

## Mphasis Limited

BUY | CMP Rs. 210.0  
Target Rs. 250.0

Q1 FY09  
Result Update

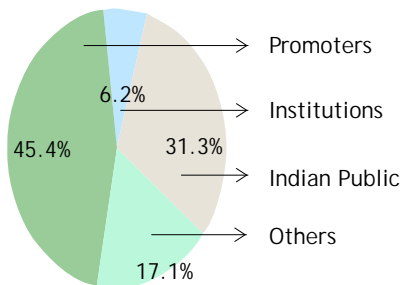
### Stock Data

Bloomberg	: MPH.L.IN
Reuters	: MBFL.BO
BSE Code	: 526299
NSE Code	: MPHASIS
BSE Group	: B

### Stock Codes

Benchmark	: BSE MID CAP
52 W High	: 321.0
52 W Low	: 150.2
Mkt Cap	: Rs. 45,108Mn
Face Value	: Rs. 10.0

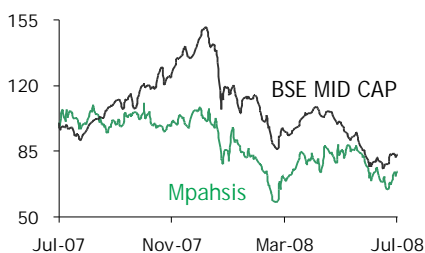
### Shareholding Pattern (as on June 08)



### Stock Returns

	1 Mth	3 Mths	6 Mths
Mphasis	4.83	-8.93	-6.99
BSEMID	8.54	-21.82	-28.14

### Price Comparison



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Mphasis has delivered encouraging results for Q109. Topline grew 12.9% Q-Q & 39.6% Y-Y. PAT grew 10.6% Q-Q & 54% Y-Y. The results are even better if one considers the impact of Rs. 93 Mn. on account of change in depreciation accounting policy and also that much of the salary increments happened in this quarter. Mphasis has moved to a slightly aggressive policy in lines with industry standards. Notwithstanding this extra hit, the PAT growth would have been higher at 24% Q-Q & 72% Y-Y.

Mphasis saw its gross margins expand both Q-Q & Y-Y and benefited primarily on account of improvement in utilization rate by a sharp 4% and lower attrition by 2% in absolute terms. Performance from the ITO & BPO divisions were notably better. ITO has seen a smart increase from ~11% in Q108 of total business to now ~15% and also seen the margins expand from ~15% to over 22%. BPO has been steady with 22% share in revenue mix and have been drawing steady margins ~25% consistently. Both these divisions has done well to absorb over 5% absolute drop in margins in the Application Services Division. The overall company performance has been maintained as the share of Applications stands gradually reduced to 63% from 66% earlier.

The trend of improvement in the business mix is likely to continue going ahead as well.

- The BPO division is witnessing a shift from voice based work to higher margin earning KPO work. Also, Mphasis intends to launch eBPO in the current fiscal.
- On the ITO front, Mphasis expects Remote Data Centre Services to grow in India as well as globally. These we believe, would auger well in terms of both margins & Return on Capital.
- On the Applications front, the scenario is conservative. The deals are taking longer to materialize on account of delayed decision making and also there are cost related margin pressures in this business. The pricing outlook is stable. While there are no client cancellations, there is clearly an increasing trend for vendor consolidation.

Mphasis saw more growth from the Non-EDS route rather than the EDS channel. Mphasis has also been steadily increasing its SGA spend to tap external clients. Most clients from the EDS channel are in the BFSI segment. Also, the growth from EDS could be more back-ended this time on account of the transition. Note that EDS & HP are undergoing a

merger. Importantly there is not much overlap between Mphasis & HP India and the consolidation is likely to auger well for Mphasis. Our elaborate opinion on this was release in our previous note. ([Click here for our Viewpoint on EDS-HP Merger](#)).

The employee strength is at 28253, after over 1200 additions in Q1. The company intends to hire ~7000 people for FY09, as against 7-8000 indicated earlier, which again has been a scaled down target from 8-10000 earlier. This would include 1500 to 2000 freshers, mostly for Applications & ITO businesses. Mphasis intends to meet its overall targets through improvement in utilization & attrition rates.

Cash Flow hedging against Balance Sheet hedging will start in H209. Tax Rates likely to be in 8%-10% range. Capex for FY09 would be ~\$ 60-70 Mn. Like Wipro, Mphasis has also expressed its intentions to get into Innovative & Disruptive Technologies. For Mphasis, the way to this would be through Autonomic Computing.

We feel that the revenue visibility at Mphasis continues to remain high despite the impending transition at the parent's end. Also we are happy on the performance of the ITO & BPO businesses. We recommend BUY with a price objective of Rs. 250 (16x FY09E).

## Mphasis : Quarterly Financials &amp; Segmental Analysis

Earnings Statement								
YE March (Rs. Mn.)	Q1FY09	Q4FY08	Q-Q(%)	Q1FY08	Y-Y(%)	FY08	FY07	Y-Y(%)
Net Revenues	7,422.1	6,575.7	12.87%	5,315.6	39.63%	24,230.7	17,606.2	37.63%
Cost of Revenues	5,472.0	4,861.5	12.56%	3,979.4	37.51%	18,047.3	13,187.7	36.85%
Gross Profit	1,950.1	1,714.2	13.76%	1,336.3	45.94%	6,183.5	4,418.5	39.94%
Selling Expenses	276.1	243.6	13.34%	246.8	11.87%	946.0	918.4	3.00%
General & Admin Expenses	837.0	806.7	3.76%	416.6	100.91%	2,410.9	1,442.0	67.19%
Provision for Doubtful debts	2.1	13.1	-83.97%	0.4	406.02%	34.8	14.7	137.61%
Total Expenditure	6,587.2	5,924.9	11.18%	4,643.2	41.87%	21,439.0	15,562.8	37.76%
Operating Profit	834.9	650.8	28.29%	672.4	24.16%	2,791.7	2,043.4	36.62%
OPM (%)	11.25%	9.90%	13.66%	12.65%	-11.08%	11.52%	11.61%	-0.73%
Forex Gain/(Loss)	(15.9)	41.8	-138.04%	(179.4)	-91.13%	(219.1)	(133.6)	64.02%
Other Income	33.3	17.1	94.74%	32.8	1.61%	89.0	73.3	21.34%
PBT	852.3	709.7	20.09%	525.9	62.07%	2,661.7	1,983.2	34.21%
Tax	62.3	(4.5)	-1484.44%	12.8	385.92%	108.8	182.5	-40.36%
PAT	790.0	714.2	10.61%	513.0	53.98%	2,552.8	1,800.7	41.77%
Equity Capital	2,088.7	2,087.3	0.07%	2,084.9	0.18%	2,087.3	2,081.8	0.26%
EPS	3.8	3.4	10.56%	2.4	54.51%	12.2	8.6	41.40%
Ratio Analysis								
YE March (Rs. Mn.)	Q1FY09	Q4FY08	Q-Q(bps)	Q1FY08	Y-Y(bps)	FY08	FY07	Y-Y(bps)
GPM (%)	26.27%	26.07%	20.6	25.14%	113.6	25.52%	25.10%	42.3
OPM (%)	11.25%	9.90%	135.2	12.65%	(140.2)	11.52%	11.61%	(8.5)
PBT (%)	11.48%	10.79%	69.1	9.89%	159.0	10.98%	11.26%	(28.0)
PAT (%)	10.64%	10.86%	(21.7)	9.65%	99.2	10.54%	10.23%	30.8
Segmental Analysis								
YE March (Rs. Mn.)	Q1FY09	Q4FY08	Q-Q(%)	Q1FY08	Y-Y(%)	FY08	FY07	Y-Y(%)
Revenues								
Application Services	4,709.0	4,162.8	13.12%	3,474.6	35.53%	15,811.1	12,100.9	30.66%
BPO Services	1,637.3	1,512.5	8.25%	1,244.2	31.59%	5,440.6	4,115.2	32.21%
ITO Services	1,075.8	900.4	19.48%	596.8	80.26%	2,979.0	1,390.0	114.32%
Total	7,422.1	6,575.7	12.87%	5,315.6	39.63%	24,230.7	17,606.2	37.63%
Profits								
Application Services	919.4	776.1	18.46%	922.6	-0.35%	3,559.4	3,206.8	11.00%
BPO Services	409.5	419.0	-2.27%	324.5	26.19%	1,355.7	986.6	37.42%
ITO Services	241.5	165.6	45.83%	89.2	170.84%	579.9	225.1	157.56%
Total	1,570.4	1,360.7	15.41%	1,336.3	17.52%	5,495.0	4,418.5	24.36%
YE March (%)	Q1FY09	Q4FY08	Q-Q(bps)	Q1FY08	Y-Y(bps)	FY08	FY07	Y-Y(bps)
Margins								
Application Services	19.52%	18.64%	88.1	26.55%	(702.9)	22.51%	26.50%	(398.8)
BPO Services	25.01%	27.70%	(269.2)	26.08%	(107.0)	24.92%	23.97%	94.5
ITO Services	22.45%	18.39%	405.7	14.94%	750.8	19.47%	16.20%	326.8
Total	21.16%	20.69%	46.6	25.14%	(398.0)	22.68%	25.10%	(241.9)
Business Mix								
Application Services	63.45%	63.31%	14.0	65.37%	(192.0)	65.25%	68.73%	(347.9)
BPO Services	22.06%	23.00%	(94.2)	23.41%	(134.7)	22.45%	23.37%	(92.0)
ITO Services	14.49%	13.69%	80.2	11.23%	326.7	12.29%	7.89%	439.9
Total	100.00%	100.00%		100.00%		100.00%	100.00%	
ROCE								
Application Services	12.58%	10.82%	176.0	16.13%	(354.2)	49.64%	53.19%	(354.9)
BPO Services	11.06%	12.14%	(108.6)	7.23%	382.8	39.30%	24.77%	1,452.3
ITO Services	21.71%	19.12%	258.9	29.79%	(807.4)	66.96%	65.99%	96.7
Total	12.96%	11.85%	110.9	12.72%	23.9	47.84%	42.68%	515.9

## Mphasis : Data Points

Revenues by Vertical /  
Industry

	Jun 08	Mar 08	Jun 07	FY08
Banking & Financial Services	40%	39%	43%	42%
Technology & OEMs	24%	25%	22%	23%
Telecom	12%	13%	14%	13%
Manufacturing & Retail	15%	13%	11%	12%
Logistics, Airlines & Transportation	5%	7%	7%	7%
Healthcare & Pharma	4%	3%	3%	3%
Total	100%	100%	100%	100%

## Revenues by Geography

	Jun 08	Mar 08	Jun 07	FY08
USA	66%	65%	68%	66%
Europe	19%	21%	18%	21%
Asia Pacific	5%	5%	6%	5%
India & Middle East	10%	9%	8%	8%
Total	100%	100%	100%	100%

## Revenues by Service Type

Industry	Jun 08	Mar 08	Jun 07	FY08
Application Maintenance & Other Services	33%	33%	35%	34%
Application Development	30%	30%	30%	31%
Customer Service	11%	12%	11%	11%
Service / Technical Help Desk	8%	8%	9%	8%
Transaction Processing Service	6%	6%	6%	6%
Infrastructure Management Services	8%	7%	5%	6%
Knowledge Processes	4%	4%	4%	4%
Total	100%	100%	100%	100%

## Revenues by Project Type

	Jun 08	Mar 08	Jun 07	FY08
Time and Material	97%	97%	97%	96%
Fixed Price	3%	3%	3%	4%
Total	100%	100%	100%	100%

Revenues by Delivery  
Location

	Jun 08	Mar 08	Jun 07	FY08
Onsite	24%	22%	24%	22%
Offshore	76%	78%	76%	78%
Total	100%	100%	100%	100%

Group - Client  
Concentration

	Jun 08	Mar 08	Jun 07	FY08
Revenues from Top Client	12%	12%	8%	10%
Revenues from Top 5 Clients	33%	31%	29%	30%
Revenues from Top 10 Clients	47%	46%	44%	46%
<u>Clients Contributing more than:</u>				
\$ 1 million Revenues	94	87	80	85
\$ 5 million Revenues	28	28	25	27
\$ 10 million Revenues	15	16	15	15
\$ 20 million Revenues	7	7	4	6
Receivables Days	43	43	41	40

## Number of Employees

	Jun 08	Mar 08	Jun 07	FY08
<u>Onsite</u>				
- Applications	1,380	1,278	1,117	1,278
- BPO	94	99	80	99
<u>Offshore</u>				
- Applications	9,137	9,165	8,237	9,165
- BPO	13,726	12,830	9,897	12,830
- ITO	3,916	3,675	2,739	3,675
Total	28,253	27,047	22,070	27,047

## Average Billing Rates (\$/Hr)

	Jun 08	Mar 08	Jun 07	FY08
<u>Onsite</u>				
- Applications	68	68	68	68
<u>Offshore</u>				
- Applications	22	22	21	22
- BPO	10	10	10	10
- ITO	21	21	20	21

## Average Utilization Rates

	Jun 08	Mar 08	Jun 07	FY08
<u>Applications</u>				
Excluding Trainees				
- Onsite	85%	82%	88%	85%
- Offshore	73%	69%	76%	73%
- Blended	75%	71%	77%	74%
Including Trainees				
- Onsite	85%	82%	88%	85%
- Offshore	69%	68%	72%	69%
- Blended	71%	69%	74%	71%



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