

Industry
Bloomberg
BSE CODE

TECHNOLOGY
MPHL IN
526299

Impressive TCV wins, 1Q to see challenges

RATING	NEUTRAL
CMP	804
Price Target	847
Potential Upside	5%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	1015/612
Mkt Capital (Rs Cr)	14990
Free float (%)	40%
Avg. Vol 1M (,000)	8
No. of Shares (Cr)	19
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY18	FY19	FY20
Net Sales	6,546	7,731	8,844
EBITDA	1,062	1,324	1,650
EBIT	992	1,248	1,419
PAT	837	1,073	1,185
EPS (Rs)	43	58	64
EPS growth (%)	15%	33%	10%
ROE (%)	15.3%	20.4%	20.3%
ROCE (%)	18.1%	23.8%	24.3%
BV	284	282	313
P/B (X)	3	4	3
P/E (x)	19	17	13

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4QFY20 Result update

- Mphasis reported a mixed set of numbers in 4Q result. Revenue came in line with our estimates and stood at USD 319.8 million, a growth of 0.6%QoQ/1.5%QoQ in cc terms led by strong growth in direct Core. In rupee terms, revenue grew 3.4%QoQ to Rs 2346crore.
- EBIT for the quarter stood at 383 crore, a growth of 3.7%QoQ. Margin improved 10 bps to 16.3% vs. 16.2% last quarter. The improvement in margin was supported by better mix, higher fixed price and others levers which was partially offset by Covid 19 impact.
- PAT during the quarter stood at Rs 353crore, a growth of 20.3%QoQ(above estimates); primarily led by lower ETR (one-time income tax benefit of Rs 0.42bn))and higher other income.

Direct Core outperformed while weakness remained in DXC/HP

- The 1.5% growth in revenue came on the back of growth in direct core which grew 2.6%QoQ in cc terms. Even Digital Risk revenue stood at USD 31mn and grew 3.5%QoQ. However DXC/HP channel which has been growing strongly for the company in last few years, decelerated further in 4Q (declined 1%QoQ CC).
- For FY20, Double digit revenue growth of 11.7%YoY cc came on back of strong growth in Direct Core which grew 15.4% YoY cc, followed by Digital Risk which increased 7% and DXC-HP channel posted a moderate growth of 7.5% YoY in cc terms.
- In Direct Core, the growth was mainly led by strategic accounts and new logo wins. Even Blackstone portfolio (growing 40-50% YoY) have contributed to the overall Direct core growth.

Highest deal wins

- The company won USD201 million from TCV in direct international business. Out of which 79% is in new gen services in 4Q. The total TCV for FY20 now stands at record high at USD 715million, 16% YoY growth. 80% of deal wins in FY20 are in new gen services.
- The company is seeing a strong pipeline of large deals especially driven by research and interest in digital transformational deal post Covid crisis.

View and valuation

Mphasis reported a mixed quarter with revenue marginally came in line while Pat was above estimates. Direct core continued to outperform by ending the year with 15.4%QoQ while DXC/HP growth decelerated further in 4Q after a stellar growth in the last 2 years (7% growth). 4Q TCV bookings of Direct International was USD 201mn, a growth of 6.3%QoQ and for FY20 TCV growth was at 16.1%YoY. Going ahead, we expect Mphasis to see near term challenges due to slow deal ramp ups and uncertainty in DXC/HP business. Even reduction in discretionary spend will further impact growth for next few quarters. Post Covid, we see Mphasis to bounce back supported by strong growth from direct core(Blackstone and new wins) and from turnaround of digital risk business. However we expect DXC/HP portfolio to underperform in FY21 despite being supported by MRC(minimum revenue commitment of USD 300mn for the next 6 quarters).

Post result, seeing the near term challenges we largely maintain our Neutral stance on the stock with the target price of Rs 847.

Key Risks to our rating and target

- Delay in new client addition in Blackstone portfolio.
- Failure to grow Direct International channel faster than industry growth.

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4QFY20 Results Mixed performance

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	2,025	2,063	2,158	2,277	2,346	15.9%	3.0%	7731	8843	14.4%
Other Income	33	54	35	36	53	58.2%	45.2%	177	178	0.6%
Employee Exp	1,112	1,154	1,188	1,259	1,321	18.8%	4.9%	4,299	4,923	14.5%
Other Expenses	572	534	564	591	581	1.5%	-1.7%	2,108	2,271	7.7%
EBITDA	340	374	405	427	444	30.5%	4.0%	1324	1650	24.7%
Deprication	20	55	58	58	61	205.0%	5.7%	76	232	205.4%
EBIT	320	319	347	369	383	19.6%	3.7%	1,248	1,419	13.7%
Interest	6	20	22	19	21	249.1%	8.6%	17	81	367.5%
PBT	348	354	360	387	415	19.4%	7.4%	1,407	1,515	7.7%
Tax	82	89	87	93	62	-24.2%	-33.5%	334	331	-1.0%
PAT	266	265	273	294	353	32.7%	20.3%	1,073	1,185	10.4%

Concall Highlights

Highest deal wins

- The company won USD201 million from TCV in direct international business. Out of which 79% is in new gen services in 4Q. The total TCV for FY20 now stands at record high at USD 715million, 16% YoY growth .80% of deal wins in FY20 are in new gen services.
- The company is seeing a strong pipeline of large deals especially driven by research and interest in digital transformational deal post Covid crisis.

Verticals and Geography

- BCM: Despite a challenging market environment, the company is seeing continued growth momentum in banking and capital markets with strong revenue growth 11% in FY20. The company believes it is best in class growth across industry, broadly across BCM as well as digital risk. Excluding DR, the growth was even stronger, reflecting the Mphasis strength in BCM vertical. Company expects its segment to show decent growth in coming quarters. Insurance segment also posted a 9%YoY growth in FY20 aided by some strong deal wins and continued improvement in comparative position in the segment.
- Emerging segments also posted continued growth. Growth within the segment has been led by logistics and transportation sub vertical (grown 30% YoY in FY20 and comprises 53% of emerging portfolio).
- The company had minimum exposure to the airline industry and has less 1% to overall revenue .No exposure in the hospitality segment .So there was no material impact on business due to the current crisis.
- Europe region has been a focus area for the company; with the increased sales effort and investment in the region are yielding good results. It has 14%YoY in FY20 and the company expects to continue to be a growth driver in FY21.

DXC relationship

- The Company's focus on transformation and service led approach of GTM coupled with geographical diversification and industry verticals focus has helped them to maintain the consistency. The company is engaged with DXC and its client in the current crisis. The company is working on these opportunities:
- Based on the annual threshold, there is still pending MRC of USD 300 million that is yet to be consumed between 1QFY21 and 2QFY22 under September 21. It doesn't apply to HP and is only applicable to DXC business.
- At DXC, while 300 million constitutes as remainder of MRC, the company to consume more than USD 300 million seeing current run rate and its history.

Margin guidance

- The company had managed to post margin within the guided range of 15.5% to 17% led by supply chain optimization, increase focus on right pyramid structure, fresher hiring, Fixed price mix, automation and offshore leverage .It expects to maintain its using these as short term levers .However due to current situation, management expects to give better guidance in next quarter but expects FY21 to get similar to FY20 level.

Outlook

- The company is not seeing major demand deallocation in the focus verticals, but there is an element of reprioritizing the budget in discretionary spending. The company has managed to get 95% of overall global operations..
- With Strong 4Q and FY20 order book, strong execution on business continuity and its client relationship , the company sees short term challenges (especially caused by logistics challenges)due to the epidemic while expects to mitigate it by strong order book for long run .
- The company saw April has tough months as ramp up, on boarding on new employees or existing employees faced challenges due to logistics issues which resulted in slow momentum in projects ramp ups.
- With Current visibility , expects to get back from 2QFY20.

Revenue Mix

DIRECT INTERNATIONAL CONTINUED TO DRIVE GROWTH

SEGMENTAL (IN USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
Direct International	187	190	199	203	211	223	228	2.3%	14.5%
DXC / HP	78	82	83	84	84	84	82	-2.8%	-0.8%
Others	10	10	10	10	10	11	10	-7.4%	0.5%

Revenue by verticals

STRONG YOYGROWTH CONTINUED IN BCM SEGMENT AND EMERGING VERTICAL

VERTICAL(USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
Banking &Capital Mkt	127	125	129	133	140	145	146	1.0%	13.0%
Market Insurance	31	33	35	35	34	36	36	2.1%	4.3%
IT, Comm	47	47	50	49	49	50	48	-3.7%	-4.6%
Emerging Industries	71	77	77	80	82	87	89	1.9%	15.8%

Exhibit: Direct Core

Continued uptick in revenue growth led by Direct core segment.

■ Direct Channel revenue (in Usd mn)

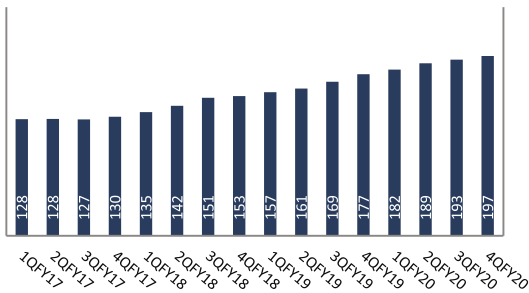


Exhibit: HP/DXC Revenue

DXC issue may impact HP /DXC business.

■ Revenues from HP channel - USDm — QoQ growth

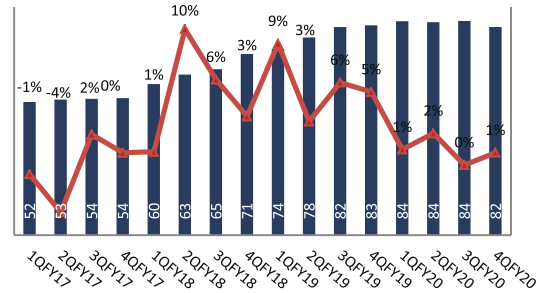


Exhibit: Deal wins

Continued growth in net new wins.

■ TCV

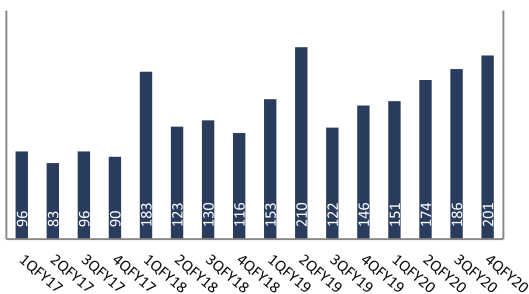


Exhibit: EBIT margin

EBIT margin managed came within guided range of 15.5 % to 17% in FY20.

■ EBIT — EBIT MARGIN

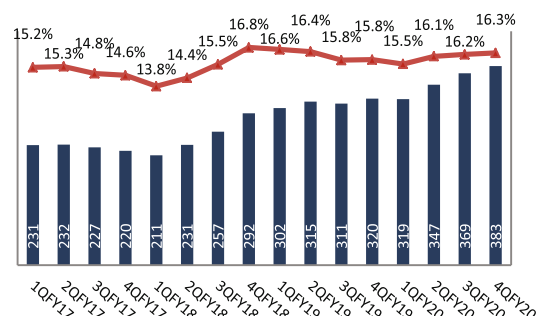
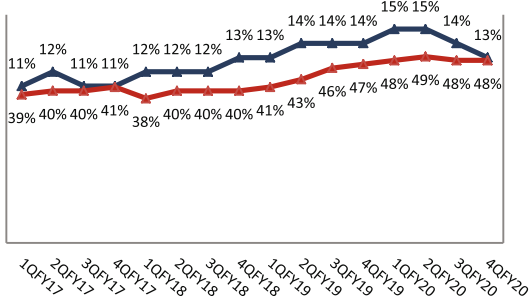


Exhibit: Top Client contribution

DXC weakness impacted top client.

■ Revenues from Top Client — Revenues from Top 5 Clients



Operational Details

BY GEOGRAPHY (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
AMERICAS	80%	80%	78%	78%	78%	80%	78%	77%
EMEA	11%	11%	11%	11%	11%	10%	12%	12%
INDIA	6%	6%	6%	5%	5%	5%	5%	5%
ROW	3%	3%	5%	6%	6%	5%	5%	6%

BY PROJECT TYPE (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Time and Material	73%	75%	76%	77%	76%	74%	73%	72%
Fixed Price	27%	25%	24%	23%	24%	26%	27%	28%

SERVICE TYPE (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Application Maintenance	30%	34%	36%	34%	33%	30%	29%	31%
Application Development	28%	28%	30%	31%	33%	33%	32%	33%
Customer Service	1%	1%	1%	1%	1%	1%	1%	1%
Service / Technical	8%	6%	7%	8%	7%	9%	9%	9%
Transaction Processing	7%	7%	6%	6%	6%	7%	8%	8%
IMS	15%	14%	13%	7%	8%	7%	8%	6%
Knowledge Processes	11%	10%	7%	13%	12%	13%	13%	6%
License Income	0%	0%	0%	0%	0%	0%	0%	0%

CLIENT (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top Client	13%	14%	14%	14%	15%	15%	14%	13%
Top 5 Clients	41%	43%	46%	47%	48%	49%	48%	48%
Top 10 Clients	56%	58%	59%	60%	61%	60%	60%	60%

HEADCOUNT	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Onsite								
Application Services	2550	2991	3539	3277	3246	3309	3298	3430
ITO Services	1087	1312	1210	1293	1522	1547	1399	917
BPO Services	914	914	884	851	951	1080	1398	1365
Offshore								
Application Services	8680	8962	9286	9742	10312	10995	10980	10876
ITO Services	3075	2994	2843	2723	2789	2867	2927	2896
BPO Services	5092	5140	5236	5384	5474	5958	6078	5711

NEW CLIENT ADDITIONS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Direct Channel	7	5	18	18	12	7	13	7
HP / DXC Channel	5	7	2	2	7	8	2	5
Total client additions	12	12	20	20	19	15	15	12

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	210	210	210	210	210	193	186	187
Reserves	4,724	4,905	5,270	6,083	5,942	5,289	5,064	5,643
Networth	4,934	5,115	5,480	6,293	6,152	5,482	5,250	5,830
Debt	498	431	434	311	260	390	543	571
Other Non Current Liab	113	60	111	153	76	102	128	757
Total Capital Employed	5,545	5,606	6,025	6,758	6,489	5,973	5,920	7,158
Net Fixed Assets (incl CWIP)	239	224	176	173	224	185	214	890
Non Current Investments	742	541	250	375	126	317	259	348
Other Non Cur Asst	16	25	105	104	198	151	96	178
Non Current Assets	3,969	3,721	3,469	3,733	2,868	3,039	3,268	4,340
Current investment	1,158	1,275	1,193	1,736	2,270	1,465	1,070	978
Inventories	-	-	-	4	-	-	-	-
Trade receivables	651	778	625	649	628	812	955	835
Other current assets	586	545	558	682	270	280	351	344
Other financial assets	-	-	-	-	597	600	66	55
Short term loans and advances	152	214	251	251	71	82	126	141
Cash & Bank balance	580	458	1,321	855	614	707	642	1,126
Current assest	3,127	3,269	3,948	4,177	4,449	3,946	4,103	4,413
Trade payables	621	451	406	453	388	502	785	667
Other curr liab & provisions	929	932	985	699	137	169	187	245
employee defined benefit liabilities	-	-	-	-	78	73	64	72
Other financial liabilities	-	-	-	-	160	180	279	416
Income tax liabilities (Net)	-	-	-	-	65	87	137	57
Curr Liabilities	1,550	1,384	1,392	1,152	828	1,012	1,451	1,596
Net Curr Assets	1,576	1,886	2,556	3,025	3,621	2,934	2,652	2,817
Total Assets	7,096	6,990	7,417	7,909	7,317	6,985	7,371	8,753

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	5,796	5,728	5,795	6,088	6,076	6,546	7,731	8,844
Change (%)	8%	-1%	1%	5%	0%	8%	18%	14%
EBITDA	1,033	992	870	896	969	1,062	1,324	1,650
Change (%)	-2%	-4%	-12%	3%	8%	10%	25%	25%
Margin (%)	18%	17%	15%	15%	16%	16%	17%	19%
Depr & Amor.	145	122	98	74	79	71	76	232
EBIT	888	870	772	822	890	992	1,248	1,419
Int. & other fin. Cost	33	37	28	24	14	13	17	81
Other Income	140	117	197	196	239	162	177	178
EBT	995	950	941	994	1,114	1,141	1,407	1,515
Exp Item	-	6	3	55	15	13	-	-
Tax	251	258	263	270	308	290	334	331
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	744	686	675	669	792	837	1,073	1,185
Adjusted PAT	744	686	675	669	792	837	1,073	1,185
Change (%)	-6%	-8%	-2%	-1%	18%	6%	28%	10%
Margin (%)	13%	12%	12%	11%	13%	13%	14%	13%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	15%	13%	12%	11%	13%	15%	20%	20%
ROCE	16%	16%	13%	13%	14%	18%	24%	24%
Asset Turnover	24	25	29	35	31	32	39	16
Current Ratio	2	2	2.8	3.6	5.4	3.9	2.8	2.8
Debtor Days	41	50	39	39	38	45	45	34
Book Value Per Share	235	243	261	299	292	284	282	313
Payable Days	39	29	26	27	23	28	37	28
Earnings Per Share	35	33	32	32	38	43	58	64
EPS growth%	-6%	-8%	-2%	-1%	18%	15%	33%	10%
P/E	11	12	12	15	15	19	17	13
Price / Book Value	2	2	1	2	2	3	4	3
EV/EBITDA	8	9	8	11	12	15	14	9
EV/Sales	1	1	1	2	2	2	2	2

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT	995	428	941	945	1114	1141	1407	1515
(inc)/Dec in Working Capital	-17	-121	-20	52	-105	-150	-142	0
Non Cash Op Exp	53	21	-22	-21	-54	21	27	0
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-275	-130	-279	-234	-290	-278	-343	-396
others	0	0	-3	-11	-1	0	0	0
CF from Op. Activities	756	198	616	731	664	733	950	1321
(inc)/Dec in FA & CWIP	-74	-36	-72	-127	-118	-33	-85	-126
Free Cashflow	681	162	544	603	546	700	865	1195
(Pur)/Sale of Inv	695	115	460	-562	-126	737	572	97
others	-1164	141	-755	531	512	-211	-29	170
CF from Inv. Activities	-543	220	-366	-158	268	493	289	141
inc/(dec) in NW	0	0	0	0	0	0	10	15
inc/(dec) in Debt	129	0	8	-146	-197	128	125	-22
Int. Paid	-31	-11	-22	-18	-7	-10	-16	-78
Div Paid (inc tax)	-415	-418	-172	-404	-505	-395	-465	-607
others	0	0	0	0	0	-1103	-995	0
CF from Fin. Activities	-318	-429	-186	-568	-710	-1380	-1342	-825
Inc(Dec) in Cash	-105	-11	64	5	222	-154	-103	637
Add: Opening Balance	465	364	340	388	391	618	455	353
Closing Balance	360	353	403	393	613	464	352	990

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.-SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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