

Mphasis Limited

CMP Rs. 517.0
BUY

QE JULY 09
Result Review

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Mphasis reported an impressive quarter showing topline & bottomline growth of 42% & 128% respectively. In spite of Re. appreciation, the company reported a growth owing to mainly volume increase. HP – EDS still remains a large part of overall business, showing a contribution this quarter of ~10-12%. This is in sync with HP – EDS' work distribution guideline & minimal overlap between the services delivered. Seven clients were added in the current quarter.

This quarter's highlight is the AIGSS acquisition. The AIG acquisition might show up in the consolidated numbers from Q1FY10. The acquisition will allow greater access to the AIG business, which will also ensure some assured revenue from the previous parent. It also ensures better penetration in the insurance vertical. BFSI is an important vertical for the company which brings in ~40% revenues in this quarter. Since BFSI is the most affected vertical during the past one year, significant growth can be sought from it in revival. Mphasis seems to be well placed to pounce on this opportunity as it unfolds.

The strategy of the company looks sound, focusing more on revenue growth. ITO is one of the fastest growing markets right now which also ensures a lot of competition. Their main focus area seems to be the ITO business which has seen a doubling of revenues since the past 9 months. Major part of the ITO business is seen coming from HP – EDS relationship. In the application services segment, maintenance revenues bring in majority of the revenues owing to an overall slowdown in new projects. BPO revenues also remain positive & utilization rates for all three segments are amongst the highest in the industry.

An interesting fact to ponder over is the employee reduction as part of HP – EDS strategy. Around 16000 EDS employees have been let go with a great outlook for the EDS services business focused towards shifting to low operating cost regions. This makes us deduce that a chunk of that revenue can be seen coming offshore to India owing to the cost arbitrage. Although when & how this might pan out is still uncertain but nevertheless, is highly probable.

Mphasis trades at ~12 times earnings & we can safely assume that the business will at least clock an annual EPS of ~Rs. 41. From a purely business perspective, the outlook seems to be brilliant with assured incremental business from the parent & at the same time other growth drivers like improvement in utilization as well as an overall improvement in volumes & business mix. This attracts a certainty of growth which top of the line player like Infosys also attracts.

We recommend a BUY for Mphasis at the CMP.

Quarterly & Segmental Analysis

Earnings Statement								
YE March (Rs. Mn.)	QE Jul 09	QE Apr 09	Q-Q (%)	QE Jul 08	Y-Y(%)	9ME Jul 09	9ME Jul 08	Y-Y(%)
Net Revenues	11,055.7	10,484.7	5.45%	7,759.5	42.48%	31,317.0	20,826.5	50.37%
Cost of Revenues	6,986.4	6,555.4	6.57%	5,584.8	25.10%	19,659.4	15,309.1	28.42%
Gross Profit	4,069.3	3,929.3	3.56%	2,174.7	87.12%	11,657.6	5,517.4	111.29%
Selling Expenses	475.6	464.8	2.32%	275.6	72.57%	1,356.4	727.4	86.47%
General & Admin Expenses	674.6	1,190.6	-43.34%	436.3	54.62%	1,964.2	1,255.4	56.46%
Provision for Doubtful debts	0.0	8.0		2.1		8.0	24.4	-67.21%
Total Expenditure	8,136.6	8,218.8	-1.00%	6,298.8	29.18%	22,988.0	17,316.3	32.75%
Operating Profit	2,919.1	2,265.9	28.83%	1,460.7	99.84%	8,329.0	3,510.2	137.28%
OPM (%)	26.40%	21.61%	22.17%	18.82%	40.26%	26.60%	16.85%	57.80%
Forex Gain/(Loss)	(15.2)	123.5	-112.31%	6.5	-333.85%	139.3	11.6	1100.86%
Other Income	47.4	29.7	59.60%	33.9	39.82%	110.6	67.9	62.89%
PBT	2,951.3	2,419.1	22.00%	1,501.1	96.61%	8,578.9	3,589.7	138.99%
Tax	145.5	174.5	-16.63%	67.1	116.79%	390.2	109.8	255.37%
PAT Before MI	2,805.8	2,244.6	25.00%	1,434.0	95.66%	8,188.7	3,479.9	135.31%
PAT	2,805.8	2,244.6	25.00%	1,434.0	95.66%	8,188.7	3,479.9	135.31%
Equity Capital	2,093.3	2,089.7	0.17%	2,088.9	0.21%	2,093.3	2,088.9	0.21%
EPS	10.9	10.7	1.96%	4.8	127.08%	31.6	10.8	191.87%
Ratio Analysis								
YE March (Rs. Mn.)	QE Jul 09	QE Apr 09	Q-Q(bps)	QE Jul 08	Y-Y(bps)	9ME Jul 09	9ME Jul 08	Y-Y(bps)
GPM (%)	36.81%	37.48%	(66.9)	28.03%	878.1	37.22%	26.49%	1,073.2
OPM (%)	26.40%	21.61%	479.2	18.82%	757.9	26.60%	16.85%	974.1
PBT (%)	26.69%	23.07%	362.2	19.35%	735.0	27.39%	17.24%	1,015.8
PAT (%)	25.38%	21.41%	397.0	18.48%	689.8	26.15%	16.71%	943.9
Segmental Analysis								
YE March (Rs. Mn.)	QE Jul 09	QE Apr 09	Q-Q(%)	QE Jul 08	Y-Y(%)	9ME Jul 09	9ME Jul 08	Y-Y(%)
Revenues								
Application Services	7,039.3	6,691.1	5.20%	4,946.0	42.32%	20,091.4	13,306.9	50.98%
BPO Services	1,879.8	1,832.1	2.60%	1,668.2	12.68%	5,477.1	4,635.9	18.15%
ITO Services	2,136.6	1,961.5	8.93%	1,145.3	86.55%	5,748.5	2,883.7	99.34%
Total	11,055.7	10,484.7	5.45%	7,759.5	42.48%	31,317.0	20,826.5	50.37%
Profits								
Application Services	2,247.8	2,225.1	1.02%	1,126.7	99.50%	6,636.3	2,644.4	150.96%
BPO Services	396.5	383.2	3.47%	398.9	-0.60%	1,178.5	1,184.5	-0.51%
ITO Services	942.5	802.7	17.42%	251.4	274.90%	2,380.7	580.7	309.97%
Total	3,586.8	3,411.0	5.15%	1,777.0	101.85%	10,195.5	4,409.6	131.21%
Margins								
Application Services	31.93%	33.25%	(132.2)	22.78%	915.2	33.03%	19.87%	1,315.8
BPO Services	21.09%	20.92%	17.7	23.91%	(281.9)	21.52%	25.55%	(403.4)
ITO Services	44.11%	40.92%	318.9	21.95%	2,216.2	41.41%	20.14%	2,127.7
Total	32.44%	32.53%	(9.0)	22.90%	954.2	32.56%	21.17%	1,138.3
Business Mix								
Application Services	63.67%	63.82%	(14.7)	63.74%	(7.0)	64.15%	63.89%	26.1
BPO Services	17.00%	17.47%	(47.1)	21.50%	(449.6)	17.49%	22.26%	(477.0)
ITO Services	19.33%	18.71%	61.8	14.76%	456.6	18.36%	13.85%	451.0
Total	100.00%	100.00%		100.00%		100.00%	100.00%	
ROCE								
Application Services	42.39%	39.74%	265.0	17.94%	2,444.6	125.15%	42.12%	8,303.5
BPO Services	8.96%	7.93%	102.7	10.75%	(179.0)	26.63%	31.92%	(529.0)
ITO Services	51.41%	49.40%	201.0	47.18%	422.8	129.87%	108.99%	2,087.6
Total	31.02%	28.30%	272.9	16.89%	1,413.6	88.19%	41.91%	4,628.0

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1. Analyst Ownership of the scrip
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Mphasis

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YES
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