

### Solid quarter led by large deal ramp up

Mphasis' 2QFY21 results delivered a strong beat on revenues and modest beat on PAT. Direct Channel (Including Digital Risk) which now accounts for 82% of total revenues grew a solid 12% QoQ led by ramp up of large deal wins and traction in Digital Risk. DXC channel revenues were down 13.3% and now accounts to 16% of total revenues. Company won record TCV of USD360mn in 2QFY21 which is highest ever. 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 5.4/11.2% (vs 0.5/8.2% modelled earlier). Raise EPS estimates by 1.8/5.6/6.4% for FY21/FY22/FY23E. Stock currently trades at 18.5x FY22E EPS and 17.4x Sep22E EPS (LTI and Coforge trading at 23/21.8x Sep22E EPS). Falling contribution of DXC and strong growth in Direct channel and strong large deal wins will drive re-rating. We now value Mphasis at 19x Sep22E EPS which yield TP of Rs1510/sh (19x Sep22E EPS vs 18.5x earlier). This represents a 9% upgrade in TP. Maintain BUY.

#### Strong Revenue performance led by Direct Channel

Revenues for 2QFY21 came at USD327.4mn up 7.2% QoQ and above our estimates (Cen ests : USD313mn).. Direct Channel (Mature Markets – including Digital Risk which accounts to 82% of revenues) was up 12% QoQ. DXC channel (which accounts to 16% of revenues) declined by 13.3% QoQ in USD. BPO revenues were up solid 35% QoQ and drove most of growth. Solid Increase in onsite BPO headcount was also visible (citing Digital Risk momentum). On vertical front, BFS vertical revenues were up 17% QoQ, which indicates Mortgage portfolio could have seen sharp surge. Low interest rates and refinancing have been driving Mortgage market in US. We believe Mphasis is well poised to deliver mid single digit USD revenue growth in FY21 ( This would just modestly lower than LTI Infotech and Coforge)

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

EBIT margin came at 16.1% up 40bps QoQ above with ests (Cen ests : 15.9%). PAT came at Rs2992mn which is 2% above our estimates. Headcount stood at 27,148 which is a net addition of 1005 employees QoQ. (Most addition in BPO). Net cash on balance sheet at Rs18.8bn( Rs 101/sh which is 7.4% of Mcap). Management remained confident of maintain EBIT margin in the 15.5-16.5% band.

#### Valuation: Stock trades at 17.4xSep22E EPS, , Maintain BUY

Mphasis has traded at 20 to 30% discount to LT Infotech. This is owing to concentrated vertical mix ( vs LTI which has a more broad vertical mix) and concern on step fall in DXC business in 2HFY22. We note that DXC concentration could moderate to 11% of total revenues by 2QFY22. Hence , we do not see a significant risk from DXC as concentration is already moderating . Mphasis has also cited in the earnings call that it is proactively working with DXC and remains their largest contractor.

#### Financial and valuation summary

YE Mar (Rs mn)	2QFY21A	2QFY20A	YoY (%)	1QFY21A	QoQ (%)	FY20A	FY21E	FY22E
Revenues	24,354	21,581	12.8%	22,882	6.4%	88,436	97,131	1,06,405
EBITDA	4,524	4,052	11.6%	4,178	8.3%	16,505	18,058	19,793
EBITDA margin (%)	18.6%	18.8%	(20)bps	18.3%	32bps	18.7%	18.6%	18.6%
Net profit	2,992	2,734	9.4%	2,750	8.8%	11,702	12,228	13,973
EPS (Rs)	15.9	14.6	9.4%	14.6	8.8%	63.1	65.2	75.0
EPS growth (%)						13.7%	3.3%	15.1%
PE (x)						22.0	21.3	18.5
EV/EBITDA (x)						14.8	13.2	11.8
PBV (x)						4.4	4.0	3.7
RoE (%)						21.1%	20.0%	20.9%
RoCE (%)						18.1%	17.4%	17.9%

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

#### Result Update

India | IT Services

26 October, 2020

#### BUY

Price: Rs1377

Target Price: Rs1,510

Forecast return:10%

Institutional Research

#### Market Data

Bloomberg:	MPHL IN
52 week H/L:	1,465/612
Market cap:	Rs257.9bn
Shares Outstanding:	186.5mn
Free float:	43.8%
Avg. daily vol. 3mth:	595,114

Source: Bloomberg

#### Changes in the report

Rating:	Retain BUY
Target price:	Raised by 9% to Rs1510/sh
EPS:	Raised by 2/6% for FY21/FY22E

Source: Centrum Broking

#### Shareholding pattern

	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	56.2	56.2	56.2	52.2
FIIs	22.1	23.7	23.9	28.5
DIIIs	15.8	14.1	14.1	13.9
Public/other	6.0	6.1	5.8	5.4

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY20	Actual Q2FY20	Variance (%)
Revenue	23,185	24,354	5.0%
EBITDA	4,289	4,524	5.5%
EBITDA margin	18.5%	18.6%	10bps
Rep. PAT	2,919	2,992	2.5%

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	97,131	94,693	2.6%	1,06,405	1,00,987	5.4%
EBITDA	18,058	17,658	2.3%	19,793	18,863	4.9%
EBITDAmargin	18.6%	18.6%	0bps	18.6%	18.7%	(10)bps
Adj. PAT	12,228	11,966	2.2%	13,973	13,253	5.4%

Source: Centrum Broking

### Mphasis versus NIFTY Midcap 100

	1m	6m	1 year
MPHL IN	8.7	105.2	46.3
NIFTY Midcap 100	4.9	36.3	7.0

Source: Bloomberg, NSE

### Key assumptions

Y/E Mar	FY21E	FY22E
USD revenues	5.4%	11.2%
Average rate (USD vs INR)	74.4	73.0
EBIDTA margin (%)	18.6%	18.6%
EBIT Margin (%)	16.1%	16.4%

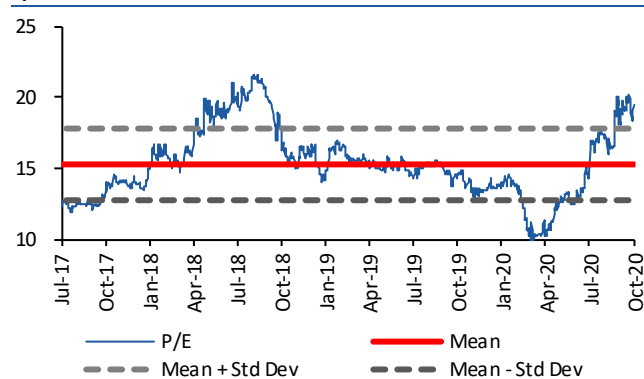
Source: Centrum Broking

### Valuations

We value Mphasis at 19x Sep22E EPS which yields a target of Rs1510/sh

Valuations	Rs/share
Target multiple on Sep22 E EPS	19
EPS for Sep22E EPS	79
Target Price	1510

### P/E mean and standard deviation



Source: Bloomberg, Centrum Broking

### Peer comparison

Company	Mkt Cap	CAGR (FY20-22E)			P/E (x)			RoE (%)		
	(Rs bn)	Sales	EBIT	EPS	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Mphasis	256.5	5.5	7.6	6.4	21.8	21.5	18.6	21.1	20.0	20.9
Mindtree	228.0	4.9	31.7	29.3	36.3	23.8	21.7	19.5	27.9	26.1
LTI	532.4	11.6	18.5	16.9	35.0	30.1	25.9	29.5	29.9	28.8

Source: Company, Centrum Broking

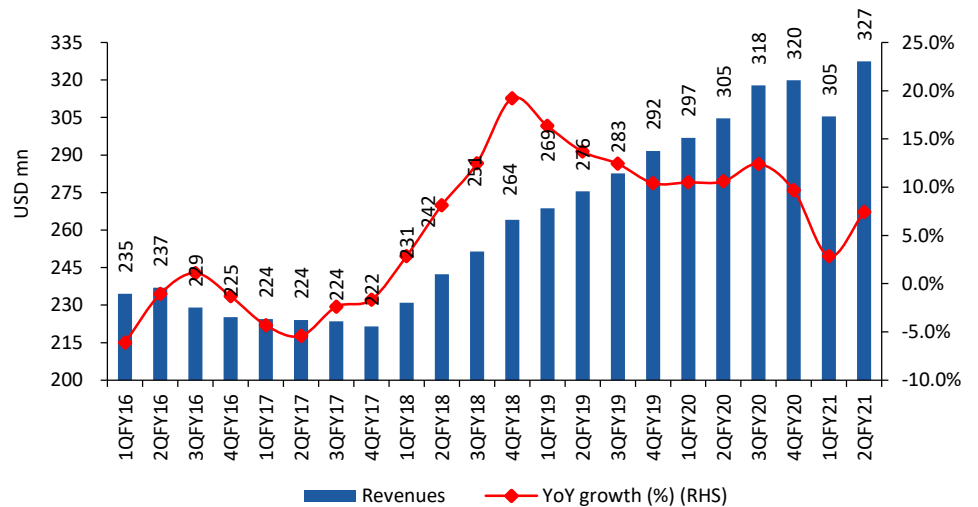
# Quarterly Result Review

**Exhibit 1: 2QFY21 : Consolidated P&L**

YE Mar (Rs mn)	Q2FY21	Q1FY21	QoQ (%)	Q2FY20	YoY(%)	Cen ests	Variance (%)
USD revenue (USD mn)	327.4	305.4	7.2	304.7	7.4	313	4.6%
Revenue	24,354	22,882	6.4	21,581	12.8	23,185	5.0%
EBIT	3,924	3,583	9.5	3,470	13.1	3,686	6.5%
EBIT margin(%)	16.1%	15.7%	(60bps)	16.1%	45bps	15.9%	21bps
Adj. PAT	2,992	2,750	8.8	2,734	9.4	2,919	2.5%

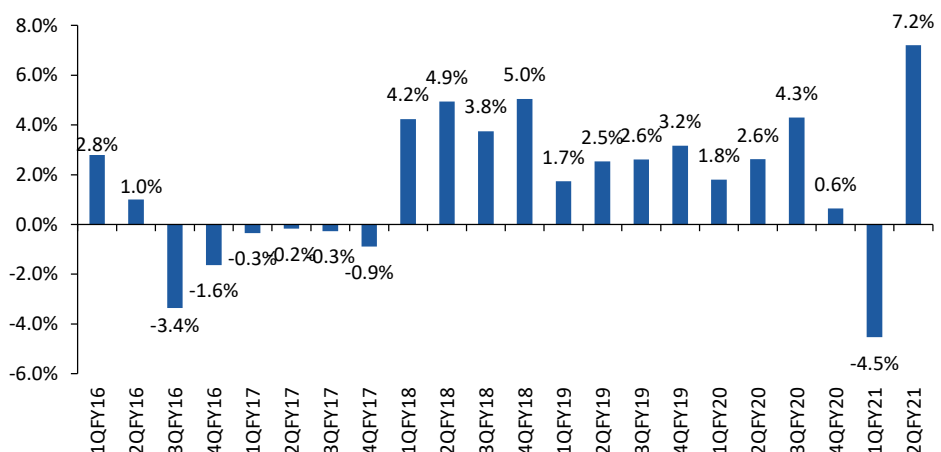
Source: Centrum Broking, Company Data

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



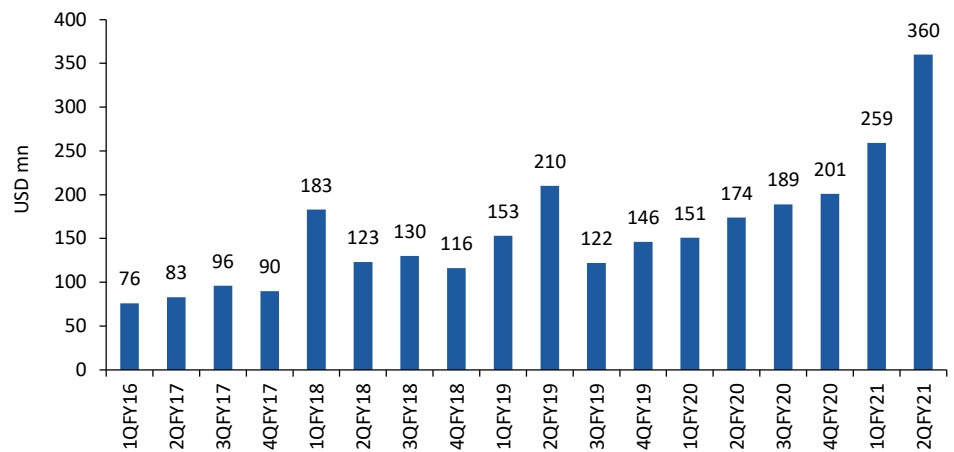
Source: Centrum Broking, Company Data

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



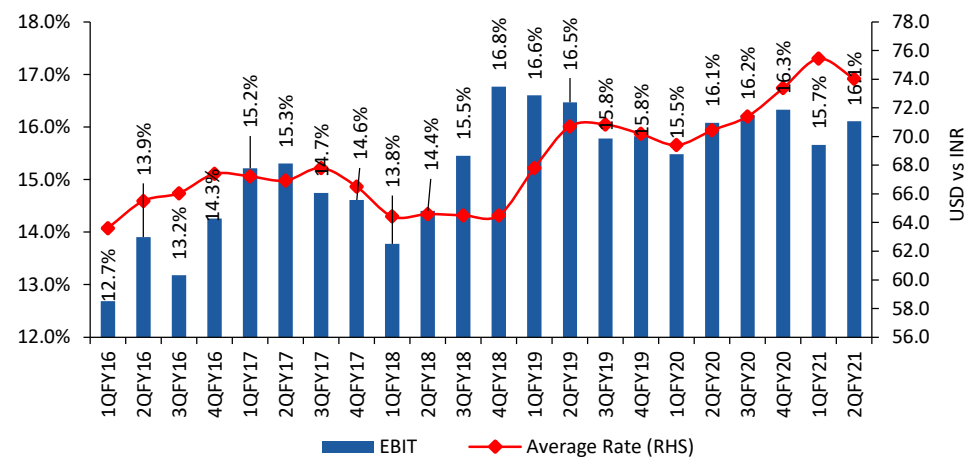
Source: Centrum Broking, Company Data

**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>	2QFY21	1QFY21	QoQ	2QFY20	YoY
DXC Channel	53	61	-13.3%	84	-36.7%
Direct Channel (Mature Market including Digital Risk)	267.8	240	11.7%	211	26.9%
Direct Channel ( Emerging Markets)	6	5	44.2%	10	-32.8%
<b>Total Revenues</b>	<b>327.4</b>	<b>305.4</b>	<b>7.2%</b>	<b>305</b>	<b>7.4%</b>

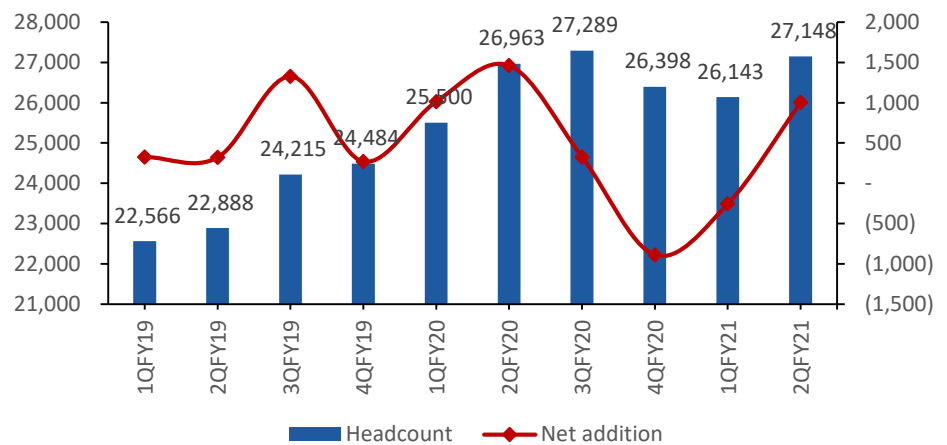
Source: Centrum Broking, Company Data

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

Revenue and growth by Verticals	2QFY21	1QFY21	QoQ	2QFY20	YoY
Banking and Capital markets	175	149	17.4%	140	25.3%
Insurance	31	30	2.6%	34	-9.0%
Information Technology and Communication	39	43	-10.6%	49	-21.3%
Emerging Industries	83	83	-0.2%	82	1.2%
<b>Total Revenues</b>	<b>327.4</b>	<b>305.4</b>	<b>7.2%</b>	<b>305</b>	<b>7.4%</b>

Source: Centrum Broking, Company Data

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



Source: Centrum Broking, Company Data

**Exhibit 9: Quarterly Financials**

Particulars (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
USD Revenues	276	283	292	297	305	318	320	305	327
Net Sales	19,149	19,710	20,250	20,626	21,581	22,767	23,462	22,882	24,354
Cost of Revenue	13,770	14,204	14,815	14,771	15,361	16,228	16,591	16,261	16,974
SG&A Expenses	2,041	2,200	2,031	2,112	2,168	2,270	2,430	2,443	2,856
EBITDA	3,338	3,306	3,404	3,743	4,052	4,269	4,441	4,178	4,524
Depreciation	184	196	200	550	582	575	610	595	600
EBIT	3,154	3,110	3,204	3,193	3,470	3,694	3,831	3,583	3,924
Other Income	441	423	333	499	302	348	483	311	312
Interest	(26)	(28)	(59)	(199)	(217)	(190)	(207)	(195)	(147)
Forex gain	26	76	(1)	42	49	14	43	66	(51)
PBT	3,595	3,581	3,477	3,535	3,604	3,866	4,150	3,765	4,038
Tax	877	801	815	888	870	929	618	1,015	1,046
APAT	2,718	2,780	2,662	2,647	2,734	2,937	3,532	2,750	2,992
Exceptional	-	-	-	-	-	-	-	-	-
Reported PAT	2,718	2,780	2,662	2,647	2,734	2,937	3,532	2,750	2,992
Adj EPS (Rs)	14.10	14.99	14.30	14.22	14.70	15.79	18.99	14.79	16.09
<b>QoQ Growth (%)</b>									
USD Revenue growth (%)	2.5%	2.6%	3.2%	1.8%	2.6%	4.3%	0.6%	-4.5%	7.2%
Revenue	5.2%	2.9%	2.7%	1.9%	4.6%	5.5%	3.1%	-2.5%	6.4%
EBITDA	4.3%	-1.0%	3.0%	10.0%	8.3%	5.4%	4.0%	-5.9%	8.3%
PBT	4.8%	-0.4%	-2.9%	1.7%	2.0%	7.3%	7.3%	-9.3%	7.3%
Adj PAT	5.2%	2.3%	-4.2%	-0.6%	3.3%	7.4%	20.3%	-22.1%	8.8%
<b>Margin (%)</b>									
EBITDA	17.4%	16.8%	16.8%	18.1%	18.8%	18.8%	18.9%	18.3%	18.6%
EBIT	16.5%	15.8%	15.8%	15.5%	16.1%	16.2%	16.3%	15.7%	16.1%
PBT	18.8%	18.2%	17.2%	17.1%	16.7%	17.0%	17.7%	16.5%	16.6%
Adj PAT	14.2%	14.1%	13.1%	12.8%	12.7%	12.9%	15.1%	12.0%	12.3%

Source: Centrum Broking, Company Data

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

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Revenues( USD mn)	894	989	1119	1239	1307	1453	1638
Growth/(Decline) YoY	-3.5%	10.6%	13.1%	10.8%	5.4%	11.2%	12.7%
Average Exchange Rate(USD vs INR)	67.1	64.5	69.9	71.2	74.4	73.0	73.0
Revenues ( Rs mn)	60,763	65,458	77,310	88,436	97,131	1,06,405	1,19,719
Growth YoY(%)	-0.2%	7.7%	18.1%	14.4%	9.8%	9.5%	12.5%
EBIDTA	9,689	10,592	13,248	16,505	18,058	19,793	22,387
EBIT	9,097	9,884	12,489	14,188	15,665	17,401	19,906
PAT	8,188	8,473	10,741	11,702	12,228	13,973	15,919
EBIDTA margin(%)	15.9%	16.2%	17.1%	18.7%	18.6%	18.6%	18.7%
EBIT margin(%)	15.0%	15.1%	16.2%	16.0%	16.1%	16.4%	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%	20.0%	20.9%	21.6%
ROIC (%)	19.9%	21.7%	26.4%	28.5%	29.3%	32.4%	36.9%
DPS	17.0	20.0	27.0	34.5	36.1	41.2	46.9
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>65.2</b>	<b>75.0</b>	<b>84.7</b>
EPS Growth(%)	11.0%	13.2%	28.3%	13.7%	3.3%	15.1%	13.0%
P/E	36.2	32.0	25.0	22.0	21.3	18.5	16.3
P/S	4.8	4.1	3.3	2.9	2.7	2.4	2.2
EV/EBIDTA	27.1	23.4	18.7	14.8	13.2	11.8	10.1
<b>Consolidated Balance sheet ( R mn)</b>							
Net cash on Balance sheet	27,499	20,989	14,282	18,801	23,717	29,704	36,791
Net cash per share on Balance sheet	131	109	77	101	127	159	197
Net cash as % of Stock price	9.4%	7.8%	5.5%	7.3%	9.2%	11.5%	14.2%
<b>Consolidated Cash Flow ( R mn)</b>							
Cash flow from operations	6,641	7,330	9,497	13,210	11,472	13,143	15,279
Capex+ Acquisitions	1,181	327	2,545	1,261	800	800	800
Free Cash flow	5,460	7,002	6,952	11,949	10,672	12,343	14,479
FCF Including Interest Income	7,442	8,430	8,420	13,440	11,738	13,778	15,949
FCF Yield (%) ( FCF Including Interest Income)	2.9%	3.3%	3.3%	5.2%	4.6%	5.3%	6.2%

Source: Centrum Broking

P&L					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenues	65,458	77,310	88,436	97,131	1,06,405
Cost of Software development	47,308	55,734	62,951	68,660	76,155
SG&A	7,558	8,308	8,980	10,413	10,456
EBITDA	10,592	13,248	16,505	18,058	19,793
Depreciation & Amortisation	708.2	759	2317	2392	2393
EBIT	9,884	12,489	14,188	15,665	17,401
Interest expenses	130	155	813	732	780
Other income	1,620	1,747	1,632	1,523	2,050
PBT	11,374	14,081	15,007	16,456	18,671
Taxes	2,901	3,340	3,305	4,228	4,698
Effective tax rate (%)	25.5%	23.7%	22.0%	25.7%	25.2%
PAT	8,473	10,741	11,702	12,228	13,973
Minority interest					
Recurring PAT	8,473	10,741	11,702	12,228	13,973
Extraordinary items	131	0	0	0	0
Reported PAT	8,342	10,741	11,702	12,228	13,973

Ratios					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Growth (%)</b>					
Revenue	7.7%	18.1%	14.4%	9.8%	9.5%
EBITDA	9.3%	25.1%	24.6%	9.4%	9.6%
Adj. EPS	13.5%	29.1%	13.5%	3.4%	15.2%
<b>Margins (%)</b>					
Gross	27.7%	27.9%	28.8%	29.3%	28.4%
EBITDA	16.2%	17.1%	18.7%	18.6%	18.6%
EBIT	15.1%	16.2%	16.0%	16.1%	16.4%
Adjusted PAT	12.9%	13.9%	13.2%	12.6%	13.1%
<b>Returns (%)</b>					
ROE	14.6%	20.0%	21.1%	20.0%	20.9%
ROCE	12.0%	16.3%	18.1%	17.4%	17.9%
ROIC	21.7%	26.4%	28.5%	29.3%	32.4%
<b>Turnover (days)</b>					
Debtors	45	45	34	36	36
Unbilled	30	42	39	38	38
Debtors + Unbilled	76	87	73	74	74
<b>Solvency (x)</b>					
Net debt-equity	-0.3	-0.2	-0.3	-0.3	-0.4
<b>Per share (Rs)</b>					
Adjusted EPS	43.3	55.5	63.1	65.2	75.0
BVPS	283.6	281.9	312.5	342.0	375.7
CEPS	47.5	62.0	75.4	78.6	88.0
DPS	20.0	27.0	34.5	36.1	41.2
Dividend payout (%)	54.2%	56.0%	55.0%	55.0%	55.0%
<b>Valuation (x)</b>					
P/E	32.0	25.0	22.0	21.3	18.5
P/BV	4.9	4.9	4.4	4.0	3.7
EV/EBITDA	23.4	18.7	14.8	13.2	11.8
Dividend yield (%)	1.4%	1.9%	2.5%	2.6%	3.0%

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Share Capital	1,933	1,862	1,865	1,865	1,865
Reserves	52,885	50,636	56,431	61,933	68,221
Shareholders Fund	54,818	52,498	58,296	63,799	70,087
Debt	3,937	5,466	12,188	12,188	12,188
Deferred Tax Liabilities	50	28	137	137	137
Minority int	-	-	-	-	1
<b>Total Liabilities</b>	<b>58,804</b>	<b>57,992</b>	<b>70,621</b>	<b>76,124</b>	<b>82,413</b>
Tangible assets	875	1,202	1,700	2,021	2,343
CWIP	19	16	74	74	74
Right on use of assets			6,236	6,236	6,236
Goodwill on consolidation	17,015	19,585	21,405	19,491	17,577
Intangible assets	954	924	887	887	887
Investments	10,463	10,129	10,945	11,145	11,345
Deferred Tax	1,057	814	2,157	2,157	2,157
<b>Current Assets</b>					
Sundry Debtors	8,127	9,564	8,353	9,580	10,495
Unbilled Revenues	5,432	8,933	9,343	10,112	11,078
Cash & Liquid Investments	21,719	17,116	21,035	25,951	31,938
Other Current Assets	4,193	5,427	5,400	5,900	6,400
<b>Total Current Assets</b>	<b>39,471</b>	<b>41,041</b>	<b>44,131</b>	<b>51,544</b>	<b>59,910</b>
Sundry creditors	5,024	7,850	6,667	7,185	7,871
Other liabilities & provisions	6,025	7,868	10,247	10,247	10,247
<b>Total Current Liabilities</b>	<b>11,049</b>	<b>15,719</b>	<b>16,914</b>	<b>17,432</b>	<b>18,118</b>
<b>Net Current Assets</b>	<b>28,422</b>	<b>25,322</b>	<b>27,217</b>	<b>34,112</b>	<b>41,793</b>
<b>Total Assets</b>	<b>58,804</b>	<b>57,992</b>	<b>70,621</b>	<b>76,124</b>	<b>82,412</b>

Cashflow					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Operating profit before WC changes	11,615	14,345	16,748	17,929	19,784
Trade & other receivables	(2,702)	(5,161)	667	(2,697)	(2,580)
Trade payables	1,199	3,740	(244)	468	636
Net change - WC	(1,502)	(1,421)	422	(2,229)	(1,944)
Direct taxes	2,783	3,427	3,960	4,228	4,698
<b>Net cash from operating activities</b>	<b>7330</b>	<b>9497</b>	<b>13210</b>	<b>11472</b>	<b>13143</b>
Capital expenditure	(327)	(849)	(1,261)	(800)	(800)
Acquisition	-	(1,696)	-	-	-
Others	5,252	5,438	2,670	1,066	1,435
<b>Net Cash from investing activities</b>	<b>4,925</b>	<b>2,893</b>	<b>1,408</b>	<b>266</b>	<b>635</b>
<b>Net free cash flows</b>	<b>7,002</b>	<b>6,952</b>	<b>11,949</b>	<b>10,672</b>	<b>12,343</b>
Issue of share capital	(11,032)	(9,846)	151	-	-
Debt change	1,183	1,083	(1,004)	(96)	(106)
Dividend paid	(3,949)	(4,655)	(6,065)	(6,725)	(7,685)
<b>Net cash from financing activities</b>	<b>(13,797)</b>	<b>(13,418)</b>	<b>(6,917)</b>	<b>(6,822)</b>	<b>(7,791)</b>
Effect of Change in Exchange Rate	52	(94)	10	-	-
<b>Net change in cash</b>	<b>(1,491)</b>	<b>(1,122)</b>	<b>7,711</b>	<b>4,917</b>	<b>5,986</b>

Source: Company, Centrum Broking



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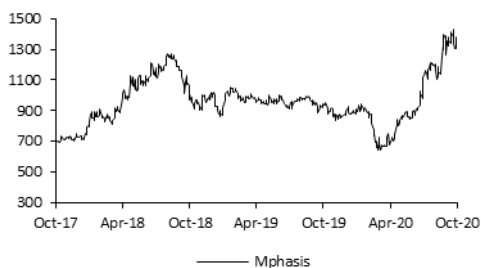
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#### Mphasis



Source: Bloomberg

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