

Slow pickup; expecting 2HFY24 to improve;

Q2FY24 Result Update | Sector: IT | October 25, 2023

BUY

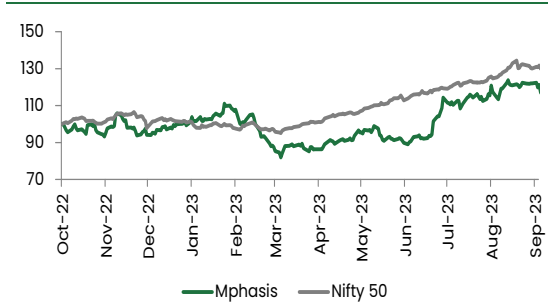
CMP (Rs)	2,155
Target Price (Rs)	2,960
Potential Upside	37.4%
Sensex	64,378
Nifty	19,222

Key Stock data	
BSE Code	526299
NSE Code	MPHASIS
Bloomberg	MPHL IN
Shares o/s, Cr (FV 10)	18.7
Market Cap (Rs Cr)	40,640
3M Avg Volume	478,952
52 week H/L	2,552/1,660

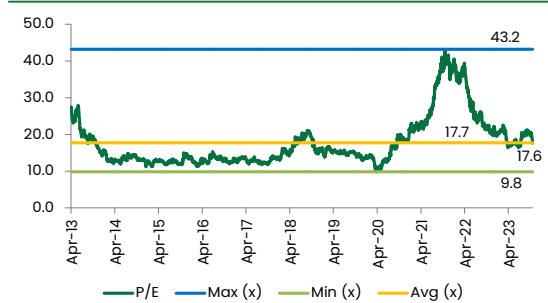
Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	55.6	55.6	55.6
FII	17.7	17.2	16.6
DII	21.0	21.2	22.7
Others	5.6	6.1	5.1

1 Year relative price performance



1 year P/E Forward (x)



Research Analyst

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Revenue a miss: Mphasis revenue for Q2FY24 came in below our estimates wherein rupee revenue was down by 6.9% YoY but grew by 0.8% QoQ to Rs 3,276cr while revenue in dollar de-grew by 9.6% YoY to USD 398mn but was flat sequentially. The growth was largely impacted by the ongoing macro-economic environment which is impacting clients spending. Mixed performance was witnessed amongst geographies as well as segments wherein America and banking & finance remains impacted while EMEA (Europe, Middle East & Africa) & India as well as Insurance and media & technology witnessed healthy growth.

Highest contributing geographies & segments remains impacted: Amongst geographies, EMEA and India performance was healthy as (together it contributes 18% of revenue) EMEA grew by 13.6%/15.9% YoY/QoQ to Rs 394.4cr while India grew by 13.9%/6% YoY/QoQ to Rs 196.9cr. However its America region (contributing highest of ~79-80% revenue) witnessed de-growth of 9.9%/1.6% YoY/QoQ to Rs 2,610.9cr due to delaying in client spending as well as muted performance from banking sector. Amongst segments as well, its highest contributing segments i.e. banking & logistic and transportation (~60% of revenue) growth was muted wherein banking de-grew by 18.8%/3.6% YoY/QoQ to Rs 1,554.2cr and logistic growth declined by 1.6%/4.8% YoY/QoQ to Rs 440.7cr. But strong growth and traction was seen in Insurance and media & technology sector (~28 of revenue) as insurance segment grew strong by 20.7%/2.9% YoY/QoQ to Rs 354.4cr while Media & Technology grew by 25%/15.7% YoY/QoQ to Rs 570.3cr.

Moderate margin improvement: Mphasis Q2FY24 EBIT de-grew by 5.8% YoY but grew by 1.4% QoQ to Rs 506.7cr while its EBIT margin came at 15.5%, improved by 19bps/10bps YoY/QoQ. This was in-line with management estimates and going ahead as well they have retained margin guidance.

Deal wins robust for H1FY24: Amongst the total deals, 3 are the large deals won in this quarter. Its order book for H1FY24 stands at USD 961mn, up by 59% i.e. USD 604mn in H1FY23, orders are broad based across verticals and clients. Further, due to macro challenges there is slow conversion of deals to revenue however that is expected to stabilize going ahead as management is seeing signs of bottoming out.

Cautiously optimistic management guidance: Management remains cautiously optimistic ahead as on one side, macro challenges are delaying clients spends however they are seeing signs of bottoming out and non-BFS (banking & finance) is gaining traction. Also, strong order pipeline and demand for AI, cloud and transformation deals is playing well for the company. Besides, they have maintained their EBIT margin guidance band of 15.25-16.25%.

Outlook & Valuation: IT sector is facing challenges and near term may remain impacted however companies like Mphasis have strong order pipeline and are continuously focused on investing behind newer technology. Additionally, healthy demand for AI & cloud will continue to drive order flow as well as management optimistic approach towards maintaining margins will aid overall growth. We have estimated its revenue/EBIT to grow at 15%/19% CAGR over FY23-25E and maintain our **Buy** rating with a target price of **Rs 2,960**.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	11,961.6	13,798.5	15,868.3	18,248.5
EBIT	1,827.0	2,108.7	2,471.2	2,992.8
EBIT Margin %	15.3	15.3	15.6	16.4
APAT	1,431.0	1,654.2	1,930.4	2,323.9
APATM (%)	12.0	12.0	12.2	12.7
EPS (Rs)	76.2	87.8	102.5	123.3
PE (x)	27.8	24.2	20.7	17.2
RoE (%)	20.6	20.8	21.6	22.6

Source : RBL Research

Concall highlights: 1) Adoption of AI will continue to be the theme of the future. 2) Cost efficiency is the client's priority. 3) Demand traction is seen in travel, logistics & transportation while moderate performance for banking and finance. 4) The company is spending on building capabilities across segments. 5) Macro challenges are impacting client spending. 6) Strong demand and order pipeline for AI, cloud and transformation deals.

P&L Account Quarterly - consolidated

Mixed revenue performance

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Revenue (\$ Mn)	398.0	440.4	(9.6)	398.1	(0.0)
Gross Revenue (Rs cr)	3,296.4	3,527.3	(6.5)	3,271.9	0.7
Unallocated hedge	(19.9)	(7.5)	165.3	(19.9)	-
Net Revenue (Rs cr)	3,276.5	3,519.8	(6.9)	3,252.0	0.8
Employee Cost	1,959.7	2,039.0	(3.9)	1,931.5	1.5
Other Expense	721.1	863.1	(16.4)	733.6	(1.7)
Total Expenditure	2,680.9	2,902.0	(7.6)	2,665.1	0.6
EBITDA	595.6	617.8	(3.6)	586.9	1.5
EBITDA Margins (%)	18.2	17.6	63bps	18.0	13bps
Depreciation	89.0	80.1	11.0	87.4	1.8
EBIT	506.7	537.6	(5.8)	499.5	1.4
EBITM (%)	15.5	15.3	19bps	15.4	10bps
Other Income	49.0	43.4	13.0	50.3	(2.6)
Interest	34.0	26.0	30.8	24.1	41.1
PBT	521.7	555.0	(6.0)	525.7	(0.8)
Tax	129.7	129.7	(0.0)	129.7	(0.0)
PAT	392.0	425.3	(7.8)	396.0	(1.0)
PAT Margin (%)	12.0	12.1	-12bps	12.2	-21bps
EPS	20.8	22.6	(7.8)	21.0	(1.0)

Stable EBIT margins

Source : RBL Research

Clients Data

Particulars	Q2FY24	Q2FY23	Q1FY24
Clients Contributing to Revenue			
USD 200mn	1	1	1
USD 150mn	3	3	3
USD 100mn	3	4	3
USD 75mn	4	6	5
USD 50mn	6	6	6
USD 20mn	11	11	12
USD 10mn	26	23	26
USD 5mn	46	44	46
USD 1mn	115	103	112
Revenue from Top Clients (%)	16	16	17
Revenue from Top 5 Clients (%)	47	49	47
Revenue from Top 10 Clients (%)	58	61	59
New client wins	5	5	5

Source : RBL Research

America region witnessed muted performance

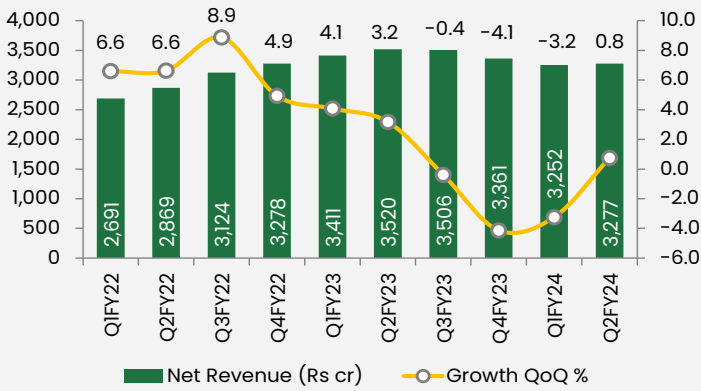
Banking & Finance remain impacted

Particulars	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
by Geography					
America	2610.9	2897.8	(9.9)	2652.4	(1.6)
% of revenue	79.2	82.2	-295bps	81.1	-186bps
EMEA	394.4	347.2	13.6	340.2	15.9
% of revenue	12.0	9.8	212bps	10.4	157bps
ROW	94.2	109.5	(14.0)	93.5	0.7
% of revenue	2.9	3.1	-25bps	2.9	0bps
- India	196.9	172.8	13.9	185.8	6.0
% of revenue	6.0	4.9	107bps	5.7	29bps
by Segments					
Segment Revenue					
Banking & Finance	1554.2	1912.8	(18.8)	1612.1	(3.6)
% of revenue	47.1	54.2	-708bps	49.3	-212bps
Insurance	354.4	293.6	20.7	344.3	2.9
% of revenue	10.8	8.3	243bps	10.5	23bps
Technology Media and Telecom	570.3	456.3	25.0	492.7	15.7
% of revenue	17.3	12.9	436bps	15.1	224bps
Logistic & Transportation	440.7	447.8	(1.6)	463	(4.8)
% of revenue	13.4	12.7	68bps	14.2	-78bps
Others	376.8	416.8	(9.6)	359.8	4.7
% of revenue	11.4	11.8	-39bps	11.0	43bps
by Services					
Application Services	2324.6	2379	(2.3)	2323	0.1
% of revenue	70.5	67.4	308bps	71.0	-48bps
Business Process Services	553.8	723	(23.4)	533	3.8
% of revenue	16.8	20.5	-370bps	16.3	50bps
Infrastructure Services	417.7	425	(1.8)	416	0.5
% of revenue	12.7	12.1	61bps	12.7	-3bps
by Delivery Location					
Onsite	1,717	2004	(14.3)	1704	0.7
% of revenue	52.1	56.8	-472bps	52.1	0bps
Offshore	1,579	1524	3.7	1568	0.8
% of revenue	47.9	43.2	472bps	47.9	0bps
by Project Type					
Time & Material	1,928	1,977	(2.5)	1,889	2.0
% of revenue	58.5	56.0	243bps	57.7	74bps
Transaction Based	340	490	(30.6)	334	1.7
% of revenue	10.3	13.9	-359bps	10.2	10bps
Fixed Priced	1,029	1,060	(3.0)	1,049	(1.9)
% of revenue	31.2	30.0	116bps	32.0	-84bps
by Secondary Market					
Direct	3,135	3306	(5.2)	3104	1.0
% Share	95.1	93.7	137bps	94.9	23bps
DXC	107	163	(34.5)	113	(5.6)
% Share	3.2	4.6	-138bps	3.5	-22bps
Others	54	58	(5.6)	54	-
% Share	1.7	1.6	2bps	1.7	-1bps

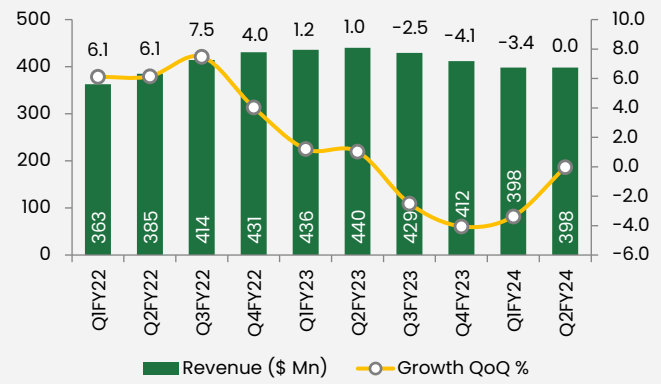
Source : RBL Research

Story in charts

Revenue in rupee de-grew by 6.9% YoY but grew marginally by 0.8% QoQ

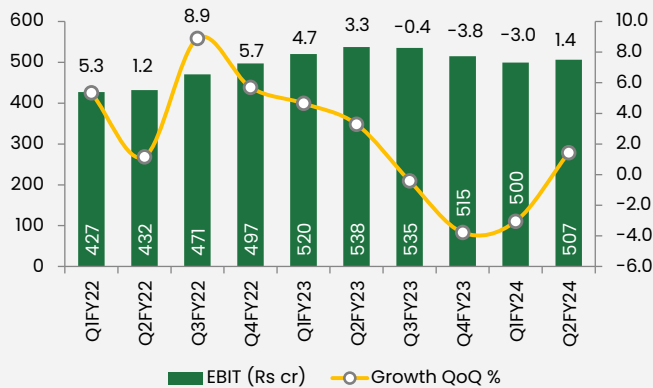


Revenue in dollar de-grew by 9.6% YoY but was flat sequentially

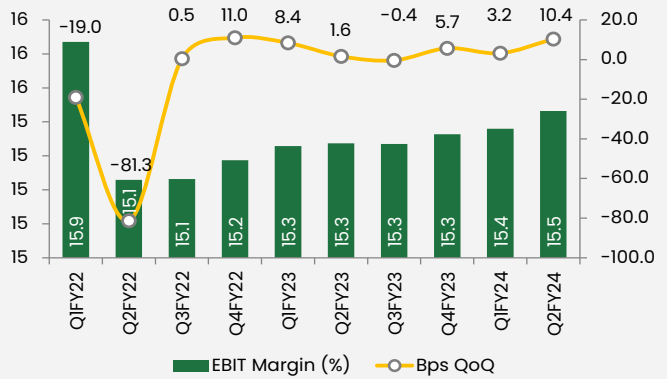


Source : RBL Research

EBIT de-grew by 5.8% YoY but grew marginally by 1.4% QoQ

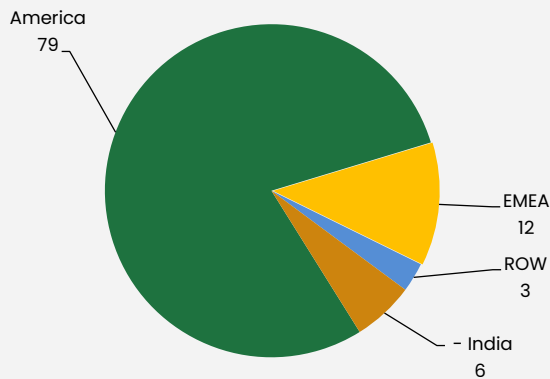


EBIT margin came in at 15.5%, marginally up by 19bps YoY & 10bps QoQ

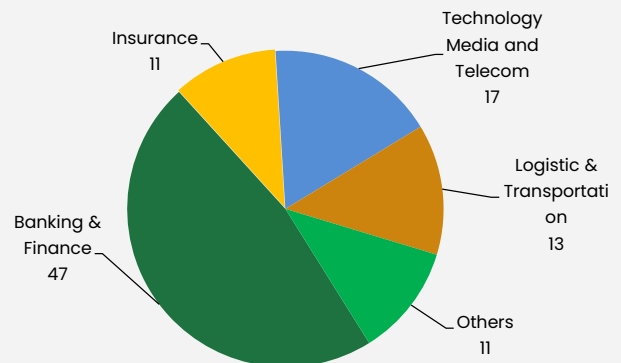


Source : RBL Research

Revenue Share by Geography (%)

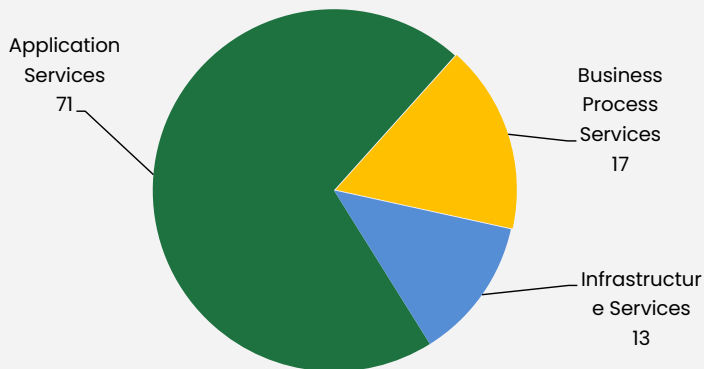


Revenue Share by Segments (%)

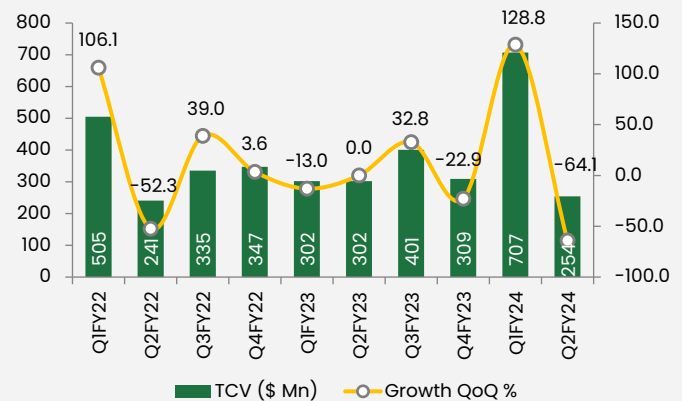


Source : RBL Research

Revenue Share by Services (%)



Deals worth USD 961 won in H1FY24



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	11,961.6	13,798.5	15,868.3	18,248.5
Employee cost	7,034.5	8,075.8	9,287.1	10,620.6
Other expenses	2,809.3	3,288.8	3,744.9	4,233.7
Total expenditure	9,843.8	11,364.5	13,032.1	14,854.3
EBITDA	2,117.8	2,434.0	2,836.2	3,394.2
EBITDAM (%)	17.7	17.6	17.9	18.6
Depreciation	290.8	325.2	365.0	401.5
EBIT	1,827.0	2,108.7	2,471.2	2,992.8
EBIT Margin %	15.3	15.3	15.6	16.4
Other income	160.5	161.6	163.5	165.4
Interest expenses	74.4	97.3	104.7	120.4
PBT	1,913.1	2,173.1	2,530.0	3,037.7
Tax	482.0	518.8	599.6	713.9
PAT (after Exceptional)	1,431.0	1,654.2	1,930.4	2,323.9
PAT Margin %	12.0	12.0	12.2	12.7
EPS	76.2	87.8	102.5	123.3

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	187.8	188.4	188.4	188.4
Reserves & Surplus	6,643.8	7,542.7	8,531.0	9,912.9
Total Shareholder's Fund	6,943.1	7,934.8	8,923.2	10,305.0
Short term borrowing	527.2	198.5	238.0	273.7
Total Debt	527.2	198.5	238.0	273.7
Deferred tax liabilities	(89.8)	(139.3)	(160.2)	(184.2)
Long term provision	141.2	59.3	68.2	78.5
Other long term liabilities	690.0	714.5	821.7	944.9
Total	741.4	634.5	729.7	839.2
Current Liabilities				
Trade payables	849.6	864.0	995.6	1,144.9
Short term provisions	483.2	463.2	532.6	612.5
Other current liabilities	1,049.9	1,272.2	1,463.0	1,682.5
Total	2,910.0	2,797.8	3,229.2	3,713.6
Total liabilities	10,594.5	11,367.2	12,882.2	14,857.8
Application of Assets				
Net Block	3,773.6	4,086.7	4,492.7	5,028.6
Current work in process	11.0	5.5	5.5	5.5
Non current investment	377.8	384.8	442.5	508.8
Long term loans and advances	601.8	805.9	926.8	1,065.9
Other non-current assets	114.0	131.3	151.0	173.7
Total	4,878.2	5,414.2	6,018.5	6,782.4
Current Assets				
Current investments	1,435.2	1,367.9	1,573.1	1,809.0
Trade receivables	2,226.9	2,520.6	2,898.7	3,333.5
Cash balance	828.1	1,045.4	1,221.1	1,587.7
Bank balance	121.3	8.0	8.0	8.0
Short term loans and advances	890.0	880.7	1,012.8	1,164.8
Other current assets	214.7	130.3	149.9	172.4
Total	5,716.4	5,953.0	6,863.7	8,075.4
Total assets	10,594.5	11,367.2	12,882.2	14,857.8

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	1,913.1	2,173.1	2,530.0	3,037.7
Add: Depreciation	290.8	325.2	365.0	401.5
Add: Interest cost	74.4	97.3	104.7	120.4
Less: Other Income /Interest Rec	(35.2)	(35.0)	-	-
Others	(8.4)	71.8	-	-
Operating profit before working capital changes	2,234.6	2,632.3	2,999.7	3,559.6
Changes in working capital	(150.1)	(577.9)	(183.3)	(212.8)
Cash from Operations	2,084.5	2,054.4	2,816.4	3,346.9
Less: Taxes	(368.6)	(592.6)	(599.6)	(713.9)
Cash flow from Operations	1,715.9	1,461.8	2,216.8	2,633.0
Net cash used in Investing				
Purchase of fixed assets	(120.0)	(113.1)	(770.9)	(937.4)
Purchase of investments	(6,385.2)	(8,046.2)	(262.9)	(302.3)
Sales of fixed assets	0.8	2.0	-	-
Sales of investments	6,190.3	8,311.2	-	-
Dividend Income	32.1	28.6	-	-
Cash flow from investing	(282.0)	182.5	(1,033.8)	(1,239.7)
Cash flow from Financing				
Proceeds from Equity shares	44.2	27.1	-	-
Proceeds of borrowings	3.2	(355.7)	39.5	35.7
Dividend (Incl dividend tax)	(1,217.7)	(865.2)	(942.0)	(942.0)
Interest cost	(27.6)	(49.2)	(104.7)	(120.4)
Others	(190.8)	(197.1)	-	-
Cash flow from Financing	(1,388.7)	(1,440.2)	(1,007.2)	(1,026.8)
Net cash Inflow/Outflow	45.2	204.1	175.7	366.5
Opening cash	772.3	828.1	1,045.4	1,221.1
Exchange gain/loss	10.7	13.2	-	-
Closing Cash	828.1	1,045.4	1,221.1	1,587.7

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	76.2	87.8	102.5	123.3
Book value per share (Rs)	369.7	421.2	473.6	547.0
Dividend per share (Rs)	64.8	45.9	50.0	50.0
Dividend Payout (%)	85.1	52.3	48.8	40.5
Dividend Yield (%)	3.1	2.2	2.4	2.4
Profitability Ratios				
EBITDAM(%)	17.7	17.6	17.9	18.6
PBTM (%)	16.0	15.7	15.9	16.6
NPM (%)	12.0	12.0	12.2	12.7
RoE (%)	20.6	20.8	21.6	22.6
RoCE (%)	24.5	25.9	27.0	28.3
Efficiency Data				
Debt-Equity Ratio	0.1	0.0	0.0	0.0
Interest Cover Ratio	24.6	21.7	23.6	24.8
Fixed Asset Ratio	0.3	0.3	0.3	0.3
Debtors (Days)	68.0	66.7	66.7	66.7
Inventory (Days)	0.0	0.0	0.0	0.0
Payable (Days)	25.9	22.9	22.9	22.9
WC (Days)	42.0	43.8	43.8	43.8
Valuation				
P/E (x)	27.8	24.2	20.7	17.2
P/BV	5.7	5.0	4.5	3.9
EV/EBITDA	18.7	16.1	13.7	11.4
EV/Sales	3.3	2.8	2.5	2.1

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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