

Estimate change	↔
TP change	↓
Rating change	↔

CMP: INR2,170 TP: INR2,290 (+6%) Neutral

Weakness easing but yet to gain momentum

Building 2H growth on robust 1H wins

- MPHL's 2QFY24 revenue performance (flat QoQ CC) was weaker than our estimate (+1.4% QoQ CC) on account of persistent headwinds in the mortgage business (-7.0% QoQ) and the ongoing moderation in the DXC vertical (-6.1% QoQ CC). However, Direct business (ex-Mortgage) delivered 1.0% QoQ CC growth, aided by TMT and Insurance. Deal TCV moderated to USD255m from the 1Q's high base of USD707m, though the book-to-bill ratio was attractive at 1.2x in 1HFY24.
- The company clocked positive USD revenue growth (+0.3% QoQ) in its Direct business after posting a decline in the previous three consecutive quarters. The pace of deceleration in its DR business seems to have moderated, which is evident in the Direct core (ex-Mortgage) turning positive, sustained DR concentration (~6% of revenue) and strong deal wins in the mortgage portfolio. However, the BFS vertical's (~47% of revenue) performance was weak (-4.2% QoQ/-21.3% YoY) due to a decline in the mortgage business. Excluding Mortgage, BFS reported a decline of 11.4% YoY.
- The management said that the deal pipeline is healthy and diversified across business verticals and service lines. BFS still contributes meaningfully (~38%) to the overall pipeline (up 21% YoY in 2Q). Although 2Q witnessed some recovery in terms of converting the pipeline into TCV, the TCV-to-revenue conversion remained challenging. MPHL is also doubling its efforts to diversify its ex-BFS portfolio and ex-Top 10 accounts with continued investments in leadership hiring, which is showing early signs of recovery in other verticals.
- The management was confident of delivering positive growth (Organic) in 3Q/4Q on the back of an anticipated ramp-up from the deals won in 1H. We have incorporated Silverline in our estimates as it should start contributing to revenue in 2H. Considering the 2Q revenue miss, we are adjusting our organic revenue estimates while building incremental revenue through Silverline. As a result, our FY24E/FY25E EPS broadly remains unchanged.
- The management has demonstrated its ability to maintain margins in a tight range. We see FY24 margins at 15.6% (lower end of the guided range of 15.25%-16.25%) before improving to 16.4% in FY25. This should result in INR PAT growth of 12.5% over FY23-25E. We believe that the current valuation of 20x FY25E EPS fairly factors in near-term earnings growth. Our TP of INR2,290 implies 21x FY25E EPS.

Miss on revenue but beat on margins; deal TCV moderates

- In 2QFY24, revenue was down 10.1% YoY CC, INR EBIT fell 5.8% YoY, and INR PAT declined 6.3% YoY.
- Revenue at USD398.5m was flat QoQ CC and was below our estimate of 1.4% QoQ growth. Direct revenue was up 0.3% QoQ in CC, while DXC revenue declined 6.1% QoQ in CC.

Bloomberg	MPHL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USDb)	409.2 / 4.9
52-Week Range (INR)	2552 / 1660
1, 6, 12 Rel. Per (%)	-11/13/-10
12M Avg Val (INR M)	1142

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	138.0	136.4	158.2
EBIT Margin	15.3	15.6	16.4
PAT	16.4	16.8	20.7
EPS (INR)	86.9	88.2	109.0
EPS Gr. (%)	15.8	1.4	23.7
BV/Sh. (INR)	421.2	456.3	500.2

Ratios

RoE (%)	22.0	20.3	23.0
RoCE (%)	19.1	17.5	19.7
Payout (%)	60.0	60.5	60.5

Valuations

P/E (x)	24.9	24.6	19.9
P/BV (x)	5.1	4.8	4.3
EV/EBITDA (x)	15.9	15.3	12.8
Div Yield (%)	2.4	2.5	3.0

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	55.6	55.6	55.7
DII	22.7	21.2	17.8
FII	16.6	17.2	20.7
Others	5.2	6.1	5.8

FII Includes depository receipts

- New TCV stood at USD255m (down 15.6% YoY) vs. USD USD707m in 1Q.
- Utilization (excl. trainees) declined 300bp QoQ to 80%. Headcount declined by 200 QoQ in 2Q.
- EBIT margin at 15.5% was above our estimate of 15.3%. PAT was down 1.0% QoQ at INR3.9b (est. INR4.0b), due to higher interest expenses at INR340m (vs. INR241 in 1Q).

Key highlights from the management commentary

- Despite weak macro and furlough impact, the management remains confident of reporting growth in 3QFY24 followed by a stronger performance in 4QFY24. Inorganic revenue should further support growth.
- The anticipated recovery in the mortgage business did not happen in 2Q as deals were pushed to 3Q. Logistics and Travel continued to do well. The traction continued in airline. It expects good growth thanks to a strong order book.
- The acquisition of Silverline will help MPHL improve its Salesforce capabilities and unlock a wider TAM. Silverline provides digital transformation and consultancy services on Salesforce in the BFSI, Retail, Healthcare and Media segments. Silverline posted revenue of USD76m in CY22, translates to 1.7x EV/Sales
- Adjusting for the M&A charge (70-80bp of revenue), the management is confident of maintaining margins in a narrow band of 15.25-16.25%, with an upward bias for the rest of the year.

Valuation and view – Maintain Neutral

- The weakness persists in the mortgage business; however, the pace of deceleration has started easing, which is giving confidence to the management to reduce near-term leakages while building growth on 1H wins.
- We factor in the Q1 revenue miss while baking in incremental revenue from Silverline. As a result, our FY24/FY25 EPS estimates remain largely unchanged. We believe that the current valuation of 20x FY25E EPS fairly factors in near-term earnings growth. **Hence, we remain Neutral with a TP of INR2,290 (21x FY25E EPS).**

Quarterly performance

Quarterly performance											(INR m)	
Y/E March	FY23				FY24				FY23	FY24E	FY24 2QE	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue (USD m)	436	440	429	412	398	398	424	437	1,718	1,658	404	-1.4
QoQ (%)	1.2	1.0	-2.5	-4.1	-3.4	0.1	6.5	3.0	7.8	-3.5	1.5	-137bp
Revenue (INR m)	34,113	35,198	35,062	33,612	32,520	32,765	35,018	36,083	1,37,985	1,36,385	33,384	-1.9
YoY (%)	26.8	22.7	12.2	2.5	-4.7	-6.9	-0.1	7.4	15.4	-1.2	-5.2	-176bp
GPM (%)	29.8	28.1	28.5	29.2	29.1	28.9	29.6	30.3	28.9	29.5	29.2	-35bp
SGA (%)	12.2	10.5	10.8	11.4	11.1	10.7	11.4	11.4	11.2	11.1	11.2	-52bp
EBITDA	6,001	6,177	6,175	5,987	5,869	5,956	6,373	6,805	24,340	25,003	6,009	-0.9
EBITDA Margin (%)	17.6	17.5	17.6	17.8	18.0	18.2	18.2	18.9	17.6	18.3	18.0	18bp
EBIT	5,205	5,376	5,354	5,152	4,995	5,067	5,423	5,826	21,087	21,311	5,112	-0.9
EBIT Margin (%)	15.3	15.3	15.3	15.3	15.4	15.5	15.5	16.1	15.3	15.6	15.3	15bp
Other income	125	174	156	189	263	150	280	289	644	982	267	-43.8
ETR (%)	24.6	24.6	25.2	24.1	24.7	24.9	24.9	24.9	24.6	24.8	25.0	-14bp
PAT	4,020	4,184	4,123	4,053	3,961	3,920	4,285	4,594	16,380	16,761	4,034	-2.8
QoQ (%)	2.5	4.1	-1.5	-1.7	-2.3	-1.0	9.3	7.2			1.8	
YoY (%)	18.3	17.1	15.3	3.4	-1.5	-6.3	3.9	13.4	13.2	2.3	-3.6	
EPS (INR)	21.2	22.1	21.8	21.5	20.9	20.6	22.5	24.2	86.9	88.2	21.3	-3.3

E: MOFSL estimates

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Margins										
Gross Margin	29.8	28.1	28.5	29.2	29.1	28.9	29.6	30.3	28.9	29.5
EBIT Margin	15.3	15.3	15.3	15.3	15.4	15.5	15.5	16.1	15.3	15.6
Net Margin	11.8	11.9	11.8	12.1	12.2	12.0	12.2	12.7	11.9	12.3
Operating metrics										
Headcount	36,899	36,876	35,450	34,042	33,961	33,771			34,042	
Deal Win TCV (USD m)	302	302	401	309	707	255			1314	
Key Verticals (YoY%)										
BFS	23.8	13.6	0.6	-6.9	-14.8	-21.3			6.8	
Insurance	36.0	8.2	-2.7	-1.5	-7.2	16.9			9.1	
IT, Comm, Ent	21.0	18.1	1.9	1.1	-3.9	21.0			10.0	
Key Geographies (YoY%)										
North America	29.6	20.3	5.6	-5.1	-10.1	-12.7			11.4	
Europe	-3.6	-6.8	-7.3	-4.2	-2.4	10.0			-5.5	



Key highlights from the management commentary

Demand and industry outlook

- The weakness in BFS continued to impact 2QFY24. On the other hand, there is good traction in travel and healthcare. The adoption of AI remains strong.
- The mortgage business declined 7% during the quarter, bringing DR (digital risk) to just 6% of revenue vs. 11% last year. The order book appears to be bottoming out of DR.
- The anticipated recovery in the mortgage business did not happen in 2Q as deals were pushed to 3Q.
- Despite weak macro and furlough impacts, the management remains confident of growing in 3QFY24 followed by a stronger 4QFY24. Inorganic revenue should further aid this growth.
- Logistics and Travel continued to do well. Traction continues in airline as well. Memphis expects good growth thanks to a strong order book.
- The tightening of spending is visible across the BFSI space due to overcapacity there. While clients are cutting back on discretionary spending, transformation projects are still happening.
- The merger of two of its top 10 BFSI clients presents a good opportunity for MPHL on account of integration.
- MPHL has strong partnerships with hyperscalers and sees lots of opportunities there.
- The recent acquisition of Silverline will help MPHL improve its Salesforce capabilities and unlock a wider TAM. Silverline provides digital transformation and consultancy services on Salesforce. It has the highest-tier partnership with Salesforce and presents a strong opportunity in the area of customer experience transformation.
- Silverline has a presence in BFSI, Retail, Healthcare and Media. MPHL sees good cross-selling opportunities with Silverline, as it brings strong marquee clients. Silverline was consolidated w.e.f. 1st Oct'23.
- After record deal conversions in 1QFY24, 2QFY24 deal signing activity moderated. The management suggested that deal wins can be lumpy in nature.

- The diversification efforts from the management translated into a strong order book (ex BFSI). BFSI contributed to 38% of the pipeline in 2QFY24. There is a constant shift in the pipeline towards larger deals.
- The deal pipeline of healthcare was up 3x YoY, with two-thirds of the pipeline being application-centric. MPHL expects continuous traction there.
- Though deal conversions have improved owing to better decision-making, the revenue conversion is still slow.

Margin performance

- M&A-related expenses are expected to be around 70-80bp of revenue. These include integration expenses, retention bonuses and amortization of intangibles related to the acquisition.
- Adjusting for the M&A charge, the management is confident of maintaining margins in a narrow band of 15.25-16.25% with an upward bias for the rest of the year.

Exhibit 1: BPO largely supported 2Q growth

Services	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Application Services	70.5	(0.7)	(5.4)
BPO	16.9	4.1	(25.6)
Infrastructure Services	12.7	(0.5)	(4.8)

Source: Company, MOFSL

Exhibit 2: Weakness continues in North America

Geographies	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
North America	79.2	(2.2)	(12.7)
Europe	12.0	15.2	10.0
India	6.0	5.3	10.4
Rest of the World	2.9	0.1	(16.7)

Source: Company, MOFSL

Exhibit 3: Weakness in BFS continues in Q2

Verticals	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Banking and Financial Services	47.1	(4.2)	(21.3)
Insurance	10.8	2.3	16.9
Technology, Media, and Telecom	17.3	15.0	21.0
Logistics and Transportation	13.4	(5.4)	(4.7)
Others	11.4	4.1	(12.4)

Source: Company, MOFSL

Exhibit 4: Weakness in top account

	Contribution to revenue (%)	Growth QoQ (%)	Growth YoY (%)
Top client	16.0	(5.8)	(9.5)
Top 2-5 clients	31.0	3.4	(15.0)
Top 6-10 clients	11.0	(8.2)	(17.0)

Source: Company, MOFSL

Valuation and view – Maintain Neutral

- The weakness persists in the mortgage business; however, the pace of deceleration has started easing, which is giving confidence to the management to reduce near-term leakages while building growth on 1H wins.
- Factoring in the Q1 revenue miss while baking in incremental revenue from Silverline, we keep our FY24E/FY25E EPS largely unchanged. We believe that the current valuation of 20x FY25E EPS fairly factors in near-term earnings growth. **Hence, we remain Neutral with a TP of INR2,290 (21x FY25E EPS).**

Exhibit 5: Revisions to our estimates

	Revised		Earlier		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
USD:INR	82.7	83.0	82.7	83.0	0.0%	0.0%
Revenue (USD m)	1,658	1,916	1,641	1,871	1.0%	2.4%
Growth (%)	(3.5)	15.5	(4.5)	14.0	100bps	150bps
EBIT margin (%)	15.6	16.4	15.6	16.6	0bps	-10bps
PAT (INR m)	16,761	20,727	16,705	20,450	0.3%	1.4%
EPS (INR)	88.2	109.0	88.3	108.1	-0.1%	0.9%

Source: MOFSL

Exhibit 6: Operating metrics

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Geographical contribution (%)									
Americas	78.0	80.3	81.5	82.3	82.2	81.8	80.8	81.1	79.2
EMEA	12.1	11.3	10.7	9.7	9.8	10.1	10.7	10.4	12.0
India	5.4	5.1	4.9	5.0	4.9	5.1	5.5	5.7	6.0
RoW	4.5	3.3	3.0	2.9	3.1	3.0	3.0	2.9	2.9
Vertical contribution (%)									
Banking and Capital Market	54.6	55.3	53.6	53.4	54.2	53.6	53.1	49.3	47.1
Insurance	8.8	8.8	9.5	8.9	8.3	8.3	7.6	10.5	10.8
IT, Communications, and Entertainment	12.5	13.2	13.3	13.4	12.9	12.9	12.7	15.1	17.3
Logistics and Transportation	13.1	12.7	12.8	13.0	12.7	13.0	13.6	14.2	13.4
Others	11.0	10.1	10.7	11.4	11.8	12.2	13.0	11.0	11.4
Revenue by project type (%)									
Time and Material	58.1	54.9	54.7	54.5	56.0	56.8	58.1	57.7	58.5
Transaction-based	16.0	16.1	15.6	15.6	13.9	12.7	11.1	10.2	10.3
Fixed price	25.9	29.0	29.7	29.9	30.0	30.5	30.8	32.0	31.2
Revenue by delivery location (%)									
Onsite	58.2	58.7	58.4	58.3	56.8	55.2	53.5	52.1	52.1
Offshore	41.8	41.3	41.6	41.7	43.2	44.8	46.6	47.9	47.9
Secondary market segment (%)									
Direct International	91.8	92.8	93.1	93.5	93.7	93.6	94.6	94.9	95.1
DXC	6.5	5.4	5.2	4.8	4.6	4.8	3.8	3.5	3.2
Others	1.7	1.8	1.7	1.7	1.6	1.7	1.7	1.7	1.7
Service type (%)									
Application services	61.1	62.7	65.4	66.0	67.4	69.4	70.7	71.0	70.5
BPO	26.1	24.8	23.3	22.2	20.5	17.9	16.4	16.2	16.9
Infrastructure services	12.8	12.6	11.3	11.8	12.1	12.6	12.9	12.8	12.7
Client contribution (%)*									
Top client					16			17	16
Top 2-5 clients					33			30	31
Top 6-10 clients					12			12	11
New clients added					5			5	5
Clients contributing more than:*									
Over USD100m					4			3	3
Over USD75m					6			5	4
Over USD50m					6			6	6
Over USD20m					11			12	11
Over USD10m					23			26	26
Over USD5m					44			46	46
Over USD1m					104			112	115
Headcount									
Onsite – billable									
Tech services	4,132	4,392	4,704	4,652	5,082	4,806	4,669	4,517	4,504
BPO	2,863	2,535	2,451	2,134	2,056	1,828	1,606	1,307	1,319
Offshore – billable									
Tech services	15,673	16,543	17,406	18,788	18,514	17,454	16,799	16,005	15,425
BPO	5,476	5,242	5,282	5,212	5,839	6,176	6,234	6,459	6,418
Total billable headcount	28,144	28,712	29,843	30,786	31,491	30,264	29,308	28,288	27,666
Total headcount	32,295	34,915	36,534	36,899	36,876	35,450	34,042	33,961	33,771

*Restated Client metrics due to merger (among its top 1-5 accounts)

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenues	65459	77311	88436	97222	1,19,616	1,37,985	1,36,385	1,58,196
Cost Of Goods Sold	47,308.0	55,754.0	61,376.5	67,723.0	84,664	98,128	96,178	1,09,933
SG&A Expenses	7,525	8,317	10,536	11,472	13,570	15,517	15,204	18,669
EBITDA	10,626	13,240	16,524	18,027	21,382	24,340	25,003	29,594
% of Net Sales	16	17	19	19	17.9	17.6	18.3	18.7
Depreciation	709	759	2,317	2,418	2,906	3,253	3,692	3,591
Other Income	1,490	1,592	967	696	861	644	982	1,582
PBT	11,407	14,073	15,174	16,305	19,337	21,731	22,292	27,585
Tax	2,900	3,339	3,306	4,139	4,870	5,351	5,532	6,858
Rate (%)	25	24	22	25	25.2	24.6	24.8	24.9
Net Income	8,507	10,734	11,868	12,166	14,467	16,380	16,761	20,727

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	1,933	1,862	1,865	1,870	1,878	1,884	1,884	1,884
Reserves	52,885	50,636	56,431	63,397	67,553	77,464	84,144	92,435
Net Worth	54,818	52,498	58,296	65,267	69,431	79,348	86,028	94,319
Loans	3,899	5,466	5,713	5,135	5,272	1,985	1,985	1,985
Other long term liabilities	1,016	1,235	7,567	7,285	9,030	8,768	8,829	9,003
Capital Employed	59,732	59,199	71,576	77,687	83,734	90,101	96,842	1,05,307
Net Block	1,829	2,126	8,823	8,869	10,388	11,281	8,953	6,944
CWIP	19	16	74	31	110	55	55	55
Goodwill	17,015	19,585	21,405	21,326	27,348	29,586	29,586	29,586
Investments	3,169	2,592	3,479	3,114	3,778	3,848	3,848	3,848
Other assets	8,361	8,362	9,624	9,246	8,774	11,794	13,644	17,238
Curr. Assets	39,460	41,031	44,131	51,403	57,164	59,531	65,799	76,474
Debtors	8,116	18,487	17,696	18,505	22,270	25,207	25,782	30,339
Cash	7,067	6,416	11,267	9,098	9,494	10,534	12,749	12,660
Investments	14,651	10,700	9,768	16,870	14,351	13,679	16,679	20,679
Other Current Assets	9,625	5,427	5,400	6,929	11,048	10,111	10,588	12,797
Current Liab. & Prov	10,121	14,511	15,959	16,302	23,828	25,994	25,042	28,837
Sundry Liabilities	9,875	14,428	15,891	15,806	22,744	24,883	23,950	27,571
Provisions	246	83	68	497	1,084	1,110	1,091	1,266
Net Current Assets	29,339	26,519	28,172	35,100	33,336	33,538	40,757	47,638
Application of Funds	59,732	59,199	71,576	77,687	83,734	90,102	96,842	1,05,307

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	43.3	55.5	63.1	64.2	75.1	86.9	88.2	109.0
Cash EPS	46.9	59.4	75.5	77.0	90.2	104.2	107.6	127.9
Book Value	279.2	274.1	312.9	349.3	365.3	421.2	456.3	500.2
DPS	20.1	27.0	35.0	65.0	45.7	52.2	53.3	66.0
Payout %	46.5	48.6	55.4	101.2	60.8	60.0	60.5	60.5
Valuation (x)								
P/E	50.1	39.1	34.4	33.8	28.9	24.9	24.6	19.9
Cash P/E	46.3	36.5	28.7	28.2	24.0	20.8	20.2	17.0
EV/EBITDA	38.4	30.5	23.5	21.3	18.4	15.9	15.3	12.8
EV/Sales	6.2	5.2	4.4	4.0	3.3	2.8	2.8	2.4
Price/Book Value	7.8	7.9	6.9	6.2	5.9	5.1	4.8	4.3
Dividend Yield (%)	0.9	1.2	1.6	3.0	2.1	2.4	2.5	3.0
Profitability Ratios (%)								
RoE	14.6	20.0	21.4	19.7	21.5	22.0	20.3	23.0
RoCE	12.5	17.4	18.6	16.8	18.3	19.1	17.5	19.7
Turnover Ratios								
Debtors (Days)	45	87	73	69	68	67	69	70
Fixed Asset Turnover (x)	32.2	39.1	16.2	11.0	12.4	12.7	13.5	19.9

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
CF from Operations	8,832	10,918	12,788	14,999	18,497	20,397	19,471	22,736
Chg. in Wkg. Capital	-1,502	-1,421	422	-453	-1,501	-5,779	-3,793	-6,390
Net Operating CF	7,330	9,497	13,210	14,545	16,996	14,618	15,678	16,347
Net Purchase of FA	-313	-2,511	-1,243	-1,252	-1,192	-1,112	-1,364	-1,582
Free Cash Flow	7,016	6,986	11,967	13,293	15,805	13,506	14,314	14,765
Net Purchase of Invest.	5,238	5,404	2,652	-6,967	-1,629	2,936	-2,018	-2,418
Net Cash from Invest.	4,925	2,893	1,408	-8,219	-2,820	1,825	-3,382	-4,000
Proceeds from equity	2	104	151	268	442	271	0	0
Proceeds from LTB/STB and others	3,624	1,554	-3,863	-2,356	-2,152	-7,153	0	0
Dividend Payments	-15,010	-14,604	-6,065	-6,527	-12,177	-8,652	-10,056	-12,436
Net CF from Financing	-11,383	-12,947	-9,777	-8,615	-13,887	-15,534	-10,056	-12,436
Net Cash Flow	871	-556	4,842	-2,288	289	908	2,239	-90
Exchange difference	52	-94	10	120	107	132	-24	0
Opening Cash Balance	6,144	7,067	6,416	11,267	9,098	9,494	10,534	12,749
Add: Net Cash	923	-651	4,851	-2,169	396	1,040	2,215	-90
Closing Cash Balance	7,067	6,416	11,267	9,098	9,494	10,534	12,749	12,660

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