

Mphasis Limited	CMP Rs. 673.0 BUY	Result Update Q1FY10
Raunak Onkar raunak@ppfas.com		

Mphasis reported a decent growth this quarter over the same period last year. As compared to the January 2009 quarter, the topline grew by ~21% and the bottomline by ~27%. The topline grew from Rs. 9,776 Mn to Rs. 11,915 Mn over a bottomline growth of Rs. 2,100 Mn to Rs. 2,682 Mn. The bottomline growth is inclusive of the forex gain this quarter.

Margins for the services business have been averaging at ~33% but the margins for the BPO & ITO business have shown a decline of ~5% each. This may be attributed to the clients re-negotiating their contracts with the company. Although Mphasis still has margins above the industry average for most of their service lines. The drop in the margin must be looked over a period of few quarters or even years to get an actual idea of how the segment performs in the long run. This might also be a quarter effect. Also the attrition rate, this quarter seemed higher than normal for the ITO business, going from 8% on an average to 16%. A trend cannot be associated, but this metric can be studied vis-a-vis the margins & its over all impact on the utilization rates of individual segments over an extended timeline. Utilization rates are also higher than the industry average.

The cash position of the company is at ~\$250Mn. The management have chalked out a growth strategy not unlike any business with loads of cash at their disposal. They believe in growing the business by ramping up offshore development centers and real-estate or even through some strategic acquisition.

As of now, 71% of the revenue comes from / through HP. It remains to be seen how the company will grow along its own capability acquiring its own client and not just enjoying the business from its parent.

Valuation:

Currently Mphasis trades at a PE of 14 (TTM). But looking apart from a pure valuation perspective, we need to ask if anything has changed in the basic assumption of this company ever since we have been tracking it. Most of the expectations have been in line except for the de-listing angle to the story. The probability of that happening is still on the horizon, but no one can say for sure when that would be played. The business with all its segments is growing on account of a positive influence of its parent.

Concerns about the company's business from its various segments and its relationship with the parent and the rival subsidiary might come up. But even taking that into the picture, the quantitative reality cannot be disregarded.

We recommend a BUY for Mphasis.

Quarterly Financials

Earnings Statement					
YE October (Rs. Mn.)	QE Jan 10	QE Oct 09	Q-Q (%)	QE Jan 09	Y-Y(%)
Net Revenues	11,915.6	11,321.8	5.24%	9,776.6	21.88%
Cost of Revenues	7,793.6	7,241.8	7.62%	6,117.6	27.40%
Gross Profit	4,122.0	4,080.0	1.03%	3,659.0	12.65%
SG&A	983.4	1,134.5	-13.32%	1,067.3	-7.86%
Provision for Doubtful debts	3.1	0.0		0.0	
Total Expenditure	8,780.1	8,376.3	4.82%	7,184.9	22.20%
Operating Profit	3,135.5	2,945.5	6.45%	2,591.7	20.98%
OPM (%)	26.31%	26.02%	1.15%	26.51%	-0.74%
Forex Gain/(Loss)	239.8	153.0		30.9	
Other Income	89.9	72.2	24.54%	33.6	167.61%
Depreciation	457.7	470.5	-2.72%	485.8	
PBT	3,465.2	3,170.7	9.29%	2,656.2	30.46%
Tax	324.8	250.6	29.63%	70.2	362.68%
PAT Before MI	2,682.7	2,449.6	9.51%	2,100.2	27.74%
PAT	2,682.7	2,449.6	9.51%	2,100.2	27.74%
Equity Capital	2,096.6	2,095.8	0.04%	2,089.4	0.34%
EPS	12.7	11.7	8.80%	10.0	27.17%

Ratio Analysis					
YE October (Rs. Mn.)	QE Jan 10	QE Oct 09	Q-Q(bps)	QE Jan 09	Y-Y(bps)
GPM (%)	34.59%	36.04%	(144.3)	37.43%	(283.3)
OPM (%)	26.31%	26.02%	29.8	26.51%	(19.5)
PBT (%)	29.08%	28.01%	107.6	27.17%	191.2
PAT (%)	22.51%	21.64%	87.8	21.48%	103.2

Segmental Analysis

Particulars (Rs. Mn.)	QE Jan 10	QE Oct 09	Q-Q(%)	QE Jan 09	Y-Y(%)
Revenues					
Application Services	8,095.9	7,180.9	12.74%	6,414.5	26.21%
BPO Services	1,849.4	1,943.3	-4.83%	1,770.5	4.46%
ITO Services	1,970.3	2,121.5	-7.13%	1,667.7	18.14%
Total	11,915.6	11,245.7	5.96%	9,852.7	20.94%
Profits					
Application Services	2,721.3	2,308.3	17.89%	2,217.0	22.75%
BPO Services	332.4	460.7	-27.85%	404.0	-17.72%
ITO Services	652.5	805.0	-18.94%	652.8	-0.05%
Total	3,706.2	3,574.0	3.70%	3,273.8	13.21%
Margins					
Application Services	33.61%	32.14%	146.8	34.56%	(94.9)
BPO Services	17.97%	23.71%	(573.4)	22.82%	(484.5)
ITO Services	33.12%	37.94%	(482.8)	39.14%	(602.7)
Total	31.10%	31.78%	(67.7)	33.23%	(212.4)

Financials

Earnings Statement

YE October (Rs. Mn.)	FY06	FY07	FY08	7ME Oct 08	Oct09
Net Sales	9,401.1	17,606.2	24,230.7	19,065.2	42,638.8
Cost of Revenues	6,485.6	13,187.7	18,735.7	14,254.6	28,793.2
Selling Expenses	584.6	918.4	952.7	727.7	1,804.0
General & Admin Expenses	868.1	1,456.7	1,750.5	1,203.6	2,781.2
Total Expenditure	7,938.3	15,562.8	21,438.9	16,185.9	33,386.4
Operating Profit	1,462.8	2,043.4	2,791.8	2,879.3	9,252.4
Other Income/Forex Gain	76.5 -	135.4 -	215.1	172.4	447.2
EBIT	1,539.3	1,908.1	2,576.7	3,051.7	9,699.6
Interest	(17.5)	(75.1)	(84.9)	(45.4)	(27.9)
PBT	1,556.8	1,983.2	2,661.6	3,097.1	9,727.5
Tax	58.2	182.5	108.7	142.7	640.7
PAT	1,498.6	1,800.7	2,552.9	2,954.4	9,086.8

Ratio Analysis

YE October (Rs. Mn.)	FY06	FY07	FY08	7ME Oct 08	Oct09
OPM (%)	15.6%	11.6%	11.5%	15.1%	21.7%
EBITDA (%)	16.4%	10.8%	10.6%	16.0%	22.7%
PBIT (%)	16.4%	10.8%	10.6%	16.0%	22.7%
PAT (%)	15.9%	10.2%	10.5%	15.5%	21.3%
EPS (Rs.)	8.9	8.4	11.9	13.7	43.4
P/E (x)	75.6	80.3	56.6	49.0	15.5
P/BV (x)	17.2	14.3	12.5	10.1	6.0
BVPS (Rs.)	39.2	46.9	53.9	66.8	111.9
Market Cap (Rs. Mn.)	113,332.6	144,632.1	144,562.2	144,696.4	141,045.9
M Cap/Sales (x)	12.1	8.2	6.0	7.6	3.3
EV (Rs. Mn.)	113,369.5	144,660.5	144,619.0	144,750.2	141,079.1
EV/EBITDA (x)	73.6	75.8	56.1	47.4	14.5
EV/Sales (x)	12.1	8.2	6.0	7.6	3.3
ROCE (%)	23.2%	18.9%	22.2%	21.2%	41.3%
RONW (%)	22.7%	17.9%	22.1%	20.6%	38.7%
Debtors T/o Days	82.3	87.5	87.4	98.4	77.6
Advances T/o Days	27.6	31.3	44.5	37.5	62.0
Creditors T/o Days	32.5	41.0	45.6	47.3	54.9
Working Cap T/o Days	91.0	97.6	79.6	77.9	76.6
Fixed Assets T/o (Gross)	3.0	3.1	3.1	2.0	2.0
DPS (Rs.)	2.9	2.3	3.3	1.9	3.5
Dividend Payout (%)	32.5%	27.5%	27.8%	14.2%	8.1%
Dividend Yield (%)	0.4%	0.3%	0.5%	0.3%	0.5%

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Mphasis

- YES
YES
YES

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Contact

Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Raunak Onkar	Analyst - Investment Research	raunak@ppfas.com	91 22 2284 6555 Extn 323

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Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

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