

**Time for a breather; Downgrade to REDUCE**

Information Technology ▶ Result Update ▶ July 26, 2024

**TARGET PRICE (Rs): 2,900**

**We downgrade Mphasis to REDUCE from Add, as the stock has rallied ~25%/32% in 1M/3M, outperforming Nifty IT index by ~9%/10%, resulting in an unfavorable risk-reward. Q1 results are a mixed bag. Revenue declined 0.2% QoQ (-0.1% QoQ, in CC), falling short of our estimate of 0.9% growth mainly due to project completions in Healthcare after a strong enrollment season in Q4 (Others: -7.5% QoQ). Clients are looking to balance both, cost-saving priorities in this challenging macro setting and the imperative of staying tech-forward and competitive. The mgmt observed gradual pick up in client engagements albeit slow uptick in investments, especially in transformative technologies. Mphasis reiterated target of clocking above-industry growth in FY25 which would be aided by its tech-led account-focused strategy. We largely retain our estimates (less than 1% change). We raise target multiple to 28x (from 25x), building-in a potential recovery in BFS with higher probability of a rate cut, and strong pipeline. We lift our TP to Rs2,900/sh at 28x Jun-26E EPS.**

Mphasis: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,37,985	1,32,785	1,41,130	1,56,598	1,74,322
EBITDA	24,340	24,220	25,964	29,127	32,598
Adj. PAT	16,380	15,548	16,491	19,044	21,905
Adj. EPS (Rs)	86.9	82.3	87.2	100.7	115.8
EBITDA margin (%)	17.6	18.2	18.4	18.6	18.7
EBITDA growth (%)	14.9	(0.5)	7.2	12.2	11.9
Adj. EPS growth (%)	13.9	(5.4)	6.0	15.5	15.0
RoE (%)	22.0	18.6	18.1	19.5	20.9
RoIC (%)	32.6	26.6	26.0	29.5	33.9
P/E (x)	34.8	36.8	34.7	30.1	26.2
EV/EBITDA (x)	22.5	22.9	21.1	18.6	16.3
P/B (x)	7.2	6.5	6.1	5.7	5.3
FCFF yield (%)	2.4	3.6	3.0	3.5	3.9

Source: Company, Emkay Research

**Results Summary**

Gross revenue declined 0.2% QoQ (-0.1% QoQ/+3.1% YoY in CC) to US\$410.0mn, missing our estimate of US\$414.2mn. Direct revenue grew 0.6% QoQ (0.3% QoQ/4.1% YoY, in CC terms). DXC revenue declined 13.1% QoQ. EBITM was flat QoQ at 15.0%, in line with our estimate. Among verticals, Insurance, BFSI, TMT, and Logistics and Transportation grew 2.7% QoQ, 1.4%, 0.8%, and 0.3%, respectively, while Others (includes Healthcare, Manufacturing, Retail, etc) declined 7.8%. Within geographies, Americas, EMEA, and India reported 0.1%, 0.5%, and 1.2% growth, respectively, while RoW was flat sequentially. Revenue from the Top-10 clients (ex-mortgage) grew 1.2% QoQ CC. Mphasis signed net new TCV of US\$319mn with 84% of the deal wins in new-gen services. Total headcount declined 3.1% QoQ to 31,645. **What we liked:** Continued growth in BFS and healthy deal wins/pipeline. **What we did not like:** Revenue miss.

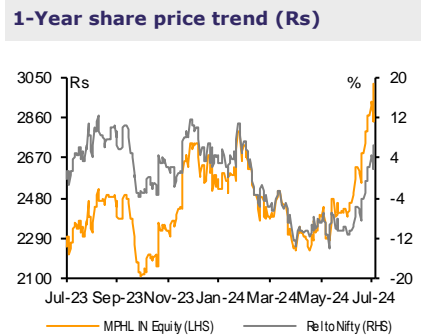
**Earnings call KTAs**

- i) The mgmt believes that despite faced with some challenges, the economy continues to be resilient backed by consumer spends, with increasing consensus around a soft landing.
- ii) Customers indicate tech remaining a top priority for them, as they seek to operate amid this duality and a cautiously optimistic environment. Investments are slowly inching up, especially in transformative technologies.
- iii) While efficiency and cost optimization are strong themes, organizations are seeking short-term wins for funding long-term technological priorities, with strong focus on resilience and growth.
- iv) Though discretionary spends remain similar to those in Q4FY24, there has been a gradual pickup in client engagement (witnessed green shoots in Q4, with the trend continuing in Q1FY25 as well).
- v) Mphasis announced launch of Mphasis NeoCrux, an industry-first tool designed to improve productivity of software engineers by streamlining the Software Development Lifecycle with the help of the GenAI powered Agent Orchestrator.
- vi) Mphasis signed three large deals Q1, including a >US\$100mn deal in BFS, and one deal in Healthcare. TCV to revenue conversion continues to pick up pace.
- vii) More than 90% of wins are proactive deals. Overall pipeline grew ~17% QoQ, with broad-based pickup across the top-10 and non-top-10 accounts (up 31% QoQ), BFS (up 7%), and non-BFS (up 25%). One-third of the pipeline is AI-led.
- viii) The mgmt noted gradual recovery across major segments (especially BFS – the anchor vertical). There are signs of steady recovery in the mortgage segment, but the company has not made any major gains yet.
- ix) The company retained its target EBITM band of 14.6-16% for FY25.

Target Price – 12M	Jun-25
<b>Change in TP (%)</b>	<b>13.7</b>
Current Reco.	REDUCE
Previous Reco.	ADD
Upside/(Downside) (%)	(4.3)
CMP (26-Jul-24) (Rs)	3,029.8

Stock Data	Ticker
52-week High (Rs)	3,081
52-week Low (Rs)	2,068
Shares outstanding (mn)	189.1
Market-cap (Rs bn)	573
Market-cap (USD mn)	6,843
Net-debt, FY25E (Rs mn)	-24,798
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	3,409.1
ADTV-3M (USD mn)	40.7
Free float (%)	44.0
Nifty-50	24,835
INR/USD	83.7
<b>Shareholding, Jun-24</b>	
Promoters (%)	40.4
FPIs/MFs (%)	18.3/35.9

Price Performance			
(%)	1M	3M	12M
Absolute	25.2	31.8	34.4
Rel. to Nifty	20.4	19.0	7.0



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**Exhibit 1: Quarterly snapshot**

(Rs mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Gross Sales (US\$ mn)	410.0	410.7	-0.2%	398.1	3.0%
Net Sales (US\$ mn)	410.2	410.3	0.0	395.6	3.7
Net sales	34,225	34,120	0.3	32,520	5.2
Operating expenses	28,040	27,732		26,651	
EBITDA	6,185	6,388	-3.2	5,869	5.4
Margin (%)	18.1	18.7	-70.0	18.0	0.00
Depreciation	1,050	1,308		874	
EBIT	5,135	5,080	1.1	4,995	2.8
Margin (%)	15.0	14.9	10.0	15.4	(40)
Other income	238	143		263	
Pre-tax profit	5,373	5,223		5,258	
Tax provided	1329	1291		1297	
Profit after tax	4,044	3,932	2.8	3,961	2.1
Emkay Net profit	4,044	3,932	2.8	3,961	2.1
EPS (Rs)	21.4	20.8	2.8	21.0	1.8

Source: Company, Emkay Research

**Exhibit 2: Actuals vs estimates**

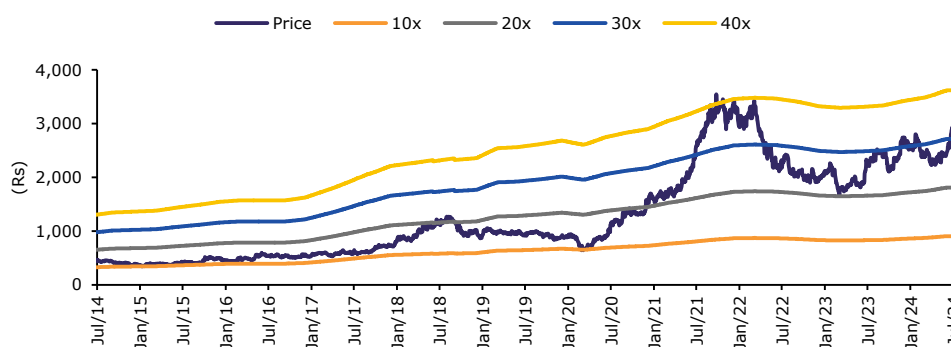
(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Gross Revenues (US\$ mn)	410	414	411	-1.0%	-0.3%	Revenue performance was a tad below expectations.
Sales	34,225	34,584	34,138	-1.0%	0.3%	
EBIT	5,135	5,197	5,172	-1.2%	-0.7%	
EBIT margin	15.0%	15.0%	15.2%	0 bps	-10 bps	EBITM was in line with our estimates.
PAT	4,044	3,948	3,954	2.4%	2.3%	Profit came higher than expectations due to higher other income and lower ETR.

Source: Company, Bloomberg, Emkay Research

**Exhibit 3: Changes in estimates**

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Reported Revenue (US\$ mn)	1,690	1,683	-0.4%	1,841	1,842	0.1%	2,025	2,027	0.1%
YoY chg	5.0%	4.5%		9.0%	9.5%		10.0%	10.0%	
Revenue	141,712	141,130	-0.4%	156,506	156,598	0.1%	174,132	174,322	0.1%
EBIT	21,652	21,625	-0.1%	24,368	24,474	0.4%	27,943	27,890	-0.2%
EBIT margin (%)	15.3	15.3		15.6	15.6		16.0	16.0	
Net Profit	16,367	16,491	0.8%	18,963	19,044	0.4%	21,943	21,905	-0.2%
EPS (Rs)	86.6	87.2	0.7%	100.3	100.7	0.4%	116.1	115.8	-0.2%

Source: Company, Emkay Research

**Exhibit 4: MPHL – One year forward PER**

Source: Company, Emkay Research

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## Mphasis : Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>1,37,985</b>	<b>1,32,785</b>	<b>1,41,130</b>	<b>1,56,598</b>	<b>1,74,322</b>
Revenue growth (%)	15.4	(3.8)	6.3	11.0	11.3
<b>EBITDA</b>	<b>24,340</b>	<b>24,220</b>	<b>25,964</b>	<b>29,127</b>	<b>32,598</b>
EBITDA growth (%)	14.9	(0.5)	7.2	12.2	11.9
Depreciation & Amortization	3,252	4,105	4,339	4,654	4,708
<b>EBIT</b>	<b>21,088</b>	<b>20,115</b>	<b>21,625</b>	<b>24,474</b>	<b>27,890</b>
EBIT growth (%)	15.4	(4.6)	7.5	13.2	14.0
Other operating income	0	0	0	0	0
Other income	1,616	2,178	2,397	2,429	2,892
Financial expense	973	1,609	1,941	1,340	1,380
<b>PBT</b>	<b>21,731</b>	<b>20,684</b>	<b>22,080</b>	<b>25,562</b>	<b>29,402</b>
Extraordinary items	0	0	0	0	0
Taxes	5,351	5,136	5,589	6,518	7,498
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>16,380</b>	<b>15,548</b>	<b>16,491</b>	<b>19,044</b>	<b>21,905</b>
PAT growth (%)	14.5	(5.1)	6.1	15.5	15.0
<b>Adjusted PAT</b>	<b>16,380</b>	<b>15,548</b>	<b>16,491</b>	<b>19,044</b>	<b>21,905</b>
<b>Diluted EPS (Rs)</b>	<b>86.9</b>	<b>82.3</b>	<b>87.2</b>	<b>100.7</b>	<b>115.8</b>
Diluted EPS growth (%)	13.9	(5.4)	6.0	15.5	15.0
<b>DPS (Rs)</b>	<b>50.0</b>	<b>55.0</b>	<b>55.0</b>	<b>65.0</b>	<b>75.0</b>
<b>Dividend payout (%)</b>	<b>57.5</b>	<b>66.9</b>	<b>63.1</b>	<b>64.5</b>	<b>64.7</b>
EBITDA margin (%)	17.6	18.2	18.4	18.6	18.7
EBIT margin (%)	15.3	15.1	15.3	15.6	16.0
Effective tax rate (%)	24.6	24.8	25.3	25.5	25.5
<b>NOPLAT (pre-IndAS)</b>	<b>15,895</b>	<b>15,120</b>	<b>16,151</b>	<b>18,233</b>	<b>20,778</b>
Shares outstanding (mn)	188.4	189.0	189.1	189.1	189.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	21,731	20,684	22,080	25,562	29,402
Others (non-cash items)	4,592	2,988	5,096	4,839	4,701
Taxes paid	(5,926)	(5,902)	(5,589)	(6,518)	(7,498)
Change in NWC	(5,779)	4,028	(1,278)	(968)	(1,197)
<b>Operating cash flow</b>	<b>14,618</b>	<b>21,797</b>	<b>20,309</b>	<b>22,915</b>	<b>25,409</b>
Capital expenditure	(1,112)	(916)	(2,990)	(2,990)	(3,190)
Acquisition of business	0	(12,333)	0	0	0
Interest & dividend income	286	329	1,184	1,155	1,387
<b>Investing cash flow</b>	<b>1,918</b>	<b>(24,726)</b>	<b>12,122</b>	<b>(9,835)</b>	<b>(6,803)</b>
Equity raised/(repaid)	271	301	0	0	0
Debt raised/(repaid)	(3,557)	12,965	(10,436)	0	0
Payment of lease liabilities	(1,493)	(1,666)	0	0	0
Interest paid	(970)	(1,403)	(1,941)	(1,340)	(1,380)
Dividend paid (incl tax)	(8,652)	(9,427)	(10,400)	(12,291)	(14,182)
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>(14,402)</b>	<b>771</b>	<b>(22,777)</b>	<b>(13,631)</b>	<b>(15,562)</b>
Net chg in Cash	2,134	(2,159)	9,654	(551)	3,044
OCF	14,618	21,797	20,309	22,915	25,409
Adj. OCF (w/o NWC chg.)	20,397	17,769	21,587	23,883	26,605
FCFF	13,506	20,881	17,319	19,925	22,219
FCFE	12,820	19,601	16,562	19,740	22,226
OCF/EBITDA (%)	60.1	90.0	78.2	78.7	77.9
FCFE/PAT (%)	78.3	126.1	100.4	103.7	101.5
<b>FCFF/NOPLAT (%)</b>	<b>85.0</b>	<b>138.1</b>	<b>107.2</b>	<b>109.3</b>	<b>106.9</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,884	1,890	1,890	1,890	1,890
Reserves & Surplus	77,464	86,056	92,147	98,900	1,06,623
<b>Net worth</b>	<b>79,348</b>	<b>87,946</b>	<b>94,037</b>	<b>1,00,790</b>	<b>1,08,513</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(1,393)	(1,557)	(1,557)	(1,557)	(1,557)
<b>Total debt</b>	<b>1,985</b>	<b>15,436</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>
<b>Total liabilities &amp; equity</b>	<b>79,940</b>	<b>1,01,824</b>	<b>97,480</b>	<b>1,04,233</b>	<b>1,11,955</b>
Net tangible fixed assets	2,249	1,967	1,907	1,717	1,582
Net intangible assets	1,563	4,796	3,609	2,489	1,713
Net ROU assets	7,469	7,248	7,147	6,793	6,186
Capital WIP	324	614	614	614	614
Goodwill	29,586	41,793	41,793	41,793	41,793
Investments [JV/Associates]	3,848	4,971	4,971	4,971	4,971
<b>Cash &amp; equivalents</b>	<b>24,213</b>	<b>34,072</b>	<b>29,798</b>	<b>37,246</b>	<b>45,290</b>
Current assets (ex-cash)	44,690	43,462	43,688	47,545	51,964
Current Liab. & Prov.	33,732	36,622	35,570	38,458	41,680
<b>NWC (ex-cash)</b>	<b>10,958</b>	<b>6,841</b>	<b>8,119</b>	<b>9,087</b>	<b>10,284</b>
<b>Total assets</b>	<b>79,940</b>	<b>1,01,824</b>	<b>97,480</b>	<b>1,04,233</b>	<b>1,11,955</b>
Net debt	(22,229)	(18,636)	(24,798)	(32,246)	(40,290)
Capital employed	79,940	1,01,824	97,480	1,04,233	1,11,955
<b>Invested capital</b>	<b>51,555</b>	<b>62,167</b>	<b>62,096</b>	<b>61,401</b>	<b>61,079</b>
BVPS (Rs)	421.2	465.3	497.3	533.0	573.9
Net Debt/Equity (x)	(0.3)	(0.2)	(0.3)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(0.9)	(0.8)	(1.0)	(1.1)	(1.2)
Interest coverage (x)	0.0	0.1	0.1	0.0	0.0
<b>RoCE (%)</b>	<b>29.5</b>	<b>24.5</b>	<b>24.1</b>	<b>26.7</b>	<b>28.5</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	34.8	36.8	34.7	30.1	26.2
P/CE (x)	29.1	29.1	27.5	24.2	21.5
P/B (x)	7.2	6.5	6.1	5.7	5.3
EV/Sales (x)	4.0	4.2	3.9	3.5	3.1
EV/EBITDA (x)	22.5	22.9	21.1	18.6	16.3
EV/EBIT(x)	26.0	27.5	25.3	22.1	19.1
EV/IC (x)	10.6	8.9	8.8	8.8	8.7
FCFF yield (%)	2.4	3.6	3.0	3.5	3.9
FCFE yield (%)	2.2	3.4	2.9	3.4	3.9
Dividend yield (%)	1.7	1.8	1.8	2.1	2.5
<b>DuPont-RoE split</b>					
Net profit margin (%)	11.9	11.7	11.7	12.2	12.6
Total asset turnover (x)	1.8	1.5	1.4	1.6	1.6
Assets/Equity (x)	1.0	1.1	1.1	1.0	1.0
<b>RoE (%)</b>	<b>22.0</b>	<b>18.6</b>	<b>18.1</b>	<b>19.5</b>	<b>20.9</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	11.5	11.4	11.4	11.6	11.9
IC turnover (x)	2.8	2.3	2.3	2.5	2.8
<b>RoIC (%)</b>	<b>32.6</b>	<b>26.6</b>	<b>26.0</b>	<b>29.5</b>	<b>33.9</b>
<b>Operating metrics</b>					
Core NWC days	29.0	18.8	21.0	21.2	21.5
<b>Total NWC days</b>	<b>29.0</b>	<b>18.8</b>	<b>21.0</b>	<b>21.2</b>	<b>21.5</b>
Fixed asset turnover	2.8	2.2	2.0	2.1	2.3
Opex-to-revenue (%)	82.4	81.8	81.6	81.4	81.3

Source: Company, Emkay Research

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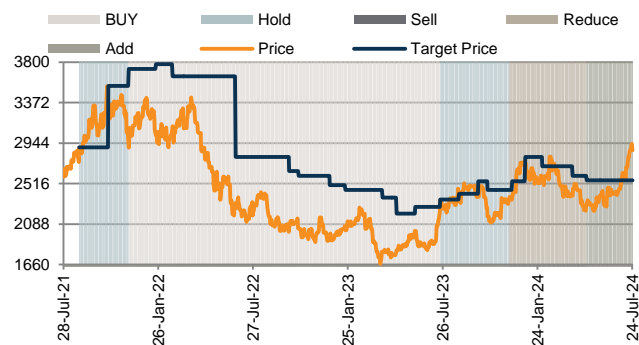
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	2,495	2,550	Add	Dipeshkumar Mehta
09-Jun-24	2,472	2,550	Add	Dipeshkumar Mehta
03-Jun-24	2,290	2,550	Add	Dipeshkumar Mehta
27-May-24	2,441	2,550	Add	Dipeshkumar Mehta
27-Apr-24	2,298	2,550	Add	Dipeshkumar Mehta
31-Mar-24	2,388	2,600	Reduce	Dipeshkumar Mehta
01-Mar-24	2,617	2,700	Reduce	Dipeshkumar Mehta
02-Feb-24	2,560	2,700	Reduce	Dipeshkumar Mehta
31-Dec-23	2,740	2,800	Reduce	Dipeshkumar Mehta
06-Dec-23	2,384	2,540	Reduce	Dipeshkumar Mehta
30-Nov-23	2,355	2,450	Reduce	Dipeshkumar Mehta
20-Oct-23	2,170	2,450	Hold	Dipeshkumar Mehta
02-Oct-23	2,377	2,540	Hold	Dipeshkumar Mehta
26-Aug-23	2,392	2,410	Hold	Dipeshkumar Mehta
21-Jul-23	2,331	2,350	Hold	Dipeshkumar Mehta
02-Jul-23	1,895	2,270	Buy	Dipeshkumar Mehta
03-Jun-23	2,018	2,270	Buy	Dipeshkumar Mehta
28-Apr-23	1,814	2,200	Buy	Dipeshkumar Mehta
01-Apr-23	1,796	2,370	Buy	Dipeshkumar Mehta
20-Jan-23	2,025	2,450	Buy	Dipeshkumar Mehta
02-Jan-23	1,969	2,500	Buy	Dipeshkumar Mehta
21-Dec-22	1,959	2,500	Buy	Dipeshkumar Mehta
22-Oct-22	2,043	2,600	Buy	Dipeshkumar Mehta
04-Oct-22	2,068	2,650	Buy	Dipeshkumar Mehta
23-Aug-22	2,265	2,800	Buy	Dipeshkumar Mehta
22-Jul-22	2,276	2,800	Buy	Dipeshkumar Mehta
23-Jun-22	2,311	2,800	Buy	Dipeshkumar Mehta
29-Apr-22	2,843	3,650	Buy	Dipeshkumar Mehta
01-Apr-22	3,344	3,650	Buy	Dipeshkumar Mehta
22-Feb-22	3,122	3,650	Buy	Dipeshkumar Mehta
21-Jan-22	3,025	3,780	Buy	Dipeshkumar Mehta
01-Jan-22	3,397	3,730	Buy	Dipeshkumar Mehta
30-Nov-21	2,895	3,730	Buy	Dipeshkumar Mehta
22-Oct-21	3,255	3,550	Hold	Dipeshkumar Mehta
02-Oct-21	3,026	2,900	Hold	Dipeshkumar Mehta
22-Sep-21	3,251	2,900	Hold	Dipeshkumar Mehta
27-Aug-21	2,895	2,900	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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