

Mphasis

Navigating AI-led deflation via robust TCV

AI disruption unfolds differently across industries, yet Mphasis maintains a strong near- to medium-term outlook, supported by a solid deal pipeline. AI-led efficiencies have limited relevance in complex brownfield enterprise environments, and the existing services model remains viable, though pricing structures are evolving alongside a greater focus on outcome-based delivery that requires strong execution capabilities. Large global BFSI GCCs handle traditional back-end work, while complex legacy modernization projects continue to be outsourced. Mphasis's legacy modernization deal pipeline has doubled YoY, which signifies the trend. Clients are selecting their preferred LLMs, but they need model-agnostic platforms that integrate with existing systems rather than go for full rebuilds.

AI-led deflationary pressure has impacted pricing on renewals with discounts rising from ~10% to ~20% currently. This has led to a decline in repeat business (dipped to 80–85%) and leakage has risen to ~20-22%. Thus, the onus to clock a double-digit growth now depends heavily on net-new deal wins. The large deals tenure spans 3-5 years, and hiring is focused on talent which can be trained on AI. Margins hinge on execution quality, though no major pressure is expected from AI investments, and hedging-related OCI losses offset gains from currency depreciation. BFSI exposure remains high but stable, logistics issues have normalized, and the strategy emphasizes scaling existing accounts while leveraging a robust pipeline and AI-first legacy modernization programs. We cut our earnings estimates by ~4/8% for FY27/28E, anticipating slower revenue conversion and stable margins. We maintain our ADD rating with a target price of INR 2,660, based on 21x FY28E (earlier 25x).

- **Targets industry leading growth:** The company expects to achieve revenue growth at twice the industry rate in FY26E, led by strong TCV wins and consistent deal conversions. In Q3FY26, Mphasis reported TCV of USD 428mn, marking a 22% YoY increase with TTM TCV doubling to USD 2.6bn. Around ~62% of the deal wins are AI-driven, highlighting the growing role of AI. Mphasis remains confident of delivering industry-leading growth by leveraging its robust deal pipeline and strong execution capabilities. The pipeline remains strong, with BFS pipeline growth of 98% YoY, non-BFS pipeline growth of +44% YoY and large deal pipeline growth of 91% YoY. The company believes that AI should be seen in the context of enterprise-level adoption rather than a short-term narrative.
- **Strong BFSI vertical (65% of revenue):** The BFSI vertical continues to deliver solid growth, supported by a steady recovery in discretionary spending, reflected in increased technology investments by global banks. Tech spends by the top 4 global BFSI players (JP Morgan, Bank of America, Wells Fargo, and Citi Group) have remained stable at 7.5% of revenue (~6.9% on an aggregate basis) over the past three quarters, signalling resilience in this segment. Moreover, tech spend growth for these top-4 BFSI players improved to 8.3% YoY in Q4CY25 (vs 9.2% in Q3). The legacy modernization pipeline has increased from 16% of the pipeline to 26% of the total pipeline in Q3FY26 which signifies that AI-led modernization continues to be a big theme. On the positive side, spending by large banks is increasing, ROI-driven engagements are contributing to near-term growth. The mortgage business is expected to gain traction once the 30-year mortgage rate declines to mid-single digits, which would help drive higher volumes. The mortgage refinance business is expected to recover but at a slower rate.

ADD

CMP (as on 24 Feb 2026)	INR 2,223
Target Price	INR 2,660
NIFTY	25,425

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,430	INR 2,660
EPS %	FY26E -4.0	FY27E -7.7

KEY STOCK DATA

Bloomberg code	MPHL IN
No. of Shares (mn)	191
MCap (INR bn) / (\$ mn)	424/4,661
6m avg traded value (INR mn)	1,966
52 Week high / low	INR 3,037/2,025

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(19.6)	(22.0)	(10.6)
Relative (%)	(16.5)	(23.1)	(21.1)

SHAREHOLDING PATTERN (%)

	Sep-25	Dec-25
Promoters	40.10	30.59
FIs & Local MFs	37.07	45.25
FPIs	18.52	19.79
Public & Others	4.31	4.37
Pledged Shares	0.00	0.00

Source : BSE

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- **EBIT margin outlook remains stable:** Mphasis has maintained its EBIT margin in the 15-15.5% range over the past four years and expects FY26E margins to remain within a narrow band of ~14.8%-15.8%. This reflects the company's strategic focus on balancing growth-driven investments with margin stability. The flexibility within this range enables targeted spending on upfront ramp-ups, technology initiatives, large deals, and AI platform development. The management anticipates that when AI project implementation is aligned with customer expectations, margins will improve; and if execution falls short, margins may deteriorate sharply. We anticipate margins to remain stable at 15.5% in FY27E, followed by a marginal expansion to 15.7% by FY28E.
- **Outlook and valuation:** We have factored in USD revenue growth of 6.8/9.0/10.5%, implying a CQGR of 1.8/2.3/2.7% for FY26/27/28E respectively. EBITM is factored in at 15.3/15.5/15.7%, for FY26/27/28E, translating to 11.7% EPS CAGR over FY25-28E. At CMP, Mphasis is trading at PE of 22.5/20.1/17.5x FY26/27/28E (5Y/10Y average at 26/21x). We maintain ADD with a target price of INR 2,660, based on 21x (earlier 25x) Mar-28E EPS.

Financial Summary

YE March (INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenue (USD mn)	1,718	1,609	1,681	1,795	1,956	2,163
Net Sales	137.99	132.79	142.30	157.67	175.08	195.72
EBIT	21.09	20.11	21.71	24.06	27.14	30.70
APAT	16.38	15.55	17.02	18.52	20.71	23.71
Diluted EPS (INR)	87.6	83.1	91.0	99.0	110.7	126.8
P/E (x)	25.4	26.7	24.4	22.5	20.1	17.5
EV / EBITDA (x)	16.1	16.3	14.8	13.2	11.8	10.2
RoE (%)	22.0	18.6	18.5	18.6	19.3	20.6

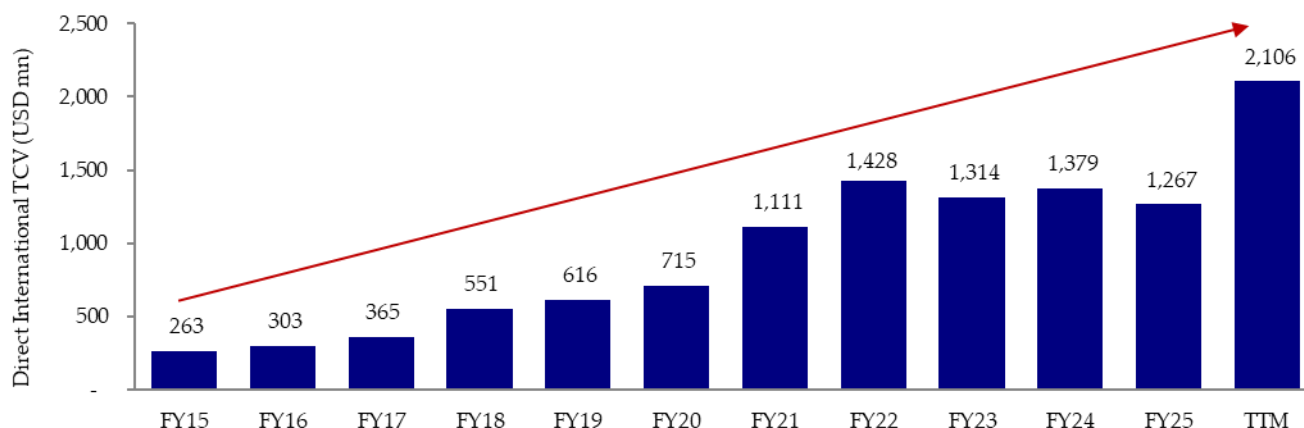
Source: Company, HSIE Research

Change in estimates

YE March (INR bn)	FY26E Old	FY26E Revised	Change %	FY27E Old	FY27E Revised	Change %	FY28E Old	FY28E Revised	Change %
Revenue (USD mn)	1,800	1,795	(0.2)	2,016	1,956	(3.0)	2,257	2,163	(4.2)
Revenue	158.06	157.67	(0.3)	180.42	175.08	(3.0)	204.30	195.72	(4.2)
EBIT	24.40	24.06	(1.4)	28.28	27.14	(4.0)	33.34	30.70	(7.9)
EBIT margin (%)	15.4	15.3	-18bps	15.7	15.5	-18bps	16.3	15.7	-64bps
APAT	18.78	18.52	(1.4)	21.56	20.71	(4.0)	25.69	23.71	(7.7)
EPS (INR)	100.4	99.0	(1.4)	115.3	110.7	(4.0)	137.4	126.8	(7.7)

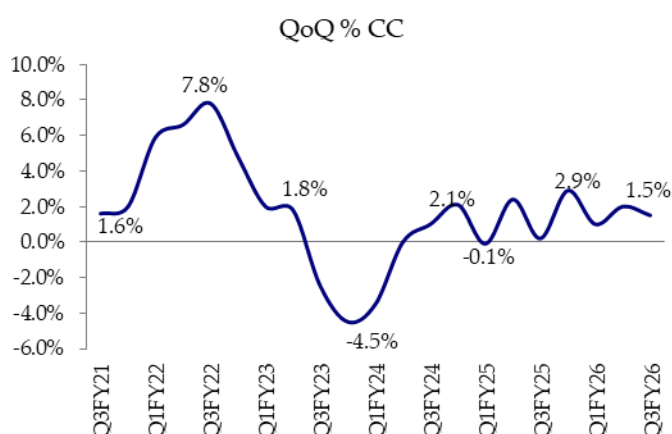
Source: Company, HSIE Research

Exhibit 1: TCV on TTM basis better than FY25 providing revenue visibility



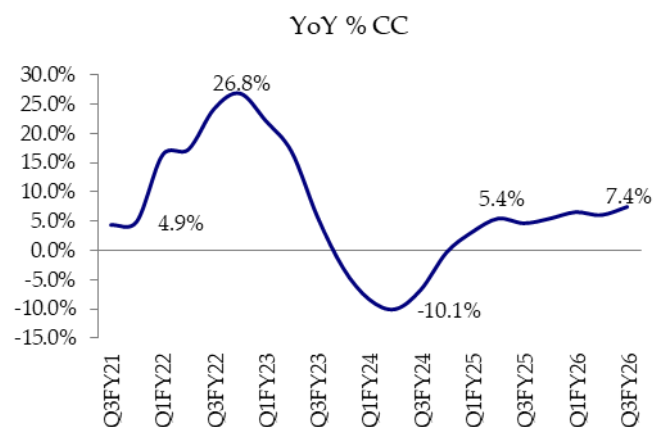
Source: Company, HSIE Research

Exhibit 2: QoQ revenue growth trend



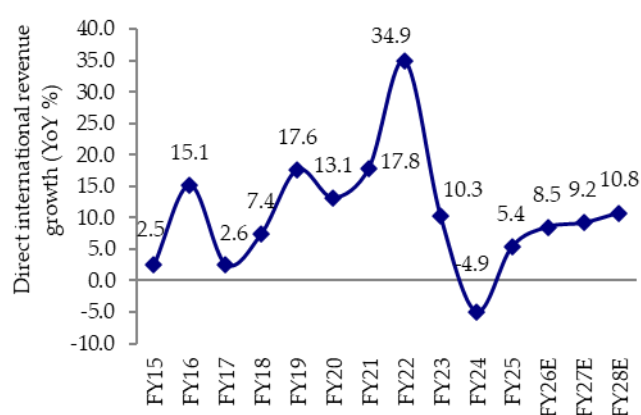
Source: Company, HSIE Research

Exhibit 3: YoY revenue growth trend



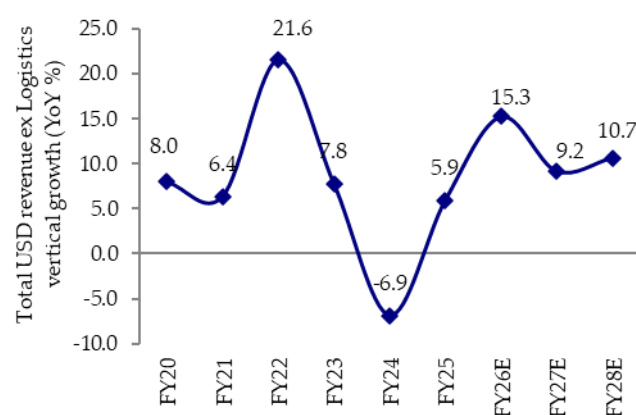
Source: Company, HSIE Research

Exhibit 4: YoY revenue growth trend



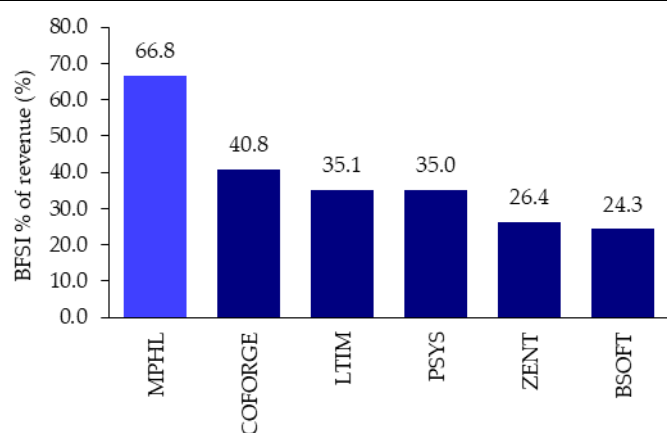
Source: Company, HSIE Research

Exhibit 5: YoY revenue growth ex-logistics business



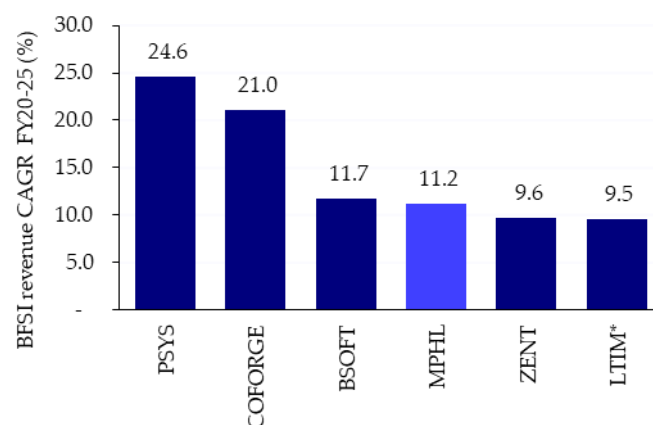
Source: Company, HSIE Research

Exhibit 6: Highest BFSI % of revenue vs peers (Q3FY26)



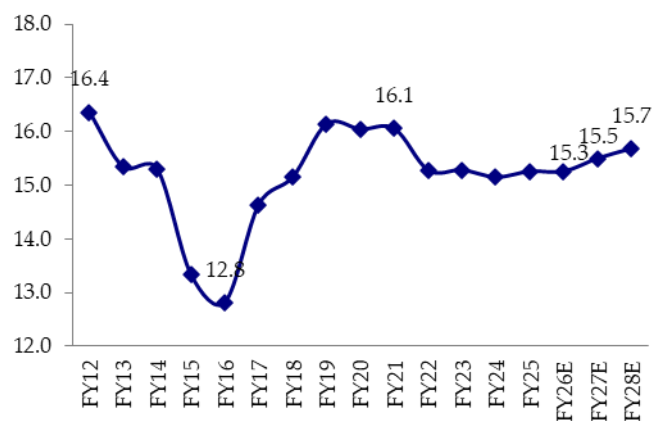
Source: Company, HSIE Research

Exhibit 7: Scope for BFSI revenue CAGR (FY20-25) improvement



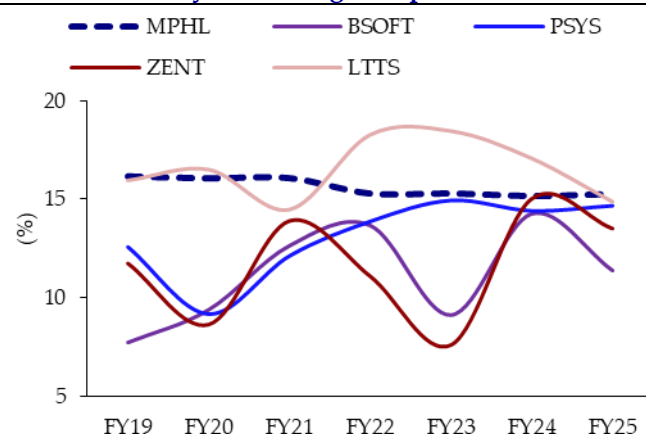
Source: Company, HSIE Research

Exhibit 8: EBIT margin annual trend



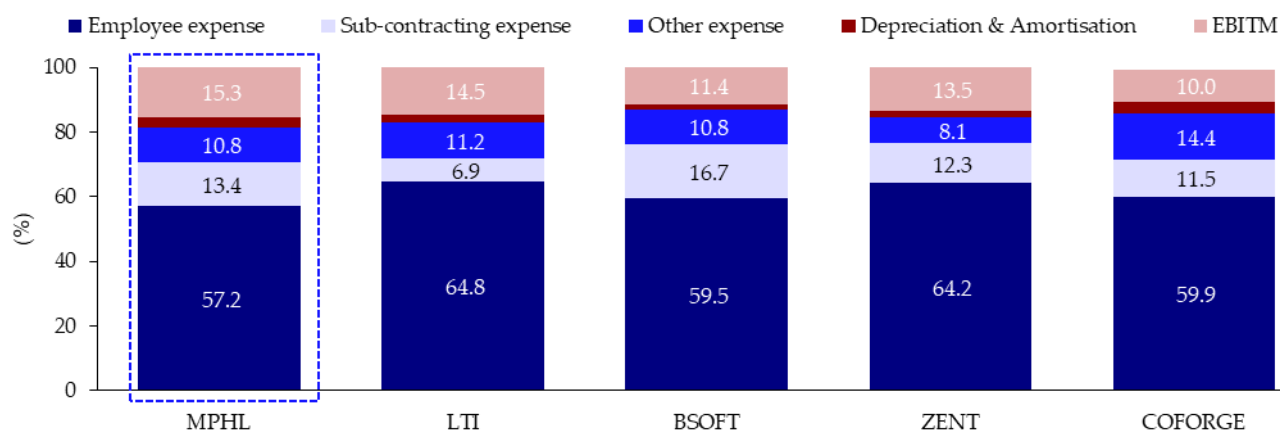
Source: Company, HSIE Research

Exhibit 9: Steady EBIT margin vs peers



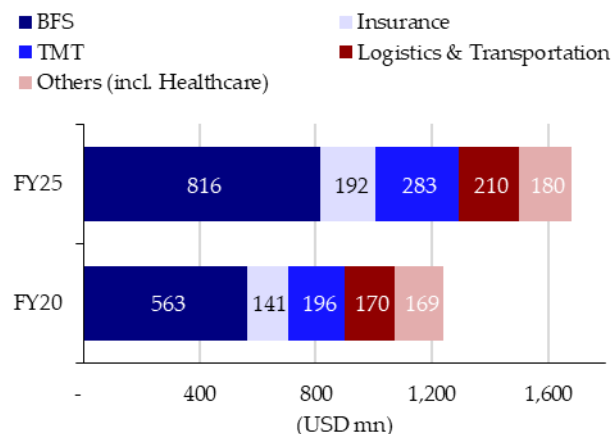
Source: Company, HSIE Research

Exhibit 10: FY25 expenses compared to peers (% of revenue)



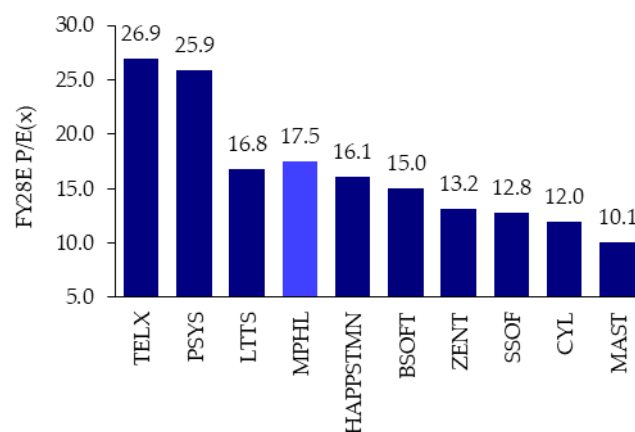
Source: Company, HSIE Research

Exhibit 11: Top 11-20 avg revenue per client (USD)



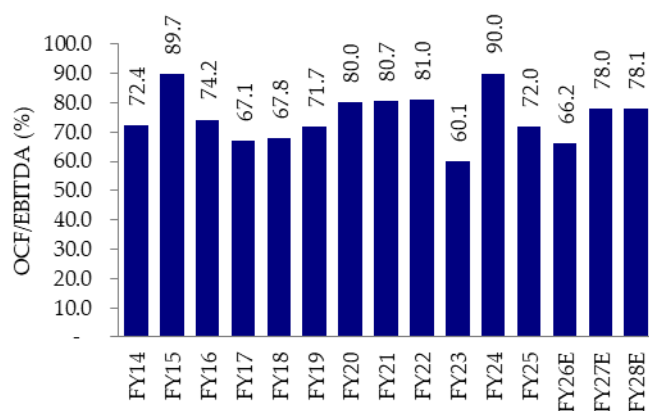
Source: Company, HSIE Research

Exhibit 12: Valuation compared to peers



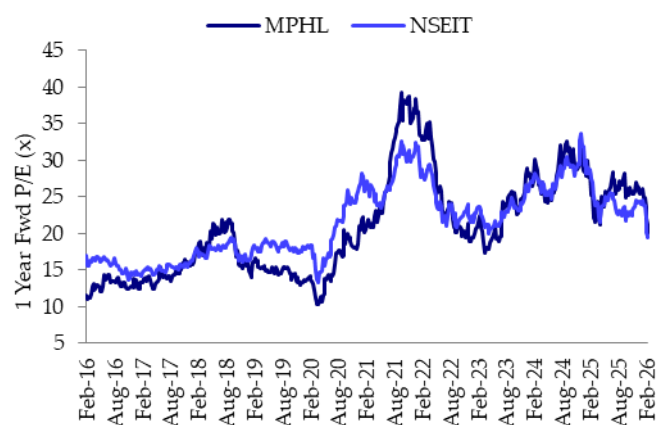
Source: Bloomberg, HSIE Research

Exhibit 13: OCF/EBITDA trend



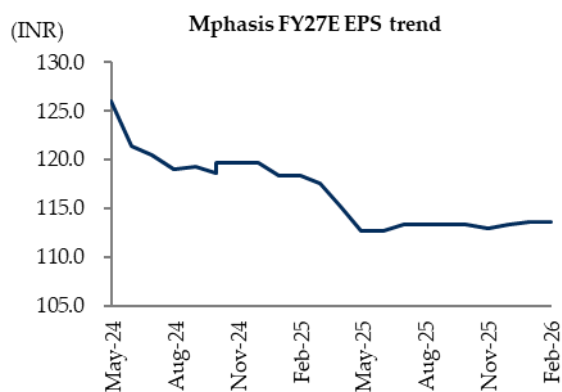
Source: Company, HSIE Research

Exhibit 14: P/E trend compared to NSEIT



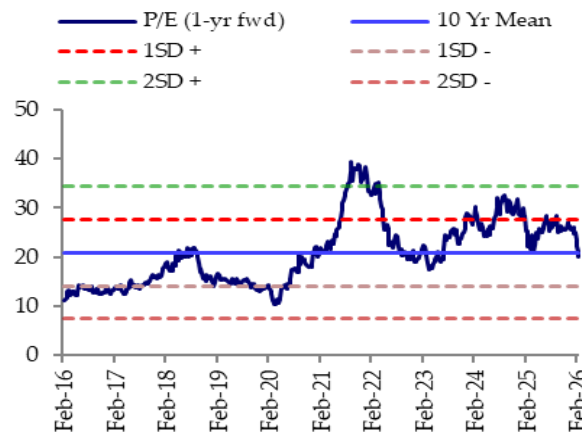
Source: Bloomberg, HSIE Research

Exhibit 15: Consensus EPS Trend



Source: Bloomberg

Exhibit 16: MPHL valuations at 10yr average



Source: Bloomberg, HSIE Research

Financials

Consolidated Income Statement

Year ending March (INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Revenues (USD mn)	1,718	1,609	1,681	1,795	1,956	2,163
<i>Growth (%)</i>	7.8%	-6.3%	4.4%	6.8%	9.0%	10.5%
Net Revenues	137.99	132.79	142.30	157.67	175.08	195.72
<i>Growth (%)</i>	15.4%	-3.8%	7.2%	10.8%	11.0%	11.8%
Employee Expenses	98.13	92.77	97.60	108.30	121.44	135.08
SG&A expenses	15.52	15.79	18.23	19.74	21.19	23.49
EBITDA	24.34	24.22	26.47	29.63	32.46	37.15
Depreciation	3.25	4.11	4.76	5.57	5.32	6.45
EBIT	21.09	20.11	21.71	24.06	27.14	30.70
<i>EBIT Margin (%)</i>	15.3%	15.1%	15.3%	15.3%	15.5%	15.7%
Other Income (Including EO Items)	1.62	2.18	2.55	2.55	2.44	3.00
Interest	0.97	1.61	1.66	1.79	1.97	2.08
PBT	21.73	20.68	22.60	24.82	27.61	31.61
Tax	5.35	5.14	5.58	6.30	6.90	7.90
RPAT	16.38	15.55	17.02	18.17	20.71	23.71
E/o (net of tax)	-	-	-	-	-	-
APAT	16.38	15.55	17.02	18.52	20.71	23.71
<i>APAT Growth (%)</i>	13.2	(5.1)	9.5	8.8	11.8	14.5
Adjusted EPS (INR)	87.6	83.1	91.0	99.0	110.7	126.8
<i>EPS Growth (%)</i>	13.2	(5.1)	9.5	8.8	11.8	14.5

Source: Company, HSIE Research

Consolidated Balance Sheet

Year ending March (INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS						
Share Capital - Equity	1.88	1.89	1.90	1.90	1.90	1.90
Reserves	77.46	86.06	94.38	101.31	108.91	117.63
Total Shareholders' Funds	79.35	87.95	96.28	103.21	110.81	119.53
Total Debt	1.98	15.44	11.16	11.16	11.16	11.16
Net Deferred Taxes	(1.39)	(1.56)	(1.62)	(1.62)	(1.62)	(1.62)
Long Term Provisions & Others	7.74	10.01	6.67	6.67	6.67	6.67
TOTAL SOURCES OF FUNDS	87.68	111.84	112.49	119.42	127.01	135.74
APPLICATION OF FUNDS						
Net Block	11.28	14.01	14.91	15.46	16.01	16.68
CWIP	0.05	0.14	0.00	0.00	0.00	0.00
Goodwill & intangibles	29.59	41.79	42.91	42.91	42.91	42.91
Other non-current assets	9.37	11.21	13.90	14.25	14.64	15.10
Total Non-current Assets	50.29	67.15	71.72	72.62	73.56	74.70
Cash & Equivalents	28.06	39.04	38.21	40.21	46.02	52.64
Other Current Assets	11.26	11.83	10.88	12.05	13.38	14.96
Debtors	24.06	20.43	25.01	27.71	30.78	34.40
Total Current Assets	35.32	32.25	35.89	39.77	44.16	49.36
Creditors	8.64	7.98	9.78	10.84	12.04	13.46
Other Current Liabilities & Prov.	17.35	18.63	23.54	22.33	24.69	27.50
Total Current Liabilities	25.99	26.61	33.33	33.18	36.73	40.96
Net Current Assets	9.32	5.64	2.56	6.59	7.43	8.41
TOTAL APPLICATION OF FUNDS	87.68	111.84	112.49	119.42	127.01	135.74

Source: Company, HSIE Research

Consolidated Cash Flow

Year ending March (INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Reported PBT	21.73	20.68	22.60	24.46	27.61	31.61
Interest expenses	0.97	1.61	1.66	1.79	1.97	2.08
Depreciation	3.25	4.10	4.76	5.57	5.32	6.45
Working Capital Change	(5.78)	4.03	(2.34)	(4.03)	(0.84)	(0.97)
Tax Paid	(5.93)	(5.90)	(7.11)	(6.30)	(6.90)	(7.90)
OPERATING CASH FLOW (a)	14.62	21.80	19.05	19.61	25.33	29.02
Capex	(1.13)	(13.27)	(3.42)	(6.47)	(5.87)	(7.13)
Free cash flow (FCF)	13.49	8.53	15.64	13.13	19.46	21.89
Non-operating Income	1.22	1.64	1.92	1.89	1.83	2.25
INVESTING CASH FLOW (b)	0.09	(11.63)	(1.50)	(4.58)	(4.04)	(4.87)
Debt Issuance/(Repaid)	(3.29)	13.45	(4.28)	-	-	-
Interest Expenses	(0.97)	(1.61)	(1.66)	(1.79)	(1.97)	(2.08)
FCFE	9.23	20.37	9.70	11.35	17.49	19.81
Share Capital Issuance	0.01	0.01	0.01	-	-	-
Dividend	(8.65)	(9.43)	(10.40)	(11.24)	(13.11)	(14.98)
FINANCING CASH FLOW (c)	(12.91)	2.42	(16.32)	(13.02)	(15.08)	(17.07)
NET CASH FLOW (a+b+c)	1.80	12.59	1.23	2.00	6.21	7.08
Closing Cash & Equivalents	28.06	39.04	38.21	40.21	46.02	52.64

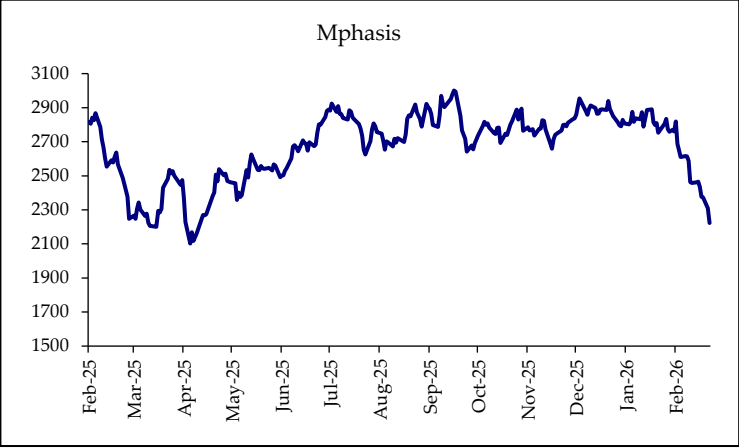
Source: Company, HSIE Research

Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
PROFITABILITY (%)						
GPM	28.9	30.1	31.4	31.3	30.6	31.0
EBIT Margin	17.6	18.2	18.6	18.8	18.5	19.0
APAT Margin	11.9	11.7	12.0	11.7	11.8	12.1
RoE	22.0	18.6	18.5	18.6	19.3	20.6
RoIC (or Core RoCE)	27.9	22.8	22.2	23.3	25.4	28.1
RoCE	20.2	16.8	16.3	17.1	18.0	19.2
EFFICIENCY						
Tax Rate (%)	24.6	24.8	24.7	25.7	25.0	25.0
Fixed Asset Turnover (x)	6.1	4.6	4.2	4.2	4.1	4.0
Debtors (days)	67	67	73	73	73	73
Other Current Assets (days)	64	56	64	64	64	64
Payables (days)	23	22	25	25	25	25
Other Current Liab & Provns (days)	41	47	56	47	48	48
Cash Conversion Cycle (days)	66	54	56	65	64	64
Net D/E (x)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	22	13	13	13	14	15
PER SHARE DATA (INR)						
EPS	87.6	83.1	91.0	99.0	110.7	126.8
CEPS	105	105	116	129	139	161
Dividend	50	55	55	60	70	80
Book Value	424	470	514	551	592	638
VALUATION						
P/E (x)	25.4	26.7	24.4	22.5	20.1	17.5
P/BV (x)	5.2	4.7	4.3	4.0	3.8	3.5
EV/EBITDA (x)	16.1	16.3	14.8	13.2	11.8	10.2
OCF/EV (%)	4.7	2.9	8.6	5.4	7.0	8.2
FCF/EV (%)	4.4	(0.5)	7.7	4.7	5.8	6.8
FCFE/Mkt Cap (%)	3.1	2.4	5.9	3.9	4.9	5.7
Dividend Yield (%)	2.2	2.5	2.5	2.7	3.1	3.6

Source: Company, HSIE Research

Price History



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

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