

27 April 2024

India | Equity Research | Q4FY24 results review

Mphasis

Technology

In-line quarter; deal conversion picking up

Mphasis' revenue growth, at 2.1% QoQ CC, was largely in line our estimate of 1.9%. An uptick in BFS with the regional banking crisis showing signs of easing helped lift growth (Technology, Media and Telecom), with an uptick of 4.4%, also contributed to growth. However, TCV was at USD 177mn (down 26.6% QoQ). Although deal conversion is improving and FY25 outlook is positive, these are already built into our estimates. We see risk from Mphasis' interest rate sensitive mortgage business. Company's margin guidance for FY25 was also subpar at 14.6%-16%. Factoring in new guidance, we adjust our FY25E/26E EPS by -4.1%/1.9%, factoring in the guided margin. We continue to value the stock on 18x FY26E EPS of INR 106, and arrive at a revised TP of INR 1,950. Reiterate **SELL**.

Inline growth led by TMT and BFS

Mphasis reported revenue growth of 2.1% QoQ CC in Q4FY24, inline with our estimates of 1.9% QoQ CC. Growth was led by deals ramping up as the impact from regional banking crisis reduced, leading to BCM uptick of 2.5%. TMT was up 4.4% followed by logistics and transportation with 1.9% growth. Insurance was down 1.1% QoQ. DXC was up 2% QoQ.

FY24 margin undershoots guidance; FY25 outlook optimistic

EBIT margin was at 14.9%, flat QoQ, also in-line with our estimates. This carries a one-time impact from the Silverline acquisition worth 80bps, similar to Q3. Guidance remains at 15.25–16.25% range. MPHL plans to land at the mid-point of this range. FY24 EBIT margin was at 15.1%, missing the target margin range of 15.25–16.25%. For FY25, management expects growth and EBIT margin in the range of 14.6–16%. The optimism is led by an uptick in smaller deals in Q4, which indicates stronger discretionary spending. However, these are already built into our model, having factored in a revival from the regional banking crisis in H1FY25.

Deal wins decelerate, but conversion picks up

TCV was muted at USD177mn, down 26.6% QoQ, 42.7% YoY. However, the deal conversion rate quickening, and overall, the deal landscape has improved, especially in the capital market space. This is driving momentum in short-burst deals. Asset and wealth sub segment is emerging as an area of investment. Consumer lending and auto loans are troubled segments. The worst of BFS seems to be over, except for mortgage business which still remains soft.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,38,431	1,33,340	1,48,300	1,66,301
EBITDA	24,786	24,775	26,352	31,024
EBITDA Margin (%)	17.9	18.6	17.8	18.7
Net Profit	16,380	15,549	16,681	20,425
EPS (INR)	87.1	82.5	88.5	106
EPS % Chg YoY	14.0	(5.2)	7.3	22.4
P/E (x)	26.4	27.9	26.0	21.2
EV/EBITDA (x)	16.4	16.9	15.8	13.3
RoCE (%)	20.8	16.5	15.1	17.3
RoE (%)	22.0	18.6	18.6	21.6

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Market Data

Market Cap (INR)	434bn
Market Cap (USD)	5,214mn
Bloomberg Code	MPHL IN
Reuters Code	MBFL.BO
52-week Range (INR)	2,838 /1,744
Free Float (%)	44.0
ADTV-3M (mn) (USD)	17.2

Price Performance (%)	3m	6m	12m
Absolute	(8.9)	9.2	30.6
Relative to Sensex	(13.2)	(7.6)	8.3

Earnings Revisions (%)	FY25E	FY26E
Revenue (USD mn)	0.0	0.0
EBIT (INR mn)	(6.3)	0.0
EPS (INR)	(4.1)	1.9

Previous Reports

03-02-2024: [Q3FY24 results review](#)

21-10-2023: [Q2FY24 results review](#)

Soft deal TCV

Deal TCV was soft, at USD 177mn it was down 5.5% QoQ/39.9% YoY. This includes one large deal win in Q4. TCV run-rate has come off significantly from USD 707mn in Q1FY24 to less than USD 200mn currently.

Mphasis reports net new TCV Conversion of net new TCV to revenue has been weak in FY24 due to leakages in existing discretionary work, delays in deal ramp-ups and volume decline in mortgage business. However, the trend seems to be changing from here on.

Vertical-wise outlook

In the short term, growth will be driven by BFS and TMT – level of activity does help boost confidence. Travel is doing well between airlines and railroad. Logistics and transportation has bottomed out and will likely gain from hereon. The share of our emerging verticals such as TMT, logistics and transportation, insurance and others has increased from 49% to 52% of Q4 revenue.

Top-10 accounts continue to decline

Mphasis has the highest top 10 client concentration among peers. With that, macro headwinds plus insourcing in top 10 accounts have impacted its growth vs. peers. Top-client revenue was down 4.7% QoQ/up 16.3% YoY, USD. Top 2–5 clients were down 1.2% QoQ, USD. Top 6–10 clients were up 0.2% QoQ, USD.

Margins impacted by one-time acquisition impact

EBIT margin (excluding hedge loss/gain) came in at 14.9%, flat QoQ; carried one-time acquisition cost impact worth 80bps. The delivered margin range estimated for next year stands at 14.6–16%.

Operating metrics

Offshore utilisation (excluding trainees) stood at 75%, up 100bps QoQ as furlough impact recedes. Utilisation is much below its peak level of ~85%; management expects this to improve as freshers turn billable and demand picks-up.

The company saw a net headcount addition of 462 employees, which includes ~400 employees from Silverline, as per our estimate. Total billable headcount is down 7% YoY, in-line with TTM revenue decline of 7.2% YoY USD. Going forward, MPHL is not building any large capacity as discretionary spending trend is unclear. The company is also investing significantly in gen AI platforms.

Update on AI

At MPHL all tribes are getting AI enabled. AI partnerships are picking up scale across hyper-scalers. MPHL also has an AI dedicated business unit called Mphasis.ai. In Q4, MPHL announced a strategic partnership with AWS, focussed on Gen AI. MPHL also has gen AI platform for reimagining and automating complex business processes.

Other highlights

- 15 large deals were signed in FY24. ~76–78% of the deal pipeline is from pro-active pursuits. TCV is mostly driven by tribe model led by data and AI. Q4 saw an uptick in smaller deals. 77% of deal win 1: large deal in Q4FY24. Conversion from deal to revenue is picking up and expected to go up even further in FY25. Pushing for revenue growth. 28% of deals are AI-led. This is the first time an IT company is reporting this metric. This is linked to Alops, IT ops, Data engineering and modernisation.
- MPHL is investing in near shore locations such as Taiwan, Mexico, Costa Rica, Canada and has increased headcount by 27% in these regions.
- Growth in Direct is expected to be back-ended in FY25.

- FY25: Capturing growth opportunities. Outlook is better and is expected to deliver industry leading growth.
- EMEA saw robust deal wins in Q4.
- BPO 1.6% QoQ and this segment is expected to stabilise going further.
- Others vertical is growing well.
- Top-10 accounts declined 8.9% YoY driven by regional bank crisis in first half of the year.
- EBIT was at 14.9%, 0.8% impact from Silverline acquisition.
- CFO/NI=116%
- DSO of 66 days was better by three days QoQ.
- Dividend of INR 55/share was announced.

Key upside risks: Faster-than-expected recovery in mortgage business; and faster discretionary spend revival.

Exhibit 1: Q4FY24 actuals vs. estimates

	Q4FY24	Q3FY24	QoQ	Q4FY23	YoY	Q1FY24E I-Sec	vs our estimates	Bloomberg	vs Bloomberg estimates
Revenue QoQ CC	2.1%	1.0%		-4.5%		3.1%			
Revenues (USD mn)	411	402	2.1%	412	-0.3%	410	0.2%	414	-0.7%
USD/INR	83.3	83.3	0.0%	82.3	1.3%	83.3	0.0%	83.3	
Revenues (INR mn)	34,150	33,507	1.9%	33,893	0.8%	34,115	0.1%	34,440	-0.8%
EBIT (INR mn)	5,110	5,099	0.2%	5,433	-5.9%	5,117	-0.1%	5,084	0.5%
EBIT margin (%)	15.0%	15.2%	-25 bps	16.0%	-107 bps	15.0%	-4 bps	14.8%	20 bps
Adjusted net profit (INR mn)	3,932	3,736	5.2%	4,053	-3.0%	3,880	1.3%	3,933	0.0%
EPS (INR/share)	20.9	19.8	5.4%	21.5	-3.1%	20.6	1.3%	20.8	0.4%

Source: Company data, I-Sec research, Bloomberg

Exhibit 2: Mphasis – change in estimates

	Revised		Old		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenues (USD mn)	1776	1980	1776	1980	0.0%	0.0%
Revenue growth YoY CC	10.3%	11.5%	10.4%	11.5%	0bps	0bps
Revenue growth YoY USD	10.3%	11.5%	10.4%	11.5%	0bps	0bps
USD/INR	83.5	84.0	83.5	84.0	0.0%	0.0%
INR mn						
Revenues	1,48,300	1,66,301	1,48,300	1,66,301	0.0%	0.0%
EBIT	21,903	26,201	23,386	26,201	-6.3%	0.0%
EBIT margin	14.8%	15.8%	15.8%	15.8%	-100bps	0bps
EPS (INR/share)	88.4	108.2	92.2	106.2	-4.1%	1.9%

Source: I-Sec research

Exhibit 3: We anticipate slower conversion of net new TCV to revenue due to increase in average deal duration and macro demand headwinds

USD mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Deal TCV (Net New)	555	640	715	1,111	1,428	1,314	1,380	1518	
YoY %		15%	12%	55%	29%	-8%	5%	10%	
Revenue	989	1,119	1,239	1,309	1,593	1,718	1,610	1,776	1,980
YoY %		13%	11%	6%	22%	8%	-6%	10%	10%
Incremental revenue	95	130	121	70	284	125	(108)	167	204
Incremental revenue as % of previous year net new large deal TCV		23%	19%	10%	26%	9%	NA	12%	13%

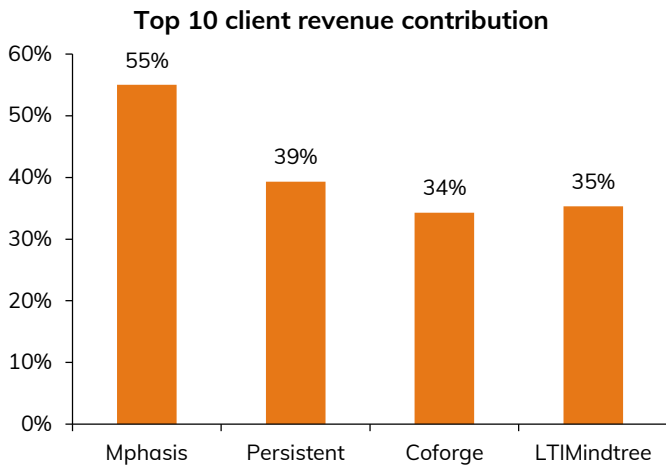
Source: I-Sec research

Exhibit 4: Segmental margin flattish for BFS and others; 400bps decline for insurance

Segmental margin	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Q4FY24
Banking and capital markets	26%	27%	27%	27%	28%	26%	22%	28%	27%
Insurance	27%	24%	26%	23%	25%	27%	20%	34%	30%
IT, Communication and Entertainment	24%	28%	19%	20%	23%	23%	39%	23%	22%
Logistics & Transportation	27%	29%	27%	30%	31%	30%	29%	34%	33%
Others	38%	35%	39%	43%	33%	38%	35%	34%	34%

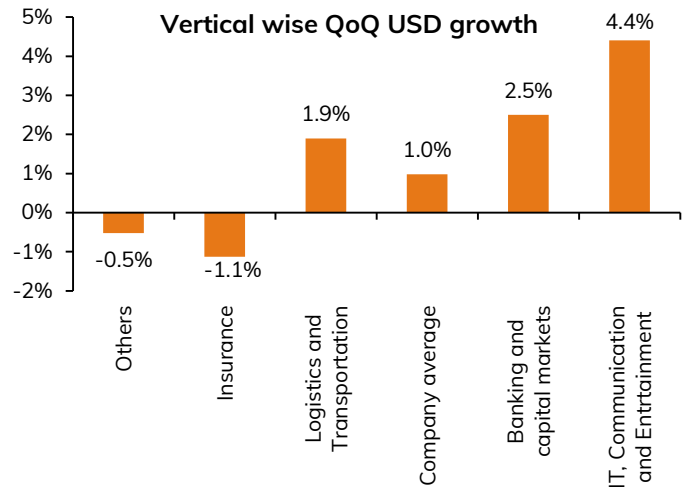
Source: Company data, I-Sec research

Exhibit 5: Mphasis has highest top-10 client concentration vs. peers



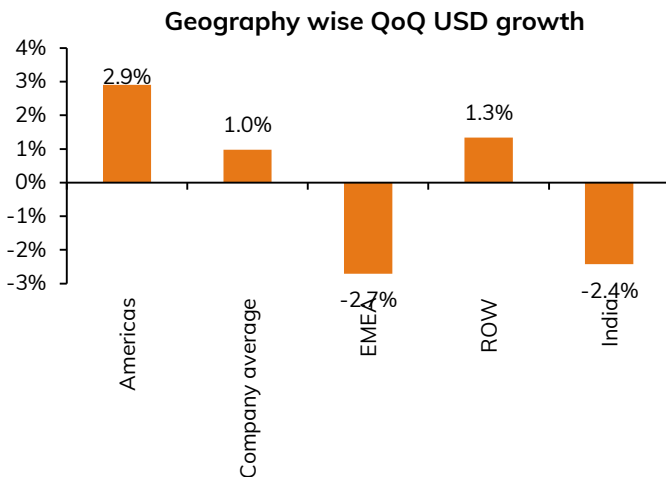
Source: I-Sec research, Company data

Exhibit 6: Revenue growth led by TMT and BFS



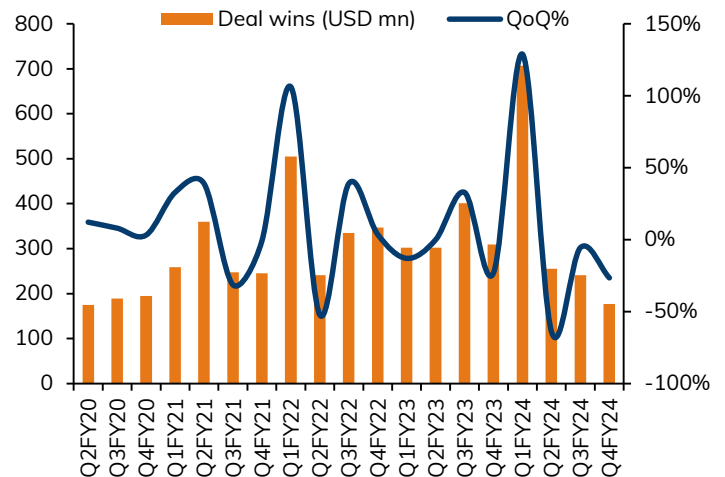
Source: I-Sec research, Company data

Exhibit 7: Revenue growth led by America



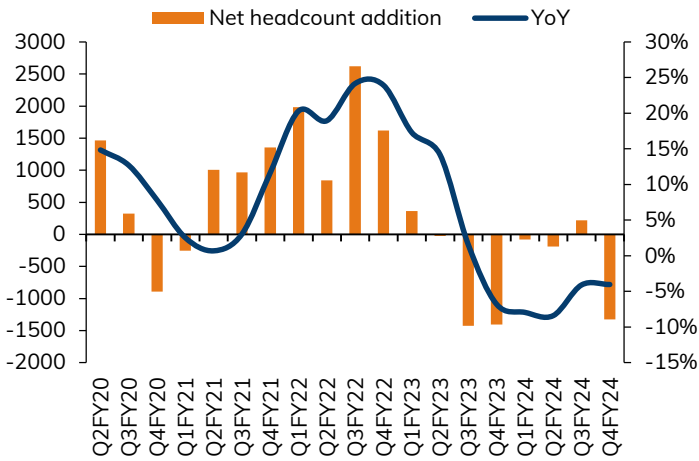
Source: I-Sec research, Company data

Exhibit 8: Soft deal TCV in Q4FY24



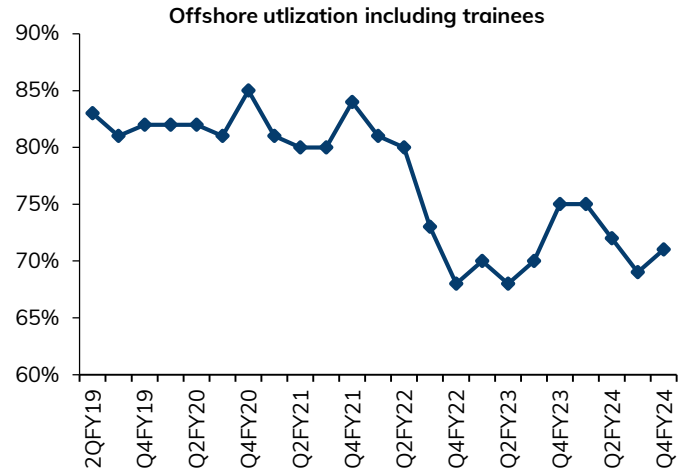
Source: I-Sec research, Company data

Exhibit 9: Headcount down ~4% YoY



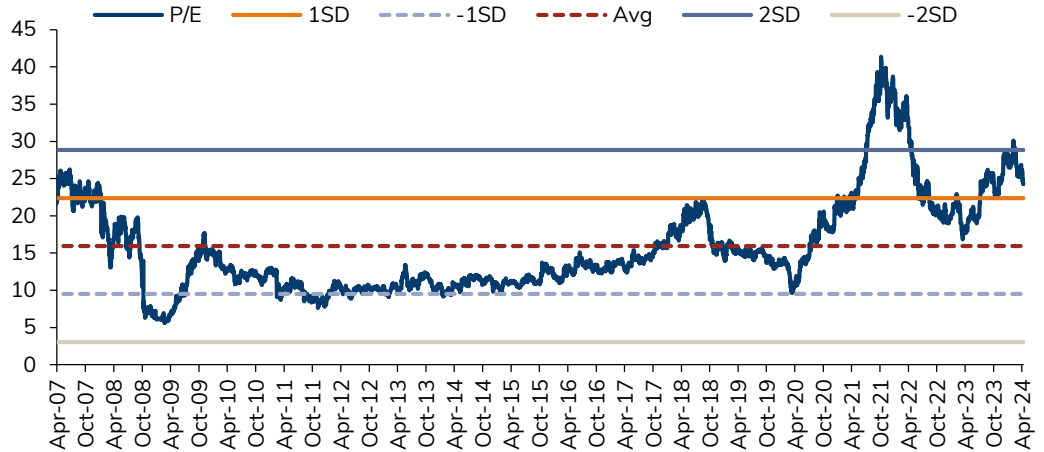
Source: Company data, I-Sec research

Exhibit 10: Utilisation significantly lower than peak levels



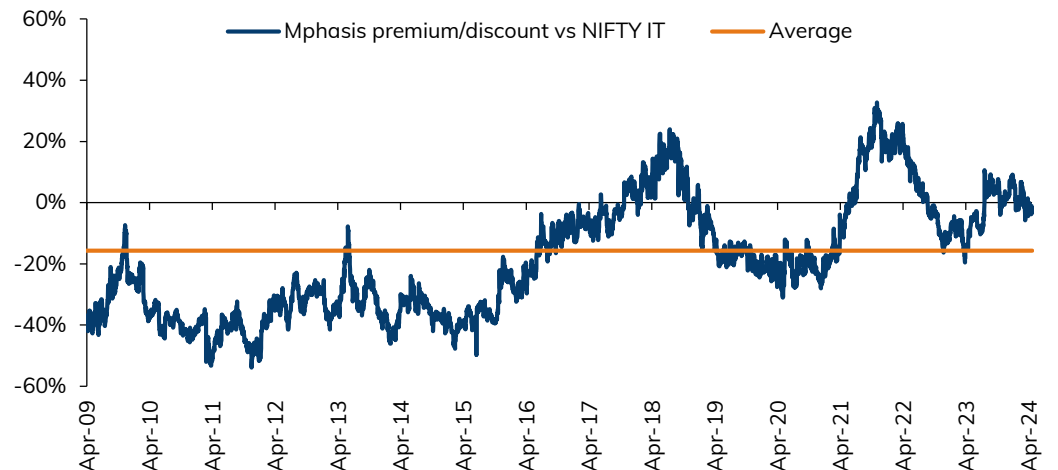
Source: Company data, I-Sec research

Exhibit 11: MPHL is trading at 25x PE; closer to its all-time average+ 1sd ~23x



Source: Company data, I-Sec research

Exhibit 12: MPHL is trading at a 3% discount to NIFTY IT vs. 16% all-time average discount



Source: Company data, I-Sec research

Exhibit 13: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	55.6	55.5	55.5
Institutional investors	38.9	39.5	39.6
MFs and others	13.2	13.6	13.9
FIs/Banks	0.4	0.2	0.0
Insurance	8.7	9.5	10.3
FIIIs	16.6	16.2	15.4
Others	5.5	5.0	5.0

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales (US\$ mn)	1,718	1,610	1,776	1,980
Net Sales (INR mn)	1,38,431	1,33,340	1,48,300	1,66,301
Operating Expense	1,13,645	1,08,565	1,21,948	1,35,277
EBITDA	24,786	24,775	26,352	31,024
EBITDA Margin (%)	17.9	18.6	17.8	18.7
Depreciation & Amortization	3,253	4,106	4,449	4,823
EBIT	21,533	20,669	21,903	26,201
Interest expenditure	973	1,608	1,520	1,000
Other Non-operating Income	1,171	1,623	1,879	2,058
Recurring PBT	21,731	20,684	22,262	27,259
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	5,351	5,135	5,581	6,834
PAT	16,380	15,549	16,681	20,425
Less: Minority Interest	-	-	-	-
Net Income (Reported)	16,380	15,549	16,681	20,425
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	16,380	15,549	16,681	20,425

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	53,948	40,396	49,471	59,123
of which cash & cash eqv.	10,558	8,144	8,869	14,146
Total Current Liabilities & Provisions	23,912	26,610	32,007	35,455
Net Current Assets	30,036	13,786	17,464	23,667
Investments	17,526	25,928	25,928	25,928
Net Fixed Assets	3,543	6,285	6,485	6,685
ROU Assets	7,469	7,248	7,248	7,248
Capital Work-in-Progress	324	614	300	300
Goodwill	29,586	41,793	41,793	41,793
Other assets	2,422	19,038	19,038	19,038
Deferred Tax Assets	-	-	-	-
Total Assets	90,906	1,14,692	1,18,256	1,24,659
Liabilities				
Borrowings	1,985	18,697	18,697	18,697
Deferred Tax Liability	1,030	1,299	1,299	1,299
provisions	-	-	-	-
other Liabilities	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	1,884	2,533	2,533	2,533
Reserves & Surplus*	77,464	85,413	88,977	95,380
Total Net Worth	79,348	87,946	91,510	97,913
Total Liabilities	90,906	1,14,692	1,18,256	1,24,659

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	32,719	32,964	33,507	34,150
% growth (YOY)	(3.5)	(6.5)	(5.2)	0.8
EBITDA	6,068	6,155	6,134	6,418
Margin %	18.5	18.7	18.3	18.8
Other Income	263	150	14	143
Extraordinaries	-	-	-	-
Adjusted Net Profit	3,961	3,920	3,736	3,932

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
CFO before WC changes	23,818	22,743	24,832	30,024
CFO after WC changes	20,544	52,015	21,879	29,098
Capital Commitments	(1,131)	(19,124)	(4,335)	(5,023)
Free Cashflow	15,749	65,838	20,633	27,287
Other investing cashflow	2,956	(22,536)	1,879	2,058
Cashflow from Investing Activities	1,825	(41,660)	(2,456)	(2,965)
Issue of Share Capital	271	5,487	-	(905)
Interest Cost	(492)	-	-	-
Inc (Dec) in Borrowings	(3,557)	1,276	-	-
Cash flow from Financing Activities	(14,402)	(7,468)	(13,117)	(14,022)
Dividend paid	(8,652)	(12,438)	(13,117)	(13,117)
Others	(1,971)	(1,793)	-	-
Chg. in Cash & Bank balance	2,041	(2,414)	725	5,278
Closing cash & balance	11,855	8,144	8,869	14,146

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	87.1	82.5	88.5	106.2
Diluted EPS	87.1	82.5	88.5	106.2
Cash EPS	104.3	104.3	112.1	134.0
Dividend per share (DPS)	60.0	66.0	69.6	69.6
Book Value per share (BV)	421.7	466.6	485.6	519.5
Dividend Payout (%)	69.0	80.0	78.6	64.2
Growth (%)				
Net Sales	16.7	(3.7)	11.2	12.1
EBITDA	22.9	0.0	6.4	17.7
EPS	14.0	(5.2)	7.3	22.4
Valuation Ratios (x)				
P/E	26.4	27.9	26.0	21.2
P/CEPS	22.0	22.0	20.5	17.2
P/BV	5.4	4.9	4.7	4.4
EV / EBITDA	16.4	16.9	15.8	13.3
P/S	3.1	3.2	2.9	2.6
Dividend Yield (%)	2.6	2.9	3.0	3.0
Operating Ratios				
EBITDA Margins (%)	17.9	18.6	17.8	18.7
EBIT Margins (%)	15.6	15.5	14.8	15.8
Effective Tax Rate (%)	24.6	24.8	25.1	25.1
Net Profit Margins (%)	11.8	11.7	11.2	12.3
Inventory Turnover Days	-	-	-	-
Fixed Asset Turnover (x)	34.1	24.8	21.7	24.2
Receivables Days	47	70	68	72
Payables Days	-	-	-	-
Working Capital Days	46	34	18	20
Net Debt / EBITDA (x)	(8.0)	(3.7)	(3.6)	(4.4)
Profitability Ratios				
RoCE (%)	20.8	16.5	15.1	17.3
RoC (%)	30.7	28.6	28.7	33.7
RoNW (%)	22.0	18.6	18.6	21.6

Source Company data, I-Sec research

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