1	1.53	0
TCS	3.04	2.87	-6%	-17	25.64	0
Tech Mahindra	0.59	0.61	4%	2	5.47	0
Wipro	0.53	0.56	7%	4	5.02	0
Zomato	0.29	0.17	-41%	-12	1.52	0
Cash	0.00	0.54	NA	54	4.79	0

Source: Emkay Research

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

Sector portfolio NAV

	Base					Latest
	1-Apr-19	21-Dec-21	21-Jun-22	20-Sep-22	18-Nov-22	20-Dec-22
EAP - Information Technology	100.0	238.1	189.9	182.1	205.8	199.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	222.4	175.7	168.5	188.1	179.8

*Performance measurement base date 1st April 2019

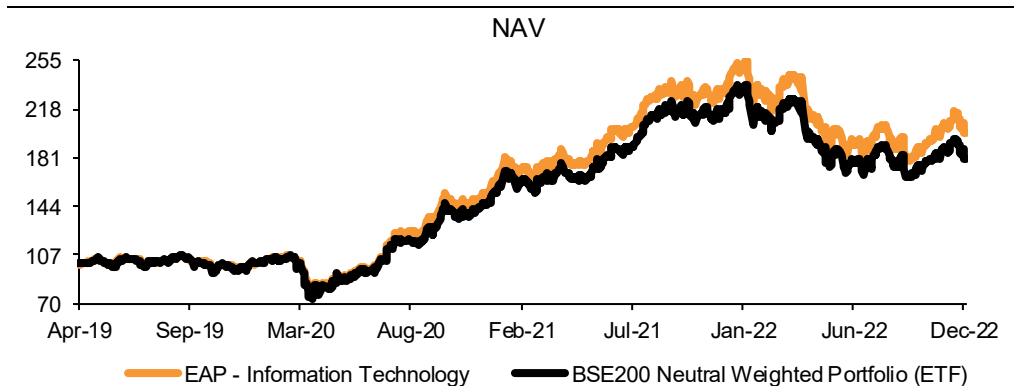
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	-3.0%	9.7%	5.2%	-16.1%
BSE200 Neutral Weighted Portfolio (ETF)	-4.4%	6.7%	2.3%	-19.1%

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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