

Estimate change	↑
TP change	↔
Rating change	↔

CMP: INR 2,043 TP: INR 2,430 (+19%) Buy

Deal traction provides good growth visibility

Strong growth with stable margins to drive earnings, reiterate BUY

- MPHL's 2QFY23 performance was led by a 2% CC QoQ growth in the Direct business and a 1% QoQ CC growth in DXC. Deal momentum remained intact with a strong net new TCV of USD302m. It also reported two large deal wins (USD110m) in 2QFY23.
- MPHL's Direct business continued to be adversely impacted by the slowdown in its mortgage processing business, due to elevated interest rates. Additionally, it was negatively impacted by unexpected furloughs from client-specific issues. While we expect the drag in its mortgage business to continue given the unfavorable interest rate environment, it has good consolidation opportunities and should see strong growth once macro headwinds subside. With both DR and DXC verticals (10%+ of revenues) declining in the near term, we expect the revenue growth for MPHL to moderate to mid-teens in FY23 despite a strong demand momentum in the rest of Direct business.
- On the other hand, MPHL has delivered a stable margin performance over the last few quarters unlike its peers. It was able to maintain its 2Q EBIT margin at 15.3% with lower SG&A cost. Though it was at the lower end of its guidance of 15.25-17.0%, it has retained its guidance band and indicated an upside potential due to better utilization. We see the company as one of the very few in our coverage to deliver a margin improvement of 30 bp YoY to 15.7% in FY23. This should help it deliver an INR PAT growth of 20% over FY22-24E.
- With the DXC business exposure declining dramatically over the last two years, the drag on revenue growth from DXC has reduced materially and should be marginal by FY24 (MOFSL: 3.8% of revenue). This should help reduce the negative impact on MPHL's valuations.
- We have largely maintained our estimates for FY23/24. Given MPHL's strong Digital capabilities and client relationships, it is well-positioned to be a key beneficiary in the current context. Our TP of INR 2,430 implies 22x FY24E EPS. **We reiterate our Buy rating on the stock.**

Inline performance

- 2QFY23 CC revenue grew 1.8% QoQ CC, INR EBIT grew 19% YoY, and INR PAT grew 17% YoY
- In 1HFY23, USD Revenue/ INR EBIT/ INR PAT grew 17%/ 20%/ 18% YoY, respectively
- The company registered direct revenue growth of 2% QoQ CC; DXC revenue declined 1% QoQ CC
- Utilization (excl. trainees) dipped 200bp to 72%; headcount declined by 23 Q2
- The company's new TCV stood at USD302m, flat QoQ and up 25% YoY
- PAT was INR4.1b (up 4% QoQ) vs our estimate of INR 4.2b.

Bloomberg	MPHL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USDb)	384.3 / 4.6
52-Week Range (INR)	3547 / 1983
1, 6, 12 Rel. Per (%)	-1/-32/-37
12M Avg Val (INR M)	1735

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	119.6	144.0	162.5
EBIT Margin	15.4	15.7	16.4
PAT	14.5	17.6	20.9
EPS (INR)	75.1	93.1	110.6
EPS Gr. (%)	16.9	24.0	18.8
BV/Sh. (INR)	365.3	406.7	451.3
Ratios			
RoE (%)	21.5	24.2	26.0
RoCE (%)	18.3	20.7	22.2
Payout (%)	60.8	60.4	60.4
Valuations			
P/E (x)	27.2	21.9	18.5
P/BV (x)	5.6	5.0	4.5
EV/EBITDA (x)	17.3	14.1	11.8
Div Yield (%)	2.2	2.8	3.3

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	55.7	55.7	56.0
DII	17.8	18.2	17.9
FII	20.7	20.5	20.9
Others	5.8	5.6	5.3

FII Includes depository receipts

Key highlights from the management commentary

- Clients are increasingly looking for vendor consolidation in FY23 and MPHL would be a gainer in any such exercise by clients. There are further consolidation opportunities with the existing clients in the next two to four quarters.
- MPHL continues to see headwinds in mortgage portfolio (as counter cyclicity did not play out) and had unexpected furloughs due to client-specific issues in 2QFY23, stunting revenue growth.
- Core business (ex- mortgage, LBO) remains strong for MPHL. It sees good opportunity to consolidate in LOB as macro subsides. Mortgage being a core part of the US banks, it is expected to do well despite near-term blips.
- Utilization, pricing, ESOP, and M&A charges coming off are key margin levers. Also, there is good tailwind from offshoring.

Valuation and view

- Impressive deal wins and continued expansion in the pipeline would drive growth in the medium term. While the overhang from the DXC business (4.7% of revenue) persists, strong traction in Direct International should continue to drive overall performance. The management's ability to defend margin is a key positive.
- MPHL's ability to proactively win multiple large Digital transformation deals and gain wallet share indicates strength in its sales and delivery capabilities.
- The stock is currently trading at ~18.5x FY23E EPS. We value the stock at ~22x FY24E EPS. **We reiterate our Buy rating on the stock.**

Quarterly performance

Y/E March	FY22				FY23E				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY22	FY23E	FY23E 2QE	Var. (%/bp)
Revenue (USD m)	363	385	414	431	436	440	447	455	1,593	1,778	441	-0.1
QoQ (%)	6.0	6.1	7.5	4.0	1.2	1.0	1.4	1.9	21.7	11.6	1.1	-8bp
Revenue (INR m)	26,909	28,693	31,237	32,777	34,113	35,198	37,008	37,717	1,19,616	1,44,036	35,115	0.2
YoY (%)	17.6	17.8	26.2	29.8	26.8	22.7	18.5	15.1	23.0	20.4	22.4	29bp
GPM (%)	28.4	28.8	29.7	29.8	29.8	28.1	29.6	30.1	29.2	29.4	29.7	-162bp
SGA (%)	10.2	10.7	12.0	12.2	12.2	10.5	11.5	11.6	11.3	11.5	12.0	-147bp
EBITDA	4,895	5,185	5,530	5,772	6,001	6,177	6,698	6,977	21,382	25,853	6,215	-0.6
EBITDA Margin (%)	18.2	18.1	17.7	17.6	17.6	17.5	18.1	18.5	17.9	17.9	17.7	-15bp
EBIT	4,271	4,528	4,704	4,973	5,205	5,376	5,856	6,118	18,476	22,556	5,408	-0.6
EBIT Margin (%)	15.9	15.8	15.1	15.2	15.3	15.3	15.8	16.2	15.4	15.7	15.4	-13bp
Other income	310	277	90	184	125	174	296	302	861	897	281	-38.1
ETR (%)	25.8	25.6	25.4	24.0	24.6	24.6	25.0	25.0	25.2	24.8	25.0	-39bp
PAT	3,397	3,574	3,575	3,921	4,020	4,184	4,614	4,815	14,467	17,633	4,267	-1.9
QoQ (%)	7.2	5.2	0.0	9.7	2.5	4.1	10.3	4.4			6.1	
YoY (%)	23.5	19.5	9.8	23.7	18.3	17.1	29.1	22.8	18.9	21.9	19.4	
EPS (INR)	17.9	18.8	18.9	20.4	21.2	22.1	24.4	25.4	75.1	93.1	22.5	-1.6

E: MOFSL estimates

Key performance indicators

Y/E March	FY22				FY23E				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Margins										
Gross Margin	28.4	28.8	29.7	29.8	29.8	28.1	29.6	30.1	29.2	29.4
EBIT Margin	15.9	15.8	15.1	15.2	15.3	15.3	15.8	16.2	15.4	15.7
Net Margin	12.6	12.5	11.4	12.0	11.8	11.9	12.5	12.8	12.1	12.2
Operating metrics										
Headcount	31,454	32,295	34,915	36,534	36,899	36,876			36,534	
Deal win TCV (USD m)	505	241	335	347	302	302			1428	
Key verticals (YoY %)										
BFS	24.8	20.2	28.6	34.7	25.1	13.6			27.1	
Insurance	9.1	8.7	12.5	19.3	16.3	8.2			12.6	
IT, Comm., and Ent.	19.4	24.8	27.0	14.7	13.2	18.1			21.1	
Key geographies (YoY %)										
North America	18.0	17.6	27.9	36.2	29.6	20.3			25.1	
Europe	20.7	31.1	17.3	0.4	-3.6	-6.8			16.3	

Key highlights from the management commentary**Demand and industry outlook**

- MPHL had a new deal TCV of USD302m, of which, 81% was in new-gen services. Continued strength in the pipeline indicates strength in the demand environment.
- IT spends are resilient despite weak macro environment with continued investments in cloud.
- Clients are increasingly looking for vendor consolidation in FY23. MPHL would be a gainer in any such exercises by clients. There are further consolidation opportunities with existing clients over the next two to four quarters.
- Large vendor consolidation cost takeout deals, shift from run to change programs and tuck-in capability acquisitions will remain focus areas for MPHL.
- Clients are prioritizing spends and there is some delay in decision making, but spends for large transformation programs remain healthy.
- MPHL continues to see headwinds in mortgage portfolio (as counter cyclicity did not play out) and had unexpected furloughs due to client-specific issues in 2QFY23, stunting revenue growth.
- Core business (ex- mortgage, LBO) remains strong for MPHL. It sees good opportunity to consolidate in LOB as macro subsides. With mortgage being a core part of the US banks, it is expected to do well despite near-term blips.
- It signed two large deals with a combined TCV of over USD 110m. It also saw good deal wins traction from verticals outside BFSI.
- Furloughs for 3QFY23 are expected to be in line with the past trends and will remain weak due to seasonality.

Margin performance

- Reported EBIT margin was at 15.3% as higher employee cost was absorbed by lower SG&A spends.
- It suggested that there will be northward bias to margins and it will remain in the guided band
- Utilization, pricing, ESOP, and M&A charges coming off are key margin levers. Also, there is a good tailwind from offshoring.

Other highlights

- Utilization was adversely impacted by unexpected furloughs in 2QFY23 and it is expected to bounce back to normal levels in the coming quarters.
- The hiring was slower as the management was comfortable with the bench with low utilization numbers.

Exhibit 1: Growth led by IMS and ADS, while BPO declined

Services	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Application Services	67.4	3.2	26.1
BPO	20.5	(6.8)	(10.3)
Infrastructure Services	12.1	3.5	7.9

Source: Company, MOFSL

Exhibit 2: Growth was led by RoW, India soft

Geographies	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
North America	82.2	0.8	20.3
Europe	9.8	2.2	(6.8)
India	4.9	(1.2)	4.3
Rest of the World	3.1	7.2	(21.6)

Source: Company, MOFSL

Exhibit 3: BFS saw good growth despite impact from mortgage

Verticals	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Banking and Financial Services	54.2	2.6	13.6
Insurance	8.3	(5.1)	8.2
Technology, Media, and Telecom	12.9	(2.4)	18.1
Logistics and Transportation	12.7	(1.4)	10.9
Others	11.8	4.9	22.5

Source: Company, MOFSL

Exhibit 4: Top client grew well

	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Top client	12.0	10.2	24.7
Top 2-5 clients	33.0	(2.0)	21.7
Top 6-10 clients	15.0	1.0	14.3

Source: Company, MOFSL

Valuation and view

- Impressive deal wins and continued expansion in the pipeline would drive growth in the medium term. While the overhang from the DXC business (4.7% of revenue) persists, strong traction in Direct International should continue to drive overall performance. The management's ability to defend margin is a key positive.
- MPHL's ability to proactively win multiple large Digital transformation deals and gain wallet share indicates strength in its sales and delivery capabilities.
- The stock is currently trading at ~18.5x FY23E EPS. We value the stock at ~22x FY24E EPS and reiterate **our Buy rating**.

Exhibit 5: Revisions to our estimates

	Revised estimate		Old estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
USD:INR	80.7	82.5	80.3	81.8	0.6	0.9
Revenue (USD m)	1,778	1,962	1,778	1,944	0.0	0.9
Growth (%)	11.6	10.3	11.6	9.3	0bps	100bps
EBIT margin (%)	15.7	16.4	15.7	16.1	-10bps	30bps
PAT (INR m)	17,633	20,942	17,643	20,384	-0.1	2.7
EPS (INR)	93.1	110.6	92.9	107.3	0.2	3.0

Source: MOFSL

Exhibit 6: Operating metrics

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Geographical contribution (%)									
Americas	78.1	77.9	75.2	76.3	78.0	80.3	81.5	82.3	82.2
EMEA	10.8	12.0	13.4	12.1	12.1	11.3	10.7	9.7	9.8
India	4.5	4.7	5.0	4.7	5.4	5.1	4.9	5.0	4.9
RoW	6.5	5.5	6.4	6.9	4.5	3.3	3.0	2.9	3.1
Vertical contribution (%)									
Banking and Capital Market	53.4	53.3	50.1	51.2	54.6	55.3	53.6	53.4	54.2
Insurance	9.5	9.7	10.1	9.1	8.8	8.8	9.5	8.9	8.3
IT, Communications, and Entertainment	11.8	12.9	14.5	14.2	12.5	13.2	13.3	13.4	12.9
Logistics and Transportation	12.3	12.6	13.4	14.0	13.1	12.7	12.8	13.0	12.7
Others	13.0	11.5	11.9	11.4	11.0	10.1	10.7	11.4	11.8
Revenue by project type (%)									
Time and Material	59.1	59.0	57.5	57.9	58.1	54.9	54.7	54.5	56.0
Transaction-based	15.8	16.8	15.5	16.1	16.0	16.1	15.6	15.6	13.9
Fixed price	25.1	24.2	27.0	26.0	25.9	29.0	29.7	29.9	30.0
Revenue by delivery location (%)									
Onsite	58.7	58.0	56.9	58.8	58.2	58.7	58.4	58.3	56.8
Offshore	41.3	42.0	43.1	41.2	41.8	41.3	41.6	41.7	43.2
Secondary market segment (%)									
Direct International	81.8	84.7	85.8	89.0	91.8	92.8	93.1	93.5	93.7
DXC	16.2	13.1	12.0	9.2	6.5	5.4	5.2	4.8	4.6
Others	2.0	2.2	2.3	1.8	1.7	1.8	1.7	1.7	1.6
Service type (%)									
Application services	59.0	55.9	59.7	61.9	61.1	62.7	65.4	66.0	67.4
BPO	26.5	29.4	26.3	26.8	26.1	24.8	23.3	22.2	20.5
Infrastructure services	14.5	14.7	14.0	11.3	12.8	12.6	11.3	11.8	12.1
Client contribution (%)									
Top client	12	11	10	11	11	11	11	11	12
Top 2-5 clients	27	29	31	31	31	32	33	34	33
Top 6-10 clients	11	12	12	13	15	15	15	15	15
New clients added	5	6	8	6	5	7	6	-	5
Clients contributing more than:									
Over USD100m	2	2	2	4	4	4	4	4	4
Over USD75m	4	4	5	5	5	6	6	6	6
Over USD50m	4	5	5	7	7	7	7	7	7
Over USD20m	8	9	9	9	9	9	10	11	12
Over USD10m	17	16	18	18	19	21	22	24	24
Over USD5m	31	35	37	39	41	42	42	44	45
Over USD1m	80	81	84	84	88	97	104	105	104
Headcount									
Onsite – billable									
Tech services	3,357	3,474	4,172	4,439	4,132	4,392	4,704	4,652	5,082
BPO	2,715	3,081	3,083	3,153	2,863	2,535	2,451	2,134	2,056
Offshore – billable									
Tech services	12,358	12,558	13,101	14,275	15,673	16,543	17,406	18,788	18,514
BPO	4,519	4,854	4,971	5,176	5,476	5,242	5,282	5,212	5,839
Total billable headcount	22,949	23,967	25,327	27,043	28,144	28,712	29,843	30,786	31,491
Total headcount	27,148	28,116	29,473	31,454	32,295	34,915	36,534	36,899	36,876

Source: Company, MOFSL

Financials and valuations

Income Statement (INR m)

Y/E March	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23E	Mar 24E
Revenues	60,763	65,459	77,311	88,436	97,222	1,19,616	1,44,036	1,62,486
Cost Of Goods Sold	43,649	47,308.0	55,754.0	61,376.5	67,723.0	84,664	1,01,675	1,12,666
SG&A Expenses	7,426	7,525	8,317	10,536	11,472	13,570	16,508	19,498
EBITDA	9,688	10,626	13,240	16,524	18,027	21,382	25,853	30,321
% of Net Sales	15.9	16	17	19	19	17.9	17.9	18.7
Depreciation	791	709	759	2,317	2,418	2,906	3,298	3,698
Other Income	2,247	1,490	1,592	967	696	861	897	1,300
PBT	11,144	11,407	14,073	15,174	16,305	19,337	23,452	27,923
Tax	3,077	2,900	3,339	3,306	4,139	4,870	5,819	6,981
Rate (%)	27.6	25	24	22	25	25.2	24.8	25.0
Net Income	8,067	8,507	10,734	11,868	12,166	14,467	17,633	20,942

Balance Sheet

(INR m)

Y/E March	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23E	Mar 24E
Share Capital	2,104	1,933	1,862	1,865	1,870	1,878	1,878	1,878
Reserves	59,420	52,885	50,636	56,431	63,397	67,553	74,606	82,983
Net Worth	61,524	54,818	52,498	58,296	65,267	69,431	76,485	84,862
Loans	2,602	3,899	5,466	5,713	5,135	5,272	5,272	5,272
Other long term liabilities	761	1,016	1,235	7,567	7,285	9,030	9,201	9,326
Capital Employed	64,887	59,732	59,199	71,576	77,687	83,734	90,958	99,460
Net Block	2,237	1,829	2,126	8,823	8,869	10,388	9,251	7,991
CWIP	7	19	16	74	31	110	110	110
Goodwill	16,978	17,015	19,585	21,405	21,326	27,348	27,348	27,348
Investments	1,255	3,169	2,592	3,479	3,114	3,778	3,779	3,779
Other assets	8,202	8,361	8,362	9,624	9,246	8,774	12,289	13,735
Curr. Assets	44,492	39,460	41,031	44,131	51,403	57,164	63,135	74,496
Debtors	6,279	8,116	18,487	17,696	18,505	22,270	28,808	32,498
Cash	6,144	7,067	6,416	11,267	9,098	9,494	8,819	13,697
Investments	22,701	14,651	10,700	9,768	16,870	14,351	16,351	18,351
Other Current Assets	9,368	9,625	5,427	5,400	6,929	11,048	9,156	9,950
Current Liab. & Prov	8,284	10,121	14,511	15,959	16,302	23,828	24,954	27,998
Sundry Liabilities	7,911	9,875	14,428	15,891	15,806	22,744	24,522	27,511
Provisions	373	246	83	68	497	1,084	432	487
Net Current Assets	36,208	29,339	26,519	28,172	35,100	33,336	38,181	46,497
Application of Funds	64,887	59,732	59,199	71,576	77,687	83,734	90,958	99,460

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23E	Mar 24E
EPS	38.3	43.3	55.5	63.1	64.2	75.1	93.1	110.6
Cash EPS	42.1	46.9	59.4	75.5	77.0	90.2	110.6	130.1
Book Value	292.9	279.2	274.1	312.9	349.3	365.3	406.7	451.3
DPS	24.1	20.1	27.0	35.0	65.0	45.7	56.3	66.8
Payout %	62.8	46.5	48.6	55.4	101.2	60.8	60.4	60.4
Valuation (x)								
P/E	53.3	47.2	36.8	32.4	31.8	27.2	21.9	18.5
Cash P/E	48.5	43.6	34.4	27.1	26.5	22.7	18.5	15.7
EV/EBITDA	41.6	36.1	28.7	22.1	20.0	17.3	14.1	11.8
EV/Sales	6.6	5.9	4.9	4.1	3.7	3.1	2.5	2.2
Price/Book Value	7.0	7.3	7.5	6.5	5.8	5.6	5.0	4.5
Dividend Yield (%)	1.2	1.0	1.3	1.7	3.2	2.2	2.8	3.3
Profitability Ratios (%)								
RoE	13.4	14.6	20.0	21.4	19.7	21.5	24.2	26.0
RoCE	10.4	12.5	17.4	18.6	16.8	18.3	20.7	22.2
Turnover Ratios								
Debtors (Days)	38	45	87	73	69	68	73	73
Fixed Asset Turnover (x)	28.6	32.2	39.1	16.2	11.0	12.4	14.7	18.8

Cash Flow Statement

(INR m)

Y/E March	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23E	Mar 24E
CF from Operations	7,687	8,832	10,918	12,788	14,999	18,497	19,945	23,340
Chg. in Wkg. Capital	-1,045	-1,502	-1,421	422	-453	-1,501	-6,776	-2,760
Net Operating CF	6,641	7,330	9,497	13,210	14,545	16,996	13,169	20,580
Net Purchase of FA	-1,150	-313	-2,511	-1,243	-1,252	-1,192	-2,161	-2,437
Free Cash Flow	5,491	7,016	6,986	11,967	13,293	15,805	11,008	18,143
Net Purchase of Invest.	3,829	5,238	5,404	2,652	-6,967	-1,629	-1,103	-700
Net Cash from Invest.	2,679	4,925	2,893	1,408	-8,219	-2,820	-3,264	-3,137
Proceeds from equity	2	2	104	151	268	442	0	0
Proceeds from LTB/STB and others	-6,683	3,624	1,554	-3,863	-2,356	-2,152	0	0
Dividend Payments	-5,055	-15,010	-14,604	-6,065	-6,527	-12,177	-10,580	-12,565
Net CF from Financing	-11,735	-11,383	-12,947	-9,777	-8,615	-13,887	-10,580	-12,565
Net Cash Flow	-2,415	871	-556	4,842	-2,288	289	-675	4,877
Exchange difference	-13	52	-94	10	120	107	0	0
Opening Cash Balance	8,572	6,144	7,067	6,416	11,267	9,098	9,494	8,819
Add: Net Cash	-2,428	923	-651	4,851	-2,169	396	-675	4,877
Closing Cash Balance	6,144	7,067	6,416	11,267	9,098	9,494	8,819	13,697

E: MOFSL Estimates;

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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