

Headwinds abating; Valuations reasonable

We believe Mphasis (MPHL IN) will be a key beneficiary of an improving US macro environment and BFSI vertical outlook as they contribute to 80% & 60%, respectively, to its revenue as on Q3FY25. Any improvement could serve as a booster shot to growth and profitability compared to peers. FY24 revenue performance was weak, due to a dip in the US mortgage business, weak macros, continued decline in (DXC) channel mix, as well as consolidation in its top accounts. These headwinds seem to be fading, due to improving US mortgage outlook, and green shoots of BFSI spending are likely to drive robust revenue growth. We also expect 60bp EBIT margin expansion over FY25- FY27E based on pyramid optimization, revenue recovery and offshoring focus. We initiate MPHL with a **Buy** rating and a TP of INR 3,170 based on 27x FY27E P/E.

Improving BFSI outlook and recovery in the US markets: MPHL has high exposure to the US market with a revenue mix of 81.5% as on Q3FY25 as well as BFSI vertical with a 60% revenue mix. As per service lines, application services form 72% of overall revenue mix. MPHL is the only mid-cap IT services firm that works with all Top 10 US banks. After robust revenue growth in FY22, it posted a weak performance during FY23-24, due to a revenue dip in the Digital risk (mortgage) business as well as continued drop in DXC revenue. Consolidation in the top accounts also left an impact. However, technology spend across US banks and financial institutions has been resilient and improving, which likely lends comfort to recovery in BFSI revenue. Improving outlook, continued strong (TCV) wins as well continued focus on large deals are likely to result in a USD revenue CAGR of 9.8% during FY25-27E and an INR revenue CAGR of 10.3% during the same period.

Receding headwinds; EBIT margin to reach ~16% in FY27E: EBIT Margin came in at 15.3% in Q3FY25, and it has been able to sustain it in the range of 15-16% since FY18. The company has a stated philosophy of investing for growth while maintaining margins in the narrow band. Investment goes into building capabilities & competency as well as on GTM (Go To Market strategy) in terms of setting up large deal team, expanding coverage of accounts, expansion into new geographies etc. The company has guided for 14.6-16.0% margin band for FY25. We believe there are margin improvement levers, such as optimizing offshore-onsite mix, pyramid optimization, and revenue recovery from FY26, would aid in margin expansion of 60bp to 16% by FY27E.

Initiate with Buy rating and TP of INR 3,170: We expect an INR revenue CAGR of 10.3% and an earnings CAGR of 14.5% during FY25.-27E. The stock has declined 20% from the peak of Dec'24 and valuations are attractive now at 25x one-year forward P/E. It is trading at a 50% discount to COFORGE and 30% discount to PSYS. We initiate on MPHL with a **Buy** rating and TP of INR 3,170 on 27x FY27E P/E which is average valuations for last 3 years. Valuation discount to peers is on account of weak FY24 performance but with strong recovery US market and BFSI vertical, valuation gap likely to narrow in our view.

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	137,984	132,785	141,943	155,731	172,716
YoY (%)	15.4	(3.8)	6.9	9.7	10.9
EBITDA	24,339	24,220	26,547	29,236	32,303
EBITDA margin (%)	17.6	18.2	18.7	18.8	18.7
Adj. PAT	16,380	15,548	17,097	19,786	22,411
YoY (%)	14.5	(5.1)	10.0	15.7	13.3
Fully DEPS (INR)	86.4	81.8	89.6	103.7	117.4
RoE (%)	23.6	19.6	19.4	20.9	21.7
RoCE (%)	28.2	24.7	21.1	22.4	23.3
P/E (x)	32.3	34.1	31.2	26.9	23.8
EV/EBITDA (x)	20.9	21.0	19.2	17.4	15.7

Note: Pricing as on 18 February 2025; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 3,170**

Upside: **23%**

CMP: **INR 2,575**

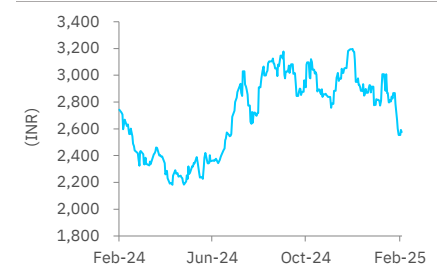
As on 18 February 2025

Key data

Bloomberg	MPHL IN
Reuters Code	MBFLNS
Shares outstanding (mn)	190
Market cap (INR bn/USD mn)	489/5,627
Enterprise Value (INR bn/USD mn)	477/5,491
Avg daily volume 3M (INR mn/USD mn)	1,990/23
52 week high/low	3,240/2,180
Free float (%)	60

Note: * as on 18 February 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	55.5	40.4	40.3	40.2
% Pledged	-	-	-	-
FII	14.8	18.3	18.3	20.8
DII	24.8	36.0	37.0	34.7
Others	4.9	5.3	4.4	4.3

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(2.2)	(6.5)	4.1
Mphasis	(6.6)	(11.5)	(8.1)
NSE Midcap	(7.9)	(13.7)	1.3
NSE Smallcap	(13.4)	(17.7)	(6.3)

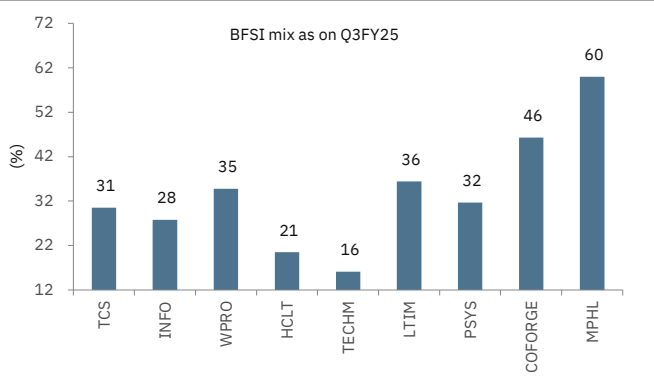
Sameer Pardikar

IT Services
+91 22 4204 8692
sameer.pardikar@elaracapital.com



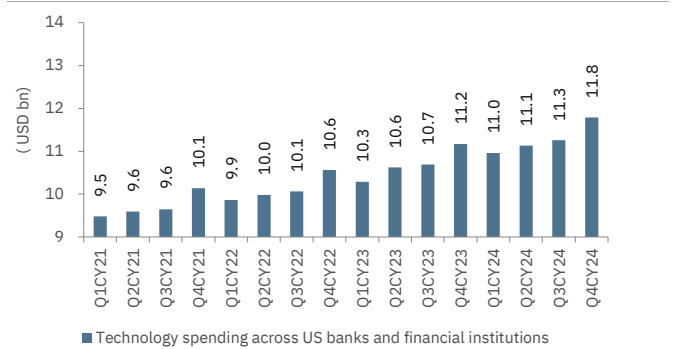
Story in charts

Exhibit 1: Heavy exposure to the overall BFSI vertical



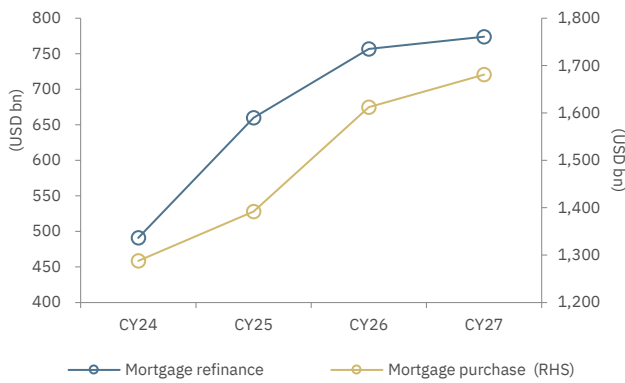
Source: Company, Elara Securities Research

Exhibit 2: Resilient technology spend across the US banks and financial institutions



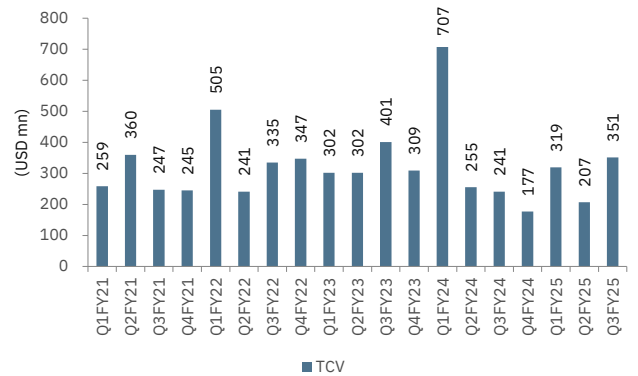
Source: Company, Elara Securities Research

Exhibit 3: Strong outlook in the US mortgage space



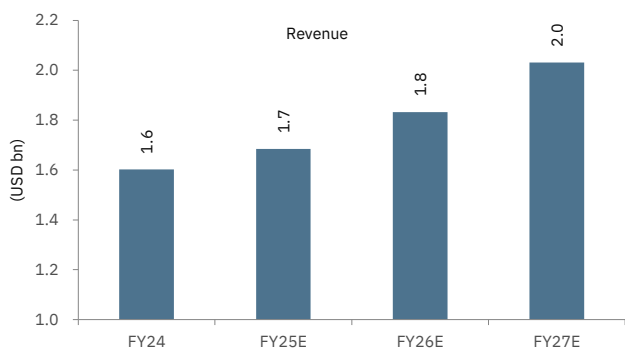
Source: Mortgage Bankers Association, Elara Securities Research

Exhibit 4: TCV continues to be healthy



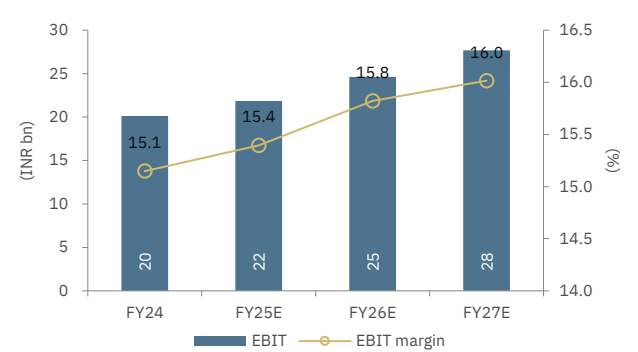
Source: Company Elara Securities Research

Exhibit 5: USD revenue CAGR of 9.8% during FY25-27E



Source: Company, Elara Securities Estimate

Exhibit 6: Levers in place for 16% EBIT margin

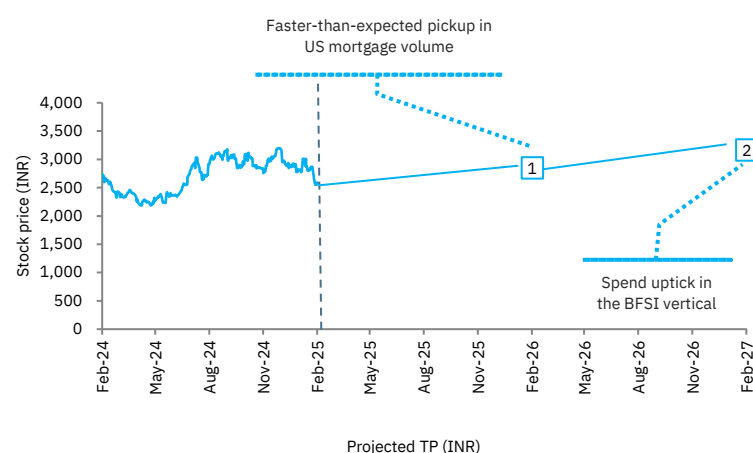


Source: Company, Elara Securities Estimate

Investment Rationale

- Global IT spend has been improving, especially in the US market and the BFSI vertical. MPHL has huge exposure on the BFSI vertical and the US markets. This would lift revenue growth and profitability
- After weak performance post FY22 on revenue dip in the digital risk (mortgage) business, continued drop in DXC revenue and consolidation in top accounts. There are now signs of trend reversal.
- EBIT margin improvement of 60bp during FY25-27E and an earnings CAGR of 14.5% during FY25-27E, led by revenue recovery ,improving onsite-offshore mix, pyramid optimization

Valuation Triggers



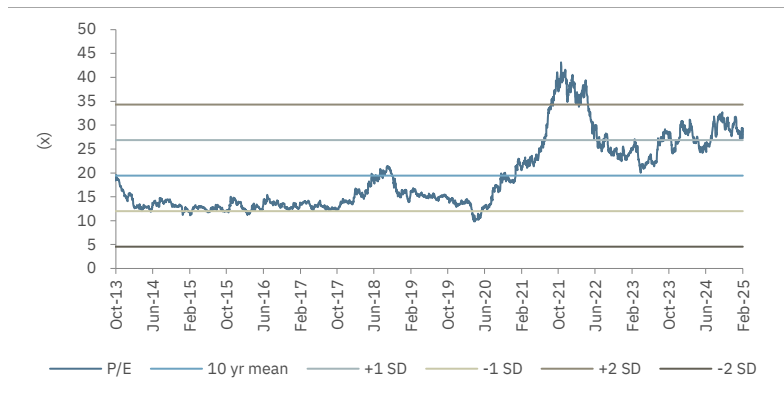
Valuation triggers

- Faster-than-expected pickup in US mortgage volume
- Spend uptick in the BFSI vertical

Our assumptions

- Revenue growth recovery during FY26-27E leading to an INR revenue CAGR of 10.3% during FY25-27E
- Earnings CAGR of 14.5% during FY25-27E
- Steady margin improvement of ~60bp annually during FY25-27E

Rolling forward P/E currently trading at 25x



Source: Bloomberg, Company, Elara Securities Estimate

Key risks

- No material improvement in the US mortgage business
- Slower-than-expected revenue recovery in the US markets and the BFSI vertical
- Client consolidation, especially among the top clients

Valuation overview

(INR)	
TTM EPS	87.0
Target EPS	117.4
Target P/E (x)	27.0
TP	3,170
CMP	2,575
Upside (%)	23

Note: pricing as on 18 February 2025; Source: Elara Securities Estimate

Industry trends and macro factors

- Gartner expects global IT industry to grow at 9.0% in CY26.
- Technology spending across US banks and financial institutions has been resilient and the mortgage outlook is improving

Market position and competitive landscape

- MPHL is the only mid-size IT services company that works with all 10 large US bank. It continues to win large deals since Q1FY18
- The company leverages its parent Blackstone's group of companies and along with its big footprints in the BFSI vertical forms 60% revenue mix as on Q3FY25

Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	137,984	132,785	141,943	155,731	172,716
EBITDA	24,339	24,220	26,547	29,236	32,303
Less :- Depreciation & Amortization	3,253	4,106	4,695	4,597	4,641
EBIT	21,086	20,114	21,853	24,639	27,663
Less:- Interest Expenses	645	569	891	1,743	2,021
PBT	21,731	20,683	22,743	26,382	29,683
Less :- Taxes	5,351	5,135	5,646	6,595	7,272
Reported PAT	16,380	15,548	17,097	19,786	22,411
Adjusted PAT	16,380	15,548	17,097	19,786	22,411
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	79,348	87,946	94,623	103,041	113,137
Borrowings	1,985	15,436	15,436	15,436	15,436
Other Non-current Liabilities	8,768	11,310	11,310	11,310	11,310
Total Liabilities	90,101	114,692	121,368	129,787	139,883
Net Fixed Assets	11,012	13,534	10,839	8,742	7,101
Intangibles and Goodwill	29,586	41,793	41,793	41,793	41,793
Investments	3,848	4,971	4,971	4,971	4,971
Cash and Cash Equivalents	24,120	33,977	42,980	52,875	63,908
Net Working Capital	9,417	5,737	6,105	6,725	7,428
Other Non-current Assets	12,119	14,681	14,681	14,681	14,681
Total Assets	90,101	114,692	121,368	129,787	139,883
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	24,983	24,788	21,792	24,383	27,051
Add/Less : Working Capital Changes	(5,779)	4,028	(368)	(620)	(704)
Operating Cash Flow	19,204	28,816	21,424	23,763	26,348
Less:- Capex	(1,131)	(937)	(2,000)	(2,500)	(3,000)
Free Cash Flow	18,073	27,879	19,424	21,263	23,348
Financing Cash Flow	(14,943)	169	(9,530)	(9,625)	(10,295)
Net change in Cash	3,129	28,047	9,894	11,638	13,053
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	15.4	(3.8)	6.9	9.7	10.9
EBITDA Growth	14.9	(0.5)	9.6	10.1	10.5
PAT Growth	14.5	(5.1)	10.0	15.7	13.3
EBITDA Margin	17.6	18.2	18.7	18.8	18.7
Net Margin	11.9	11.7	12.0	12.7	13.0
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)	(0.4)
ROE (%)	23.6	19.6	19.4	20.9	21.7
ROCE (%)	28.2	24.7	21.1	22.4	23.3
Per Share data & Valuation Ratios					
Diluted EPS (INR)	86.4	81.8	89.6	103.7	117.4
EPS Growth (%)	(22.5)	(5.3)	9.5	15.7	13.3
DPS (INR)	50.0	55.0	55.0	60.0	65.0
P/E (x)	32.3	34.1	31.2	26.9	23.8
EV/EBITDA (x)	20.9	21.0	19.2	17.4	15.7
EV/Sales (x)	3.7	3.8	3.6	3.3	2.9
Price/Book (x)	6.1	5.5	5.1	4.7	4.3
Dividend Yield (%)	1.9	2.1	2.1	2.3	2.5

We expect a consolidated revenue CAGR of 10.3% and an earnings CAGR of 14.5% during FY25-27E

EBIT margins likely to reach 16% in FY27E, an improvement of 60bps over FY25-27E

Note: Pricing as on 18 February 2025; Source: Company, Elara Securities Estimate

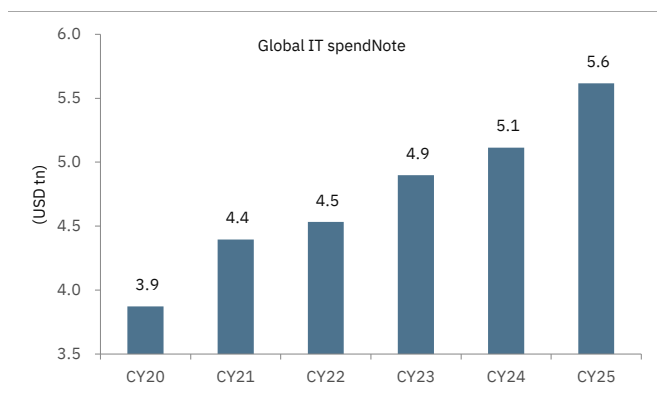
Recovery in global IT spend

- ▶ Gartner: IT services growth of 9% in CY25;
- ▶ ADM market likely to reach USD 313bn by CY27

Gartner projects 9.0% growth for IT services in CY25

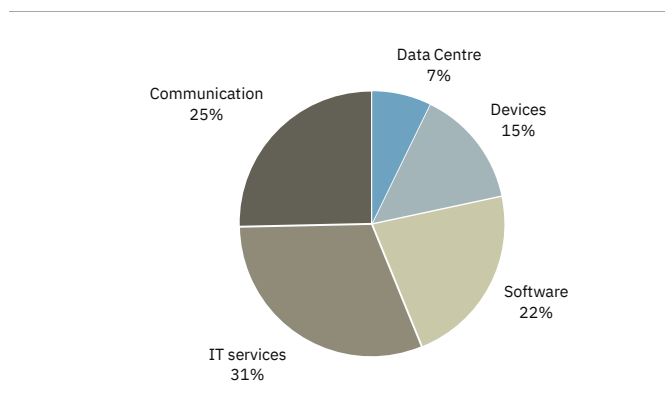
Global IT spending is likely to reach USD 5.6tn in CY25 as per Gartner’s report published in January 2025. It expects global IT spend growth of 9.8% in CY25 vs 4.4% in CY24. Growth in constant currency (CC) terms is likely to be 8.2%. The report bifurcates global IT spend into 1) data centers (for eg, server, storage, end network element ([ENE]; usually connects computer hardware and software), 2) devices, (for eg, mobile phones, tablets and printers, 3) IT services (for eg, application development, business process outsourcing (BPO), consulting, and infrastructure as a service (IaaS), 4) software (for eg, enterprise & infrastructure software, and 5) communications services (for eg, fixed & mobile network services and unified communications). IT services forms 31% of the mix, which translates into USD 1.7tn. This is likely to grow at 9.0% in CY25 as per Gartner.

Exhibit 7: Global IT spend to cross USD 5.6tn in CY25



Source: Gartner report, January 2025, Elara Securities Research

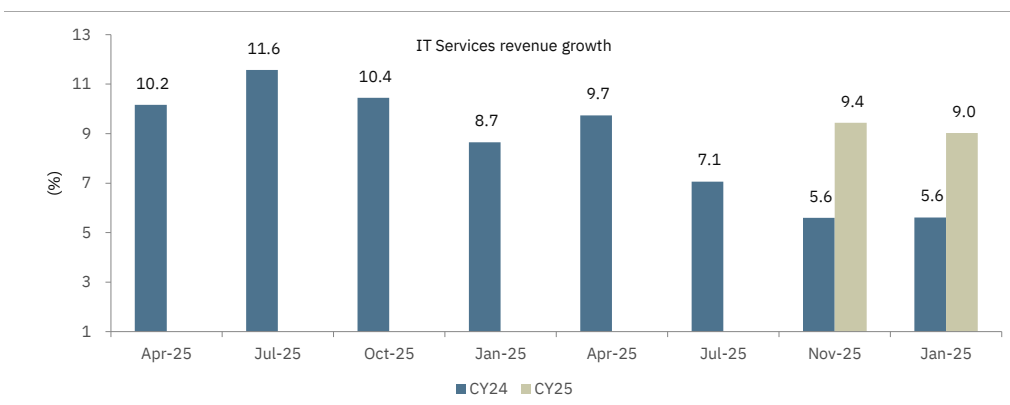
Exhibit 8: IT services forms 31% of the mix



Source: Gartner report, January 2025, Elara Securities Research

Gartner publishes growth estimates for IT services once in every three months. For our analysis, we consider the trend of CY24-25 growth estimates. In the November 2024 release, it is estimated IT services will grow by 9.4% in CY25, which is a sharp rebound from 5.6% growth in CY24. In the January 2025 edition, there has been moderation in IT services growth numbers, but they remain strong as it estimates 9.0% growth for the industry in CY25.

Exhibit 9: Global IT spend to rebound in CY25

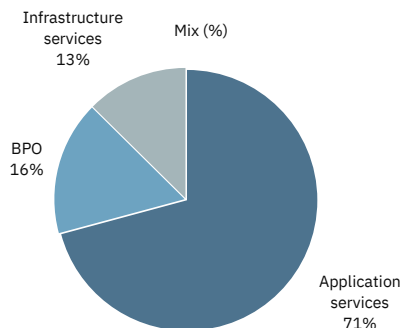


Source: Gartner report, January 2025, Elara Securities Research

ADM market likely to reach USD 313bn by CY27

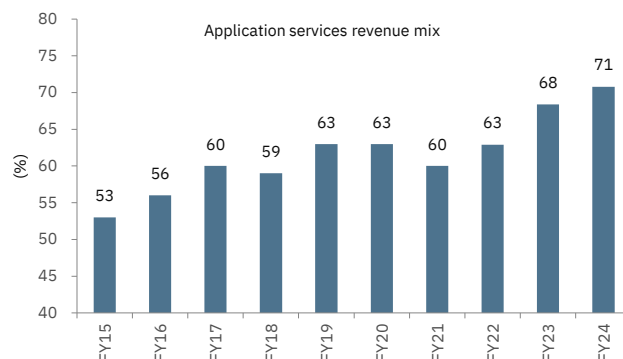
Application development and maintenance (ADM) services form 71% of revenue for MPHL as on FY24, and it is a key service line for it after business process outsourcing (BPO) services. The mix of application services has been on the rise during FY15-24. ADM services include assisting customers with design & development of customized software applications and maintenance, enhancement and testing of customers developed and third-party software.

Exhibit 10: ADM services forms 71% of MPHL revenue mix



Note: as on FY24; Source: Company, Elara Securities Research

Exhibit 11: Increasing ADM services pie over the years



Source: Company, Elara Securities Research

As per Everest group numbers published in Hexaware RHP document, the ADM market is likely to reach USD 312bn in CY27. The key developments that are driving application services adoption are as follows:

Cloud-native development: The rise of Cloud-native development practices, including the use of microservices, serverless computing, and containers, is fostering greater agility and faster time-to-market for new applications and services.

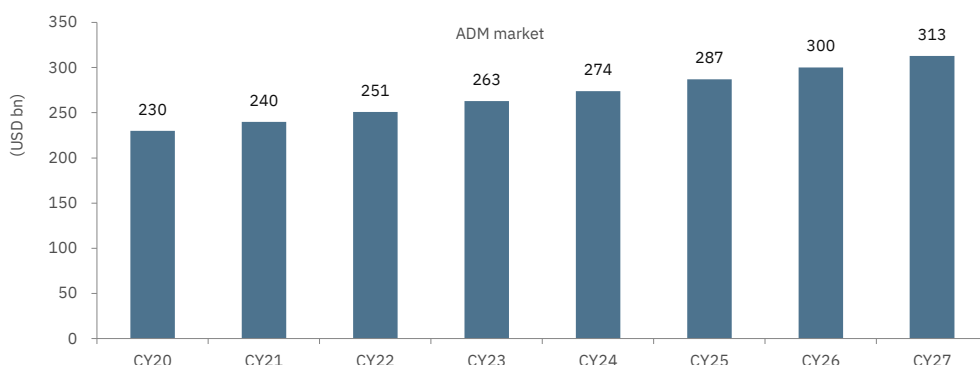
AI-infused application development: Infusing AI into application development enhances efficiency by automating repetitive tasks and improving code quality through intelligent insights. This leads to faster development cycles, reduced errors, and more innovative, user-centric applications.

Low code application development: Low-code application development empowers firms to rapidly build and deploy applications with minimal hand-coding, reducing development time and cost.

User experience and mobility: Focus on intuitive, user-friendly interfaces improve user adoption and productivity. Increased mobile access allows staff to work from anywhere, enhancing flexibility and responsiveness.

Integration and interoperability: Advanced integration solutions ensure seamless interaction between applications and systems, enhancing data flow and process efficiency. The use of Application programming interface (API) and middleware facilitates smooth integration, supporting a cohesive IT ecosystem.

Exhibit 12: ADM market continue to witness demand



Source: Hexaware RHP, Elara Securities Research

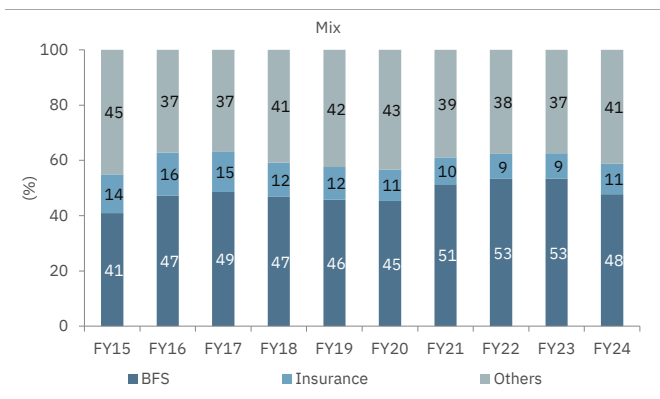
Recovery likely with abating headwinds for MPHL

- ▶ MPHL heavy on BFSI; technology spend across US banks and financial institutions has been resilient
- ▶ Visible correlation in most of the banks and financial institutions, especially in recent trends
- ▶ DXC generates 3.2% as on FY24; likely to remain lower
- ▶ US mortgage outlook improvement likely help in Digital risk business recovery

MPHL heavy on BFSI; technology spend across US banks and financial institutions has been resilient

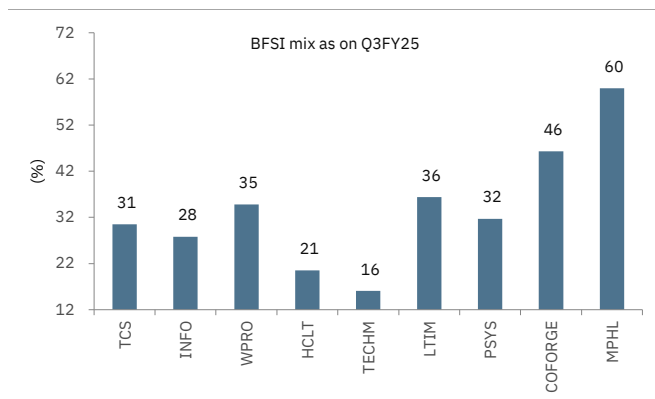
MPHL has a 59% exposure to BFSI as on Q3FY25, the highest among peers. The company works with top US banks and financial institutions. BFSI offerings span wealth management, corporate and consumer banking, mortgage and investment banking. If we look at technology spend* (Refer Appendix) across major US banks and financial institutions (we have considered JP Morgan, Citi, Bank of America, Goldman Sachs ,US Bancorp, Truist Bank ,TD bank, Capital One, Morgan Stanley, PNC Financial services, State Street and Charles Schwab group for our analysis), it has been resilient and on the rise in recent quarters

Exhibit 13: MPHL with a sizeable exposure in BFSI among its verticals...



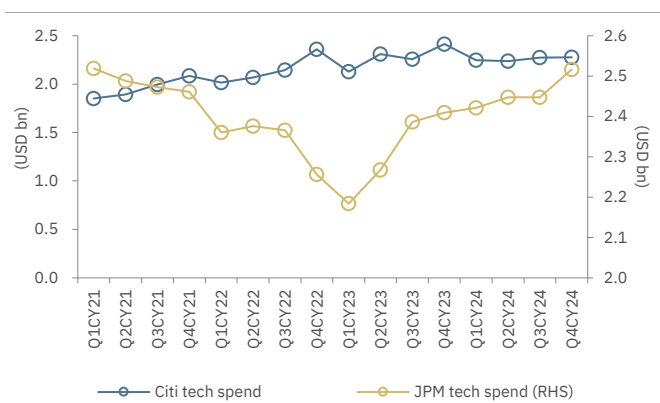
Source: Company, Elara Securities Research

Exhibit 14: ...and higher than other IT companies



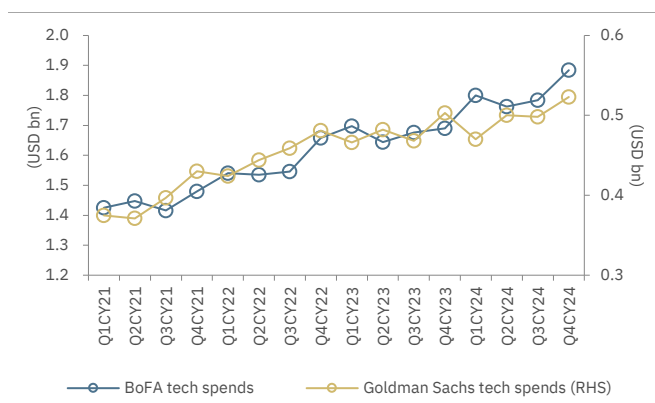
Source: Company, Elara Securities Research

Exhibit 15: Technology spend trend in Citi, JP Morgan



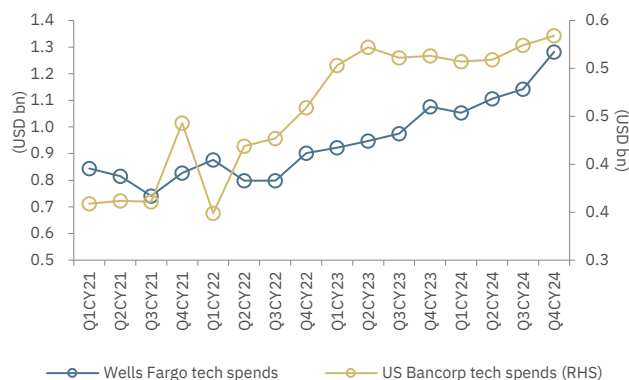
Source: Company, Elara Securities Research

Exhibit 16: Technology spend trend in Goldman Sachs, Bank of America



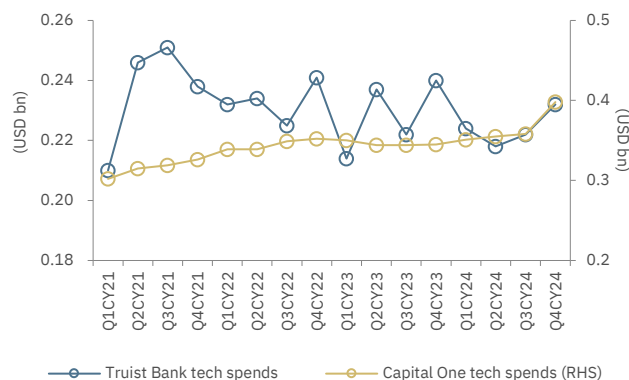
Source: Company, Elara Securities Research

Exhibit 17: Technology spend trend in US Bancorp, Wells Fargo



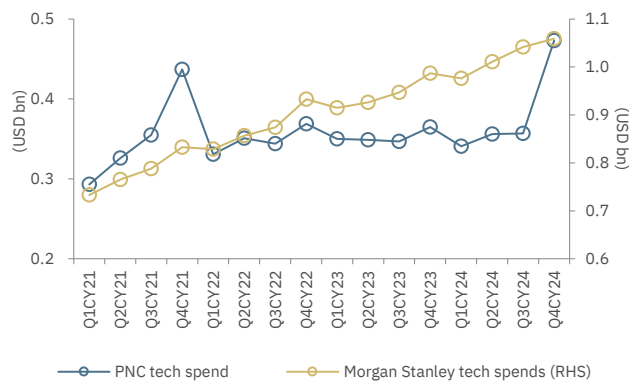
Source: Company, Elara Securities Research

Exhibit 18: Technology spend trend in Capital One, Truist Bank



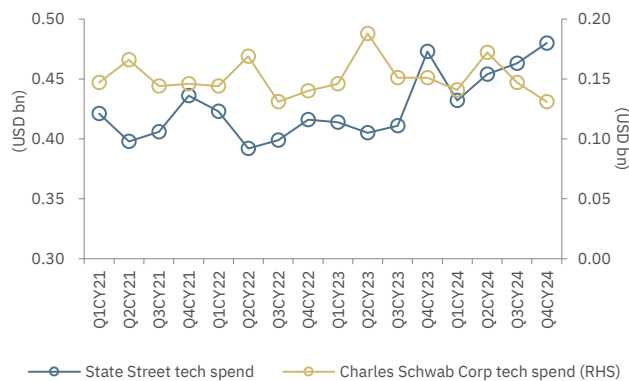
Source: Company, Elara Securities Research

Exhibit 19: Technology spend trend in PNC and Morgan Stanley



Source: Company, Elara Securities Research

Exhibit 20: Technology spend trend in Charles Schwab & State Street

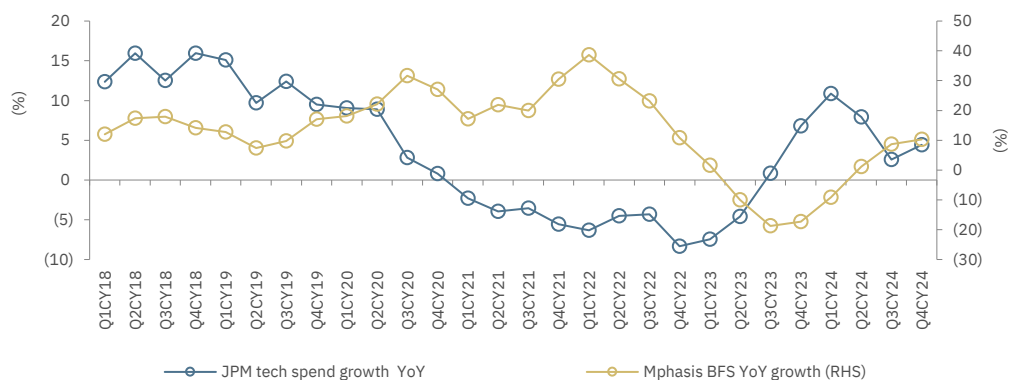


Source: Company, Elara Securities Research

Visible correlation in most of the banks and financial institutions, especially in recent trends

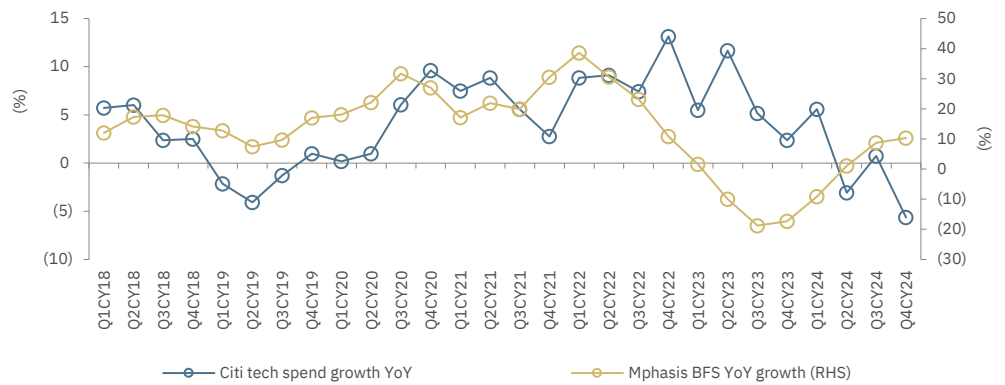
When we compared technology spend across US banks and financial institutions to MPHL BFSI revenue, we found correlation in most banks over long term barring quarterly fluctuations. The correlation may not be relevant during CY22-23/ FY23-24 numbers as MPHL revenue saw a downturn due to weak performance in its mortgage subsidiary, Digital Risk, which took a hit from the high interest rate regime in the US markets during the same period. We have observed correlation lately between BFSI revenue for MPHL and technology spend, which shows BFSI revenue is likely to recover.

Exhibit 21: JPM tech spend and MPHL BFSI revenue growth YoY



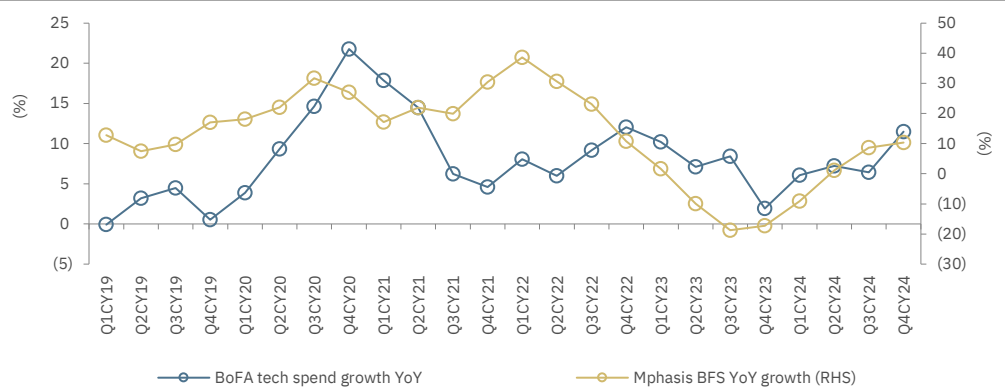
Source: Company, Elara Securities Research

Exhibit 22: Citi tech spend and MPHL correlation



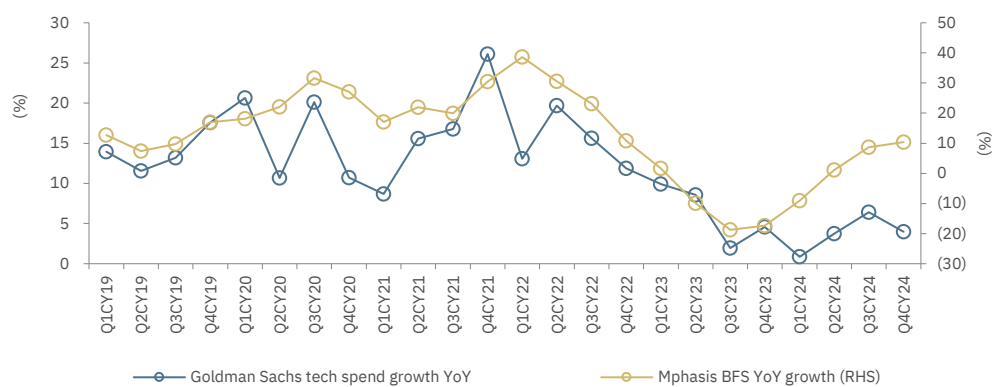
Source: Company, Elara Securities Research

Exhibit 23: Bank of America tech spend and MPHL correlation



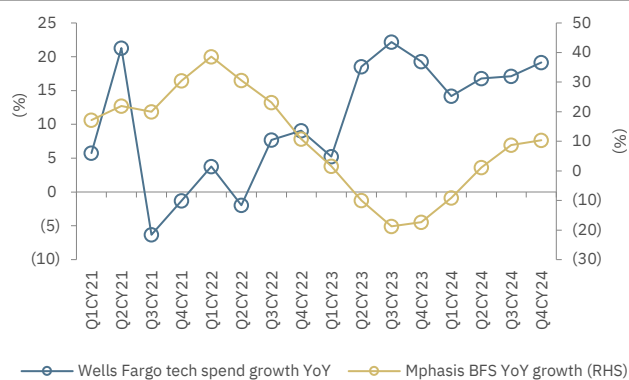
Source: Company, Elara Securities Research

Exhibit 24: Goldman Sach spend and MPHL correlation



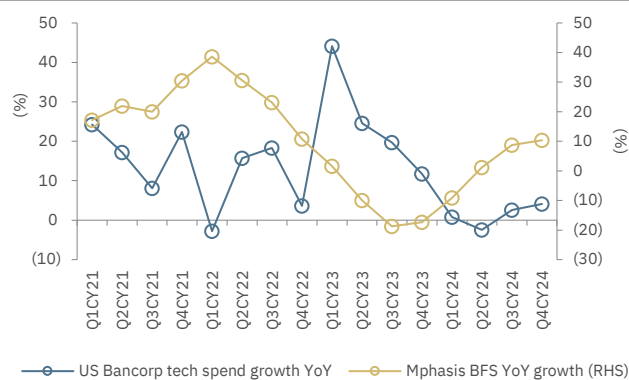
Source: Company, Elara Securities Research

Exhibit 25: Wells Fargo and MPHL correlation



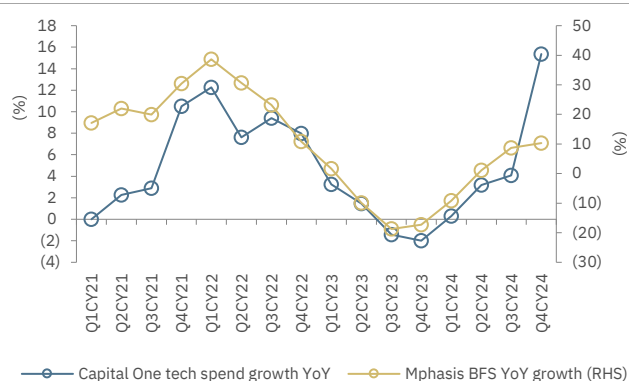
Source: Company, Elara Securities Research

Exhibit 26: US Bancorp and MPHL correlation



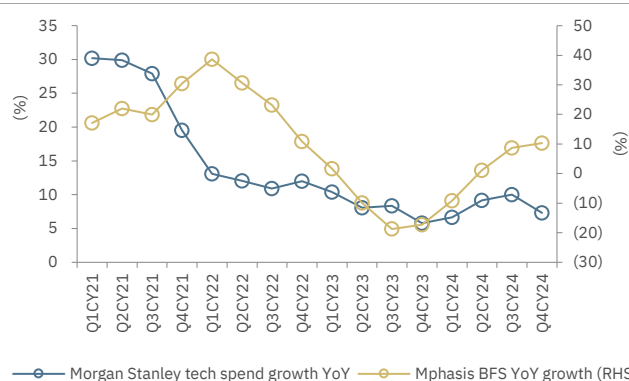
Source: Company, Elara Securities Research

Exhibit 27: Capital One and MPHL correlation



Source: Company, Elara Securities Research

Exhibit 28: Morgan Stanley and MPHL correlation



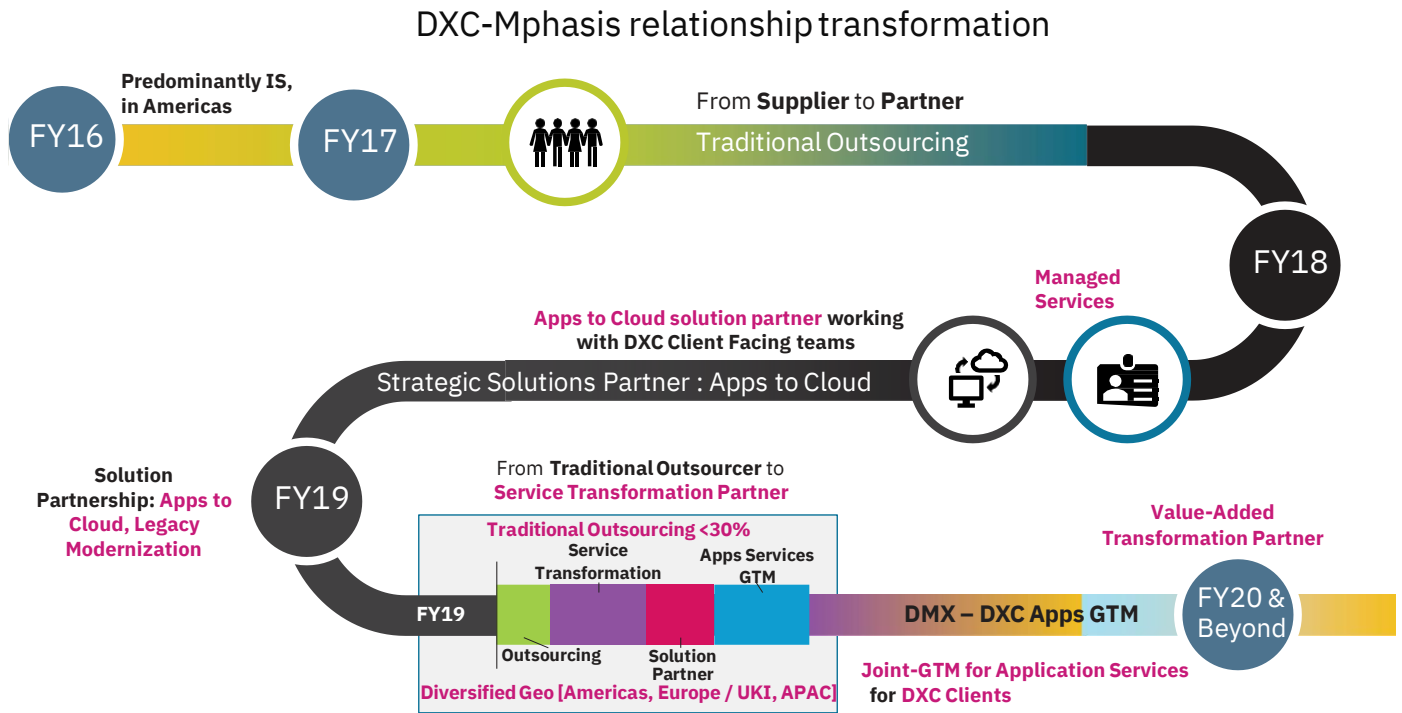
Source: Company, Elara Securities Research

DXC generates 3.2% as on FY24; likely to remain lower

On April 4, 2016, Blackstone entered into a definitive agreement with Hewlett Packard Enterprise (HPE) to buy a majority stake in MPHL. HPE at the time had a 60% stake in the company. Including the open offer for an 26% additional stake, the purchase was in the range of USD 825mn-USD 1.1bn. As part of the agreement, HPE and MPHL signed a five-year master service agreement (MSA) where HPE proposed to commit minimum revenue of USD 990mn for the next five years to MPHL

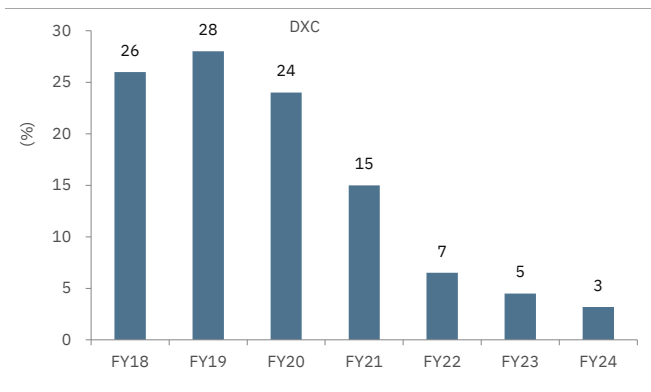
The DXC share in MPHL has come off sharply to 3.2% from 23.0% in FY18, which was a result of reduction of committed revenue from the channel as well as change of guard at DXC. But we observed during that period the company focused on revenue from the direct channel, which did the heavy lifting on revenue growth until FY23.

Exhibit 29: DXC – MPHL relationship



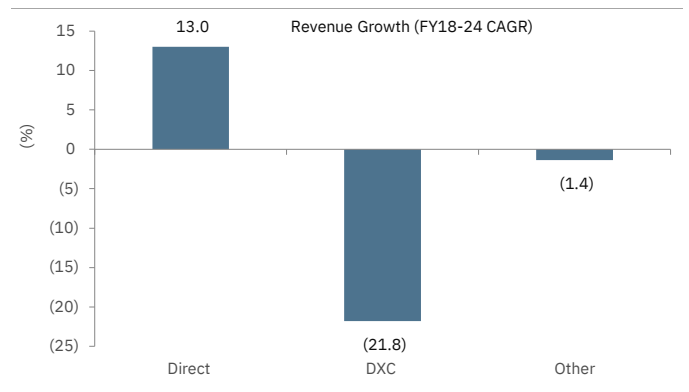
Source: Company presentation, Elara Securities Research

Exhibit 30: DXC (HP channel) share has come down



Source: Company, Elara Securities Research

Exhibit 31: Direct revenue does the heavy lifting to recoup DXC weakness

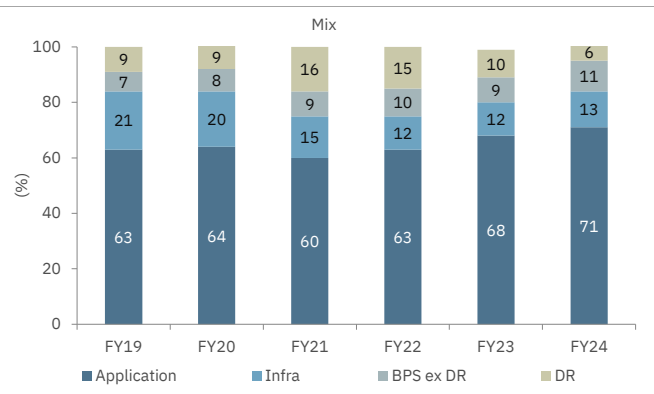


Source: Company, Elara Securities Research

US mortgage outlook improvement likely help in Digital risk business recovery

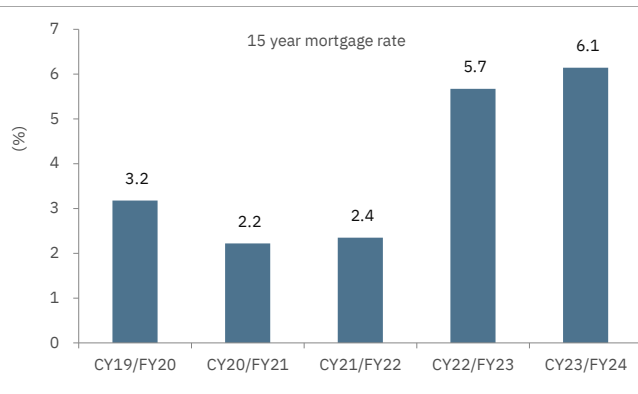
Digital risk is the mortgage servicing arm of MPHL. It offers origination support by providing scalable processing, underwriting, closing and specialized services. It provides risk and compliance tools, KYC & AML optimization and quality assurance through pre-fund reviews & loan audit. This business contributed >15% of MPHL revenue in FY22. Due to a sharp rise in 15-year mortgage rates in the US during FY23-24, we saw a sharp drop in mortgage purchase as well as refinance volume, which dragged DR revenue, and, subsequently, it declined by 28% in FY23 and 44% in FY24. However, the Mortgage Banker Association data shows the outlook for mortgage refinance and purchase improving during CY25-27, which is likely to help recoup numbers for this business albeit gradually.

Exhibit 32: DR mix comes off during FY22-24



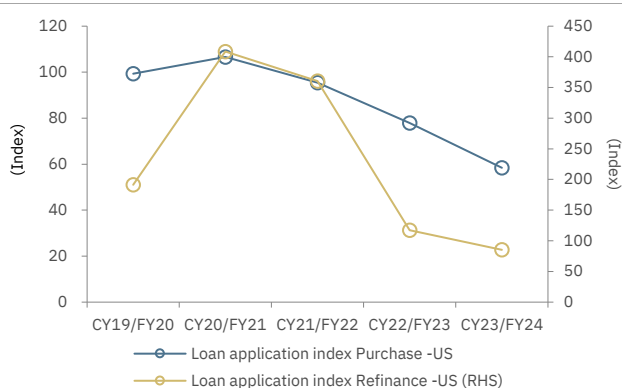
Source: Company, Elara Securities Research

Exhibit 33: as The 15-year mortgage rate shoots up



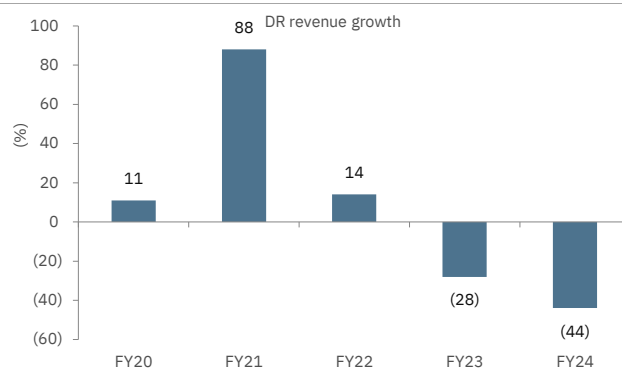
Source: FED, Elara Securities Research

Exhibit 34: Negative correlation with loan origination & refinance...



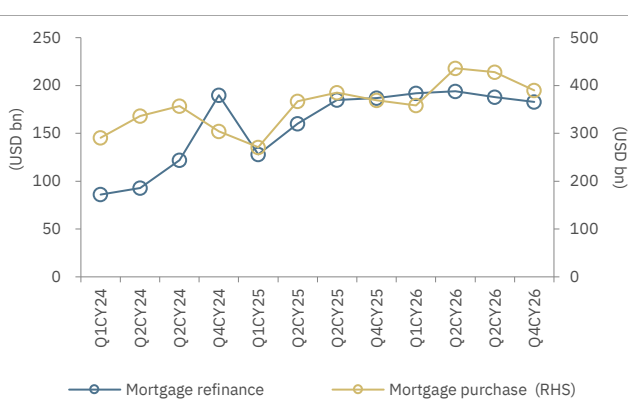
Source: Mortgage banker association, Elara Securities Research

Exhibit 35: ...resulting in revenue decline for FY23 and FY24



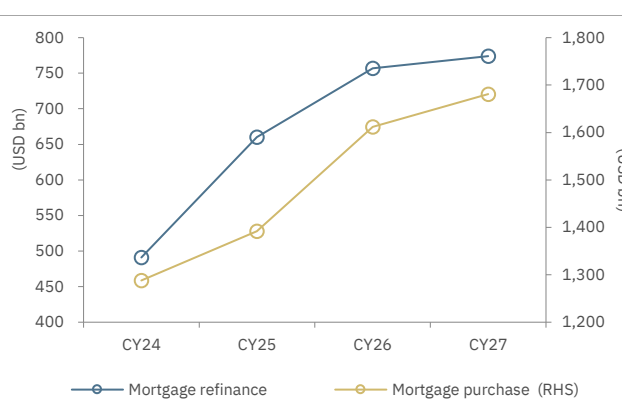
Source: Company, Elara Securities Research

Exhibit 36: Quarterly mortgage purchase and refinancing



Source: Mortgage Banker Association, Elara Securities Research

Exhibit 37: as well as annual improving outlook suggests likely improvement in DR revenues ahead



Source: Mortgage Banker Association, Elara Securities Research

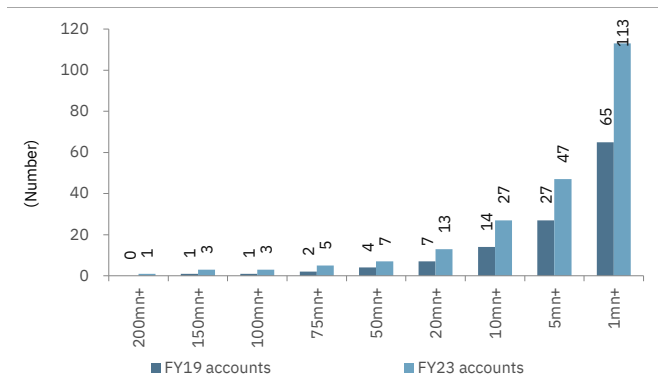
Growth and Margins likely to improve

- ▶ Client mining and TAM expansion brought growth in FY19-23
- ▶ Non BFS did heavy lifting when BFS revenue declined
- ▶ Revenue likely to grow 9.8% USD CAGR over FY25-27E
- ▶ EBIT margins likely to reach around 16% in FY27E

Client mining and TAM expansion drive growth during FY19-23

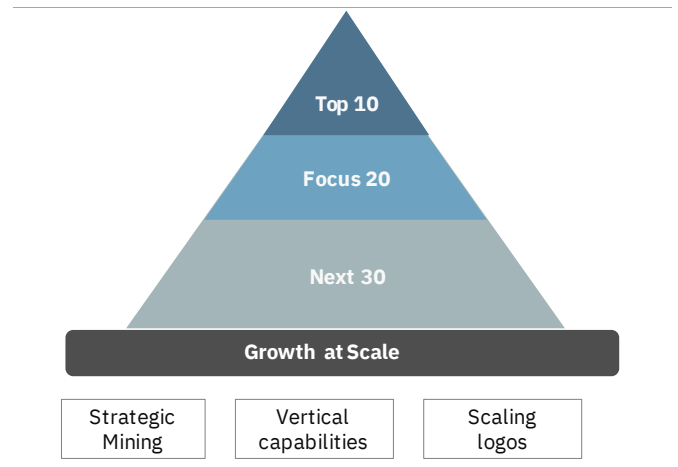
MPL's top clients contributed 15%, Top 5 clients 43% and Top 10 clients 53% of its revenue as on Q3FY25. The company has relied on large accounts for growth that it has scaled up during FY19-23. Average revenue from large clients crossed USD 200mn+ in FY23 while average revenue for Top 5 & 10 clients posted an 11% revenue CAGR during FY19-23. The company currently has one account in the USD 200mn+ category, three accounts in the USD 150mn+ category, five accounts in the USD 75mn+ category and seven accounts in the USD 50mn+ category. It continues to invest in the Top 10, Top 20 and Top 30 accounts for growth. The company has been investing on reviving growth in the non-BFS markets during FY22-24 wherein BFS revenue declined 2.4% while non-BFS verticals reported 5.2% growth. The total addressable market during FY19-23 also increased by 3x as a result of its focus on non-BFS business, expansion into newer geographies across the EU, the APAC, Canada while building and acquiring new capabilities.

Exhibit 38: Scaling up of accounts during FY19-23...



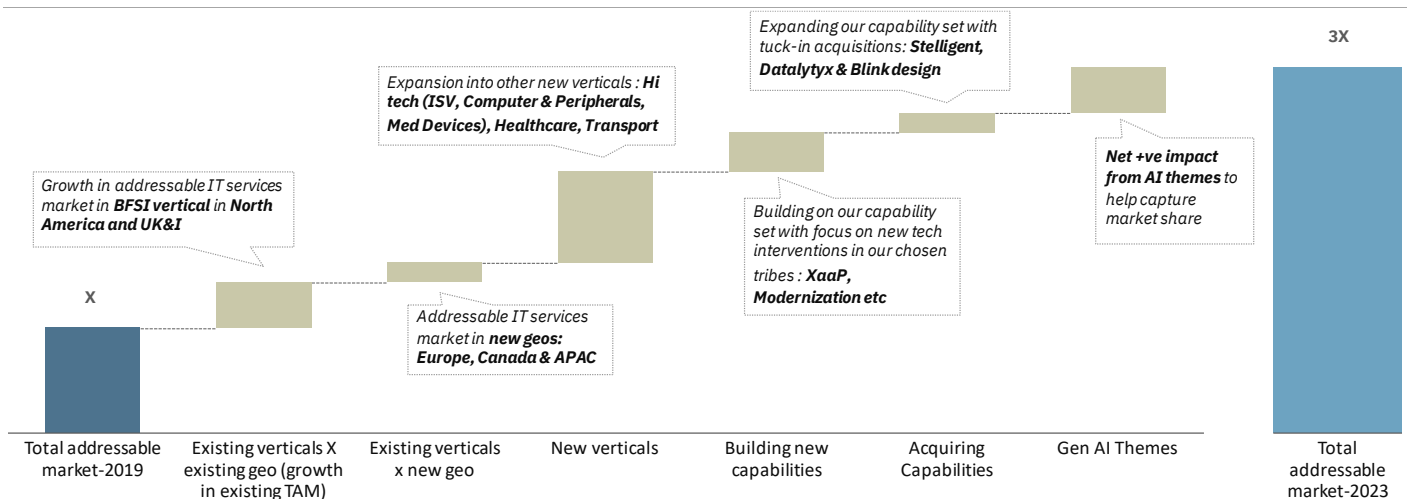
Source: Company, Elara Securities Research

Exhibit 39: ...is a result of an investment in potential accounts



Source: Company presentation, Elara Securities Research

Exhibit 40: Growth strategy results in 3x increase in TAM

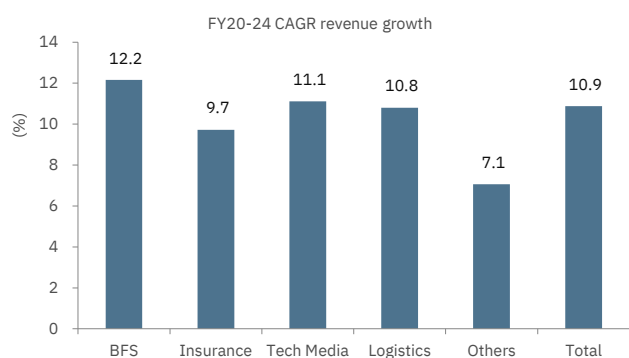


Source: Company, Elara Securities Research

Non-BFS does heavy lifting when BFS revenue declines

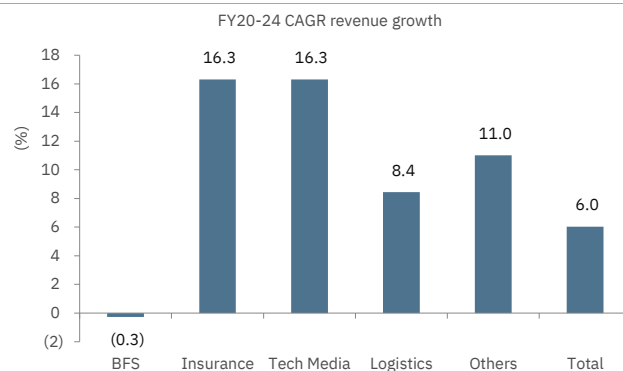
One of the key tenets of expansion of total addressable market (TAM) for MPHL is to expand into non-BFS verticals, such as technology media & telecom (TMT), logistics & transportation, and insurance. This strategy has helped the company sustain growth despite the revenue decline in the BFS vertical during FY22-24. It delivered revenue growth of ~11% during FY20-24 where banking, TMT, and logistics reported double-digit growth. but if you compare FY22-24 at the company level, revenue growth was 6% while the BFS vertical reported a revenue decline of 0.3% during the same period. At the same time, growth across insurance and TMT verticals was more than 16%. The vertical expansion strategy has helped the company to reduce dependence on the BFS vertical and scale up other verticals. The insurance growth during this period was driven by new clients wins while growth in the TMT vertical was led by mining anchor accounts in addition to large tech clients. Growth in the logistics and transportation vertical was aided by a large strategic account and new accounts in the airline segment while healthcare growth was led by large deals in selected accouts

Exhibit 41: BFS continues to be a growth driver...



Source: Company, Elara Securities Research

Exhibit 42: ...and, even when it was down, others did heavy lifting

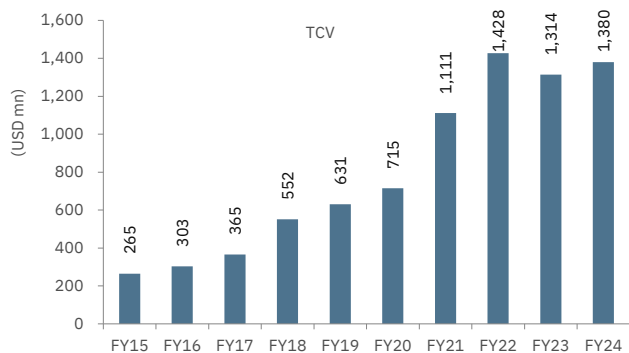


Source: Company, Elara Securities Research

Revenue likely to grow 9.8% USD CAGR over FY25-27E

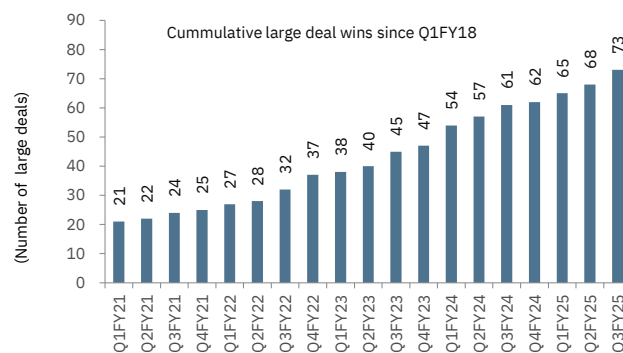
MPHL revenue took a hit from the slowdown in digital risk- and DXC-related services as well as consolidation of two accounts (part of its Top 10 accounts) in FY23-24. The direct channel has helped in overall revenue growth as it grew 13% CAGR over FY18-24. We expect DXC to remain subdued, as guided by the management, and most growth would be driven by direct business. We also have witnessed strong trends in total contract value (TCV), with continued large deals wins likely to propel revenue growth. The company earns more than 70% of its revenue from app services as on Q3FY25 the outlook for app services has been robust as per Everest report estimates published in Hexaware RHP.

Exhibit 43: TCV continues to be robust...



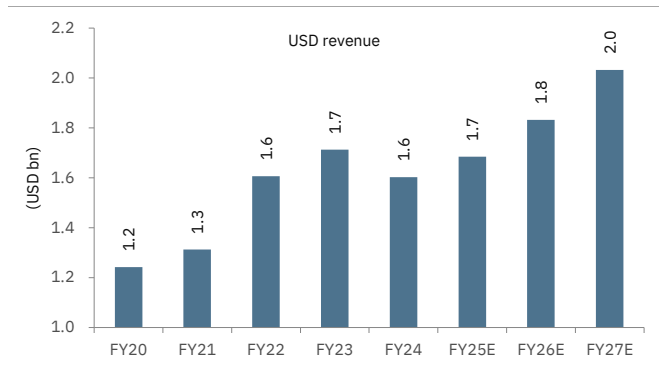
Source: Company, Elara Securities Research

Exhibit 44: ...along with healthy large deal wins



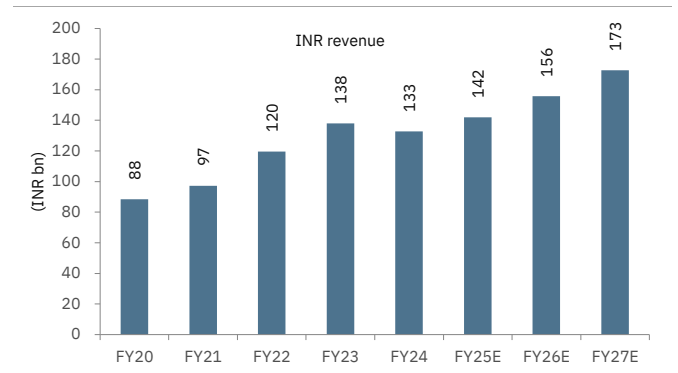
Source: Company, Elara Securities Research

Exhibit 45: USD revenue CAGR of 9.8% during FY25-27E



Source: Company, Elara Securities Estimate

Exhibit 46: INR revenue CAGR of 10.3% during FY25-27E

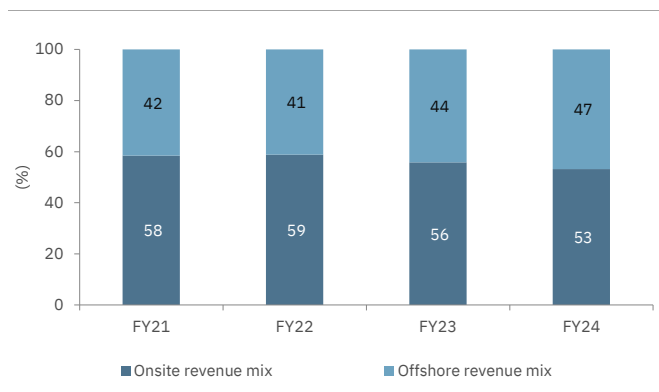


Source: Company, Elara Securities Estimate

EBIT margin likely to reach around 16% in FY27E

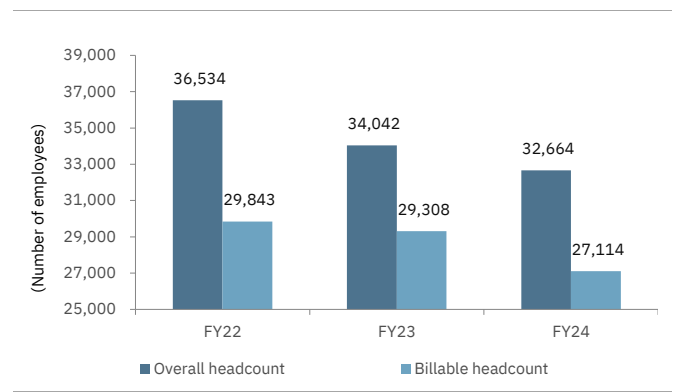
MPHL had a stated policy of prioritizing growth and sustaining margin in a narrow band as it has been reinvesting, resulting in operational efficiency. The investment needed in the following buckets includes: 1) capabilities in which it has upped its investment and competency as it built a few AI platforms in the past few quarters, and 2) go-to-market (GTM) where investment goes into setting up a large deal team, expanding coverage of accounts, new newer verticals, and geographies.

Exhibit 47: Offshoring has seen an uptick



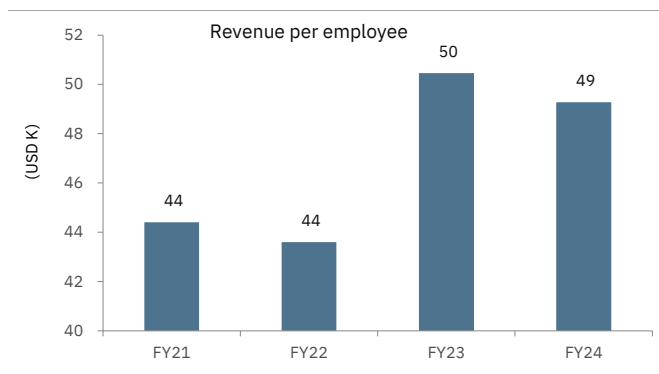
Source: Company, Elara Securities Research

Exhibit 48: along with rationalization of employees...



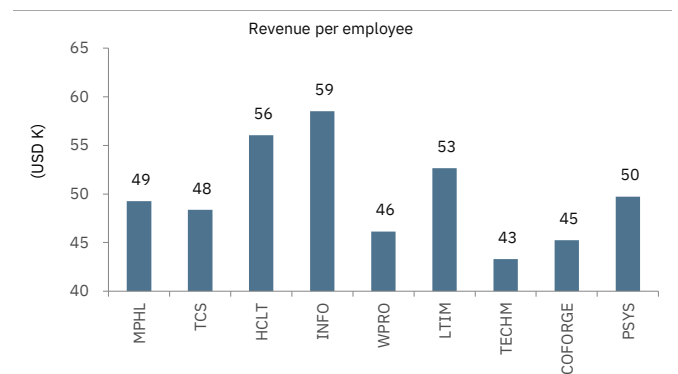
Source: Company, Elara Securities Research

Exhibit 49: ...helping increase in revenue per employee



Source: Company, Elara Securities Research

Exhibit 50: ...and which is better than some peers



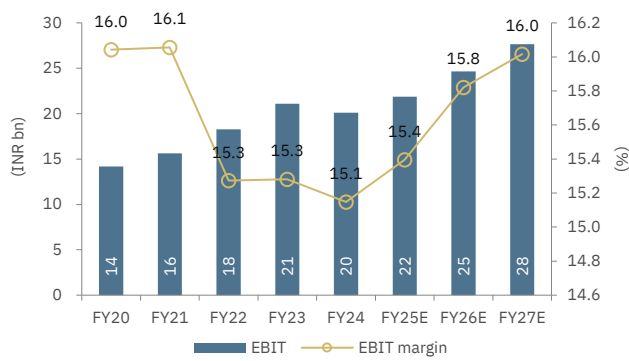
Note: as on FY24; Source: Company, Elara Securities Research

Margin levers include pyramid rationalization and revenue recovery

EBIT margin has been resilient at 15.3% in Q3 despite revenue decline of 0.4% in Q3FY25. The company had earlier set a margin target in the range of 15.3-16.3% and revised it lower in the range of 14.6-16.0%, due to the Silverline acquisition. Margin levers continue to be pyramid rationalization (the company has seen employee base decline of 1.4K in FY24 from 2.4K in FY23) as well as through its efforts on higher offshoring.

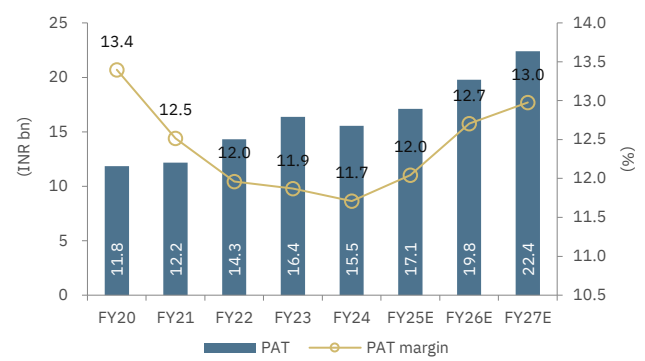
MPHL has started to focus on right sizing of pyramid during FY22-23; as a result, it is running at lower than industry utilization levels (utilization ex-trainees is at 75%) as billable headcount has taken a dip due to fresher hiring. As more freshers becomes billable, it would start contributing to margin. We build in a 16.0% EBIT margin in FY27E.

Exhibit 51: Margin is likely to reach around 16% in FY27E



Source: Company, Elara Securities Estimate

Exhibit 52: Expect an earnings CAGR of 14.5% over FY25-27E



Source: Company, Elara Securities Estimate

Valuation and recommendation

- ▶ Earnings CAGR of 14.5% during FY25-27E; USD revenue CAGR of 9.8%
- ▶ Initiate with Buy rating and a TP of INR 3,170
- ▶ Reasonable valuation compared to mid-size peers

Earnings CAGR of 14.5% during FY25-27E

The company reported a decline in revenue in FY24 on account of Mortgage business (Digital Risk) downturn as well as an overall tough macro environment. We have seen resilient technology spending across top US banks and financial institutions companies over the last few quarters as well as co-relation with MPHL BFSI spend lately has been tightly tied. This along with an improving outlook on Digital Risk business is likely to recoup revenue growth in FY26/FY27. Since MPHL is heavily dependent on the BFSI vertical and the US market, growth recovery could have an amplified impact on MPHL than peers.

We expect revenue growth to accelerate in FY26, driven by ramping up of deals and a strong TCV. We expect USD revenue CAGR of 9.8% over FY25-27E vs up from 6.9% during FY21-24E. We expect INR revenue CAGR of 10.3% over FY25-27E

We also believe increased billable headcount as well as pyramid optimization are levers for margin. Better growth should aid in steady margin improvement of ~60bp annually over FY25-27E over the same period, driving an Earnings CAGR of 14.5% during FY25-27E, led by growth recovery in the US market as well as improvement in the US mortgage market (it has an inverse correlation with the interest rate, which is on a downward trajectory). The stock has seen some correction lately. We find valuation reasonable as the stock is trading at 24x FY27E P/E

Initiate with Buy rating and TP of INR 3,170

We initiate coverage of MPHL with a **Buy** rating and a TP of INR 3,170 based on 27x FY27E P/E. We see further upside to the stock price as we expect revenue recovery after reporting a decline in FY24. We also see levers for margin improvement due to higher offshoring as well as on pyramid optimization.

Exhibit 53: Valuation

(INR)	
TTM EPS	87.0
Target EPS	117.4
Target P/E (x)	27.0
TP	3,170
CMP	2,575
Upside (%)	23

Note: pricing as on 18 February 2025; Source: Elara Securities Estimate

Reasonable multiple compared to mid-size peers

At 25x, one year forward, MPHL trades around +1SD. The stock trades at a 50% discount to Coforge and at a 30% discount to Persistent Systems. We are valuing it at 27x which is average last 3 years as we find valuations reasonable compared to peers.

Exhibit 54: Peer valuation

Company	Ticker	Rating	Mcap (INR bn)	CMP INR	TP INR	Upside (%)	P/E (x)			Mcap/sales (x)			RoE (%)		
							FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
TCS	TCS IN	Accumulate	14,013	3,873	4,530	17	28.9	26.4	23.9	5.5	5.1	4.7	48.5	42.2	36.8
Infosys	INFO IN	Reduce	7,673	1,848	1,830	(1)	29.0	26.4	24.3	4.7	4.4	4.2	29.1	30.2	24.3
HCL Technologies	HCLT IN	Sell	4,681	1,725	1,570	(9)	26.7	24.7	23.1	4.0	3.7	3.5	25.2	26.9	28.3
Wipro	WPRO IN	Sell	3,261	312	250	(20)	25.6	24.6	22.8	3.7	3.4	3.2	13.7	13.0	12.7
LTIMindtree	LTIM IN	Accumulate	1,676	5,656	6,430	14	35.8	30.0	26.4	4.4	4.0	3.6	24.9	24.6	24.4
Tech Mahindra	TECHM IN	Sell	1,665	1,701	1,410	(17)	37.5	27.2	21.8	3.1	2.9	2.7	15.0	17.3	19.4
Persistent System	PSYS IN	Accumulate	902	5,790	6,090	5	63.8	49.0	38.0	7.6	6.3	5.3	23.1	24.0	25.1
Coforge	COFORGE IN	Accumulate	515	7,705	9,950	29	52.1	35.3	28.7	4.2	3.4	3.0	22.7	25.7	26.5
Mphasis	MPHL IN	Buy	489	2,575	3,170	23	31.2	26.9	23.8	3.4	3.1	2.8	19.4	20.9	21.7

Note: Pricing as on 18 February 2025; *Rating and TP as per last published report; Source: Elara Securities Estimate

Exhibit 55: Coforge trading at 36x one year forward



Source: Company, Elara Securities Research

Exhibit 56: Persistent trading at 50x one year forward



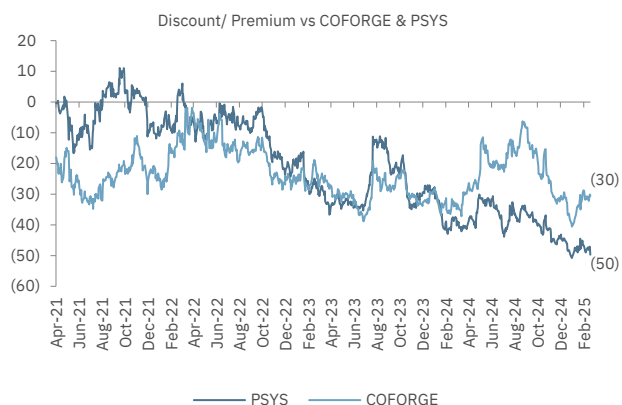
Source: Company, Elara Securities Research

Exhibit 57: MPHL trading at 25x one year forward



Source: Company, Elara Securities Research

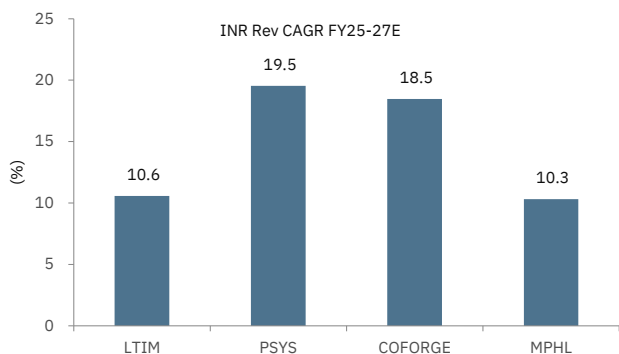
Exhibit 58: Mphasis valuation premium/ (discount) vs peers



Source: Company, Elara Securities Research

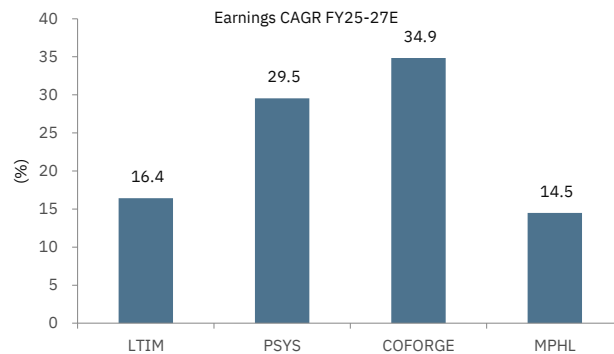
Peer comparison

Exhibit 59: INR revenue CAGR of 10.3% during FY25-27E



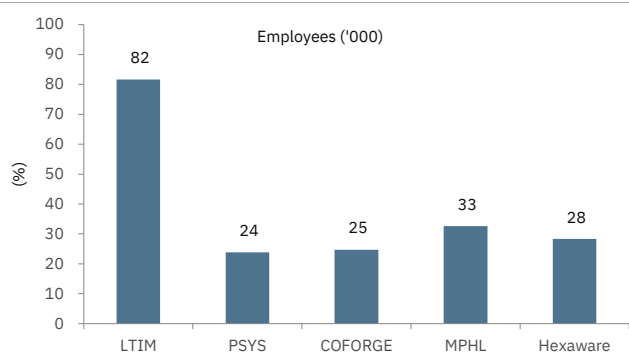
Source: Company, Elara Securities Research

Exhibit 60: Earnings CAGR of 14.5% over FY25-27E



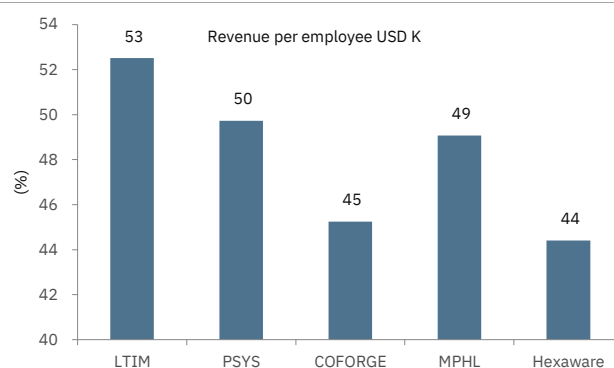
Source: Company, Elara Securities Research

Exhibit 61: Employee base comparable to mid cap players



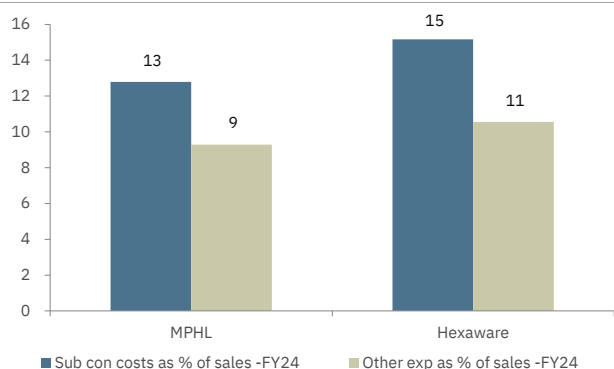
Source: Company, Elara Securities Research

Exhibit 62: while revenue per employee better than Hexaware



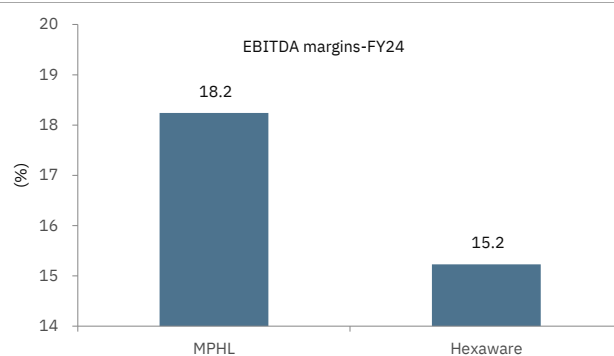
Source: Company, Elara Securities Research

Exhibit 63: subcon & other exp as % of sales lower than Hexaware



Note: data as on CY23/FY24; Source: Company, Elara Securities Research

Exhibit 64: resulting better EBITDA margin profile



Note: data as on CY23/FY24; Source: Company, Elara Securities Research

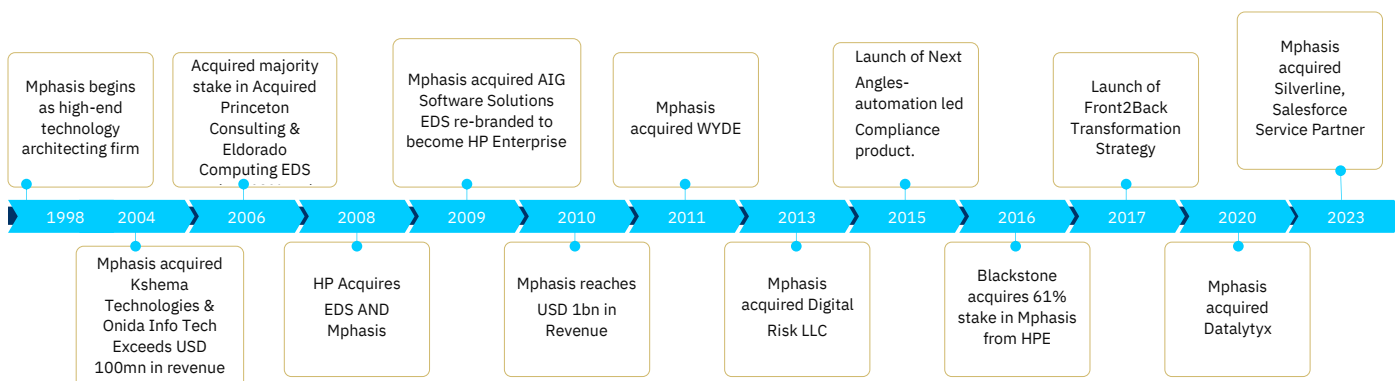
Key risks to our call

- ▶ Downturn in order wins
- ▶ Slower-than-expected recovery in the US market:
- ▶ No material improvement in mortgage origination and refinance volume in the US
- ▶ Margin lower than guidance range
- ▶ Any sudden change in leadership

Company Description

Mphasis (MPHL IN) was formed in June 2000 after the merger of US-based Mphasis Corporation and BFL Software. In June 2006, US-based EDS purchased a controlling stake in this company. In August 2008, Hewlett-Packard (HP) acquired EDS. On 4 April 2016, HP entered into a definitive agreement with private equity funds managed by the Blackstone Group to sell the shares held by it in the company. In September 2016, the Blackstone Group through its fund "Marble II PTE" completed the share purchase and the company has become a Blackstone group of companies since then. Blackstone is one of the world's leading investment and advisory firms with more than USD 880bn in assets under management. In April 2021, Blackstone committed up to USD 2.8bn to acquire controlling stake in Mphasis, along with Abu Dhabi Investment Authority (ADIA) and UC Investments (Office of the Chief Investment Officer of The Regents, University of California) and other long-term investors.

Exhibit 65: MPHL – Journey



Source: Company, Elara Securities Research

Management

Nitin Rakesh, Chairman and Managing Director

Nitin Rakesh is CEO & MD of Mphasis. He joined Mphasis as CEO and Director in January 2017. He has deep domain expertise in banking, financial services and insurance verticals. Prior to joining Mphasis, he served as President & CEO of Syntel during CY12-16 and also before that between CY02 and CY08. During CY08-12, he served as CEO and MD of Motilal Oswal Asset Management Company. He holds a Bachelor's degree in Engineering (Computer Science) from Delhi Institute of Technology, Delhi University, and has received his Master's degree in Management from the Narsee Monjee Institute of Management Studies, Mumbai, and is an Alumni of Harvard Business School's CEO Workshop.

Aravind Viswanathan, Chief Financial Officer

Aravind Viswanathan joined Mphasis on August 16, 2024. A member of the Executive Council at Mphasis, he is CFO and responsible for the finance function which includes corporate finance, business finance, business planning, treasury, taxation, and investor relations. In his most recent role, he was CFO of Tanla Platforms since April 2021. Prior to this, he spent 19 years at Wipro where he was responsible for handling business finance for the strategic business units, financial planning & analysis and order to cash processes. Before which, he was Corporate Treasurer and Vice President – Investor Relations (IR). He is an alumnus of the Indian Institute of Management Bangalore where he completed his Post Graduate Diploma in Management and holds a Bachelor's degree in Commerce from the University of Madras.

Ayaskant Sarangi, Chief Human Resource Officer

Ayaskant Sarangi is Chief Human Resource Officer and a member of the Executive Council at Mphasis. Prior to joining Mphasis, he served as the Chief Human Resources Officer (CHRO) at Wipro Enterprises where he led HR functions, having served in various HR leadership roles at Wipro Technologies prior to that. Earlier to Wipro, he worked with organizations, such as General Electric, Infosys Technologies, and Larsen & Toubro. He holds a Bachelor's degree in Engineering from NIT Surat and a Master's degree in Human Resources from the Xavier Institute of Management, Bhubaneswar.

Elango R, President, Enterprise 5, North Americas

Elango R is President of Enterprise 5, which includes insurance, hi-tech, healthcare, Airlines Travel, Transportation & Logistics (ATTL), healthcare, and private equity. He is responsible for client success, portfolio financial performance, and people within these units across global offices. He has been a member of the Mphasis Executive Committee since CY06. Prior to Mphasis, he set up the offshore captive for Bank of America and in various roles across industries. He also serves on the boards of The Gratitude Network and Kelp HR. He has completed an Advanced Management Program from INSEAD, France, and holds a degree in Hotel Management from IHM Madras.

Rohit Jayachandran, Head of Banking & Financial Services

Rohit Jayachandran heads the banking & financial services industry vertical in North America at Mphasis. He is a seasoned executive with 20 years of experience in the financial services technology space. He has played several roles in Mphasis through his tenure, delivering complex programs for customers and launching Mphasis Canada. Prior to joining Mphasis, he worked at Bank of New York Mellon. He holds a Master's degree in Management and a Bachelor's degree in Electrical Engineering.

Ashish Devalekar, Senior Vice President and Head of Europe

Ashish Devalekar, a seasoned leader with two decades of experience in driving consistent growth in the EU across industry verticals, is currently spearheading Mphasis' Europe business. His expertise extends to originating and closing large deals, building high-performing teams, and implementing effective go-to-market (GTM) strategies. During his previous role at Virtusa, he was instrumental in turning around a business unit, transforming unit into the company's largest business unit within a short timeframe. He also played a key role in establishing Polaris operations in 12 EU countries, contributing significantly to regional revenue growth.

Ravi Vasantraj, Global Delivery Head

Ravi Vasantraj is a member of the Executive Council at Mphasis, overseeing global delivery, which includes application services, infrastructure, and business process services. As a global P&L owner, he focuses on business growth, customer relationships, and transformation, while leading large-scale strategic programs, including mergers & acquisitions, joint venture setups, and partnerships to leverage the company's strengths in next-generation technologies. Prior to joining Mphasis, he served as the Global Head of BFSI practice for Tech Mahindra. Before Tech Mahindra, he led large business portfolios at Syntel and Tata Consultancy Services. He holds a Bachelor's degree in Commerce from the University of Mumbai and is a Certified Management Accountant from the Institute of Cost and Works Accountants of India (ICWAI).

Appendix

Exhibit 66: Technology expenditure reported by US banks and financial institutions

Name	Technology expenditure reported as
JP Morgan Chase	Technology, communications, and equipment expense
Bank of America	Information processing and communications
Wells Fargo	Technology, telecommunications, and equipment
Citi	Technology and communications
Goldman Sachs	Communications and technology
Morgan Stanley	Information processing and communications
US Bancorp	Technology and communications
PNC Financial Services	Equipment
TD Bank	Technology and equipment
Capital One	Comms & data processing
Charles Schwab Corp	Communications
State Street	Information systems and communications
Truist Bank	Software expenses

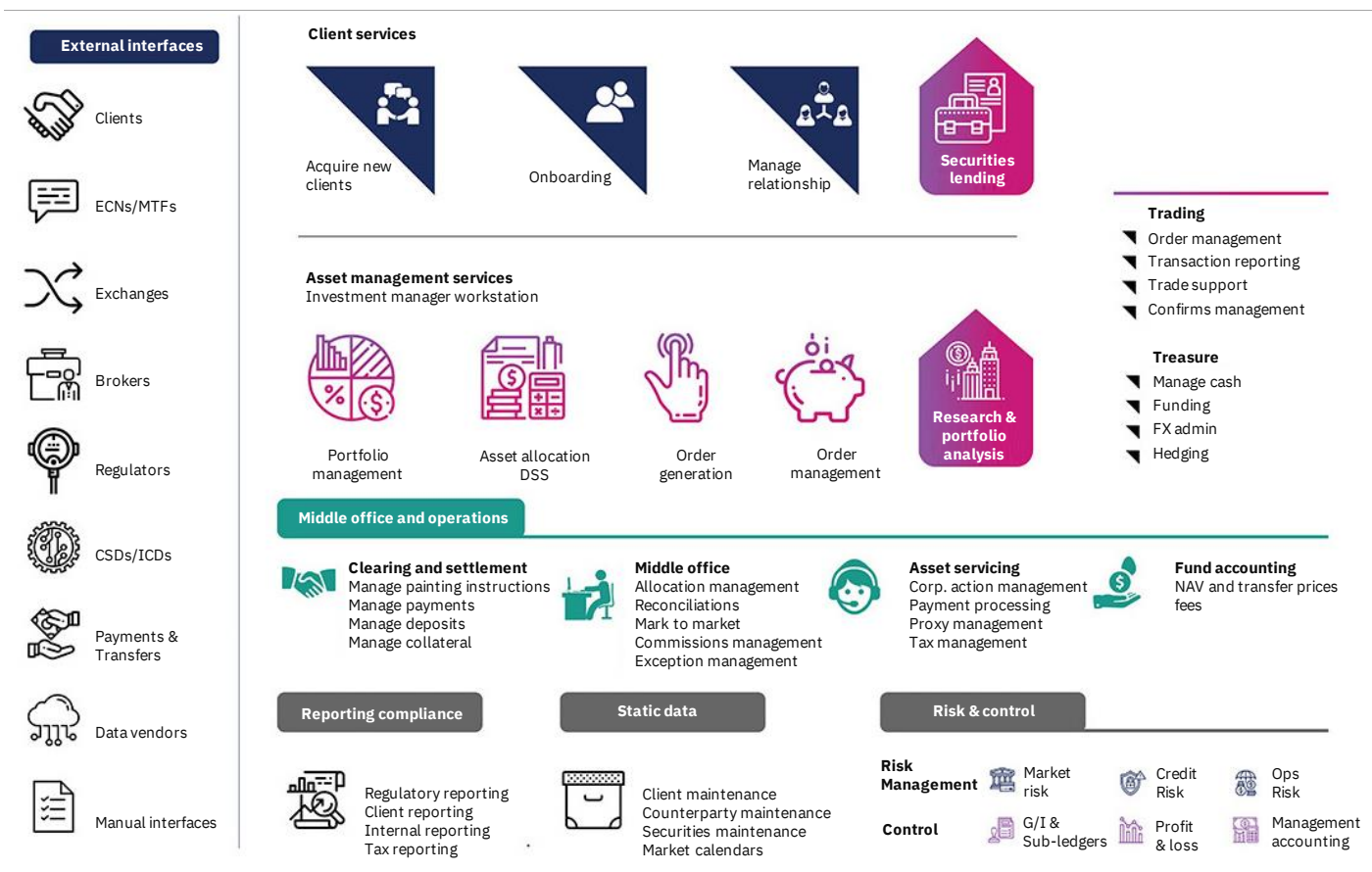
Source: Company, Elara Securities Research

Company capability

Banking & capital markets

Asset management: MPHL provides an analytics engine to support asset managers and portfolio managers. In orders management, it provides integration and testing services around industry-standard order management systems. In portfolio management it has developed AI-based portfolio management tools to assist portfolio managers for achieving superior return. It provides enterprise data management solutions covering reference, static, transaction and risk data. In distribution, it has created best-in-class intelligent online distribution applications to penetrate untapped markets and reach savvy investors. It develops platforms and provides integration for securities lending across asset classes and markets. It develops enterprise risk management technology covering all aspects of risk -- credit market, operations, and compliance.

Exhibit 67: MPHL asset management offerings



Source: Company presentation, Elara Securities Research

Corporate banking: In sales efficiency, MPHL provides cutting-edge technology solutions to capture deal and pipeline information in real-time and a robust workflow that tracks and enhances the deal pursuit process. It also enables the front office to manage its pursuits by integrating several sales processes in a single, customizable workflow solution that seamlessly integrates with enterprise resources like mails and calendar. It help banks in managing and providing real-time liquidity positions of its corporate clients by integrating data across databases. In trade finance, the company has provided AI-led solutions, which fully automate document verification process. It also provides AI-ML based checks on payments authorization minimizing human intervention and possibility of costly errors. It provides onboarding workflow solutions, which provides transparent and efficient on-boarding of corporate customers, ensuring regulatory compliance. The company has developed AI-driven credit origination system that automates the credit appraisal system. It provides secure and efficient payment solutions, including mobile and contactless payment technologies.

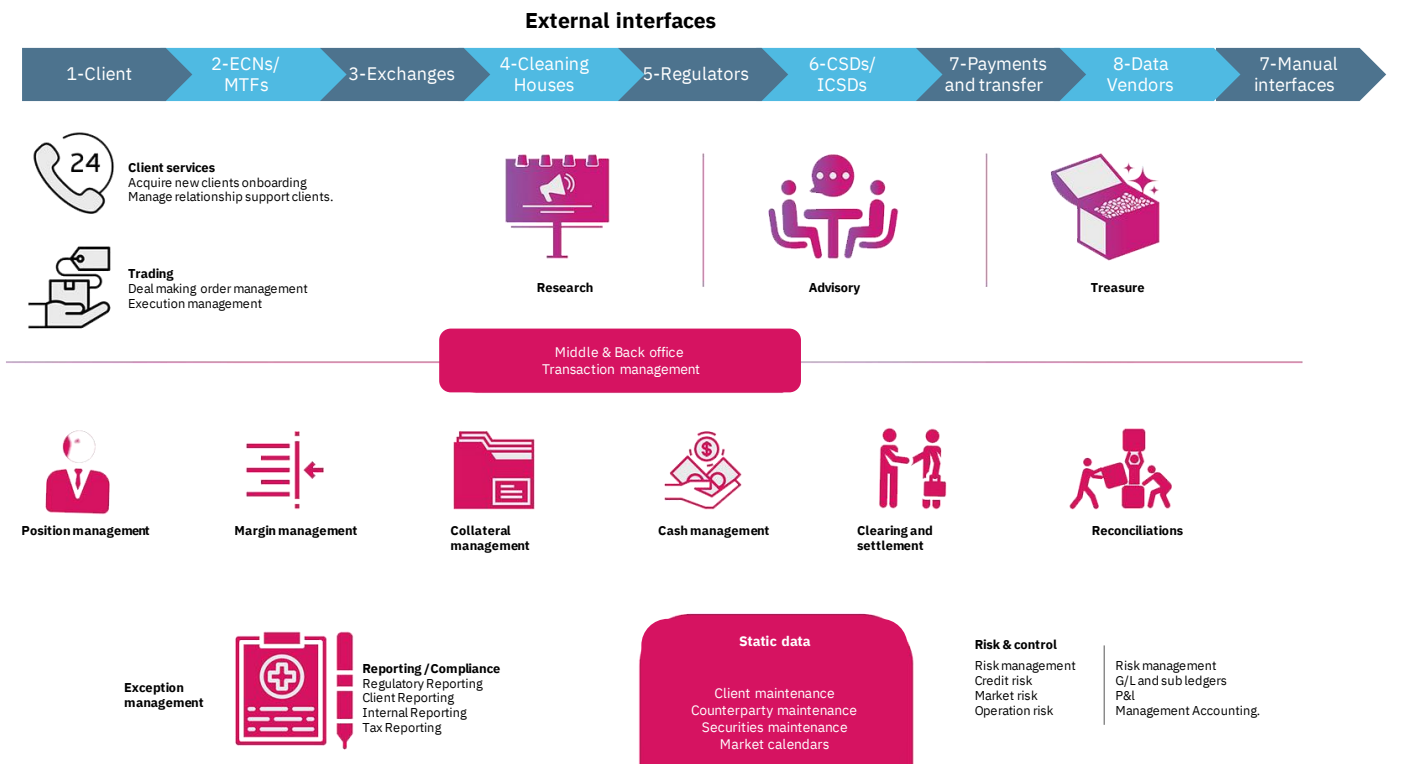
Exhibit 68: MPHL corporate bank offerings



Source: Company presentation, Elara Securities Research

Investment banking: The company provides market data analytics platform, which supports leading investment banks. It lends expertise in developing research content and distribution technology for sell-side firms, with complementary knowledge process outsourcing (KPO) services. It provides customer relationship management (CRM) systems for investment bank sales trading, with knowledge process outsourcing (KPO) solutions for campaign management. It customizes systems development for counterparty credit and market risk across assets, including over-the-counter (OTC) derivatives margining rules. It provides integration and testing services for trading and execution management systems. It offers an end-to-end suite for custody and prime services. It gives compliance technology services, which revolve around trade reporting, capital adequacy, disclosures, and market manipulation. It runs services across the value chain of fund accounting & reporting for traditional and alternative trading systems.

Exhibit 69: MPHL investment bank offerings

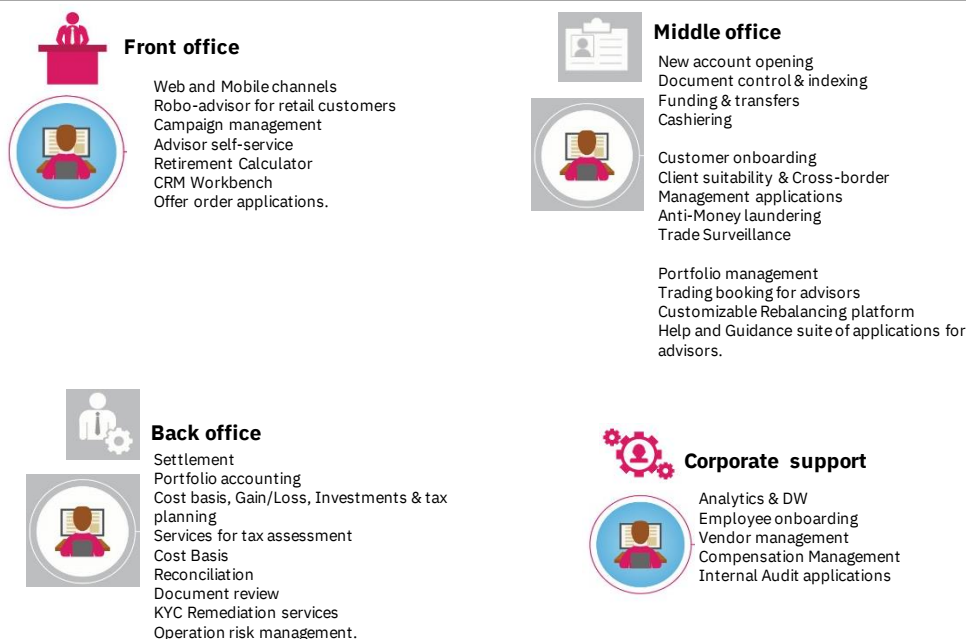


Source: Company presentation, Elara Securities Research

Retail banking: In retail banking, it provides end-to-end services that include customer onboarding, query management, customer services, complaints handling, fraud management, collections and more. In branch banking, it offers queue management, proactive contextual assistance, intelligent kiosks, and video tellers. It helped clients of one of the largest retail banks in the US to migrate many customers into a new platform.

Wealth management & brokerage: The wealth management space is experiencing transformation driven by increased customer expectations, changing customer preferences, new business models, and stricter regulatory interventions. With 25mn accounts in brokerage and wealth management, MPHL enables firms to adapt to changing business environments effortlessly with the help of digital technology. The Mphasis Digital Advice team enable its customers to find better and faster self-service, and better investment options with robo-advisor. It provides tools which increase productivity across the front, middle, and back office. It helps financial advisors to achieve better results. MPHL helps to reduce cost of trades, thereby increasing accessibility and allowing its clients to stay ahead in a competitive market. In today's world, businesses need to find a balance among effective governance, risk management options, and industry compliance standards. GRC services help businesses overcome these challenges and provides solutions that identify and effectively manage risks & compliance violations. It also provides technology and business processes services for document management.

Exhibit 70: MPHL wealth management offerings



Source: Company presentation, Elara Securities Research

Mortgage solutions: Since CY05, Digital Risk has been delivering comprehensive solutions in the areas of mortgage risk, compliance, and transaction management. In CY12, it was acquired by MPHL, and it offers capabilities to support leading mortgage firms through the entire mortgage life cycle. It offers origination support by providing scalable processing, underwriting, closing, and specialised services. It employs risk and compliance tools, Know Your Customer (KYC) & AML optimization and quality assurance through pre-fund reviews and loan audit. One of the platforms QCynergy is a one-stop interactive portal that synergizes due diligence and post-close quality control performance, and it enables clients to deliver data & files, receives findings and reports, perform rebuttals, and obtain historical data on deal performance, all in one platform.

Exhibit 71: MPHL mortgage solutions

Services spanning the total mortgage lifecycle

Strategy and Consulting	Over 30 BPO and take consulting engagements over the last year
Digital Mortgage Technology	Point-of-sale and customer-facing technology solution - including LoanFX™
Automation	Future-proofed automation solutions-including Luminate™ QC and Virtual Workforce (RPA)
Origination fulfilment	11 th largest originator per application volume in the industry
Origination support services	Fully licensed facilities: Four OPS centres and two onshore
Quality control	Largest tech and service provider for GSEs
Due diligence	Key loan attribute reviews
Risks in governance, risk and compliance	First line and second line testing for all regulation and control types

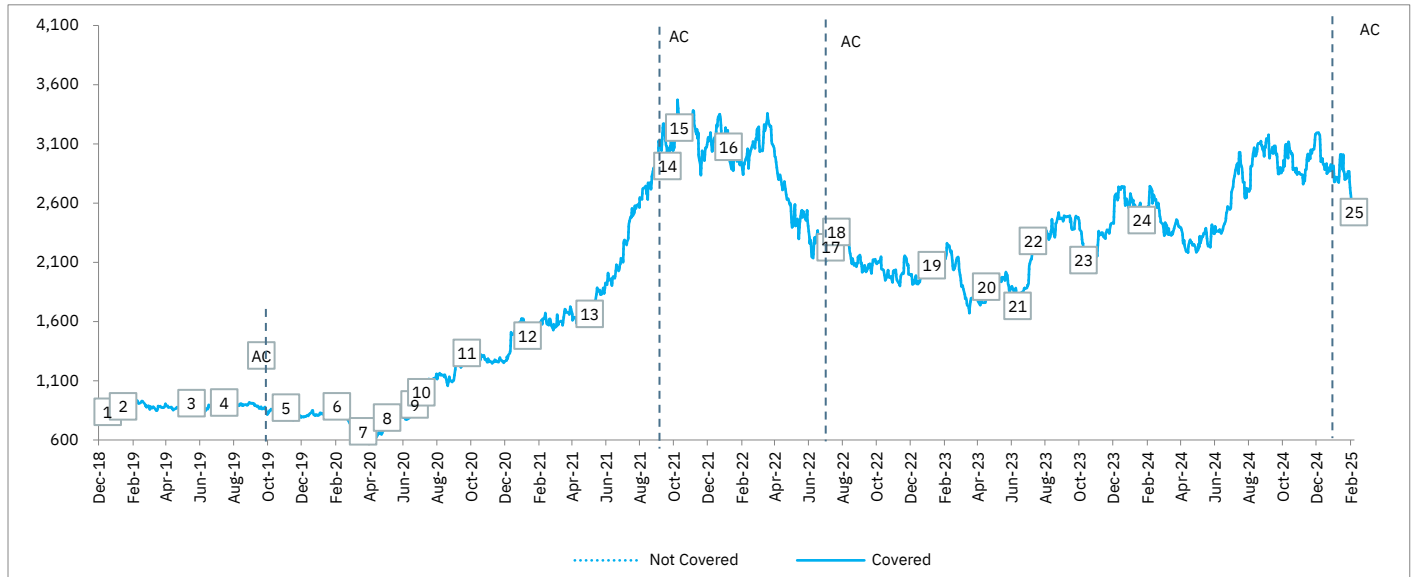
Source: Company presentation, Elara Securities Research

Exhibit 72: MPHL products

Loan FX™	Digital mortgage Point-of-sale platform Intelligent virtual agent (IVA)/Chatbots.
Luminate™	ADR (Automated document recognition) OCR (Optical character recognition) RPA (Robotic process automation)
Luminate™	ADR (Automated document recognition) OCR (Optical character recognition) RPA (Robotic process automation)
Q Synergy	Dew diligence portal Quality control portal
Amplify	Business Intelligence Fulfilment workflow enhancement Call centre integration & call analytics
Deep insights™	Cognitive computing platform

Source: Company presentation, Elara Securities Research

Coverage History



Date	Rating	Target Price	Closing Price	
16	21-Jan-2022	Buy	INR 3,945	INR 3,051
17	22-Jul-2022	Reduce	INR 2,160	INR 2,276
18	1-Aug-2022	Sell	INR 1,940	INR 2,300
19	20-Jan-2023	Sell	INR 1,910	INR 2,025
20	28-Apr-2023	Sell	INR 1,700	INR 1,814
21	23-Jun-2023	Sell	INR 1,760	INR 1,831
22	21-Jul-2023	Accumulate	INR 2,530	INR 2,331
23	20-Oct-2023	Accumulate	INR 2,380	INR 2,170
24	2-Feb-2024	Accumulate	INR 2,710	INR 2,560
25	18-Feb-2025*	Buy	INR 3,170	INR 2,575

*AC = Analyst change

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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India
Elara Securities (India) Private Limited
 One International Center, Tower 3,
 21st Floor, Senapati Bapat Marg,
 Elphinstone Road (West)
 Mumbai – 400 013, India
 Tel : +91 22 6164 8500

Europe
Elara Capital Plc.
 6th Floor, The Grove,
 248A Marylebone Road,
 London, NW1 6JZ,
 United Kingdom
 Tel : +44 20 7486 9733

USA
Elara Securities Inc.
 230 Park Avenue, Suite 2415,
 New York, NY 10169, USA
 Tel: +1 212 430 5870
 Fax: +1 212 208 2501

Asia / Pacific
Elara Capital (Asia) Pte.Ltd.
 One Marina Boulevard,
 Level 20,
 Singapore 018989
 Tel : +65 6978 4047



Managing Director

Harendra Kumar | harendra.kumar@elaracapital.com | +91 22 6164 8571



Head of Research

Dr Bino Pathiparampil | bino.pathiparampil@elaracapital.com | +91 22 6164 8572

Sales Team



India

Hitesh Danak - hitesh.danak@elaracapital.com - +91 22 6164 8543
Ashok Agarwal - ashok.agarwal@elaracapital.com - +91 22 6164 8558



India, APAC & Australia

Sudhanshu Rajpal - sudhanshu.rajpal@elaracapital.com - +91 22 6164 8508
Joshua Saldanha - joshua.saldanha@elaracapital.com - +91 22 6164 8541
Shraddha Shrikhande - shraddha.shrikhande@elaracapital.com - +91 22 6164 8567



India & UK

Prashin Lalvani - prashin.lalvani@elaracapital.com - +91 22 6164 8544



India & US

Karan Rathod - karan.rathod@elaracapital.com - +91 22 6164 8570



Corporate Access, Conference & Events

Anita Nazareth - anita.nazareth@elaracapital.com - +91 22 6164 8520
Tina D'souza - tina.dsouza@elaracapital.com - +91 22 6164 8595

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Elara Securities (India) Private Limited

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 Investor Grievance Email ID: investor.grievances@elaracapital.com - Tel. +91 22 6164 8509
 Compliance Officer: Mr. Anand Rao - Email ID: anand.rao@elaracapital.com - Tel. +91 22 6164 8509