

### Strong TCV wins negates softness in DXC channel

Mphasis' 1QFY21 results were in-line on USD revenues but delivered modest beat on EBIT margin and PAT. DXC channel revenues were down 15% and now accounts to 20% of total revenues. Company won record TCV of USD259mn (include a USD100mn large deal). Management cited that it won another large deal with USD216mn TCV deal executable over three years in 2QFY21. Moderating concentration of DXC business and steady large deal wins in Direct Channel sets Mphasis well on a re-rating trajectory. We raise USD revenue growth assumptions to 0.4/8.2% (vs (1.4)/8.1% modelled earlier). Margin upgrade led by INR reset to lower levels helps ups raise EPS estimates by 6/7.7% for FY21/FY22E. Raise TP by 30% Rs1200/sh (16.5x June22E EPS vs 13.5x earlier). Our multiple upgrade is driven by improving business mix, robust large deal wins which increases visibility. Mphasis trades at 22% discount to LTI and looks reasonable. Maintain BUY.

#### Steady Revenue performance led by Direct Channel

Revenues for 1QFY21 came at USD305.4mn down 4.5% QoQ and above our estimates (Cen ests : 303mn). DXC channel USD revenues declined by 15% QoQ and now account to 20.1% of total revenues. Company has reclassified HPE, HP Inc related business to Direct Channel (from DXC earlier). Direct Channel (including Digital Risk) revenues declined by 1% QoQ and remained steady. Insurance/ Information Technology & Communication/Emerging industries vertical revenues declined by 16/10/7% QoQ. BFS vertical remained steady and grew by 2% QoQ. Management cited that worst of Covid is behind and expects sequential revenue growth 2QFY21 onwards.

#### Margin remains steady ; Guided for FY21 EBIT margin band of 15.5-16.5%

EBIT margin came at 15.7% down 60bps QoQ above our estimates ( Cen ests : 15.2%). PAT came at Rs2751mn in-line with our estimates with modest higher effective tax rate weighing on PAT. Headcount stood at 26,143 which is a net decline of 255 employees QoQ. Net cash on balance sheet at Rs22.2bn(12% of Mcap). Free cash flow (Including Interest income) stands at Rs10.6bn for FY21E (5.2% FCF yield). Among service offering, ADM/BPO/IMS contributed to 64/21/15% of total revenues. Digital Risk (BPO category) has shown strong growth in this quarter led by demand of refinancing owing to falling interest rates.

#### Moderating DXC concentration to drive re-rating

Mphasis cited that it has USD240mn committed business from DXC channel executable till September 21 (Next five quarters) as a part of the MSA (signed post Blackstone purchasing Mphasis in April 2016). We expect DXC share of revenues to moderate to 13% of overall revenues by 2HFY22. While Mphasis aims to maintain its market share in DXC , it guided for higher focus on Direct channel. Company carved out Logistics and Transport vertical (14% of total revenues) separately. We believe representing other verticals like Healthcare, Retail and Manufacturing could give more clear picture of overall vertical mix and hence enable better comparison with similar sized peer LT I which currently commands much higher multiple

#### Valuation: Stock trades at 16x FY22E EPS (LTI/Mindtree trade at 20.5/17.5x FY22 EPS)

We expect Mphasis USD revenues to grow at 0.5% for FY21 (vs LTI/Mindtree USD revenue growth/(decline) of 4.7/(5)% for FY21). Hence, Mphasis could grow better than Mindtree in FY21 in our view. Any acquisition could further lower DXC concentration and aid re-rating trajectory.

#### Financial and valuation summary

YE Mar (Rs mn)	1QFY21A	1QFY20A	YoY (%)	4QFY20A	QoQ (%)	FY20A	FY21E	FY22E
Revenues	22,882	20,626	10.9%	23,462	-2.5%	88,436	93,255	98,517
EBITDA	4,178	3,743	11.6%	4,441	-5.9%	16,505	17,387	18,402
EBITDA margin (%)	18.3%	18.1%	0.11	18.9%	-0.67	18.7%	18.6%	18.7%
Net profit	2,750	2,647	3.9%	3,532	-22.1%	11,702	11,791	12,952
EPS (Rs)	14.6	14.1	3.9%	18.8	-22.1%	63.1	63.1	69.6
EPS growth (%)						13.7%	0.1%	10.2%
PE (x)						17.6	17.6	16.0
EV/EBITDA (x)						11.7	10.8	9.8
PBV (x)						3.6	3.3	3.0
RoE (%)						21.1%	19.3%	19.5%
RoCE (%)						18.1%	16.8%	16.6%

Source: Company, Centrum Broking

#### Result Update

India IT Services

25 July, 2020

#### BUY

Price: Rs1,117

Target Price: Rs1,200

Forecast return: 7%

Institutional Research

#### Market Data

Bloomberg:	MPLH IN
52 week H/L:	1,175/612
Market cap:	Rs208.4bn
Shares Outstanding:	186.5mn
Free float:	40.3%
Avg. daily vol. 3mth:	3,00,931
Source: Bloomberg	

#### Changes in the report

Rating:	Retain BUY
Target price:	Raised by 30% to Rs1200/sh
EPS:	Raised by 6/8% for FY21/FY22E
Source: Centrum Broking	

#### Shareholding pattern

	Mar-20	Dec-19	Sep-19	Jun-19
Promoter	56.2	52.2	52.2	52.2
FIIs	23.9	28.5	28.8	29.9
DIIIs	8.9	9.2	9.3	8.0
Public/other	11.1	10.0	9.7	9.9

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY20	Actual Q1FY20	Variance (%)
Revenue	22,791	22,882	-0.40%
EBITDA	4,057	4,178	-2.90%
EBITDA margin	17.8%	18.3%	50bps
Rep. PAT	2,786	2,750	1.31%

Source: Bloomberg, Centrum Broking



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IT Services

## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY21E New	FY21E Old	% chg	FY22E New	FY22E Old	% chg
Revenue	93,255	90,737	2.8	98,517	96,466	2.1
EBIT	15,010	13,909	7.9	16,039	15,074	6.4
EBIT margin	16.1%	15.3%	0.77	16.3%	15.6%	0.65
Adj. PAT	11,791	11,144	5.8	12,951	12,129	6.8

Source: Centrum Broking

### Mphasis versus NIFTY Midcap 100

	1m	6m	1 year
MPHL IN	28.0	23.0	21.2
NIFTY Midcap 100	4.9	(15.4)	(3.0)

Source: Bloomberg, NSE

### Key assumptions

Y/E Mar	FY21E	FY22E
USD revenues	0.4%	8.2%
Average rate (USD vs INR)	75.1	73.0
EBIDTA margin (%)	18.6%	18.7%
EBIT Margin (%)	16.1	16.3

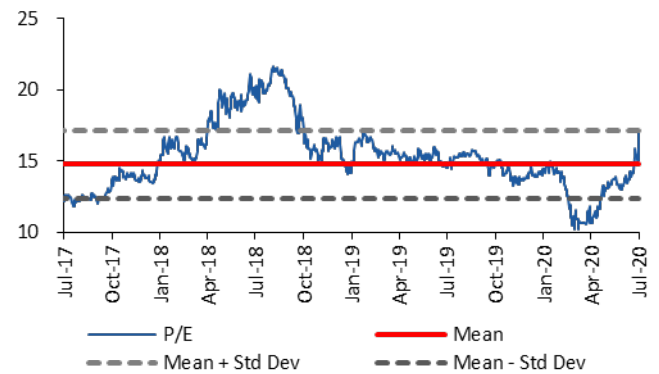
Source: Centrum Broking

### Valuations

We value Mphasis at 16.5x June22E EPS which yields a target of Rs1200/sh

Valuations	Rs/share
Target multiple on June22 E EPS	16.5
EPS for June22E EPS	72
Target Price	1200

### P/E mean and standard deviation



Source: Bloomberg, Centrum Broking

### Peer comparison

Company	Mkt Cap (Rs mn)	CAGR (FY20-22E)			P/E (x)			RoE (%)		
		Sales	EBITDA	EPS	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Mphasis	208.3	4.2	6.3	5.2	17.7	17.7	16.1	21.1	19.3	19.5
Mindtree	167.7	3.4	25.0	23.1	26.7	20.4	17.6	19.5	24.2	24.3
LTI	396.0	9.4	16.1	12.9	26.0	24.6	20.6	29.5	27.5	27.4

Source: Company, Centrum Broking

# Quarterly Result Review

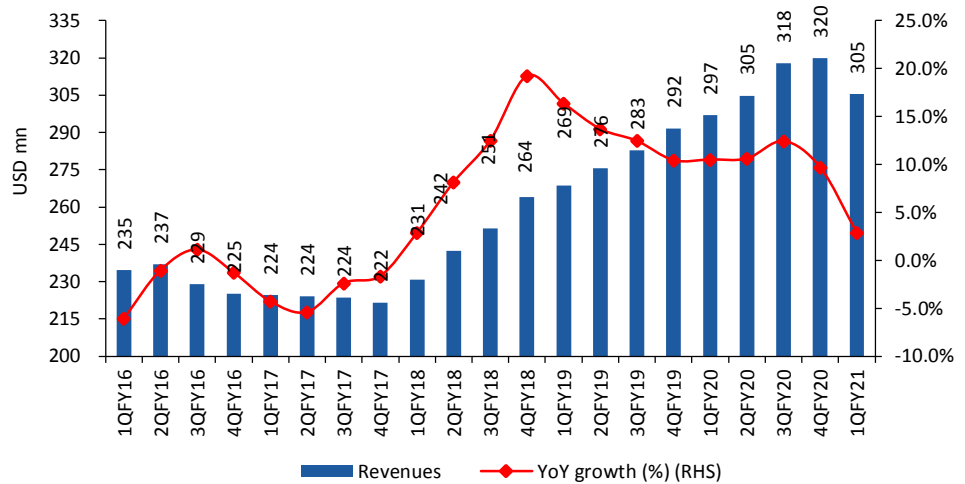
**Exhibit 1: 1QFY21 : Consolidated P&L**

YE Mar (Rs mn)	Q1FY21	Q4FY20	QoQ (%)	Q1FY20	YoY(%)	Gen ests	Variance (%)
USD revenue (USD mn)	305.4	319.9	(4.5)	296.9	2.9	303.0	0.8%
Revenue	22,882	23,462	(2.5)	20,626	10.9	22,791	0.4%
EBIT	3,583	3,831	(6.5)	3,193	12.2	3,464	3.4%
EBIT margin(%)	15.6%	16.3%	(60bps)	15.48%	45bps	15.2%	0.46
Adj. PAT	2,750	3,532	(22.1)	2,647	3.9	2,786	-1.3%

Source: Centrum Broking, Company Data

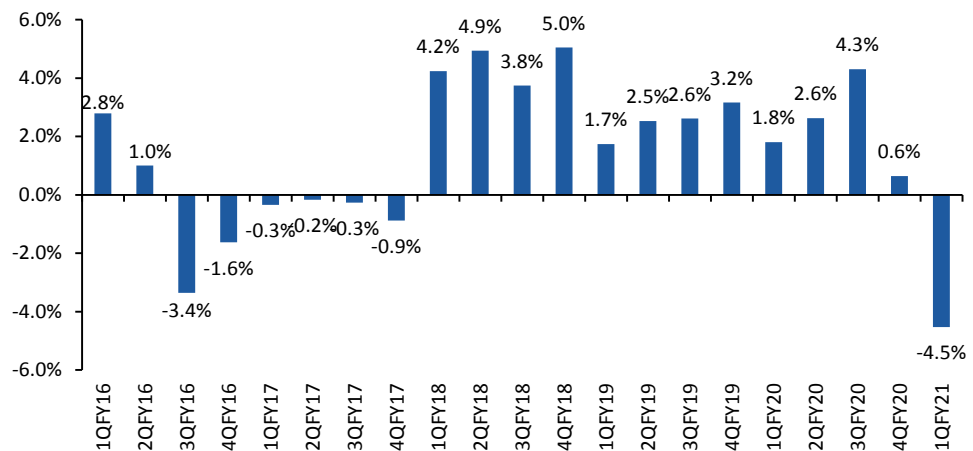
Mphasis continues to execute well on revenue trajectory despite Covid-19 challenges. USD revenue decline of 4.5% QoQ is best among the midcap pack for companies reported till date. LT Infotech showed sequential revenue decline of 4.8% QoQ in USD.

**Exhibit 2: Mphasis consolidated USD Revenue & growth YoY(%)**



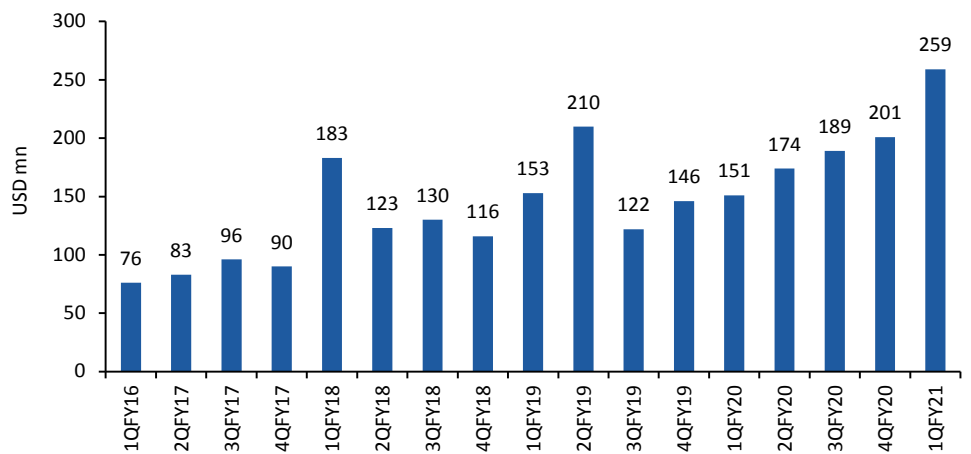
Source: Centrum Broking, Company Data

**Exhibit 3: Consolidate USD Revenue growth QoQ (%)**



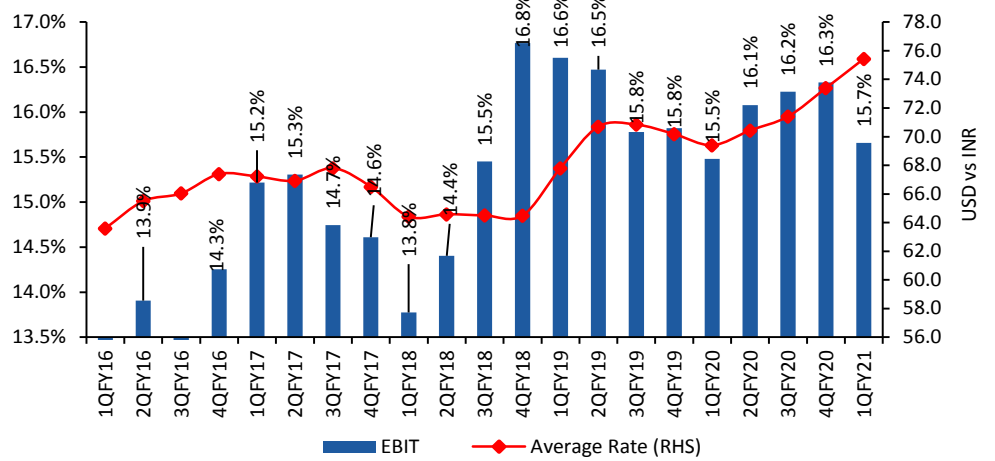
Source: Centrum Broking, Company Data

**Exhibit 4: TCV wins of Mphasis (USD mn)**



Source: Centrum Broking, Company Data

**Exhibit 5: EBIT Margin vs Average exchange rate**



Source: Centrum Broking, Company Data

**Exhibit 6: Revenue by Channels and growth (%)**

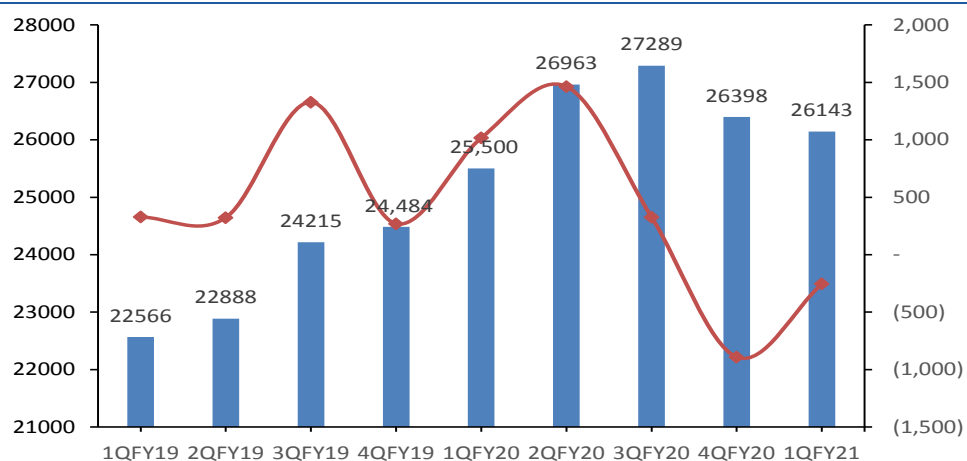
<i>Fig in USD mn</i>	1QFY21	4QFY20	QoQ	1QFY20	YoY
DXC Channel	61	72	-14.9%	73	-16.0%
Direct Channel (Mature Market including Digital Risk)	239.6	241	-0.7%	217	10.2%
Direct Channel ( Emerging Markets)	5	7	-31.7%	7	-30.9%
<b>Total Revenues</b>	<b>305.4</b>	<b>319.9</b>	<b>-4.5%</b>	<b>297</b>	<b>2.9%</b>

Source: Centrum Broking, Company Data

**Exhibit 7: Vertical wise revenue & growth (%)**

Revenue and growth by Verticals	1QFY21	4QFY20	QoQ	1QFY20	YoY
Banking and Capital markets	149	146	2.0%	133	12.3%
Insurance	30	37	-16.7%	35	-12.3%
Information Technology and Communication	43	48	-10.3%	49	-12.2%
Emerging Industries	83	89	-7.2%	80	2.9%
<b>Total Revenues</b>	<b>305.4</b>	<b>319.9</b>	<b>-4.5%</b>	<b>297</b>	<b>2.9%</b>

Source: Centrum Broking, Company Data

**Exhibit 8: Total Headcount & Net addition**

Source: Centrum Broking, Company Data

**Exhibit 9: Quarterly Financials**

Particulars (Rs mn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
USD Revenues	269	276	283	292	297	305	318	320	305
Net Sales	18,202	19,149	19,710	20,250	20,626	21,581	22,767	23,462	22,882
Cost of Revenue	12,945	13,770	14,204	14,815	14,771	15,361	16,228	16,591	16,261
SG&A Expenses	2,056	2,041	2,200	2,031	2,112	2,168	2,270	2,430	2,443
EBITDA	3,201	3,338	3,306	3,404	3,743	4,052	4,269	4,441	4,178
Depreciation	179	184	196	200	550	582	575	610	595
EBIT	3,022	3,154	3,110	3,204	3,193	3,470	3,694	3,831	3,583
Other Income	382	441	423	333	499	302	348	483	311
Interest	(42)	(26)	(28)	(59)	(199)	(217)	(190)	(207)	(195)
Forex gain	67	26	76	(1)	42	49	14	43	66
PBT	3,429	3,595	3,581	3,477	3,535	3,604	3,866	4,150	3,765
Tax	846	877	801	815	888	870	929	618	1,015
APAT	2,583	2,718	2,780	2,662	2,647	2,734	2,937	3,532	2,750
Exceptional	-	-	-	-	-	-	-	-	-
Reported PAT	2,583	2,718	2,780	2,662	2,647	2,734	2,937	3,532	2,750
Adj EPS (Rs)	13.40	14.10	14.99	14.30	14.22	14.70	15.79	18.99	14.79
<b>QoQ Growth (%)</b>									
USD Revenue growth (%)	1.7%	2.5%	2.6%	3.2%	1.8%	2.6%	4.3%	0.6%	-4.5%
Revenue	4.3%	5.2%	2.9%	2.7%	1.9%	4.6%	5.5%	3.1%	-2.5%
EBITDA	3.4%	4.3%	-1.0%	3.0%	10.0%	8.3%	5.4%	4.0%	-5.9%
PBT	3.8%	4.8%	-0.4%	-2.9%	1.7%	2.0%	7.3%	7.3%	-9.3%
Adj PAT	3.0%	5.2%	2.3%	-4.2%	-0.6%	3.3%	7.4%	20.3%	-22.1%
<b>Margin (%)</b>									
EBITDA	17.6%	17.4%	16.8%	16.8%	18.1%	18.8%	18.8%	18.9%	18.3%
EBIT	16.6%	16.5%	15.8%	15.8%	15.5%	16.1%	16.2%	16.3%	15.7%
PBT	18.8%	18.8%	18.2%	17.2%	17.1%	16.7%	17.0%	17.7%	16.5%
Adj PAT	14.2%	14.2%	14.1%	13.1%	12.8%	12.7%	12.9%	15.1%	12.0%

Source: Centrum Broking, Company Data

**Exhibit 10: Consolidated Model Sheet of Mphasis**

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Total Revenues( USD mn)</b>	<b>894</b>	<b>989</b>	<b>1119</b>	<b>1239</b>	<b>1244</b>	<b>1345</b>	<b>1486</b>
<b>Growth/(Decline) YoY</b>	<b>-3.5%</b>	<b>10.6%</b>	<b>13.1%</b>	<b>10.8%</b>	<b>0.4%</b>	<b>8.2%</b>	<b>10.5%</b>
Average Exchange Rate(USD vs INR)	67.1	64.5	69.9	71.2	75.1	73.0	73.0
Revenues ( Rs mn)	60,763	65,458	77,310	88,436	93,255	98,517	108,646
Growth YoY(%)	-0.2%	7.7%	18.1%	14.4%	5.4%	5.6%	10.3%
EBIDTA	9,689	10,592	13,248	16,505	17,387	18,402	20,317
EBIT	9,097	9,884	12,489	14,188	15,010	16,039	18,038
PAT	8,188	8,473	10,741	11,702	11,791	12,952	14,481
EBIDTA margin(%)	15.9%	16.2%	17.1%	18.7%	18.6%	18.7%	18.7%
EBIT margin(%)	15.0%	15.1%	16.2%	16.0%	16.1%	16.3%	16.6%
PAT Margin(%)	13.5%	12.9%	13.9%	13.2%	12.6%	13.1%	13.3%
ROE(%)	13.6%	14.6%	20.0%	21.1%	19.3%	19.5%	19.9%
ROIC (%)	19.9%	21.7%	26.4%	28.5%	28.3%	30.4%	34.4%
DPS	17.0	20.0	27.0	34.5	34.8	38.2	42.7
Dividend Payout ratio (including Taxes paid)	58.8%	54.2%	56.0%	55.0%	55.0%	55.0%	55.0%
<b>EPS</b>	<b>38.2</b>	<b>43.3</b>	<b>55.5</b>	<b>63.1</b>	<b>63.1</b>	<b>69.6</b>	<b>77.1</b>
EPS Growth(%)	11.0%	13.2%	28.3%	13.7%	0.1%	10.2%	10.8%
P/E	24.3	25.7	20.0	17.6	17.6	16.0	14.4
P/S	3.2	3.3	2.7	2.3	2.2	2.1	1.9
EV/EBIDTA	17.3	18.4	14.9	11.7	10.8	9.8	8.6
<b>Consolidated Balance sheet ( R mn)</b>							
Net cash on Balance sheet	27,499	20,989	14,282	18,801	24,004	30,018	36,604
Net cash per share on Balance sheet	131	109	77	101	129	161	196
Net cash as % of Stock price	14.1%	11.7%	8.2%	10.8%	13.8%	17.3%	21.1%
<b>Consolidated Cash Flow ( R mn)</b>							
Cash flow from operations	6,641	7,330	9,497	13,210	11,467	12,608	14,022
Capex+ Acquisitions	1,181	327	2,545	1,261	800	800	800
Free Cash flow	5,460	7,002	6,952	11,949	10,667	11,808	13,222
FCF Including Interest Income	7,442	8,430	8,420	13,440	11,794	13,243	14,657
FCF Yield (%) ( FCF Including Interest Income)	3.6%	4.1%	4.1%	6.5%	5.7%	6.4%	7.1%

Source: Centrum Broking

P&L					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenues	65,458	77,310	88,436	93,255	98,517
Cost of Software development	47,308	55,734	62,951	66,226	70,510
SG&A	7558	8308	8980	9642	9606
EBITDA	10,592	13,248	16,505	17,387	18,402
Depreciation & Amortisation	708.2	759	2317	2377	2362
EBIT	9,884	12,489	14,188	15,010	16,039
Interest expenses	130	155	813	780	780
Other income	1,620	1,747	1,632	1,611	2,050
PBT	11,374	14,081	15,007	15,841	17,309
Taxes	2,901	3,340	3,305	4,051	4,357
Effective tax rate (%)	25.5%	23.7%	22.0%	25.6%	25.2%
PAT	8,473	10,741	11,702	11,791	12,952
Recurring PAT	8,473	10,741	11,702	11,791	12,952
Extraordinary items	131	0	0	0	0
Reported PAT	8,342	10,741	11,702	11,791	12,952

Ratios					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
Growth (%)					
Revenue	7.7%	18.1%	14.4%	5.4%	5.6%
EBITDA	9.3%	25.1%	24.6%	5.3%	5.8%
Adj. EPS	13.5%	29.1%	13.5%	0.2%	10.3%
Margins (%)					
Gross	27.7%	27.9%	28.8%	29.0%	28.4%
EBITDA	16.2%	17.1%	18.7%	18.6%	18.7%
EBIT	15.1%	16.2%	16.0%	16.1%	16.3%
Adjusted PAT	12.9%	13.9%	13.2%	12.6%	13.1%
Returns (%)					
ROE	14.6%	20.0%	21.1%	19.3%	19.5%
ROCE	12.0%	16.3%	18.1%	16.8%	16.6%
ROIC	21.7%	26.4%	28.5%	28.3%	30.4%
Turnover (days)					
Debtors	45	45	34	36	36
Unbilled	30	42	39	38	38
Debtors + Unbilled	76	87	73	74	74
Solvency (x)					
Net debt-equity	-0.3	-0.2	-0.3	-0.3	-0.4
Per share (Rs)					
Adjusted EPS	43.3	55.5	63.1	63.1	69.6
BVPS	283.6	281.9	312.5	340.9	372.2
CEPS	47.5	62.0	75.4	76.2	82.3
DPS	20.0	27.0	34.5	34.8	38.2
Dividend payout (%)	54.2%	56.0%	55.0%	55.0%	55.0%
Valuation (x)					
P/E	25.7	20.0	17.6	17.6	16.0
P/BV	3.9	3.9	3.6	3.3	3.0
EV/EBITDA	18.4	14.9	11.7	10.8	9.8
Dividend yield (%)	1.8%	2.4%	3.1%	3.1%	3.4%

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity share capital	1,933	1,862	1,865	1,865	1,865
Reserves & surplus	52,885	50,636	56,431	61,555	67,363
Shareholders fund	54,818	52,498	58,296	63,421	69,228
Minority Interest	0	0	0	0	0
Total debt	3,899	5,426	5,713	5,713	5,713
Non Current Liabilities	393	465	6,732	6,782	6,832
Def tax liab. (net)	50	28	137	137	137
<b>Total liabilities</b>	<b>59,159</b>	<b>58,417</b>	<b>70,878</b>	<b>76,053</b>	<b>81,910</b>
Gross block	875	1,202	1,700	2,024	2,341
Less: acc. Depreciation	0	0	0	0	0
Net block	875	1,202	1,700	2,024	2,341
Capital WIP	19	16	74	74	74
Net fixed assets	18,863	21,727	24,066	22,489	20,871
Non Current Assets	6,154	6,828	13,062	13,162	13,262
Investments	4,309	3,301	4,119	4,319	4,519
Inventories	0	0	0	0	0
Sundry debtors	8,127	9,564	8,353	10,624	11,485
Cash & Cash Equivalents	7,067	6,416	11,257	15,034	20,593
Loans & advances	824	1,257	1,409	1,409	1,409
Other current assets	23,453	23,804	23,112	23,881	25,160
Trade payables	5,024	7,850	6,667	7,082	7,656
Other current liab.	4,121	5,935	8,503	8,453	8,403
Provisions	1,550	1,508	1,487	1,487	1,487
Net current assets	28,777	25,748	27,474	33,925	41,100
<b>Total assets</b>	<b>59,159</b>	<b>58,417</b>	<b>70,878</b>	<b>76,053</b>	<b>81,910</b>

Cashflow					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit Before Tax	11,407	14,073	15,154	15,304	17,207
Depreciation & Amortisation	1,260	1,156	2,210	2,377	2,417
Net Interest	(96)	(98)	255	(969)	(1,170)
Net Change – WC	(1,502)	(1,421)	422	(2,874)	(1,816)
Direct taxes	(2,783)	(3,427)	(3,960)	(3,916)	(4,302)
<b>Net cash from operations</b>	<b>7,330</b>	<b>9,497</b>	<b>13,210</b>	<b>9,922</b>	<b>12,337</b>
Capital expenditure	(327)	(849)	(1,261)	(800)	(800)
Acquisitions, net	0	(1,696)	0	0	0
Investments	5,039	5,099	2,440	0	0
Others	214	339	230	1,028	1,230
<b>Net cash from investing</b>	<b>4,925</b>	<b>2,893</b>	<b>1,408</b>	<b>228</b>	<b>430</b>
<b>FCF</b>	<b>7,002</b>	<b>8,648</b>	<b>11,949</b>	<b>9,122</b>	<b>11,537</b>
Issue of share capital	29	104	151	0	0
Increase/(decrease) in debt	1,281	1,246	(1,553)	0	0
Dividend paid	(3,949)	(4,655)	(6,065)	(6,263)	(7,098)
Interest paid	(98)	(163)	(780)	(159)	(160)
Others	(11,009)	(10,044)	10	50	50
<b>Net cash from financing</b>	<b>(13,746)</b>	<b>(13,512)</b>	<b>(8,238)</b>	<b>(6,372)</b>	<b>(7,208)</b>
Net change in Cash	(1,491)	(1,122)	6,381	3,777	5,559

Source: Company, Centrum Broking



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Source: Bloomberg

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