



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Mphasis Ltd Q3 FY23 consolidated revenues came in at ₹3506.21 Cr, up 12.2% YoY and down -0.4% QoQ.
- Op Profit for Q3FY23 stood at ₹617.5 Cr, up 11.6% YoY and flat QoQ.
- Op margins for Q3FY23 came at 17.61%, -10bps YoY and +6 bps QoQ.
- PAT for Q3FY23 stood at ₹412.27 Cr, up 15.3% YoY and down 1.5% QoQ.

2. MANAGEMENT COMMENTARY:

- Management maintained operating margin guidance of 15.25-17% for Q4FY23.
- Management mentioned that they would be looking for inorganic opportunities in 2023 on account of attractive valuation in this space.

3. SEGMENTAL ANALYSIS:

- Q3FY23 Revenue Breakup: Banking & Financial Services (53.6%), Insurance (8.3%), Technology Media & Telecommunication (12.9%), Logistics & Transportation (13.0%), Others (12.2%).
- Q3FY23 Geographical Revenue Breakup: Americas (81.8%), EMEA (10.1%), India (5.1%), ROW (3.0%)
- In Q3 FY23, the revenue from direct segment was \$402 million, +15% YoY. Revenue from DXC Technology was \$20 million, -9% YoY.

4. CONCALL SUMMARY

- Revenue declined 2.5% QoQ on CC basis majorly due to weakness in digital risk business and seasonality.
- Co signed TCV wins worth \$401 Mn, +19.7% QoQ. 60% of TCV wins in Q3 were in the BFS vertical.
- The current TCV has healthy balance of long term and short term deals.
- Net employees during Q3FY23 declined by 1426 to 35450.
- The company is continuously hiring freshers in the system.

5. OTHER DEVELOPMENTS:

- Continued share gains with key clients; Strong Top-5/Top-10/Top-20 client LTM growth.
- Ongoing utilization & capacity management (using the pyramid) aligns with demand visibility and in line with company's strategy of continued supply side transformation.

6. VALUATION AND OUTLOOK:

Co revenue growth was weaker led by furloughs, delayed ramp up in deals and fall in mortgage business. But the TCV deal wins are healthy and management is confident of improving margins and achieving good revenue growth in medium to long term.

Recent correction gives a very good opportunity to add the stock for attractive gains

We initiate a "BUY" rating on the stock and value the stock at 20x FY24E earnings to arrive at the target of ₹2032.

RECOMMENDATION - BUY

CMP – 1725

TARGET – 2032 (18%)

Industry	IT - Software
NSE CODE	MPHASIS
BSE CODE	526299
Market Cap (₹ Cr)	33553.21
Shares Outstanding (in Cr)	18.83
52 wk High/Low (₹)	3466 / 1717
P/E	20.65
P/BV	4.54
Face Value (₹)	10.00
Book Value (₹)	392.19
EPS (FY22) (₹)	76.18
Dividend Yield (%)	1.36
Debt / Equity	0.08
Interest Coverage	26.71

SHAREHOLDING PATTERN

	Dec 22	Sep 22	Jun 22
Promoters	55.65	55.70	55.72
MF/ DII	19.54	17.78	18.16
FII/FPI	18.89	20.71	20.48
Retail & Others	5.93	5.80	5.64
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023E	2024E
Crore			
Sales	11961.44	14048	15734
Sales Gr. (%)	23.03	17.45	12.00
EBITDA	2117.61	2479	2832
EBITDA %	19.04	18	18
PAT	1430.89	1662	1910
EPS (₹)	76.18	88.39	101.61
EPS Gr. (%)	17.11	16.0	14.9
Ratios			
RoE (%)	21.52	23.2	25.5
RoCE (%)	27.39	27.5	28.2
Valuation			
P/E (x)	44.32	19.79	17.22

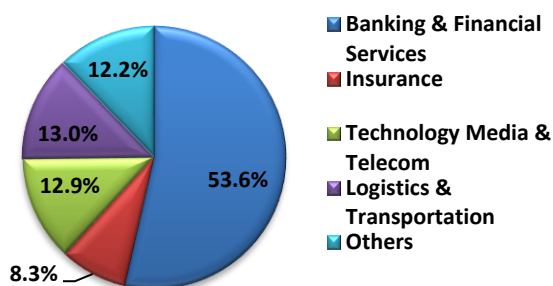
Historical & Industrial Val Ratios

Historical P/E	23.76
Industry P/E	27.01
Historical P/B	4.62
Industry P/B	7.49

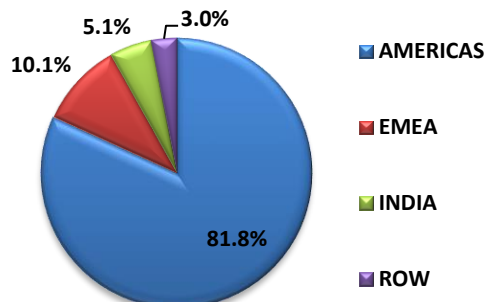


REVENUE SPLIT (Q3 FY23)

Segmental Mix (Q3 FY23)



Geography Mix (Q3 FY23)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22				FY22				FY22	FY23E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
Net sales	2,691	2,869	3,124	3,278	3,411	3,520	3,506	3611	11,961	14,048
YoY change (%)	17.60%	17.81%	26.24%	29.85%	26.77%	22.67%	12.24%	10.16%	23.03%	17.45%
Total Expenditures	2,202	2,371	2,571	2,701	2,811	2,902	2,889	2968	9,844	11570
EBITDA	489	498	553	577	600	618	618	642.8	2,118	2479
Margins (%)	18%	17%	18%	18%	18%	18%	18%	17.80%	18%	18%
Other income	47	44	31	39	36	43	40	40	160	159
Interest	16	16	22	21	23	26	24	25	74	98
Depreciation	62	66	83	80	80	80	82	84	291	326
PBT	458	460	480	516	533	555	551	573.8	1,913	2213
Rate (%)	26%	26%	25%	24%	25%	25%	25%	25%	25%	25%
Adjusted PAT	340	341	358	392	402	418	412	430	1,431	1662
EPS in Rs	18.15	18.23	19.08	20.88	21.37	22.24	21.89	22.89	76.19	88.39

Key Performance Indicators

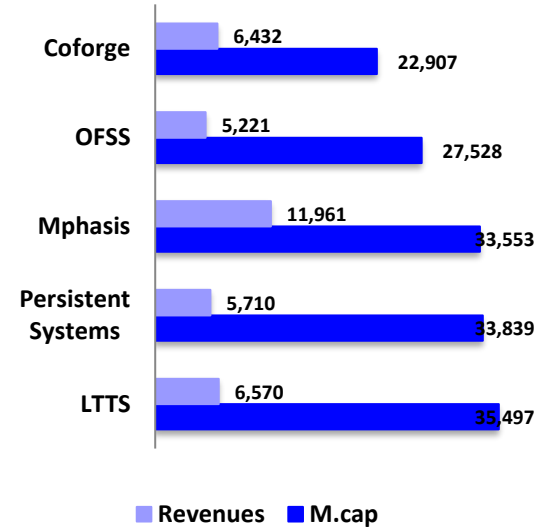
Deal Win TCV (USD Mn)	505	241	335	347	302	302	401		
Headcount	31,454	32,295	34,915	36,534	36,899	36,876	35,450		
Onsite/Offshore Rev Mix	59/41	58/42	59/41	58/42	58/42	57/43	55/45		
Top Client Contribution %	11	11	11	11	11	12	12		
Total \$1M+ Clients	64	88	97	104	105	104	107		
DXC Revenue %	9.2	6.5	5.3	5.2	4.8	6.4	5.3		

Source: Company, Hem Securities Research.

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 19.2% of the total global IT spend in FY21.
- 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 2022-23, the government has allocated Rs. 88,568 crore (US\$ 11.58 billion) to the IT and telecom sector.
- Leading players in Indian IT Industry (Mid Cap Space) includes LTTS, Persistent Systems, Mphasis, OFSS, Coforge etc.

KEY PLAYERS in Mid IT Space



PEER PERFORMANCE

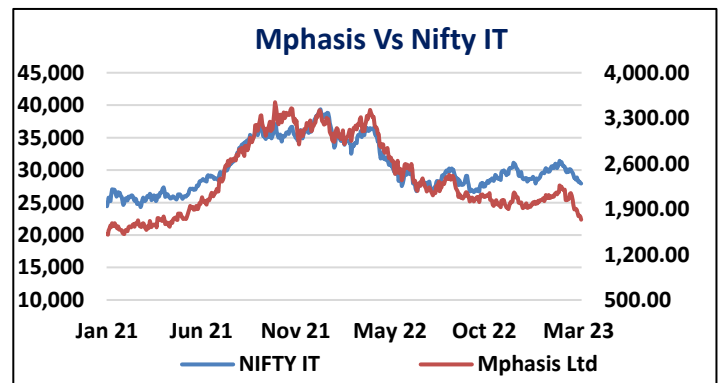
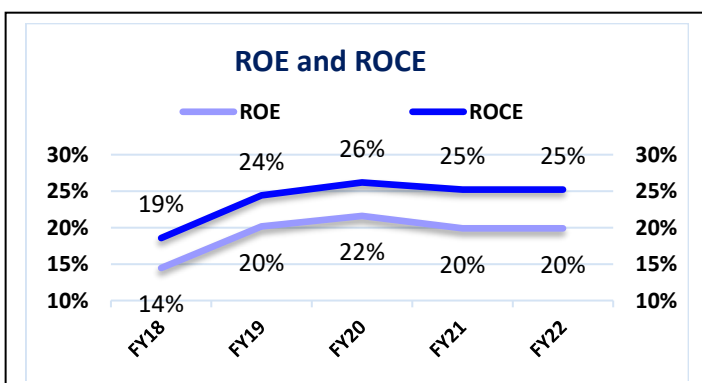
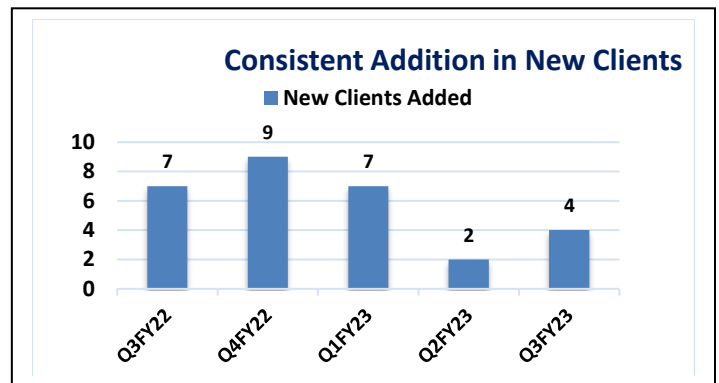
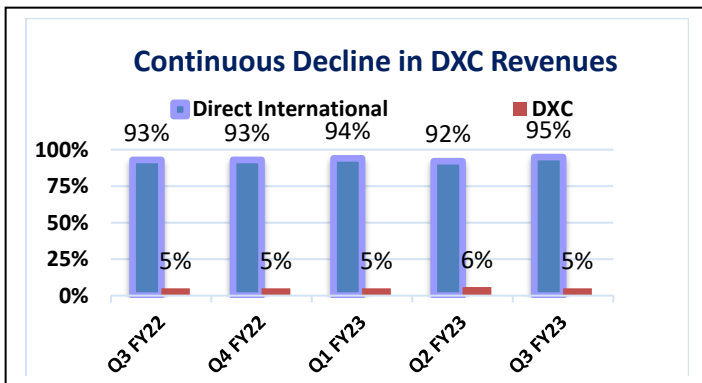
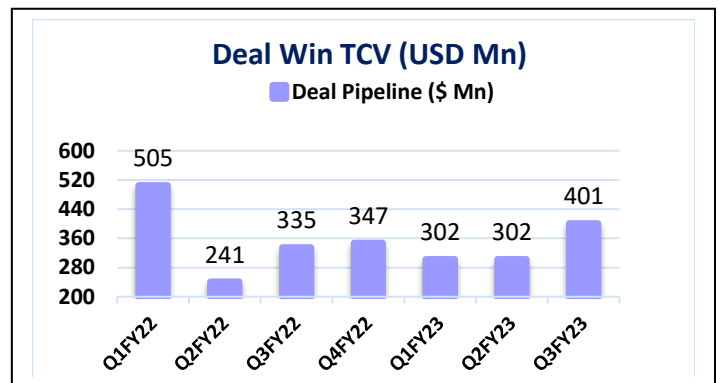
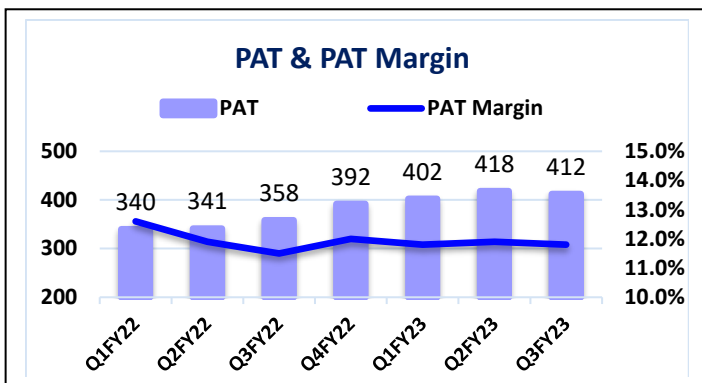
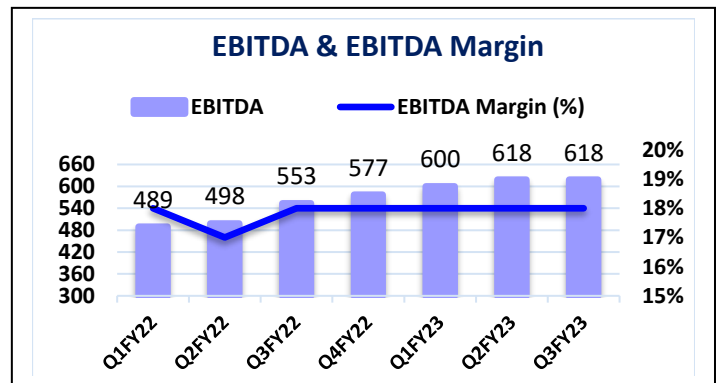
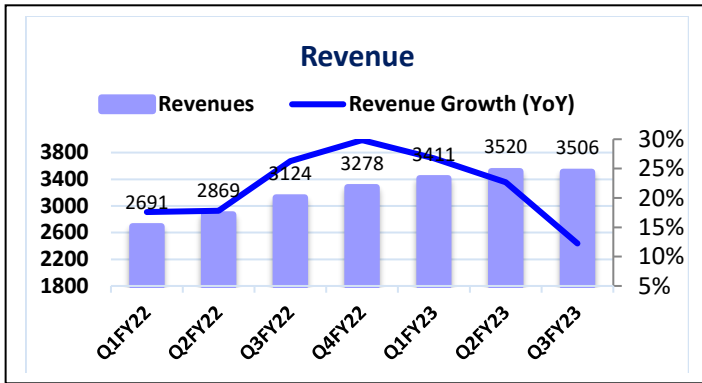
(₹ Cr)

Particulars					
	Mphasis Ltd.	Persistent Systems Ltd.	Coforge Ltd.	Oracle Financial Services Software Ltd.	L&T Technology Services Ltd.
Market Cap	33,553.2	33,838.7	22,906.7	27,527.9	35,497.5
Net Sales	11,961.4	5,710.7	6,432.0	5,221.5	6,569.7
EBITDA	2,117.6	947.7	1,101.9	2,492.7	1,382.1
PAT	1,430.9	690.4	661.7	1,888.8	957.0
EPS(₹)	76.2	90.3	108.7	219.0	90.7
EBITDA MARGIN %	19.0	19.3	17.9	50.4	23.9
PAT MARGIN %	12.0	12.1	11.1	36.2	14.6
ROCE %	27.4	28.4	33.4	36.4	35.4
ROE %	21.5	23.0	28.1	27.7	25.3
P/E TTM	20.7	38.9	29.1	15.2	31.6
P/B TTM	4.5	9.0	7.5	4.0	7.5
EV/EBITDA	12.9	22.3	16.6	9.22	19.4
Dividend Yield %	2.6	0.7	1.4	6.0	1.0
MCap/ Sales TTM	2.4	4.4	3.0	5.0	4.6

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Company's revenue growth was slower in the quarter mainly due to furloughs, delayed ramp ups and sharp fall in mortgage business. But the deal wins were stronger with net new TCV wins worth \$401 Mn. It takes TTM TCV to \$1.3 Bn (+2% YoY).
- The healthcare vertical is growing well and company closed one large deal in this vertical in Q3FY23.
- For Q4, management is confident of better growth.
- Management also reiterated that their primary aim is to invest in growth.
- Management reiterated 15.25-17% Operating margin guidance for FY23.
- Company will be looking into inorganic growth opportunities in 2023.
- Company is trading at very attractive valuations and can give good returns in medium to long term.

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 36,899 employees as of June, 2022 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), Ravi Vasantraj (Global Delivery Head), Elango R (President – North America), Eric Winston (Executive VP and Compliance Officer) etc.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Revenue from operations	6,545.84	7,819.37	8,843.54	9,722.31	11,961.44	14048	15734
Growth YoY (%)	7.73	19.46	13.10	9.94	23.03	17.45	12%
Total Expenditure	5,486.78	6,495.54	7,193.15	7,919.45	9,843.84	11570	12902
(%) of sales	83.82	83.07	81.34	81.46	82.30	82.36%	82%
EBITDA	1,059.06	1,323.83	1,650.38	1,802.87	2,117.61	2479	2832
EBITDA Growth (%)	1.41	22.55	21.84	5.89	17.68	17.07%	14.24%
EBITDA Margin (%)	18.71	19.19	20.67	19.91	19.04	18%	18%
Depreciation	70.82	75.84	231.63	241.79	290.75	326	345
EBIT	1,140.57	1,424.70	1,596.57	1,694.02	1,987.30	2153	2487
EBIT Growth (%)	2.47	24.91	12.06	6.10	17.31	8%	15.5%
Net Interest Expenses	13.00	17.37	81.19	63.42	74.40	98	100
Other Income	165.41	176.71	177.82	132.95	160.45	159	160
Earnings before Taxes	1,127.57	1,407.33	1,515.38	1,630.61	1,912.90	2214	2547
EBT Margin (%)	17.23	18.00	17.14	16.77	15.99	15.76%	16.2%
Tax-Total	290.08	333.97	330.54	413.80	482.01	552	636.76
Rate of tax (%)	25.73	23.73	21.81	25.38	25.20	24.93%	25%
Net Profit	837.50	1,073.35	1,184.84	1,216.81	1,430.89	1662	1910.3
PAT Growth (%)	5.80	28.16	10.39	2.70	17.59	16.15%	14.9%
PAT Margin (%)	12.79	13.73	13.40	12.52	11.96	11.83%	12.1%
Minority Interest	0.00	0.00	0.00	0.00	0.00	0	0
Adjusted PAT	837.50	1,073.35	1,184.84	1,216.81	1,430.89	1662	1910.3
EPS	43.34	57.64	63.52	65.06	76.18	88.39	101.61
EPS Growth (%)	15.19	33.01	10.20	2.42	17.11	16.0%	14.9%

Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	193	186	187	187	188
Reserves	5,289	5,064	5,643	6,340	6,755
Net Worth	5482	5250	5830	6527	6943
Borrowings	390	543	571	513	527
Other Liabilities	1,109	1,576	2,339	2,324	3,214
Total Liabilities & Equity	6,980	7,368	8,740	9,365	10,684
Fixed Assets	1,884	2,170	3,013	3,020	3,774
CWIP	2	3	17	3	11
Investments	1,782	1,329	1,326	1,846	1,813
Other Assets	3,312	3,866	4,384	4,496	5,087
Total Assets	6,980	7,368	8,740	9,365	10,684

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2018	2019	2020	2021	2022
Profitability and return ratios					
Net profit margin (%)	12.79	13.73	13.40	12.52	11.96
EBITDA margin (%)	18.71	19.19	20.67	19.91	19.04
EBIT margin (%)	17.42	18.22	18.05	17.42	16.61
ROE (%)	14.46	20.16	21.60	19.88	21.52
ROCE (%)	18.57	24.43	26.19	25.21	27.39
Working Capital & liquidity ratios					
Payables (Days)	0.00	0.00	0.00	0.00	0.00
Inventory (Days)	0.00	0.00	0.00	0.00	0.00
Receivables (Days)	40.13	41.24	36.95	33.13	28.95
Current Ratio (x)	2.81	2.06	2.04	2.40	1.96
Valuations Ratios					
EV/sales (x)	2.44	2.34	1.34	3.37	5.27
EV/EBITDA (x)	13.06	12.21	6.48	16.95	27.65
P/E (x)	19.47	17.16	10.46	27.41	44.32
P/BV (x)	2.99	3.54	2.15	5.16	9.28
Dividend Yield (%)	2.37	2.73	5.27	3.64	1.36
Leverage Ratio					
Debt/Equity (x)	0.07	0.10	0.10	0.08	0.08

Cash Flow Statement					
Y/E March	2018	2019	2020	2021	2022
CF from Operating activities (A)	723	950	1,321	1,455	1,716
CF from Investing Activities (B)	507	280	142	-810	-282
CF from Financing Activities (C)	-1,380	-1,342	-825	-861	-1,389
Net Cash Flow	-149	-112	638	-217	45
Add: Opening Bal.	613	464	350	988	771
Closing Balance	464	352	988	771	827

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
27 March 2023	Buy	2023

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.