

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	MPHL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USDb)	439.4 / 5.4
52-Week Range (INR)	2445 / 1661
1, 6, 12 Rel. Per (%)	19/6/-16
12M Avg Val (INR M)	1149

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	138.0	134.9	155.0
EBIT Margin	15.3	15.5	16.5
PAT	16.4	16.5	20.3
EPS (INR)	86.9	87.4	107.3
EPS Gr. (%)	15.8	0.6	22.8
BV/Sh. (INR)	421.2	456.0	499.1

Ratios

RoE (%)	22.0	20.0	22.6
RoCE (%)	19.1	17.2	19.4
Payout (%)	60.0	60.2	60.2

Valuations

P/E (x)	26.8	26.7	21.7
P/BV (x)	5.5	5.1	4.7
EV/EBITDA (x)	17.1	16.8	14.0
Div Yield (%)	2.2	2.3	2.8

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	55.6	55.6	55.7
DII	21.2	21.0	18.2
FII	17.2	17.7	20.5
Others	6.1	5.7	5.6

FII Includes depository receipts

CMP: INR2,323 TP: INR2,250 (-3%) Neutral

Growth recovery already factored into valuation

Margins to remain within the guided range; maintain Neutral

- MPHL's 1QFY24 revenue performance (-3.5% QoQ CC) was weaker than our estimate (-1.2% QoQ CC) on account of persistent headwinds in the Direct business (incl. mortgage) and the ongoing moderation in the DXC vertical (-10.5% QoQ CC). But the company delivered record deal closures in 1Q at USD707m (2x of average run rate).
- Despite a weak revenue performance in 1Q, the management is confident that growth will rebound in 2QFY24, driven by the bottoming out of its mortgage processing business (Digital Risk, DR) in 1Q and scale-up of large deals as clients resume spending. With the interest rate hike cycle coming to an end, MPHL is seeing early signs of revival in DR amid a pickup in volumes and capacity commitments. Additionally, the management indicated improvement in revenue conversion, which was impacted by slow decision-making and cuts in discretionary spends over the last few quarters.
- We believe that although the commentary was good, it was not a positive surprise as it was in line with our expectation. Given the 1Q miss, we trim our FY24/FY25 USD revenue growth estimates by 2.4%/2.1% YoY. Despite a strong pickup expected in FY25, revenue is expected to clock a muted 4.9% CAGR over FY23-25 due to a 4.6% YoY CC decline in FY24E.
- The 1Q margin performance (in line) was positive given the steep revenue decline. The management has demonstrated its ability to maintain margins in a tight range. We see FY24 margins at 15.5% (lower end of the guided range of 15.25%-16.25%) before improving to 16.5% in FY25. This should result in INR PAT growth of 11.4% over FY23-25E.
- We lower our FY24-25 EPS estimates by ~2% each on account of a 1QFY24 miss. We believe that the current valuation of 22x FY25E EPS fairly factors in near-term earnings growth. Our TP of INR2,250 implies 21x FY25E EPS.

Miss on revenue; deal TCV at record high

- In 1QFY24, revenue declined 8.4% YoY CC, INR EBIT fell 4.0% YoY, and INR PAT declined 1.5% YoY.
- Revenue at USD398m was down 3.5% QoQ in CC USD and was below our estimate of a 1.2% decline. Direct revenue was down 3.2% QoQ in CC, while DXC revenue declined 10.5% QoQ in CC.
- New deal TCV at USD707m was up 129% QoQ and 134% YoY.
- Utilization (excl. trainees) improved 100bp to 80%. Headcount declined by 81 in 1QFY24.
- EBIT margin stood at 15.4%, in line with our estimate. PAT came in at INR3.9b (down 2.3% QoQ) vs. our estimate of INR4.1b.

Key highlights from the management commentary

- MPHL saw record deal closure activity in 1QFY24 at USD707m, 2x the average run rate. Artificial Intelligence (AI) accounted for about one-third of the deal wins. The company won seven large deals (five non-BFS deals, four deals above USD100m TCV).
- The mortgage business is bottoming out and the management is seeing early signs of a pick-up, with increasing volumes and fresh capacity commitments from clients. The Mortgage business should add to incremental growth in FY24.
- With the Mortgage business bottoming out, early signs of increasing volumes and record conversions, the management is confident of a pick-up in growth in 2QFY24, which will continue in the later part of the year.
- The management is confident of maintaining margins in a narrow band of 15.25-16.25% in all four quarters, with an upward bias in anticipation of strong growth ahead.

Valuation and view – Maintain Neutral

- The Direct business remained muted in 1QFY24, down 3.2% QoQ CC and below our expectations. The anticipated recovery in later part of the year was not a positive surprise as it was in line with our expectation
- Even after factoring in the expected recovery, revenue is expected to decline 4.6% YoY CC in FY24. We believe that the current valuation of 22x FY25E EPS fairly factors in near-term earnings growth. **Hence, we remain Neutral with a TP of INR2,250 (21x FY25E EPS).**

Quarterly performance

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%/bp)
Revenue (USD m)	436	440	429	412	398	405	415	429	1,718	1,647	408	-2.5
QoQ (%)	1.2	1.0	-2.5	-4.1	-3.4	1.7	2.4	3.6	7.8	-4.1	-0.9	-248bp
Revenue (INR m)	34,113	35,198	35,062	33,612	32,520	33,182	33,992	35,205	1,37,985	1,34,899	33,559	-3.1
YoY (%)	26.8	22.7	12.2	2.5	-4.7	-5.7	-3.1	4.7	15.4	-2.2	-1.6	-305bp
GPM (%)	29.8	28.1	28.5	29.2	29.1	29.2	29.6	30.0	28.9	29.5	29.4	-28bp
SGA (%)	12.2	10.5	10.8	11.4	11.1	11.2	11.4	11.4	11.2	11.3	11.6	-53bp
EBITDA	6,001	6,177	6,175	5,987	5,869	5,973	6,186	6,556	24,340	24,584	5,973	-1.7
EBITDA Margin (%)	17.6	17.5	17.6	17.8	18.0	18.0	18.2	18.6	17.6	18.2	17.8	25bp
EBIT	5,205	5,376	5,354	5,152	4,995	5,081	5,273	5,610	21,087	20,959	5,140	-2.8
EBIT Margin (%)	15.3	15.3	15.3	15.3	15.4	15.3	15.5	15.9	15.3	15.5	15.3	4bp
Other income	125	174	156	189	263	265	272	282	644	1,082	268	-2.0
ETR (%)	24.6	24.6	25.2	24.1	24.7	25.0	25.0	25.0	24.6	24.9	25.0	-33bp
PAT	4,020	4,184	4,123	4,053	3,961	4,010	4,159	4,418	16,380	16,548	4,056	-2.3
QoQ (%)	2.5	4.1	-1.5	-1.7	-2.3	1.2	3.7	6.2			0.1	
YoY (%)	18.3	17.1	15.3	3.4	-1.5	-4.2	0.9	9.0	13.2	1.0	0.9	
EPS (INR)	21.2	22.1	21.8	21.5	20.9	21.2	22.0	23.3	86.9	87.4	21.5	-2.8

E: MOFSL estimates

Key performance indicators

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Margins										
Gross Margin	29.8	28.1	28.5	29.2	29.1	29.2	29.6	30.0	28.9	29.5
EBIT Margin	15.3	15.3	15.3	15.3	15.4	15.3	15.5	15.9	15.3	15.5
Net Margin	11.8	11.9	11.8	12.1	12.2	12.1	12.2	12.6	11.9	12.3
Operating metrics										
Headcount	36,899	36,876	35,450	34,042	33,961				34,042	
Deal win TCV (USD m)	302	302	401	309	707				1314	
Key geographies (YoY %)										
North America	29.6	20.3	5.6	-5.1	-10.1				11.4	
Europe	-3.6	-6.8	-7.3	-4.2	-2.4				-5.5	



Key highlights from the management commentary

Demand and industry outlook

- The weakness in BFS continued to impact 1QFY24. The Mortgage business continued to decline but at a slower pace compared to 4QFY23. Direct ex-DR was also soft.
- MPHL saw record deal closure activity in 1QFY24 at USD707m, 2x the average run rate. Artificial Intelligence accounted for about one-third of the deal wins. The company won seven large deals (five non-BFS deals, four deals above USD100m TCV).
- Canada, though a small market, saw strong traction, with new deal TCV of USD40m, revenue doubling QoQ and the deal pipeline up 500% YoY.
- Despite the record deal closures, the deal pipeline continues to expand (up 6% QoQ), suggesting strong deal originations. The pipeline remains well distributed, with a significant portion of TCV coming from accounts beyond the Top-10. The pipeline for healthcare was up 63% YoY.
- The mortgage business is bottoming out and the management is seeing early signs of a pick-up, with increasing volumes and fresh capacity commitments from clients. Mortgage should add to incremental growth in FY24.
- Though revenue conversion remained slow during the quarter, it has started to pick up and should improve as the year passes.
- The trends in Mphasis.AI, its AI platform, remain encouraging, with healthy AI advisory engagements with clients about the uses and impact of AI. MPHL sees a good opportunity for the implementation, configuration and security around generative AI and LLM models.
- Early trends in deal wins in areas such as embedded AI in business operations, process management, documentation and models that require significant training (e.g., Fraud detection, sanction screening) are encouraging.
- There is a good opportunity for the Home equity business as prices are stabilizing. There has been a pick-up for diligence services, which should continue. As the interest rate cycle enters the last stage, MPHL sees demand picking up for the restructuring business.
- Though the DXC subsidiary's acquisition is small compared to the size of MPHL, it could drive strong synergies and will help the company build a partnership with Microsoft, along with expanding its presence in Europe.
- MPHL continues to gain wallet share with its clients despite spending cuts. It will benefit from consolidation and higher revenue share once spends start to pick up.

- The current focus remains on wallet share gains among existing clients, along with expanding the addressable market.
- With the mortgage business bottoming out, early signs of increasing volumes and record conversions, the management is confident of a pick-up in growth in 2QFY24, which will continue for the later part of the year.

Margin performance

- MPHL was able to improve margins by 10bp QoQ despite a sharp decline in revenues.
- The management is confident of maintaining margins in a narrow band of 15.25-16.25% in all four quarters, with an upward bias in anticipation of strong growth ahead.

Exhibit 1: Broad-based sequential decline in revenue

Services	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Application Services	71.0	(3.0)	(1.8)
BPO	16.2	(4.5)	(33.4)
Infrastructure Services	12.8	(4.1)	(0.9)

Source: Company, MOFSL

Exhibit 2: Europe down 6.1% sequentially

Geographies	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
North America	81.1	(3.0)	(10.1)
Europe	10.4	(6.1)	(2.4)
India	5.7	(0.1)	3.6
Rest of the World	2.9	(9.1)	(10.8)

Source: Company, MOFSL

Exhibit 3: BFS further declined 8.8% QoQ

Verticals	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Banking and Financial Services	49.3	(8.8)	(14.8)
Insurance	10.5	3.4	(7.2)
Technology, Media, and Telecom	15.1	3.9	(3.9)
Logistics and Transportation	14.2	(0.9)	(2.5)
Others	11.0	4.3	8.1

Source: Company, MOFSL

Exhibit 4: Muted growth in top 2-5 bucket

	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Top client	13.0	(3.4)	7.9
Top 2-5 clients	30.0	(6.5)	(19.4)
Top 6-10 clients	15.0	(3.4)	(8.7)

Source: Company, MOFSL

Valuation and view – Maintain Neutral

- The Direct business remained muted in 1QFY24, down 3.2% QoQ CC and below our expectations. The anticipated recovery in later part of the year was not a positive surprise as it was in line with our expectation
- Even after factoring in the expected recovery, revenue is expected to decline 4.6% YoY CC in FY24. We believe that the current valuation of 22x FY25E EPS fairly factors in near-term earnings growth. **Hence, we remain Neutral with a TP of INR2,250 (21x FY25E EPS).**

Exhibit 5: Revisions to our estimates

	Revised		Earlier		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
USD:INR	82.1	82.0	82.1	82.0	0.0%	0.0%
Revenue (USD m)	1,647	1,890	1,688	1,930	-2.4%	-2.1%
Growth (%)	(4.1)	14.8	(1.7)	14.4	-240bps	40bps
EBIT margin (%)	15.5	16.5	15.4	16.4	10bps	10bps
PAT (INR m)	16,548	20,316	16,839	20,631	-1.7%	-1.5%
EPS (INR)	87.4	107.3	89.4	109.5	-2.2%	-2.0%

Source: MOFSL

Exhibit 6: Operating metrics

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Geographical contribution (%)									
Americas	76.3	78.0	80.3	81.5	82.3	82.2	81.8	80.8	81.1
EMEA	12.1	12.1	11.3	10.7	9.7	9.8	10.1	10.7	10.4
India	4.7	5.4	5.1	4.9	5.0	4.9	5.1	5.5	5.7
RoW	6.9	4.5	3.3	3.0	2.9	3.1	3.0	3.0	2.9
Vertical contribution (%)									
Banking and Capital Market	51.2	54.6	55.3	53.6	53.4	54.2	53.6	53.1	49.3
Insurance	9.1	8.8	8.8	9.5	8.9	8.3	8.3	7.6	10.5
IT, Communications, and Entertainment	14.2	12.5	13.2	13.3	13.4	12.9	12.9	12.7	15.1
Logistics and Transportation	14.0	13.1	12.7	12.8	13.0	12.7	13.0	13.6	14.2
Others	11.4	11.0	10.1	10.7	11.4	11.8	12.2	13.0	11.0
Revenue by project type (%)									
Time and Material	57.9	58.1	54.9	54.7	54.5	56.0	56.8	58.1	57.7
Transaction-based	16.1	16.0	16.1	15.6	15.6	13.9	12.7	11.1	10.2
Fixed price	26.0	25.9	29.0	29.7	29.9	30.0	30.5	30.8	32.0
Revenue by delivery location (%)									
Onsite	58.8	58.2	58.7	58.4	58.3	56.8	55.2	53.5	52.1
Offshore	41.2	41.8	41.3	41.6	41.7	43.2	44.8	46.6	47.9
Secondary market segment (%)									
Direct International	89.0	91.8	92.8	93.1	93.5	93.7	93.6	94.6	94.9
DXC	9.2	6.5	5.4	5.2	4.8	4.6	4.8	3.8	3.5
Others	1.8	1.7	1.8	1.7	1.7	1.6	1.7	1.7	1.7
Service type (%)									
Application services	61.9	61.1	62.7	65.4	66.0	67.4	69.4	70.7	71.0
BPO	26.8	26.1	24.8	23.3	22.2	20.5	17.9	16.4	16.2
Infrastructure services	11.3	12.8	12.6	11.3	11.8	12.1	12.6	12.9	12.8
Client contribution (%)									
Top client	11	11	11	11	11	12	12	13	13
Top 2-5 clients	31	31	32	33	34	33	33	31	30
Top 6-10 clients	13	15	15	15	15	15	14	15	15
New clients added	6	5	7	6	-	5	4	4	5
Clients contributing more than:									
Over USD100m	4	4	4	4	4	4	4	4	3
Over USD75m	5	5	6	6	6	6	6	5	5
Over USD50m	7	7	7	7	7	7	7	7	7
Over USD20m	9	9	9	10	11	12	13	13	12
Over USD10m	18	19	21	22	24	24	26	26	27
Over USD5m	39	41	42	42	44	45	46	46	47
Over USD1m	84	88	97	104	105	104	107	112	113
Headcount									
Onsite – billable									
Tech services	4,439	4,132	4,392	4,704	4,652	5,082	4,806	4,669	4,517
BPO	3,153	2,863	2,535	2,451	2,134	2,056	1,828	1,606	1,307
Offshore – billable									
Tech services	14,275	15,673	16,543	17,406	18,788	18,514	17,454	16,799	16,005
BPO	5,176	5,476	5,242	5,282	5,212	5,839	6,176	6,234	6,459
Total billable headcount	27,043	28,144	28,712	29,843	30,786	31,491	30,264	29,308	28,288
Total headcount	31,454	32,295	34,915	36,534	36,899	36,876	35,450	34,042	33,961

Source: Company, MOFSL

Financials and valuations

Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenues	65459	77311	88436	97222	1,19,616	1,37,985	1,34,899	1,54,979
Cost Of Goods Sold	47,308.0	55,754.0	61,376.5	67,723.0	84,664	98,128	95,109	1,07,590
SG&A Expenses	7,525	8,317	10,536	11,472	13,570	15,517	15,206	18,288
EBITDA	10,626	13,240	16,524	18,027	21,382	24,340	24,584	29,102
% of Net Sales	16	17	19	19	17.9	17.6	18.2	18.8
Depreciation	709	759	2,317	2,418	2,906	3,253	3,626	3,565
Other Income	1,490	1,592	967	696	861	644	1,082	1,550
PBT	11,407	14,073	15,174	16,305	19,337	21,731	22,041	27,087
Tax	2,900	3,339	3,306	4,139	4,870	5,351	5,493	6,772
Rate (%)	25	24	22	25	25.2	24.6	24.9	25.0
Net Income	8,507	10,734	11,868	12,166	14,467	16,380	16,548	20,316

Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	1,933	1,862	1,865	1,870	1,878	1,884	1,884	1,884
Reserves	52,885	50,636	56,431	63,397	67,553	77,464	84,083	92,210
Net Worth	54,818	52,498	58,296	65,267	69,431	79,348	85,968	94,094
Loans	3,899	5,466	5,713	5,135	5,272	1,985	1,985	1,985
Other long term liabilities	1,016	1,235	7,567	7,285	9,030	8,768	8,817	8,978
Capital Employed	59,732	59,199	71,576	77,687	83,734	90,101	96,769	1,05,056
Net Block	1,829	2,126	8,823	8,869	10,388	11,281	9,005	6,990
CWIP	19	16	74	31	110	55	55	55
Goodwill	17,015	19,585	21,405	21,326	27,348	29,586	29,586	29,586
Investments	3,169	2,592	3,479	3,114	3,778	3,848	3,848	3,848
Other assets	8,361	8,362	9,624	9,246	8,774	11,794	13,517	16,929
Curr. Assets	39,460	41,031	44,131	51,403	57,164	59,531	65,542	75,926
Debtors	8,116	18,487	17,696	18,505	22,270	25,207	25,501	29,722
Cash	7,067	6,416	11,267	9,098	9,494	10,534	12,871	12,954
Investments	14,651	10,700	9,768	16,870	14,351	13,679	16,679	20,679
Other Current Assets	9,625	5,427	5,400	6,929	11,048	10,111	10,491	12,571
Current Liab. & Prov	10,121	14,511	15,959	16,302	23,828	25,994	24,783	28,277
Sundry Liabilities	9,875	14,428	15,891	15,806	22,744	24,883	23,704	27,037
Provisions	246	83	68	497	1,084	1,110	1,079	1,240
Net Current Assets	29,339	26,519	28,172	35,100	33,336	33,538	40,759	47,649
Application of Funds	59,732	59,199	71,576	77,687	83,734	90,102	96,769	1,05,056

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	43.3	55.5	63.1	64.2	75.1	86.9	87.4	107.3
Cash EPS	46.9	59.4	75.5	77.0	90.2	104.2	106.6	126.2
Book Value	279.2	274.1	312.9	349.3	365.3	421.2	456.0	499.1
DPS	20.1	27.0	35.0	65.0	45.7	52.2	52.7	64.7
Payout %	46.5	48.6	55.4	101.2	60.8	60.0	60.2	60.2
Valuation (x)								
P/E	53.9	42.0	36.9	36.3	31.0	26.8	26.7	21.7
Cash P/E	49.7	39.2	30.9	30.3	25.8	22.4	21.9	18.5
EV/EBITDA	41.4	32.8	25.4	23.0	19.8	17.1	16.8	14.0
EV/Sales	6.7	5.6	4.7	4.3	3.5	3.0	3.1	2.6
Price/Book Value	8.3	8.5	7.5	6.7	6.4	5.5	5.1	4.7
Dividend Yield (%)	0.9	1.2	1.5	2.8	2.0	2.2	2.3	2.8
Profitability Ratios (%)								
RoE	14.6	20.0	21.4	19.7	21.5	22.0	20.0	22.6
RoCE	12.5	17.4	18.6	16.8	18.3	19.1	17.2	19.4
Turnover Ratios								
Debtors (Days)	45	87	73	69	68	67	69	70
Fixed Asset Turnover (x)	32.2	39.1	16.2	11.0	12.4	12.7	13.3	19.4

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
CF from Operations	8,832	10,918	12,788	14,999	18,497	20,397	19,091	22,330
Chg. in Wkg. Capital	-1,502	-1,421	422	-453	-1,501	-5,779	-3,560	-6,058
Net Operating CF	7,330	9,497	13,210	14,545	16,996	14,618	15,532	16,273
Net Purchase of FA	-313	-2,511	-1,243	-1,252	-1,192	-1,112	-1,349	-1,550
Free Cash Flow	7,016	6,986	11,967	13,293	15,805	13,506	14,183	14,723
Net Purchase of Invest.	5,238	5,404	2,652	-6,967	-1,629	2,936	-1,918	-2,450
Net Cash from Invest.	4,925	2,893	1,408	-8,219	-2,820	1,825	-3,267	-4,000
Proceeds from equity	2	104	151	268	442	271	0	0
Proceeds from LTB/STB and others	3,624	1,554	-3,863	-2,356	-2,152	-7,153	0	0
Dividend Payments	-15,010	-14,604	-6,065	-6,527	-12,177	-8,652	-9,929	-12,189
Net CF from Financing	-11,383	-12,947	-9,777	-8,615	-13,887	-15,534	-9,929	-12,189
Net Cash Flow	871	-556	4,842	-2,288	289	908	2,336	83
Exchange difference	52	-94	10	120	107	132	0	0
Opening Cash Balance	6,144	7,067	6,416	11,267	9,098	9,494	10,534	12,870
Add: Net Cash	923	-651	4,851	-2,169	396	1,040	2,336	83
Closing Cash Balance	7,067	6,416	11,267	9,098	9,494	10,534	12,870	12,954

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Explanation of Investment Rating	
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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