



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Mphasis Ltd Q3 FY22 consolidated revenues came in at ₹3124 Cr, up 26.2% YoY and up 8.8% QoQ.
- Op Profit for Q3FY22 stood at ₹553 Cr, up 18.8% YoY and up 11.1% QoQ.
- Op margins for Q3FY22 came at 17.7%, -111bps YoY and +35 bps QoQ.
- PAT for Q3FY22 stood at ₹358 Cr, up 9.8% YoY and up 4.75% QoQ.

2. MANAGEMENT COMMENTARY:

- Management mentioned that company has healthy deal pipeline, higher win rates and strong correlation between new TCV and
- Management aims to onboard ~55,000 freshers in FY22.
- Direct business will continue to drive the growth of the company led by robust deal wins in New Gen areas.
- Management believes more cross selling opportunities from M&A will help the company to achieve industry leading growth in FY23.
- Management continues to remain confident of sustaining margins in a range of 15.5% to 17%.

3. SEGMENTAL ANALYSIS:

- Q3FY22 Revenue Breakup: Banking & Financial Services (55%), Insurance (9%), Technology Media & Telecommunication (13%), Logistics & Transportation (13%), Others (10%).
- Q3FY22 Geographical Revenue Breakup: Americas (81%), EMEA (11%), India (5%), ROW (3%)
- In Q3 FY22, the revenue from direct segment was \$384 million, +36% YoY. Revenue from DXC Technology was \$22 million, -49.2% YoY.

4. CONCALL SUMMARY

- Company delivered 8th consecutive quarter of \$200 Mn + TCV wins.
- New TCV wins of \$335 Mn in Q3FY22, 4 large deals signed with largest at \$92 Mn TCV. On a LTM basis average deal size was \$71 Mn.
- The company is winning more multi million deals in New Gen areas majorly led by increased Tech spending across various enterprises.
- Blink acquisition led to 2 synergy deal wins in the quarter.
- Revenue from top client is 11%, top 5 clients is 43% & top 10 clients is 58%.
- Company won 7 new clients in Q3FY22
- In Q3FY22 headcount increased 8% QoQ and more than 50% of hirings in the quarter were freshers.
- The company is also witnessing higher attrition but management is proactively hiring across the pyramid to deal with supply side constraints.

5. OTHER DEVELOPMENTS:

- Mphasis has been investing in new technologies such as blockchain, NFT and also announced partnership with CrossTower.
- Company is building low cost near shore centers in Mexico, UK, Canada and Germany. Company is also expanding in India in Tier 3 and tier 4 cities.

6. VALUATION AND OUTLOOK:

Mphasis reported very strong numbers and beaten all the street estimates led by strong demand environment and robust deal wins. We believe company will continue to perform well over next few quarters due to robust demand environment. Also the confident commentary from management, declining revenue share of DXC and increase in average LTM size are other positive triggers for the stock.

We initiate a "BUY" rating on the stock and value the stock at 36.0x FY23E earnings to arrive at the target of ₹3490.

RECOMMENDATION - BUY

CMP – 2984
TARGET – 3490 (17%)

Industry	IT - Software
NSE CODE	MPHASIS
BSE CODE	526299
Market Cap (₹ Cr)	56621.9
Shares Outstanding (in Cr)	18.75
52 wk High/Low (₹)	3659.75 / 1575.25
P/E	41.34
P/BV	8.74
Face Value (₹)	10.00
Book Value (₹)	342.01
EPS (FY21) (₹)	65.06
Dividend Yield (%)	3.64
Debt / Equity	0.08
Interest Coverage	26.71

SHAREHOLDING PATTERN

	Dec 21	Sep 21	Jun 21
Promoters	55.90	55.95	55.99
MF/ DII	13.24	13.58	13.62
FII/FPI	21.10	20.85	20.80
Retail & Others	5.21	5.25	4.75
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

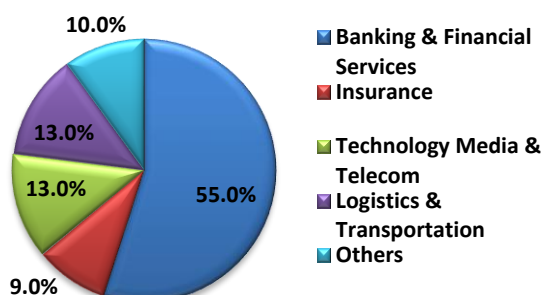
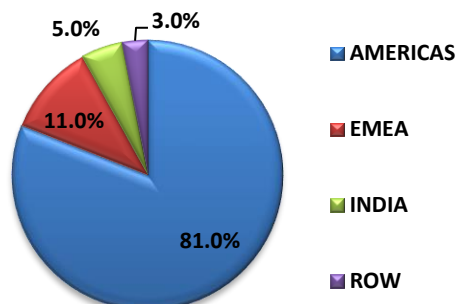
Y/E March	2021A	2022E	2023E
Crore			
Sales	9722.31	11964	14476
Sales Gr. (%)	9.94	23.05	21.00
EBITDA	1802.87	2130.43	2634.75
EBITDA %	19.91	17.80	18.20
PAT	1216.81	1435.07	1813.31
EPS (₹)	65.06	76.73	96.95
EPS Gr. (%)	2.42	17.93	26.35
BV/Sh. (₹)	345.80	375.20	405.40
Ratios			
RoE (%)	19.88	20.9	23.6
RoCE (%)	25.21	26.7	29.6
Valuation			
P/E (x)	27.41	42.0	35.0
P/BV (x)	5.16	6.9	5.8
EV/EBITDA	16.95	26.5	20.5

Historical & Industrial Val Ratios

Historical P/E	17.97
Industry P/E	37.45
Historical P/B	3.16
Industry P/B	9.77



REVENUE SPLIT (Q3 FY22)

Segmental Mix (Q3 FY22)

Geography Mix (Q3 FY22)


QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21				FY22				FY21	FY22E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
Net sales	2,288	2,435	2,474	2,524	2,691	2,869	3,124	3,280	9,722	11,964
YoY change (%)	10.94%	12.85%	8.68%	7.59%	17.60%	17.81%	26.24%	29.96%	9.94%	23.05%
Total Expenditures	1,870	1,983	2,009	2,057	2,202	2,371	2,571	2,690	7,919	9,834
EBITDA	418	452	466	467	489	498	553	590	1,803	2,130
Margins (%)	18%	19%	19%	19%	18%	17%	18%	18%	19%	17.8%
Depreciation	59	60	61	62	62	66	83	83	242	294
Interest	19	15	15	14	16	16	22	22	63	76
Other income	38	26	37	33	47	44	31	31	133	153
PBT	377	404	427	424	458	460	480	516	1,631	1,913
Rate (%)	27%	26%	24%	25%	26%	26%	25%	25%	25%	25%
Adjusted PAT	275	299	326	317	340	341	358	387	1,217	1,435
EPS in Rs	14.75	16.03	17.43	16.94	18.15	18.23	19.08	20.64	65.06	76.73

Key Performance Indicators

Deal Win TCV (USD Mn)	259	360	247	245	505	241	335			
Headcount	26,143	27,148	28,116	29,473	31,454	32,295	34,915			
Onsite/Offshore Rev Mix	60/40	59/41	58/42	57/43	59/41	58/42	59/41			
Top Client Contribution %	12	12	11	10	11	11	11			
New Clients Added	6	5	6	8	6	5	7			
DXC Revenue %	20.1	16.2	13.1	12.0	9.2	6.5	5.3			

Source: Company, Hem Securities Research.

*Insights into the assumptions:

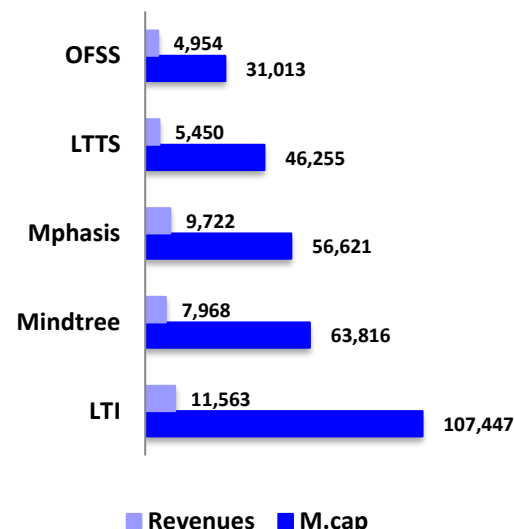
- We expect revenues to increase by 5% QoQ in Q4FY22 due to robust deal wins.
- We also believe that operating margins would sustain at these levels and might also improve due to management's guidance of operating margins to sustain in the range of 15.5-17%.



INDUSTRY OVERVIEW

- India is the world's largest sourcing destination with largest qualified talent pool of technical graduates in the world.
- The IT sector is the largest employer within the private sector.
- The Indian IT industry accounted for 18.5% of the total global IT spend in FY20.
- Indian technology industry contributes ~8% share to the national GDP, with a 52% share of services exports, and a 50% share in total FDI.
- The priority tech spending areas are expected to be augmented reality and virtual reality (AR/VR), mixed reality, Internet of Things (IoT), artificial intelligence (AI), robotics and cloud.
- This push towards cloud services has boosted hyper-scale data centre investments, with global investments estimated to exceed ~US\$ 200 billion annually by 2025.
- The digital transformation deals have seen a 30% jump since the pandemic.
- In Budget 2021, the government has allocated Rs. 53,108 crore (US\$ 7.31 billion) to the IT and telecom sector.
- Leading players in Indian IT Industry includes Mindtree, Mphasis, LTTS, OFSS, Tata Elxsi etc.

KEY PLAYERS in Mid IT Space



PEER PERFORMANCE

(₹ Cr)

Particulars

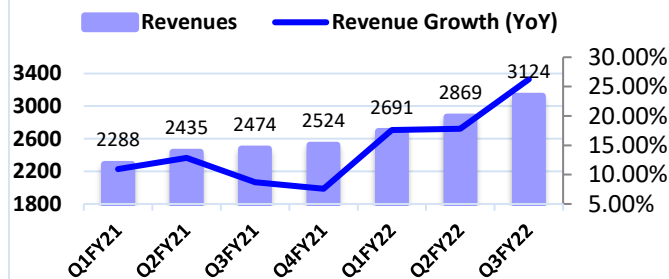
	Mphasis Ltd.	Mindtree Ltd.	Larsen & Toubro Infotech Ltd.	Oracle Financial Services Software Ltd.	Tata Elxsi Ltd.
Market Cap	56,621.9	63,815.9	1,07,447.6	31,013.9	47,557.1
Net Sales	9,722.3	7,967.8	12,369.8	4,983.9	849.4
EBITDA	1,802.9	1,656.7	2,712.0	2,413.6	523.5
PAT	1,216.8	1,110.5	1,936.1	1,761.9	368.1
EPS(₹)	65.1	67.4	110.6	204.7	59.1
EBITDA MARGIN %	19.9	22.7	24.2	52.2	30.8
PAT MARGIN %	12.5	13.9	15.7	35.4	20.2
ROCE %	25.2	41.4	41.7	37.2	42.5
ROE %	19.9	29.8	30.8	26.9	30.1
P/E TTM	41.8	45.6	51.0	17.0	88.8
P/B TTM	8.8	13.6	13.4	4.8	31.1
EV/EBITDA	25.7	27.8	33.1	9.76	57.9
Dividend Yield %	2.1	0.6	0.6	5.4	0.7
MCap/ Sales TTM	5.1	7.0	7.7	6.1	19.4

Source: Company, Hem Securities Research.

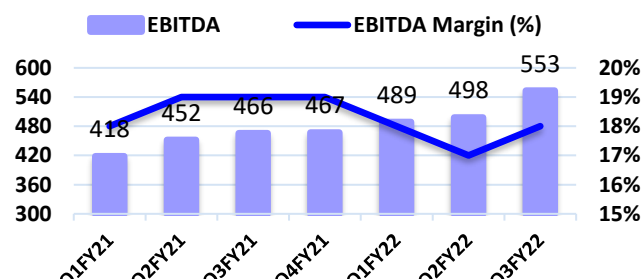


STORY IN CHARTS

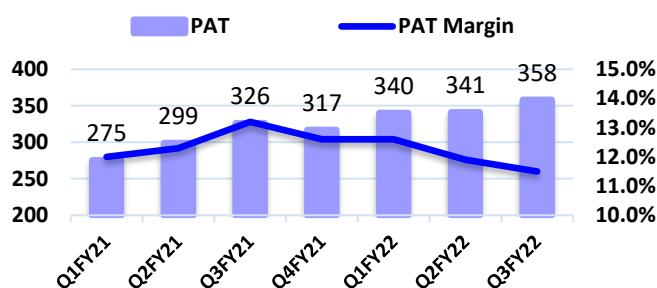
Revenue



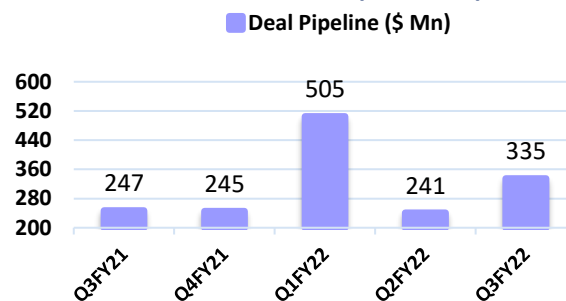
EBITDA & EBITDA Margin



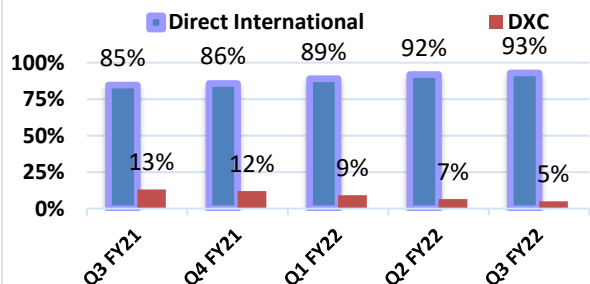
PAT & PAT Margin



Deal Win TCV (USD Mn)



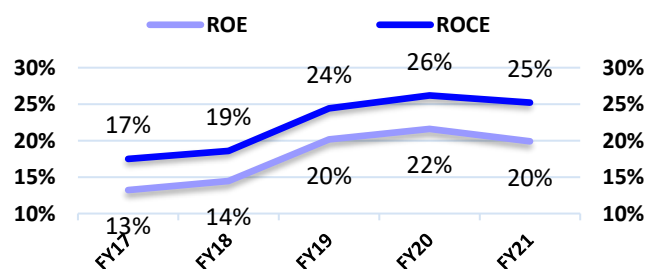
Continuous Decline in DXC Revenues



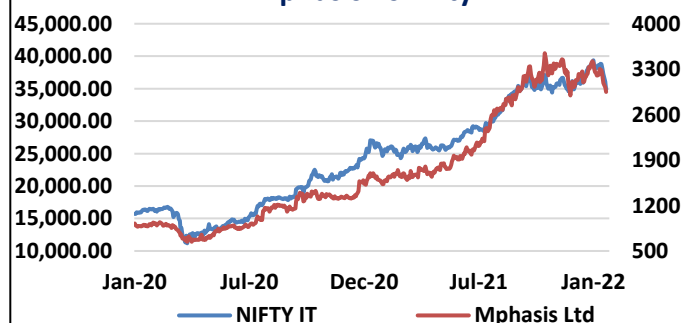
Consistent Addition in New Clients



ROE and ROCE



Mphasis Vs Nifty IT





INVESTMENT RATIONALE:

- Strong Q3FY22 numbers beating all the street estimates, revenue grew by 8.8% QoQ and net profit grew by 4.75% QoQ.
- Operating margins at 17.7% grew by 35 bps QoQ, commendable when other IT companies are facing pressure on operating margins. Management also commented that these margins are sustainable.
- Broad based growth witness across all verticals and geographies.
- Strong growth witnessed in Direct Business (36.1% YoY) while DXC continued to decline (currently at 5.3% of overall revenue).
- Strong growth in new TCV wins \$335 Mn in Q3FY22 (+39% QoQ and +35% YoY).
- LTM average deal size is also increasing consistently (currently at \$71 Mn from \$31 Mn in Q3FY20).
- Company has aggressively hired during past few quarters and expects more aggressively hiring in coming quarters due to robust demand environment.
- Mphasis had total 7 new client wins this quarter. 2 clients were added in \$10mn+ bucket and 1 in \$5mn+ bucket.
- Company building low cost near shore centers in Mexico, UK, Canada and Germany.
- Management kept the operating margin guidance intact to be in the range of 15.5%-17%.

RISK / NEGATIVE FACTORS:

- Geographical Concentration Risk: Around 80% of revenues comes from America. So any political risk related to America or slowdown in their economic growth is a key concern.
- INR appreciating against USD, pricing pressure and retention of the skilled employees are other concerns. So any loss of clients can negatively impact their business.
- Client Concentration risk: Around 60% revenue comes from Top 10 clients while 11% revenue comes from Top Client.
- The Indian IT service industry is facing high attrition rates at this point of time, if attrition continues to increase for next few more quarters it may negatively impact company's business.

COMPANY RECAP

- Mphasis is an Information Technology solutions provider that applies next-generation technology to help enterprises transform businesses globally.
- The company was formed in June 2000 after the merger of Mphasis Corporation and BFL Software Limited.
- The various industries that company provides IT services include Banking & Capital markets, Insurance, Hi-Tech, Healthcare & Life Sciences, Payments, Hospitality, Travel & Transportation, Communications, Energy & Utilities, Logistics, Manufacturing, Oil & Gas, and Public Sector.
- The various services that company provides includes Application Services, Blockchain, Cyber Security, Enterprise Automation, Devops, Product Engineering, Infrastructure services, Experience design, Cloud Services, Modernization, Next-Gen IT Operations etc.
- The major geographical revenue segments of company are America, EMEA, India and ROW.
- The company has 34,915 employees as of December, 2021 and company is aggressively hiring every quarter given robust demand environment.
- Company has very experienced and skilled leadership team including Nitin Rakesh (CEO & MD), Manish Dugar (CFO), Sundar Subramanian (President – Global Delivery), Elango R (President – North America), Eric Winston (Executive VP and Compliance Officer) etc.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Revenue from operations	6,076.36	6,545.84	7,819.37	8,843.54	9,722.31	11,964.20	14,476.68
Growth YoY (%)	-0.07	7.73	19.46	13.10	9.94	23.05	21.00
Total Expenditure	5,108.73	5,486.78	6,495.54	7,193.15	7,919.45	9,833.76	11,841.93
(%) of sales	84.08	83.82	83.07	81.34	81.46	82.19	81.80
EBITDA	967.63	1,059.06	1,323.83	1,650.38	1,802.87	2,130.43	2,634.73
EBITDA Growth (%)	10.77	1.41	22.55	21.84	5.89	18.16	23.67
EBITDA Margin (%)	19.87	18.71	19.19	20.67	19.91	17.80	18.20
Depreciation	79.15	70.82	75.84	231.63	241.79	294	294
EBIT	1,113.09	1,140.57	1,424.70	1,596.57	1,694.02	1,836.43	2,340.75
EBIT Growth (%)	21.77	2.47	24.91	12.06	6.10	8.40	27.46
Net Interest Expenses	13.88	13.00	17.37	81.19	63.42	76	76
Other Income	239.78	165.41	176.71	177.82	132.95	153	153
Earnings before Taxes	1,099.21	1,127.57	1,407.33	1,515.38	1,630.61	1,913.43	2,417.75
EBT Margin (%)	18.09	17.23	18.00	17.14	16.77	15.99	16.70
Tax-Total	307.63	290.08	333.97	330.54	413.80	478.35	604.43
Rate of tax (%)	27.99	25.73	23.73	21.81	25.38	25.00	25.00
Net Profit	791.58	837.50	1,073.35	1,184.84	1,216.81	1,435.07	1,813.31
PAT Growth (%)	25.35	5.80	28.16	10.39	2.70	17.93	26.35
PAT Margin (%)	13.03	12.79	13.73	13.40	12.52	11.99	12.52
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	791.58	837.50	1,073.35	1,184.84	1,216.81	1,435.07	1,813.31
EPS	37.62	43.34	57.64	63.52	65.06	76.73	96.95
EPS Growth (%)	25.21	15.19	33.01	10.20	2.42	17.93	26.35

Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	210	193	186	187	187
Reserves	5,942	5,289	5,064	5,643	6,340
Net Worth	6152	5482	5250	5830	6527
Borrowings	260	390	543	571	513
Other Liabilities	889	1,109	1,576	2,339	2,324
Total Liabilities & Equity	7,301	6,980	7,368	8,740	9,365
Fixed Assets	1,921	1,884	2,170	3,013	3,020
CWIP	1	2	3	17	3
Investments	2,396	1,782	1,329	1,326	1,846
Other Assets	2,983	3,312	3,866	4,384	4,496
Total Assets	7,301	6,980	7,368	8,740	9,365

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2017	2018	2019	2020	2021
Profitability and return ratios					
Net profit margin (%)	13.03	12.79	13.73	13.40	12.52
EBITDA margin (%)	19.87	18.71	19.19	20.67	19.91
EBIT margin (%)	18.32	17.42	18.22	18.05	17.42
ROE (%)	13.22	14.46	20.16	21.60	19.88
ROCE (%)	17.49	18.57	24.43	26.19	25.21
Working Capital & liquidity ratios					
Payables (Days)	39.25	0.00	49.87	39.51	31.19
Inventory (Days)	0.00	0.00	0.00	0.00	0.00
Receivables (Days)	38.35	40.13	41.24	36.95	33.13
Current Ratio (x)	4.09	2.81	2.06	2.04	2.40
Valuations Ratios					
EV/sales (x)	1.94	2.44	2.34	1.34	3.37
EV/EBITDA (x)	9.78	13.06	12.21	6.48	16.95
P/E (x)	15.36	19.47	17.16	10.46	27.41
P/BV (x)	1.98	2.99	3.54	2.15	5.16
Dividend Yield (%)	2.94	2.37	2.73	5.27	3.64
Leverage Ratio					
Debt/Equity (x)	0.04	0.07	0.10	0.10	0.08

Cash Flow Statement					
Y/E March	2017	2018	2019	2020	2021
CF from Operating activities (A)	664	723	950	1,321	1,455
CF from Investing Activities (B)	267	507	280	142	-810
CF from Financing Activities (C)	-710	-1,380	-1,342	-825	-861
Net Cash Flow	221	-149	-112	638	-217
Add: Opening Bal.	393	613	464	350	988
Closing Balance	613	464	352	988	771

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	$\geq 15\%$
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	$< -5\%$

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
8 Feb 2022	Buy	3490

DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.



HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

ANALYST CERTIFICATION/ DISCLOSURE OF INTEREST

Name of the Research Analyst: ABHISHEK SHARDA

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.