

# Mphasis Ltd (MPHL)

Information Technology | 4QFY24 Result Update

**SELL**

**CMP: Rs2,298 | Target Price (TP): Rs2,053 | Downside: 11%**

**April 28, 2024**

## Higher for longer US interest rates raises risks

### Key Points

- Mphasis' 4QFY24 revenue grew QoQ in CC terms by 2.1% but was lower than our expectation of 3%. Reported margin too fell short of our expectation due to acquisition related costs. FY24 revenue came at US\$1.61bn a decline of 6.5% on YoY CC terms.
- While no numerical guidance was given for FY25, the management says that FY25 is going to be a growth year and that it would deliver a slightly higher than industry growth which it thinks will be in mid-single digits. It stated that the improvement in growth is not market driven but by in account action including infusion of Tech and AI into solutions. Both the BFS (non-mortgage) and the TMT segments which drove growth in 4QFY24 QoQ will be drivers in 1HFY25 too. The mortgage related business, which had seen significant pressure in FY23, is expected to be stable.
- It provided an EBIT margin (reported) guidance for FY25 of 14.6% to 16%. Adjusted for acquisition related costs, this would be 15.7%-17.1%.
- It spoke of a return of short cycle projects which may be a precursor of return of discretionary spending (according to it). This commentary is quite different from what we have been hearing from other companies that have reported thus far in 4QFY24. It indicated visibility on QoQ growth in 1HFY25.
- TTM TCV grew by 5%, largely due to the lumpy inflow in 1QFY24. TCV in the last three quarters was down 33% YoY. However, it stated that the pipeline is up QoQ by 5% and it should see decent conversion of this into TCV during FY25. It also indicated a modest pick up in TCV to revenue conversion.
- We believe the current view of 'higher for longer' US interest rates, raise risk to both consensus and our estimates for FY25 and beyond as we believe a large part of the BFS business (47% of revenue) is related to that in some form or the other and hence lower multiples need to be attached to earnings.
- Post 4QFY24, we have tweaked our EPS estimates up on below the EBIT line numbers. We reiterate 'SELL' on Mphasis with a target price (TP) of Rs2,053, based on 19x FY26E EPS. 19x is at a 20% discount to our sector benchmark – TCS. The reason for discount is because of its client and vertical concentration, which raises risk to growth, as well as its low ROIC relative to TCS.

**TCV continues to taper while industry records highest deal wins:** The 4QFY24 TCV was underwhelming at US\$177mn (down 27% QoQ and 43% YoY), taking FY24 TCV to US\$1,880mn (~5% higher on a YoY basis).

**AI led deals:** MPHL is experiencing robust growth in its AI business unit, driven by increasing client demand for AI integration to boost efficiency and enhance consumer experiences. Collaborative agreements with AWS and Microsoft/OpenAI highlight its strategic focus on AI development. Plans for a Gen AI foundry and the launch of two new AI platforms, underscore Mphasis' commitment to diversification and innovation in the AI space.

Est Change	Upward
TP Change	Upward
Rating Change	No change

### Company Data and Valuation Summary

Reuters	MBFL.BO
Bloomberg	MPHL IN Equity
Mkt Cap (Rsbn/US\$bn)	434.3 / 5.2
52 Wk H / L (Rs)	2,838 / 1,744
ADTV-3M (mn) (Rs/US\$)	1,485.1 / 17.9
Stock performance (%) 1M/6M/1yr	(3.3) / 9.2 / 30.6
Nifty 50 performance (%) 1M/6M/1yr	2.7 / 5.0 / 25.1

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	55.6	55.5	55.5
DII's	22.6	23.7	24.6
FII's	16.6	15.7	14.8
Others	5.3	5.1	5.1
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Net Revenue (Rs mn)	FY24	FY25E	FY26E	FY27E
Net Revenue (Rs mn)	132,785	145,585	165,328	185,704
YoY %	-3.8	9.6	13.6	12.3
Gross Margin (%)	27.7	29.1	30.0	30.2
EBIT	20,114	22,242	25,774	29,068
EBIT (%)	15.1	15.3	15.6	15.7
Adj. PAT	15,549	17,366	20,388	23,222
PAT Margin (%)	11.7	11.9	12.3	12.5
YoY %	-5.1	11.7	17.4	13.9
FDEPS (Rs)	82.6	92.2	108.3	123.3
ROE (%)	18.6	19.0	20.6	21.6
Post Tax RoCE (%)	14.8	14.4	15.8	16.7
Post tax ROIC (%)	22.1	22.6	25.7	28.2
P/E(x)	27.8	24.9	21.2	18.6
EV/EBITDA	19.6	17.5	14.7	12.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

**Key Links-** Latest Sector update: [Sector Update](#)

**Last results note:** [3QFY24 result update](#)

**Latest Analyst meet Update:** [Analyst meet update](#)

Please refer to the disclaimer towards the end of the document

## Exhibit 1: Quarterly Performance

Particulars (Rsmn)	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	FY24	FY25	4Q24E	Var
<b>Net Sales (USD mn)</b>	<b>412</b>	<b>398</b>	<b>398</b>	<b>402</b>	<b>411</b>	<b>419</b>	<b>427</b>	<b>436</b>	<b>445</b>	<b>1,609</b>	<b>1,727</b>	<b>416</b>	(1.2)
QoQ Change (%)	-4.1	-3.4	0.1	1.0	2.1	2.0	2.0	2.0	2.0	-6.3	7.3	3.3	
<b>Net Sales</b>	<b>33,612</b>	<b>32,520</b>	<b>32,765</b>	<b>33,379</b>	<b>34,121</b>	<b>34,921</b>	<b>35,944</b>	<b>37,012</b>	<b>37,708</b>	<b>132,785</b>	<b>145,585</b>	<b>34,512</b>	(1.1)
YoY Change (%)	2.5	-4.7	-6.9	-4.8	1.5	7.4	9.7	10.9	10.5	11.0	5.5	1.8	
<b>Software Expenses</b>	<b>24,391</b>	<b>23,703</b>	<b>23,984</b>	<b>23,705</b>	<b>24,558</b>	<b>24,928</b>	<b>25,680</b>	<b>26,197</b>	<b>26,459</b>	<b>95,950</b>	<b>103,263</b>	<b>24,421</b>	0.6
% of Sales	72.6	72.9	73.2	71.0	72.0	71.4	71.4	70.8	70.2	72.3	70.9	70.8	
<b>Gross Profit</b>	<b>9,221</b>	<b>8,817</b>	<b>8,781</b>	<b>9,674</b>	<b>9,563</b>	<b>9,994</b>	<b>10,264</b>	<b>10,815</b>	<b>11,249</b>	<b>36,835</b>	<b>42,322</b>	<b>10,091</b>	(5.2)
Margin (%)	27.4	27.1	26.8	29.0	28.0	28.6	28.6	29.2	29.8	27.7	29.1	29.2	
<b>Operating Expenses</b>	<b>4,069</b>	<b>3,822</b>	<b>3,714</b>	<b>4,703</b>	<b>4,482</b>	<b>4,698</b>	<b>4,926</b>	<b>5,125</b>	<b>5,332</b>	<b>16,721</b>	<b>20,080</b>	<b>4,728</b>	(5.2)
% of Sales	12.1	11.8	11.3	14.1	13.1	13.5	13.7	13.8	14.1	12.6	13.8	13.7	
<b>EBIT</b>	<b>5,152</b>	<b>4,995</b>	<b>5,067</b>	<b>4,971</b>	<b>5,081</b>	<b>5,295</b>	<b>5,338</b>	<b>5,691</b>	<b>5,918</b>	<b>20,114</b>	<b>22,242</b>	<b>5,363</b>	(5.3)
YoY Change (%)	3.6	-4.0	-5.8	-7.1	-1.4	6.0	5.4	14.5	16.5	10.1	5.5	4.1	
Margin (%)	15.3	15.4	15.5	14.9	14.9	15.2	14.9	15.4	15.7	15.1	15.3	15.5	
Interest	-237	-241	-340	-528	-499	-594	-586	-579	-571	-1,608	-2,330	-532	
Other Income	426	504	490	542	642	679	780	832	890	2,178	3,182	618	4.0
<b>PBT</b>	<b>5,341</b>	<b>5,258</b>	<b>5,217</b>	<b>4,985</b>	<b>5,224</b>	<b>5,380</b>	<b>5,532</b>	<b>5,944</b>	<b>6,237</b>	<b>20,684</b>	<b>23,093</b>	<b>5,448</b>	(4.1)
Tax	1,288	1,297	1,297	1,250	1,291	1,334	1,372	1,474	1,547	5,135	5,727	1,366	(5.5)
ETR (%)	24.1	24.7	24.9	25.1	24.7	24.8	24.8	24.8	24.8	24.8	24.8	25.1	
Reported PAT	4,053	3,961	3,920	3,735	3,933	4,046	4,160	4,470	4,690	15,549	17,366	4,082	(3.7)
<b>Adj. PAT</b>	<b>4,053</b>	<b>3,961</b>	<b>3,920</b>	<b>3,735</b>	<b>3,933</b>	<b>4,046</b>	<b>4,160</b>	<b>4,470</b>	<b>4,690</b>	<b>15,549</b>	<b>17,366</b>	<b>4,082</b>	(3.7)
YoY Change (%)	3.4	-1.5	-6.3	-9.4	-3.0	2.1	6.1	19.7	19.3	8.6	6.0	0.7	
<b>Adj. EPS</b>	<b>21.5</b>	<b>21.0</b>	<b>20.8</b>	<b>19.8</b>	<b>20.9</b>	<b>21.5</b>	<b>22.1</b>	<b>23.7</b>	<b>24.9</b>	<b>82.6</b>	<b>92.2</b>	<b>21.7</b>	(3.7)

Source: Company, Nirmal Bang Institutional Equities Research.

## Exhibit 2: Change in our estimates

Mphasis	New				Old				% Change			
	FY24A	FY25E	FY26E	FY27E	FY24E	FY25E	FY26E	FY27E	FY24E	FY25E	FY26E	FY27E
Change in estimates												
INR/USD	82.8	84.3	85.7	86.8	82.8	84.3	85.7	86.8	0.0	0.0	0.0	0.0
USD Revenue (in mn)	1,609	1,727	1,930	2,140	1,614	1,747	1,953	2,165	(0.3)	(1.2)	(1.2)	(1.2)
USD Revenue Growth (%)	-6.3	7.3	11.8	10.9	-6.0	8.2	11.8	10.9				
Revenue (Rsmn)	132,785	145,585	165,328	185,704	133,176	147,320	167,298	187,917	(0.3)	(1.2)	(1.2)	(1.2)
EBIT (Rsmn)	20,114	22,242	25,774	29,068	20,396	22,630	25,896	29,305	(1.4)	(1.7)	(0.5)	(0.8)
EBIT Margin (%)	15.1	15.3	15.6	15.7	15.3	15.4	15.5	15.6				
PAT Adjusted (Rsmn)	15,549	17,366	20,388	23,222	15,698	17,187	19,946	22,809	(1.0)	1.0	2.2	1.8
FDEPS-Adjusted (Rs)	82.6	92.2	108.3	123.3	83.4	91.3	105.9	121.1	(1.0)	1.0	2.2	1.8

Source: Company, Nirmal Bang Institutional Equities Research.

## Exhibit 3: Geography mix and INR QoQ and YoY revenue growth in 4QFY24

Verticals	Contribution to Revenue (%)	YoY Growth (%)	QoQ Growth (%)
Americas	81.0	1.0	2.9
EMEA	11.0	4.1	(2.7)
India	5.3	(2.9)	(2.4)
ROW	2.7	(11.4)	1.3
<b>Total</b>	<b>100.0</b>	<b>1.5</b>	<b>2.2</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Vertical mix and INR QoQ and YoY revenue growth in 4QFY24

Geographies	Contribution to Revenue (%)	YoY Growth (%)	QoQ Growth (%)
Banking & Capital market	47.07	(10.7)	2.5
Insurance	11.04	45.6	(1.1)
IT, Communication & Entertainment	15.96	26.7	4.4
Emerging Industries	25.93	(1.7)	0.7
<b>Total</b>	<b>100.00</b>	<b>1.5</b>	<b>2.2</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 5: Service line mix and INR QoQ and YoY revenue growth in 4QFY24

Geographies	Contribution to Revenue (%)	YoY Growth (%)	QoQ Growth (%)
Application Services	71.2	1.4	2.6
Business Process Services	16.6	1.7	1.7
Infrastructure Services	12.3	(3.7)	(1.5)
<b>Total</b>	<b>100.1</b>	<b>1.5</b>	<b>2.2</b>

Source: Company, Nirmal Bang Institutional Equities Research

**View on the Indian IT services sector:** We had downgraded our view on the Indian IT Services sector to UW in a report on 10th April, 2022 ([Positive surprises likely low in FY23; Tier-2 risky](#)) and continued to remain underweight through our notes on 19th May, 2022 ([Customer stress shows up](#)), 8th July, 2022 ([Negatives not in price](#)), 10th October, 2022 ([Growth expectations too high](#)), 20th March, 2023 ([Sell into delayed landing outperformance](#)), 14<sup>th</sup> June 2023 ([Too early to be positive](#)), 26<sup>th</sup> September, 2023([Cut FY25 estimates; Slower for longer; Sell into the FOMO rally](#)) and 15th December, 2023([A No/Soft landing](#)).

We advocate that investors use the 'delayed/no landing' rally seen since October 2022 to pare positions if 'overweight', especially in the Tier-2 set. Nifty IT index has advanced by ~117% from 31st Dec, 2019 till 14th Dec, 2023 while Nifty is up by ~73%. This massive outperformance of Nifty IT has been on the back of pandemic-driven Digital Transformation (DT) services-based earnings acceleration and significant multiple expansion on unprecedented monetary stimulus in the US/Europe. The DT high tide over 2HFY20-1HFY23 lifted all boats (including weak ones). However, accelerated normalization of monetary policy in the US raises probabilities of a shallow recession there and consequently high probability of negative surprises on the fundamental side over the next 12 months. We believe consensus is underestimating growth and margin risks in FY25 as it did in FY24. While DT services will continue to remain a key theme over the medium term, we believe IT spends will be curtailed by an 'ability-to-spend' problem as enterprise customers battle earnings pressure from wage inflation, reduced end customer spending power, higher interest rates and likely below-trend growth in western developed economies. This, in our view, will mean that the corporate profits of S&P 500 for CY24 will likely be weaker than currently estimated (although they have been better than expected in CY2023). We also believe that the broader enterprise customer profit picture might look worse. Beyond FY23, we see customers shifting from the current democratic 'skills/capability' focused vendor model to a more discriminating one based on an 'ability-to-deliver' (1) cost take outs and (2) business model changes - in that order. It is here that one will see divergence in growth and valuation. Incrementally, risks are to the downside from both valuation as well as fundamental perspective. We favor Tier-1 IT companies vs Tier-2.

We persist with our 20-month-old 'UW' stance. This is because: (1) We believe that a conclusive Fed pivot is likely only when US core inflation falls to ~2%, which we think is unlikely in the next six months. Financial stress/accident related stopping/easing of current hawkish monetary policy could induce a short-term rally that may not be sustainable (2) Consensus earnings estimates for FY25 continue to be too high and seem to implicitly assume a soft/no landing for the US economy. We are explicitly pricing in a shallow recession sometime in 2024. (3) Even if one were to ignore the next 12-18 months' risks around recession and take a 5-year view, we believe that starting

valuations are expensive and can at best deliver mid to high single-digit total stock returns (including capital return to shareholders) for TCS/Infosys, as we believe that structural revenue/earnings growth is being overestimated by the street. We believe that USD revenue growth over a 5-year period (FY23-FY28) for Tier-1 set in aggregate will at best be at par with the FY15-FY20 period (~7%) whereas consensus believes it will be 300-500bps higher. We also expect margins for most companies to remain in a narrow band at around FY24 levels and not see a material expansion (except for Tech Mahindra where it starts from a very low base). *Ceteris Paribus*, this has valuation/return implications.

In our base case of a shallow recession in the US in CY24, we are expecting mid single-digit USD revenue growth for Tier-1 IT companies in FY25. In our estimates for FY25, we are assuming modest pricing compression while we believe the street is not considering the same. We continue to have a 'SELL' rating on all IT stocks under our coverage, except Tech Mahindra. Despite having EPS estimates lower than the street in FY25, we suspect it could still see downsides if there is a deep recession in the US.

**We continue to maintain TCS as our industry valuation benchmark:** We are valuing TCS at target 12-month forward PE of 20x on Dec. 25E EPS, which represents 0.5SD below the last 10-year mean. Target multiples for others are at a discount to TCS. If one were to look back in history, our Target PE multiples are not overly pessimistic as PE multiples of many Tier-1 IT stocks, including that of TCS and Infosys, had reached single-digit levels during GFC. Our target multiples are in fact at the higher end of the pre-pandemic PE range.

**Tier-2 could face significant risks in the new environment:** We fear that the Indian Tier-2 set would suffer more because of vendor consolidation under the pressured profit picture for customers, a less diversified revenue mix (client, service line, vertical), which could throw up negative growth surprises (as it has been doing for Mphasis in the last 12 months) and a larger exposure to non-Global 1000 clientele, whose profits are more vulnerable in the current macro environment. Indian Tier-2 IT is now at a PE premium of ~40% to Tier-1 (peak of ~60% in November 2021 and the recent low of 10% in January 2023). It used to trade at a discount of 14% on 1<sup>st</sup> January 2020.

This premium reflects expectations of big positive earnings growth gap between Tier-2 and Tier-1 IT companies over FY21-FY23 and improving return ratios sustaining beyond FY23. We do not agree with that view. We think that the earnings growth gap will compress due to slower revenue growth and next-to-no margin expansion from current levels for most Tier-2 companies. The high PE multiples are also a reflection of the market's view that some Tier-2 IT companies will become US\$5-10bn enterprises in the next 10-20 years. Once the 'Digital' high tide recedes, it remains to be seen which of the current Tier-2 set will continue to show promise. In the initial phase of any new tech cycle, customers tend to be open to new vendors, but as the cycle matures (post FY23 in our view), vendors that have scale – Tier-1 - tend to do better. We think customers are looking for revolutionary transformation, which Tier-1 companies with multi-vertical exposure and deeper domain/technology skills are best placed to deliver.

## Highlights from the 4QFY24 results and analyst call

### Revenue misses estimates.

- Revenue for 4QFY24 came in at US\$410.7mn and missed our estimate of US\$416mn by 1.2%. In CC terms, the revenue grew 2.1% on a QoQ basis, but was down by 0.4% on YoY basis against our estimate of 3 % growth QoQ in CC terms.
- FY24 revenue came at US\$1.61bn registering a YoY decline in CC terms of 6.5%.
- Revenue from direct business stood at ~95%, while DXC business now contributes just 3% of the total revenue.

### Verticals and Geographies

- On QoQ basis, TMT grew the most by 4.4%. BFS grew at 2.5% as furloughs reversed while insurance declined at 1.1% and emerging industries (of which healthcare showed good ramp up), was largely flat.
- On QoQ basis, USA led the growth by 2.9%. Europe declined by 2.7%, ROW grew by 1.3% and India, like Europe declined by 2.4%.
- The share of non BFS verticals like insurance, TMT, logistics and transportation, and others have increased from 49% to 52% of revenue in FY24.

### Underlying EBIT margin performance was in guided range (adj. for acquisitions)

- In 4QFY24, EBIT margin was 14.9%, with a 0.8% impact from acquisition costs related to the Silver Line acquisition.
- MPHL provided its margin (reported) guidance of EBIT margin in the range of 14.6% to 16% for FY25.
- Adjusted for acquisition related costs the margin guidance for FY25 is in the 15.7% to 17% range - higher than the earlier guidance of 15.25%-16.25%.
- Given the depressed bookings in 2HFY24, we believe S&M expenses should see an uptick as seen in 4QFY24 of 70bps QoQ to build a healthy deal pipeline.

### Demand environment.

- MPHL guided in 4Q that new pockets of spend are opening in organizations that are looking to invest in modernizing legacy systems, leveraging AI and automation to improve operational efficiency.
- Mphasis indicated that the highly stressed pockets of its portfolio in the BFS segment, in market making, investment banking and the IPO segment, are beginning to see some recovery as the IPO/M&A market begins to pick up. The management referenced the smaller quick burst deals with the gradually improving landscape of capital markets as a sector.
- The space where it has seen significant investment is in consumer banking, asset & wealth management, governance, and risk. The spending is primarily focused on infusing AI to improve customer experience and segmentation using data.
- In 4QFY24, Mphasis believes that the mortgage business has stabilized, with no pickup in volumes but efficiency related deals were won leading to market share gains.
- Some of the large multi-year deals signed in the early part of FY24, leading to lumpiness in bookings, have not yet ramped up.
- MPHL highlighted that it made a conscious effort in rebuilding of the pipeline in BFS in 2HFY24. It indicated that the short burst deals, of duration less than a year, came from the <US\$10mn category. These deals have already converted to revenue and a portion has been recognised in 4QFY24.

- MPHL mentioned that travel business continues to do well along with the healthcare sub-segment, where it is experiencing a wallet share gain.

## **Generative AI**

- Business unit Mphasis AI has been getting a lot of traction –as clients are looking to infuse AI into their business to improve efficiency, reduce human touch in service delivery and enhance end-consumer experience.
- Launched a collaborative agreement with AWS on AI for financial services.
- Mphasis plans to set up a Gen AI foundry to develop POCs for industry specific use-cases. It will use this to diversify its high client concentration in BFS and North America.
- Launched a Gen AI blueprint on Azure (marketplace), in collaboration with Microsoft and OpenAI.
- 2 new platforms announced under Mphasis AI focused on business unit modernization and developer experience acceleration.

## **Employee Metrics**

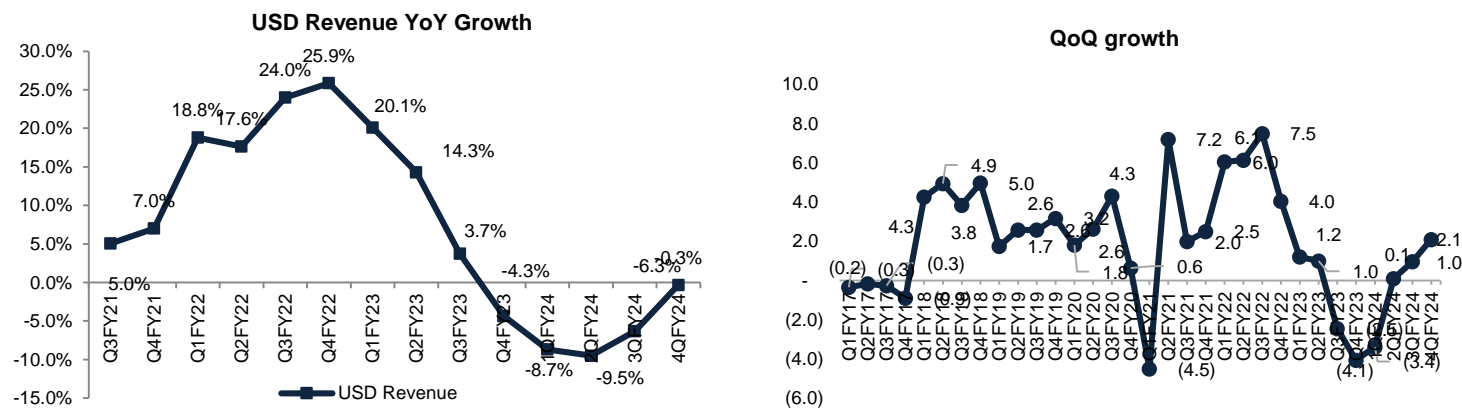
- There was a net reduction of 1,328 people in 4QFY24. The total employee base now stands at 32,664 employees. Onsite utilization (including trainees) for the quarter improved from 84% to 86% in 3Q. Offshore utilisation (including trainees) improved to 71% from 69% in 3Q.
- Excluding trainees, offshore utilization improved from 74% in 3Q to 75% in 4Q.
- MPHL continues to invest in the near-shore model and has increased headcount in Taiwan, Mexico, Poland, Costa Rica and Canada.

## **Bookings lag industry**

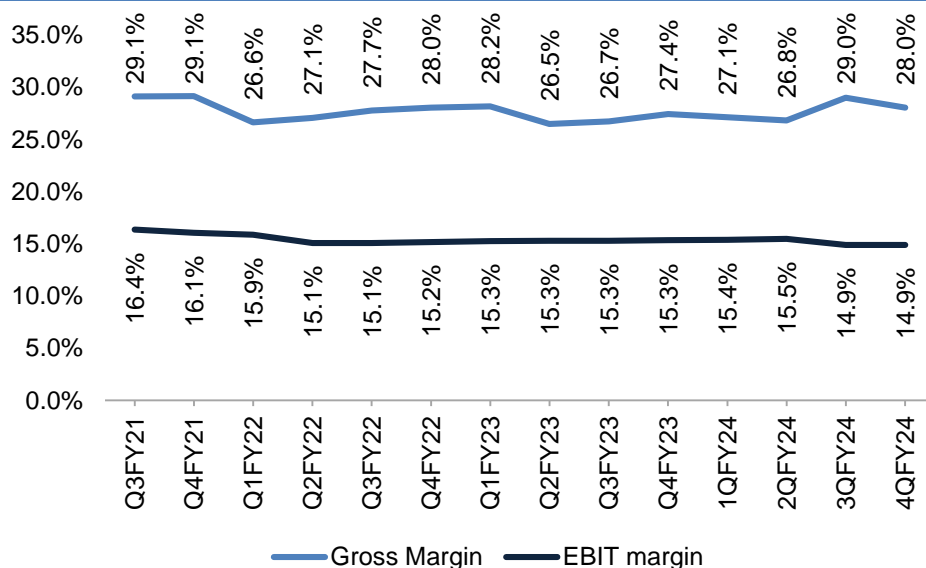
- TCV for 4QFY24 came in at US\$177mn, the lowest in 10 quarters. This too causes concern as most IT peers have reported very strong TCV numbers. For FY24, bookings stood at US\$1,380, growing by a meagre 5%.
- Upon being asked on disclosing Gen AI specific detail, the management highlighted that ~28% of the deals won in the fiscal are AI led, but guided further that it would be too early to report a metric on a quarterly basis. Further, it indicated that there is difficulty in classifying between AI & cloud led bookings, not just for MPHL but global hyperscalers like Google & Microsoft.
- The company guided that apart from large deals, it has seen an uptick in smaller deals as well, indicating some revival in discretionary spend being visible, which would also boost revenue conversion due to the shorter nature of such deals.
- Deals are also well distributed across service lines and coming from beyond the top 10 accounts.

## **Miscellaneous**

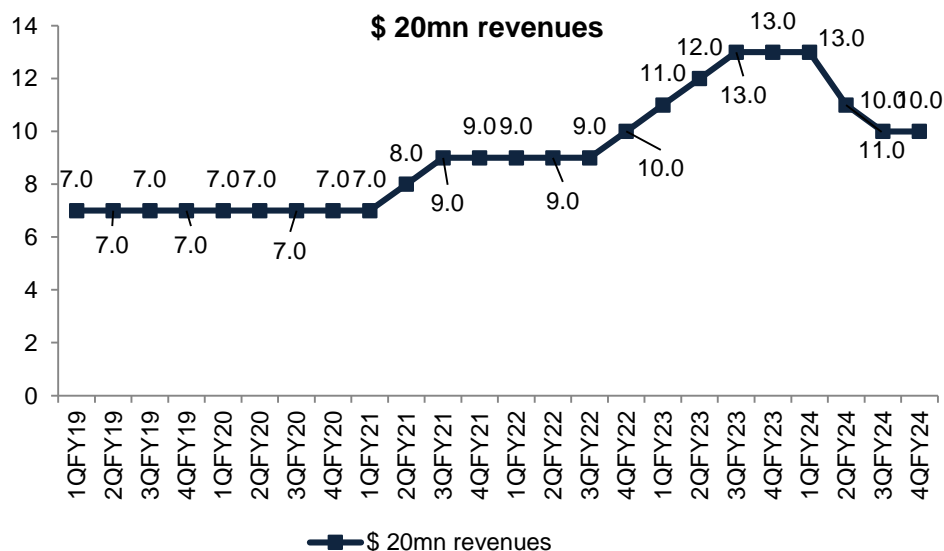
- DSO for 4QFY24 – 66 days, 3-day improvement QoQ, 5-day improvement YoY.
- Cash flow generation at \$55 million for the quarter was 116% of net income.
- Final dividend of Rs55/share for FY24, subject to shareholder approval.

**Exhibit 6: YoY and QoQ USD revenue growth in 4QFY24**


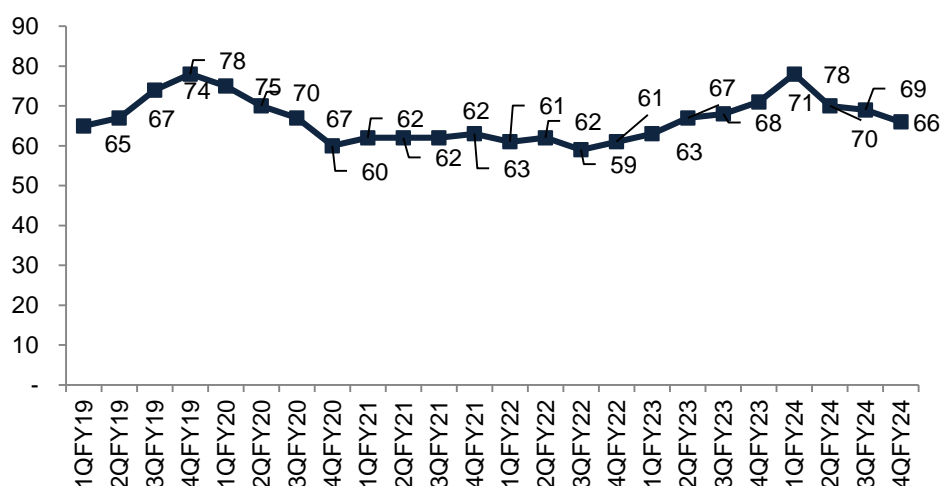
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Gross margin and EBIT margins**


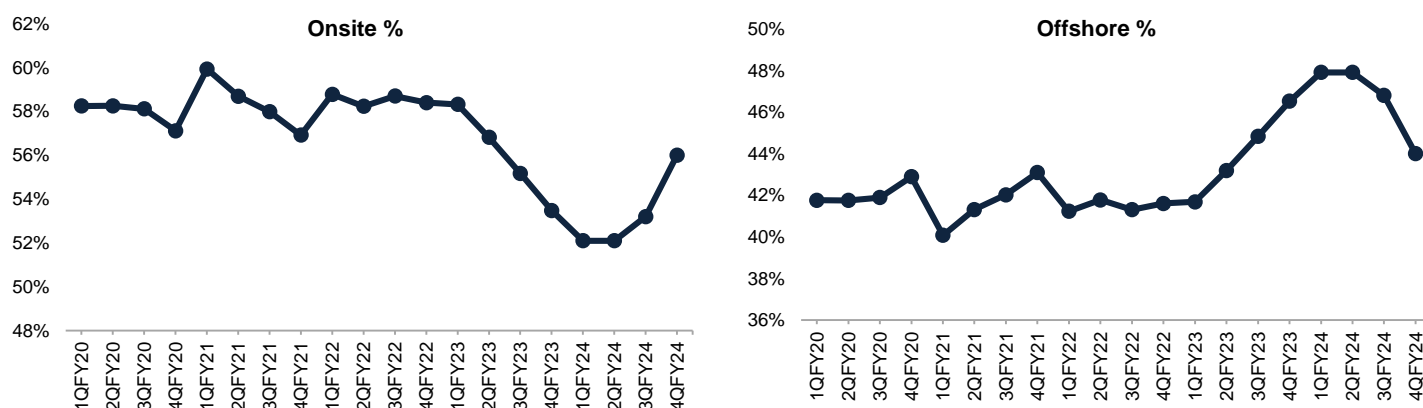
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Number of clients contributing US\$20mn+ revenues**


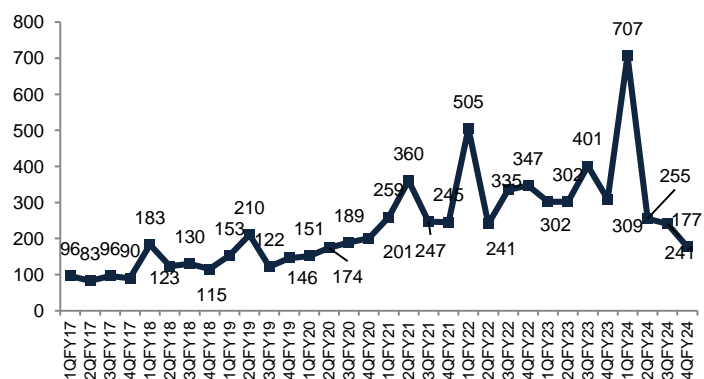
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: DSO**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Onsite and offshore revenue contribution**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Order inflow TCV (in US\$mn)**


Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 12: Quarterly snapshot

Year to 31 March (Rsmn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	1QFY24	2QFY24	3QFY24	4QFY24
<b>INR/USD</b>	74.8	75.3	77.8	80.1	82.3	82.3	82.2	82.7	83.3	83.2
<b>USD Revenue (USD mn)</b>	414	431	436	440	429	412	398	398	402	411
INR Revenue	31,237	32,777	34,112	35,199	35,062	33,612	32,520	32,765	33,379	34,121
Gross Margin	8,668	9,185	9,605	9,319	9,365	9,221	8,817	8,781	9,674	9,563
SGA	3,962	4,212	4,401	3,942	4,011	4,069	3,822	3,714	4,703	4,482
EBIT	4,706	4,973	5,204	5,377	5,354	5,152	4,995	5,067	4,971	5,081
Other income	306	392	357	434	400	426	504	490	542	642
PBT	4,796	5,157	5,329	5,551	5,510	5,341	5,258	5,217	4,985	5,224
Tax	1,219	1,236	1,310	1,366	1,387	1,288	1,297	1,297	1,250	1,291
PAT	3,577	3,921	4,019	4,185	4,123	4,053	3,961	3,920	3,735	3,933
EPS	19.1	20.9	21.4	22.2	21.9	21.5	21.0	20.8	19.8	20.9
<b>YOY Growth</b>										
<b>USD Revenue</b>	24.0%	25.9%	20.1%	14.3%	3.7%	-4.3%	-8.7%	-9.5%	-6.3%	-0.3%
INR Revenue	26.2%	29.8%	26.8%	22.7%	12.2%	2.5%	-4.7%	-6.9%	-4.8%	1.5%
Gross Profit	20.4%	24.9%	34.0%	20.0%	8.0%	0.4%	-8.2%	-5.8%	3.3%	3.7%
EBIT	16.3%	22.7%	21.9%	24.5%	13.8%	3.6%	-4.0%	-5.8%	-7.1%	-1.4%
Net Profit	9.9%	23.7%	18.3%	22.5%	15.3%	3.4%	-1.5%	-6.3%	-9.4%	-3.0%
<b>QoQ growth</b>										
<b>USD Revenue</b>	7.5%	4.0%	1.2%	1.0%	-2.5%	-4.1%	-3.4%	0.1%	1.0%	2.1%
INR Revenue	8.9%	4.9%	4.1%	3.2%	-0.4%	-4.1%	-3.2%	0.8%	1.9%	2.2%
EBIT	8.9%	5.7%	4.7%	3.3%	-0.4%	-3.8%	-3.0%	1.4%	-1.9%	2.2%
Net Profit	4.7%	9.6%	2.5%	4.1%	-1.5%	-1.7%	-2.3%	-1.0%	-4.7%	5.3%
<b>Margins</b>										
Gross Margin	27.7%	28.0%	28.2%	26.5%	26.7%	27.4%	27.1%	26.8%	29.0%	28.0%
EBIT margin	15.1%	15.2%	15.3%	15.3%	15.3%	15.3%	15.4%	15.5%	14.9%	14.9%
PAT	11.5%	12.0%	11.8%	11.9%	11.8%	12.1%	12.2%	12.0%	11.2%	11.5%
SGA	12.7%	12.9%	12.9%	11.2%	11.4%	12.1%	11.8%	11.3%	14.1%	13.1%

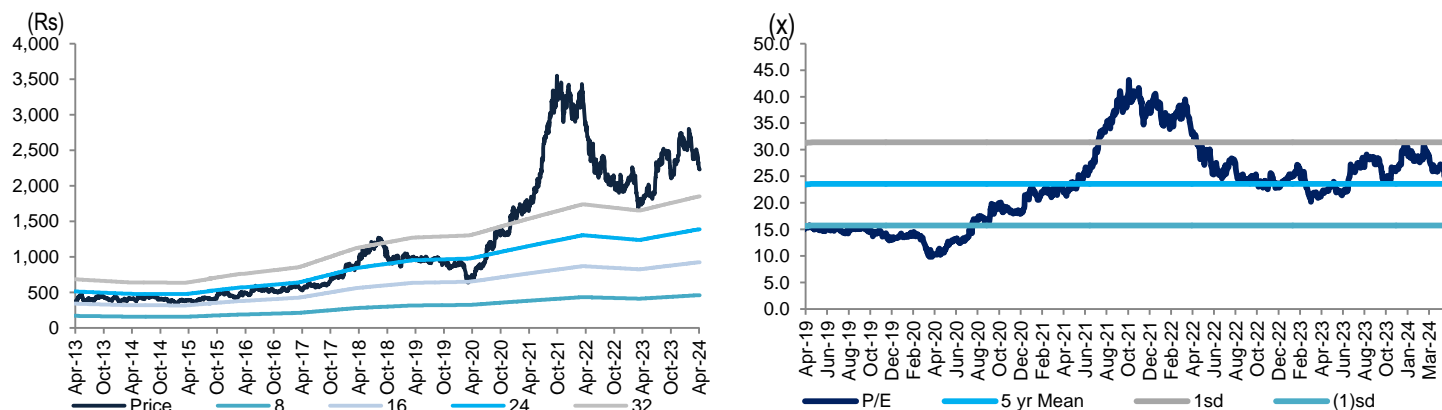
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 13: Key metrics

Key Metrics	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
<b>P and L (Rsmn)</b>												
Revenues	26,749	28,460	30,955	32,448	33,909	35,273	35,356	33,893	32,719	32,964	33,507	34,150
EBITDA	4,895	4,977	5,532	5,799	6,030	6,203	6,180	5,978	5,821	5,893	5,797	5,907
PAT	3,398	3,415	3,577	3,921	4,019	4,185	4,123	4,053	3,961	3,920	3,735	3,933
<b>Vertical/Industry</b>												
BFS	51%	55%	55%	54%	53%	54%	54%	53%	49%	47%	47%	47%
Insurance	9%	9%	9%	10%	9%	8%	8%	8%	11%	11%	11%	11%
IT, C and E	14%	13%	13%	13%	13%	13%	13%	13%	15%	17%	16%	16%
Emerging Ind.	25%	24%	23%	24%	24%	25%	25%	27%	25%	25%	26%	26%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Absolute Numbers</b>												
BFS	13,706	15,532	17,115	17,403	18,097	19,128	18,967	17,997	16,121	15,542	15,684	16,076
Insurance	2,446	2,503	2,725	3,098	3,003	2,936	2,921	2,590	3,443	3,544	3,813	3,770
IT, C and E	3,801	3,563	4,079	4,300	4,539	4,563	4,578	4,301	4,927	5,703	5,219	5,449
Emerging Ind.	6,797	6,862	7,036	7,648	8,270	8,646	8,890	9,005	8,228	8,175	8,790	8,855
Total	26,750	28,460	30,955	32,449	33,909	35,273	35,356	33,893	32,719	32,964	33,506	34,150
<b>QoQ Growth</b>												
BFS	9%	13%	10%	2%	4%	6%	-1%	-5%	-10%	-4%	1%	2%
Insurance	-3%	2%	9%	14%	-3%	-2%	-1%	-11%	33%	3%	8%	-1%
IT, C and E	4%	-6%	14%	5%	6%	1%	0%	-6%	15%	16%	-8%	4%
Emerging Ind.	7%	1%	3%	9%	8%	5%	3%	1%	-9%	-1%	8%	1%
Total	7%	6%	9%	5%	4%	4%	0%	-4%	-3%	1%	2%	2%
<b>YoY</b>												
BFS	22%	20%	30%	39%	32%	23%	11%	3%	-11%	-19%	-17%	-11%
Insurance	7%	8%	14%	23%	23%	17%	7%	-16%	15%	21%	31%	46%
IT, C and E	17%	25%	29%	18%	19%	28%	12%	0%	9%	25%	14%	27%
Emerging Ind.	9%	12%	19%	21%	22%	26%	26%	18%	-1%	-5%	-1%	-2%
Total	16%	17%	26%	30%	27%	24%	14%	4%	-4%	-7%	-5%	1%
<b>Regions</b>												
USA	76%	78%	80%	81%	82%	82%	82%	81%	81%	79%	80%	81%
Europe	12%	12%	11%	11%	10%	10%	10%	11%	10%	12%	12%	11%
ROW	7%	5%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
India	5%	5%	5%	5%	5%	5%	5%	5%	6%	6%	6%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

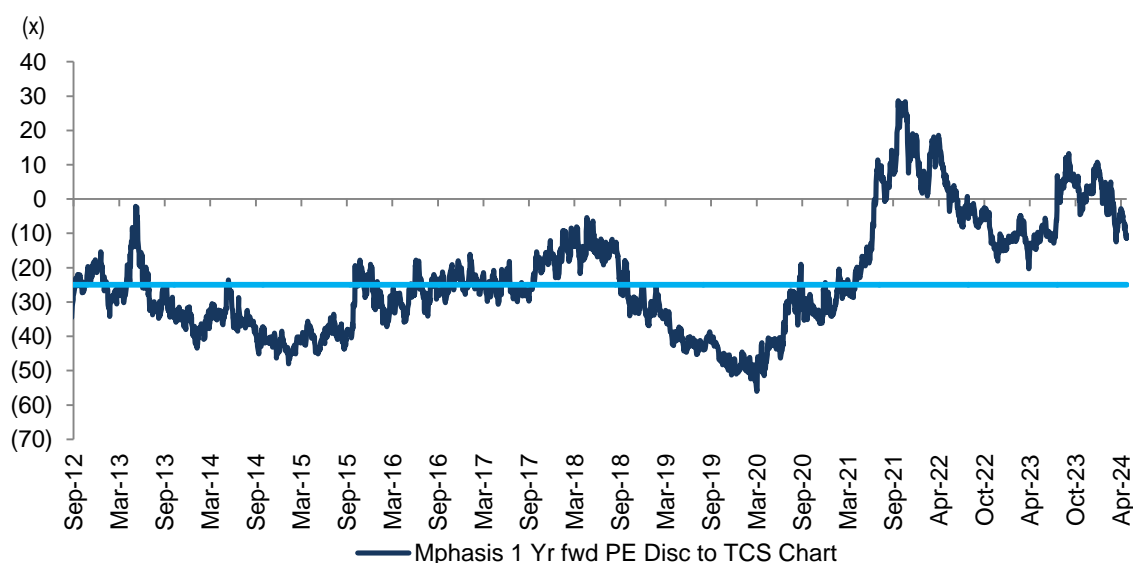
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: P/E charts**



Source: Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 15: P/E (discount)/premium of Mphasis to TCS**



Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Financials

**Exhibit 16: Income statement**

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Average exchange rate (INR/USD)	80.6	82.8	84.3	85.7	86.8
<b>Net Sales (USD mn)</b>	<b>1,718</b>	<b>1,609</b>	<b>1,727</b>	<b>1,930</b>	<b>2,140</b>
<b>Growth (%)</b>	<b>7.8%</b>	<b>-6.3%</b>	<b>7.3%</b>	<b>11.8%</b>	<b>10.9%</b>
<b>Net Sales (Rs mn)</b>	<b>137,985</b>	<b>132,785</b>	<b>145,585</b>	<b>165,328</b>	<b>185,704</b>
<b>-Growth (%)</b>	<b>15.4%</b>	<b>-3.8%</b>	<b>9.6%</b>	<b>13.6%</b>	<b>12.3%</b>
Direct Costs	100,475	95,950	103,263	115,762	129,687
<b>Gross Profit</b>	<b>37,510</b>	<b>36,835</b>	<b>42,322</b>	<b>49,566</b>	<b>56,016</b>
% of sales	27.2%	27.7%	29.1%	30.0%	30.2%
Selling expenses	8,635	9,260	12,205	14,523	16,724
% of sales	6.3%	7.0%	8.4%	8.8%	9.0%
G&A expenses	7,788	7,461	7,875	9,269	10,223
% of sales	5.6%	5.6%	5.4%	5.6%	5.5%
Provision for doubtful debts	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>21,087</b>	<b>20,114</b>	<b>22,242</b>	<b>25,774</b>	<b>29,068</b>
% of sales	15.3%	15.1%	15.3%	15.6%	15.7%
Other income	1,617	2,178	3,182	3,544	3,892
Financial Expenses	(973)	(1,608)	(2,330)	(2,205)	(2,080)
<b>PBT</b>	<b>21,731</b>	<b>20,684</b>	<b>23,093</b>	<b>27,112</b>	<b>30,880</b>
-PBT margin (%)	15.7%	15.6%	15.9%	16.4%	16.6%
Exceptional Item	0	0	0	0	0
Provision for tax	5,351	5,135	5,727	6,724	7,658
Effective tax rate (%)	24.6%	24.8%	24.8%	24.8%	24.8%
<b>Net profit</b>	<b>16,380</b>	<b>15,549</b>	<b>17,366</b>	<b>20,388</b>	<b>23,222</b>
-Growth (%)	14.5%	-5.1%	11.7%	17.4%	13.9%
-Net profit margin (%)	11.9%	11.7%	11.9%	12.3%	12.5%

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 17: Balance sheet**

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	1,884	1,890	1,890	1,890	1,890
Reserves & surplus	77,464	86,056	93,002	101,158	110,447
Net worth	79,348	87,946	94,893	103,048	112,337
Other liabilities	1,030	1,299	1,299	1,299	1,299
Total loans	1,985	15,436	14,636	13,836	13,036
Lease Liabilities	8,543	8,450	8,450	8,450	8,450
<b>Total liabilities</b>	<b>90,906</b>	<b>113,131</b>	<b>119,278</b>	<b>126,633</b>	<b>135,122</b>
Goodwill	29,586	41,793	41,793	41,793	41,793
Net block	3,543	6,285	4,187	4,041	2,799
Capital work-in-progress	324	614	614	614	614
Investments	17,526	30,899	30,899	30,899	30,899
Other non-current assets	2,422	2,857	3,157	3,625	4,052
Debtors	27,172	27,028	29,870	34,289	38,337
Unbilled revenues	0	0	0	0	0
Cash & bank balance	10,558	8,144	14,480	19,015	26,027
Right-of-use assets	7,469	7,248	7,248	7,248	7,248
Other current assets	16,218	16,434	18,162	20,849	23,310
Total current assets	61,417	58,854	69,759	81,401	94,923
Total current liabilities	23,912	28,171	31,133	35,739	39,958
Net current assets	37,505	30,683	38,627	45,662	54,964
<b>Total assets</b>	<b>90,906</b>	<b>113,131</b>	<b>119,278</b>	<b>126,633</b>	<b>135,122</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 18: Cash flow**

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
EBIT	21,087	20,114	22,242	25,774	29,068
(Inc.)/dec. in working capital	(4,082)	4,187	(1,608)	(2,500)	(2,290)
<b>Cash flow from operations</b>	<b>17,005</b>	<b>24,301</b>	<b>20,634</b>	<b>23,273</b>	<b>26,778</b>
Other income	1,617	2,178	3,182	3,544	3,892
Depreciation & amortisation	3,304	3,304	3,612	4,673	4,947
Financial expenses	(973)	(1,608)	(2,330)	(2,205)	(2,080)
Tax paid	(5,351)	(5,135)	(5,727)	(6,724)	(7,658)
Dividends paid	(9,415)	(10,357)	(10,420)	(12,233)	(13,933)
<b>Net cash from operations</b>	<b>6,187</b>	<b>12,683</b>	<b>8,951</b>	<b>10,328</b>	<b>11,945</b>
Capital expenditure	(2,910)	(17,292)	(1,514)	(4,526)	(3,705)
<b>Net cash after capex</b>	<b>3,277</b>	<b>(4,609)</b>	<b>7,437</b>	<b>5,802</b>	<b>8,240</b>
Inc./(dec.) in debt	(2,975)	13,720	(800)	(800)	(800)
(Inc.)/dec. in investments	(202)	(13,808)	(300)	(467)	(428)
Equity Issue/(Buyback)					
<b>Cash from financial activities</b>	<b>(561)</b>	<b>(561)</b>	<b>(561)</b>	<b>(561)</b>	<b>(561)</b>
Others	(1,840)	2,756	(539)	(706)	(667)
Opening cash	9,682	10,558	8,144	14,480	19,015
Closing cash	10,558	8,144	14,480	19,015	26,027
Change in cash	876	(2,414)	6,336	4,535	7,013

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 19: Key ratios**

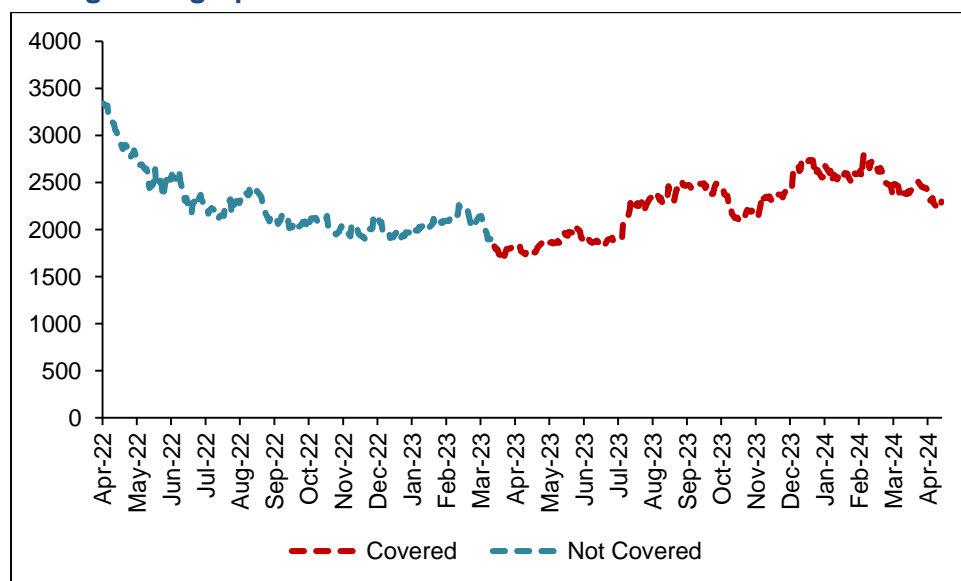
Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Per Share (Rs)</b>					
EPS	87.1	82.6	92.2	108.3	123.3
FDEPS	87.1	82.6	92.2	108.3	123.3
Dividend Per Share	50.0	55.0	55.3	65.0	74.0
Dividend Yield (%)	2.2	2.4	2.4	2.8	3.2
Book Value	421	467	504	547	597
Dividend Payout Ratio (incl DDT) (%)	57.5	66.6	60.0	60.0	60.0
<b>Return ratios (%)</b>					
RoE	22.0	18.6	19.0	20.6	21.6
Post Tax RoCE	18.3	14.8	14.4	15.8	16.7
Post tax ROIC	27.0	22.1	22.6	25.7	28.2
<b>Turnover Ratios</b>					
Asset Turnover Ratio	1.2	0.9	1.0	1.0	1.1
Debtor Days (incl. unbilled Rev)	72	74	75	76	75
Working Capital Cycle Days	52	42	42	43	43
<b>Valuation ratios (x)</b>					
PER	26.4	27.8	24.9	21.2	18.6
P/BV	5.5	4.9	4.6	4.2	3.9
EV/EBITDA	18.7	19.6	17.5	14.7	12.9
EV/Sales	3.3	3.5	3.1	2.7	2.4
Net Debt/Equity	-0.4	-0.3	-0.3	-0.4	-0.4
M-cap/Sales	3.5	3.6	3.3	2.9	2.6

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
20 March 2023	Sell	1,886	1,636
2 May 2023	Sell	1,805	1,429
14 June 2023	Sell	1,890	1,420
23 July 2023	Sell	2,331	1,497
28 August 2023	Sell	2,392	1,619
26 September 2023	Sell	2,484	1,746
22 October 2023	Sell	2,261	1,712
15 December 2023	Sell	2,601	1,788
4 February 2024	Sell	2,560	1,825
19 March 2024	Sell	2,462	2,008
28 April 2024	Sell	2,298	2,053

## Rating track graph



## DISCLOSURES

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BUY > 15%

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SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010