

## Mphasis Limited

CMP Rs. 169.0  
BUY

QE Jan 09  
Result Review

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For the quarter ended January 2009, Mphasis reported a topline & bottomline growth of 58% & 270% respectively. For the reported period of one month (October 2008), Mphasis has delivered a topline & bottomline growth of 50% & 237% respectively. For the 7-month period for the current fiscal, Mphasis has reported a topline & profit growth of 41% & 111% respectively. For the 6-month ending September 2008, sales & profits grew at 39% & 88% respectively. This reflects the extent of tremendous improvement in the growth rate itself for Mphasis. The results are extremely good even if one considers that this relatively under-hedged company gained on account of the soft INR. What we perceive is that there has been a sharp improvement in the revenues as well as margins of the Applications division as well as the ITO division. Debtor days & other data points have been consistent & there is no noteworthy change.

Mphasis had changed the quarter and financial year to November- October with effect from 1 November 2008 to align to the financial year of HP, consequent to the merger of EDS with HP.

Mphasis has been doing Rs. 700 Mn. profit per month for the last 4 months now. Assuming even a steady state scenario on the business as well as currency movement, the company should do ~ Rs. 8000 Mn. profit for the full year (after assuming a higher tax rate), or say roughly Rs. 37 EPS. Please note that this is a relatively high growth company with a much better visibility. Business through HP-EDS constituted ~45% of the overall revenues. The opportunity of further outsourcing from HP Parent (excl EDS) is still untapped. With Mr. Ganesh Iyer, Ex-President HP India joining Mphasis as CEO, it is only time that this new revenue stream start flowing in from HP parent. So the company may do even better in the coming quarters and is a prime candidate for some re-rating as well. At just 4.5 PE it is certainly very cheap. We maintain BUY.

### Data Points

Revenues by Vertical / Industry	QE Jan 09	QE Oct 08	QE Jan 08
Banking & Financial Services	43%	44%	40%
Technology & OEMs	25%	23%	23%
Telecom	9%	11%	14%
Manufacturing & Retail	13%	12%	14%
Logistics, Airlines & Transportation	5%	6%	6%
Healthcare & Pharma	5%	4%	3%
Total	100%	100%	100%

Revenues by Geography	QE Jan 09	QE Oct 08	QE Jan 08
USA	67%	69%	71%
Europe	22%	19%	19%
Asia Pacific	4%	4%	5%
India & Middle East	7%	7%	6%
Total	100%	100%	100%

Revenues by Project Type	QE Jan 09	QE Oct 08	QE Jan 08
Time and Material	94%	94%	97%
Fixed Price	6%	6%	3%
Total	100%	100%	100%

## Data Points

Revenues by Service Type	QE Jan 09	QE Oct 08	QE Jan 08
Application Maintenance & Other Services	34%	34%	36%
Application Development	31%	30%	29%
Customer Service	8%	10%	11%
Service / Technical Help Desk	8%	8%	8%
Transaction Processing Service	5%	6%	6%
Infrastructure Management Services	10%	8%	6%
Knowledge Processes	4%	4%	5%
Total	100%	100%	100%

Revenues by Delivery Location	QE Jan 09	QE Oct 08	QE Jan 08
Onsite	28%	26%	22%
Offshore	72%	74%	78%
Total	100%	100%	100%

Group - Client Concentration	QE Jan 09	QE Oct 08	QE Jan 08
Revenues from Top Client	15%	15%	12%
Revenues from Top 5 Clients	36%	33%	32%
Revenues from Top 10 Clients	50%	48%	48%
<u>Clients Contributing more than:</u>			
\$ 1 million Revenues	95	94	85
\$ 5 million Revenues	31	32	27
\$ 10 million Revenues	21	18	15
\$ 20 million Revenues	7	8	7
Receivables Days	43	41	42

Number of Employees	QE Jan 09	QE Oct 08	QE Jan 08
<u>Onsite</u>			
- Applications	1,581	1,519	1,177
- BPO	116	118	89
<u>Offshore</u>			
- Applications	9,648	9,072	9,411
- BPO	13,840	13,854	12,257
- ITO	4,779	4,232	3,597
Total	29,964	28,795	26,531

## Quarterly & Segmental Analysis

Earnings Statement						
YE March (Rs. Mn.)	QE Jan 09	QE Jan 08	Y-Y(%)	7ME Oct 08	7ME Oct 07	Y-Y(%)
<b>Net Revenues</b>	<b>9,776.6</b>	<b>6,183.3</b>	<b>58.11%</b>	<b>19,065.2</b>	<b>13,522.3</b>	<b>40.99%</b>
Cost of Revenues	6,117.6	4,597.4	33.07%	14,254.6	10,257.5	38.97%
Gross Profit	3,659.0	1,585.9	130.72%	4,810.6	3,264.8	47.35%
Selling Expenses	415.9	184.9	124.93%	727.7	589.5	23.44%
General & Admin Expenses	1,137.2	784.2	45.01%	1,192.3	992.2	20.17%
Provision for Doubtful debts	0.0	9.1	-100.00%	11.3	12.6	-10.32%
<b>Total Expenditure</b>	<b>7,670.7</b>	<b>5,575.6</b>	<b>37.58%</b>	<b>16,185.9</b>	<b>11,851.8</b>	<b>36.57%</b>
<b>Operating Profit</b>	<b>2,105.9</b>	<b>607.7</b>	<b>246.54%</b>	<b>2,879.3</b>	<b>1,670.5</b>	<b>72.36%</b>
OPM (%)	21.54%	9.83%	119.17%	15.10%	12.35%	22.25%
Forex Gain/(Loss)	30.9	(35.4)	-187.29%	163.9	(241.4)	-167.90%
Other Income	33.6	19.7	70.56%	53.9	58.8	-8.33%
PBT	2,170.4	592.0	266.62%	3,097.1	1,487.9	108.15%
Tax	70.2	24.9	181.93%	142.7	88.1	61.98%
PAT Before MI	2,100.2	567.1	270.34%	2,954.4	1,399.8	111.06%
Minority Interest	0.0	0.0		0.0	0.0	0.00%
PAT	2,100.2	567.1	270.34%	2,954.4	1,399.8	111.06%
EPS	10.0	2.7	272.12%	14.1	5.6	151.88%
Ratio Analysis						
YE March (Rs. Mn.)	QE Jan 09	QE Jan 08	Y-Y(bps)	7ME Oct 08	7ME Oct 07	Y-Y(bps)
GPM (%)	37.43%	25.65%	1,177.8	25.23%	24.14%	108.9
OPM (%)	21.54%	9.83%	1,171.2	15.10%	12.35%	274.9
PBT (%)	22.20%	9.57%	1,262.6	16.24%	11.00%	524.1
PAT (%)	21.48%	9.17%	1,231.0	15.50%	10.35%	514.5
Tax Rate (%)	3.23%	4.21%	(97.2)	4.61%	5.92%	(131.4)

Segmental Analysis						
YE March (Rs. Mn.)	QE Jan 09	QE Jan 08	Y-Y(%)	7ME Oct 08	7ME Oct 07	Y-Y(%)
<b>Revenues</b>						
Application Services	6,414.5	3,979.0	61.21%	12,207.8	7,477.9	63.25%
BPO Services	1,770.5	1,420.5	24.64%	4,001.2	2,558.7	56.38%
ITO Services	1,667.7	783.8	112.77%	2,856.2	1,295.9	120.40%
<b>Total</b>	<b>9,852.7</b>	<b>6,183.3</b>	<b>59.34%</b>	<b>19,065.2</b>	<b>11,332.5</b>	<b>68.23%</b>
<b>Profits</b>						
Application Services	2,217.0	736.1	201.18%	2,977.8	1,862.5	59.88%
BPO Services	404.0	364.2	10.93%	1,081.0	636.3	69.89%
ITO Services	652.8	138.5	371.34%	751.8	264.4	184.34%
<b>Total</b>	<b>3,273.8</b>	<b>1,238.8</b>	<b>164.27%</b>	<b>4,810.6</b>	<b>2,763.2</b>	<b>74.10%</b>
<b>Capital Employed</b>						
Application Services	5,416.8	4,291.2	26.23%	7,284.8	6,572.8	10.83%
BPO Services	5,236.3	4,710.5	11.16%	4,429.7	3,591.2	23.35%
ITO Services	1,790.5	659.8	171.37%	1,683.8	570.6	195.09%
<b>Total</b>	<b>12,443.6</b>	<b>9,661.5</b>	<b>28.80%</b>	<b>13,398.3</b>	<b>10,734.6</b>	<b>24.81%</b>
YE March (%)	QE Jan 09	QE Jan 08	Y-Y(bps)	7ME Oct 08	7ME Oct 07	Y-Y(bps)
<b>Margins</b>						
Application Services	34.56%	18.50%	1,606.3	24.39%	24.91%	(51.4)
BPO Services	22.82%	25.64%	(282.0)	27.02%	24.87%	214.9
ITO Services	39.14%	17.67%	2,147.3	26.32%	20.40%	591.9
<b>Total</b>	<b>33.23%</b>	<b>20.03%</b>	<b>1,319.3</b>	<b>25.23%</b>	<b>24.38%</b>	<b>84.9</b>
<b>Business Mix</b>						
Application Services	65.10%	64.35%	75.3	64.03%	65.99%	(195.4)
BPO Services	17.97%	22.97%	(500.3)	20.99%	22.58%	(159.1)

## Financials

Earnings Statement					Balance Sheet				
YE March (Rs. Mn.)	FY07	FY08	7ME Oct 08	12ME Oct 09E	YE March (Rs. Mn.)	FY07	FY08	7ME Oct 08	12ME Oct 09E
Net Sales	17,606.2	24,230.7	19,065.2	43,408.1	Equity Capital	2,149.1	2,148.0	2,150.0	2,150.0
Cost of Revenues	13,187.7	18,735.7	14,254.6	14,254.6	Reserves	7,935.9	9,420.7	12,213.4	18,319.2
Selling Expenses	918.4	952.7	727.7	1,846.6	Shareholders Funds	10,085.0	11,568.8	14,363.4	20,469.3
General & Admin Exp.	1,456.7	1,750.5	1,203.6	5,089.2	Borrowed Funds	28.4	56.8	53.8	53.8
Total Expenditure	15,562.8	21,438.9	16,185.9	34,369.5	Total Liabilities	10,113.4	11,625.5	14,417.2	20,523.1
Operating Profit	2,043.4	2,791.8	2,879.3	9,038.6	Fixed Assets	2,518.3	3,632.8	4,136.1	5,133.6
Other Income/Forex Gain	- 135.4 -	215.1	172.4	16.4	Goodwill	2,710.5	2,710.5	2,710.5	2,710.5
EBIT	1,908.1	2,576.7	3,051.7	9,055.0	Current Assets				
Interest	(75.1) -	84.9 -	45.4 -	27.3	Sundry Debtors	4,221.6	5,804.4	8,811.9	11,298.0
PBT	1,983.2	2,661.6	3,097.1	9,082.2	Loans & Advances	1,508.3	2,955.6	3,356.9	4,757.1
Tax	182.5	108.7	142.7	1,089.9	Cash & Bank Balance	1,892.6	952.5	545.9	1,663.6
PAT	1,800.7	2,552.9	2,954.4	7,992.4	Current Liabilities				
					Sundry Creditors	1,975.3	3,025.9	4,239.6	4,162.4
					Provisions	939.9	1,403.0	1,497.9	1,470.6
					Net Current Assets	4,707.1	5,283.6	6,977.3	12,085.7
					Deferred Tax Assets	177.4	260.1	344.5	344.5
					Total Assets	10,113.4	11,625.5	14,417.2	20,523.1
Ratio Analysis					Cash Flow				
YE March (Rs. Mn.)	FY07	FY08	7ME Oct 08	12ME Oct 09E	Particulars	FY07	FY08	7ME Oct 08	12ME Oct 09E
OPM (%)	11.6%	11.5%	15.1%	20.8%	Opening Cash & Bank	988.5	1,892.6	952.5	545.9
EBITDA (%)	10.8%	10.6%	16.0%	20.9%	Profit After Tax	1,800.7	2,552.9	2,954.4	7,992.4
PBIT (%)	10.8%	10.6%	16.0%	20.9%	Less : Invnt Income	1.8	(4.0)	(8.5)	(16.4)
PAT (%)	10.2%	10.5%	15.5%	18.4%	Depreciation	1,692.6	1,329.2	1,116.1	1,821.8
EPS (Rs.)	8.4	11.9	13.7	37.2	Deferred Taxation	9.2	(87.0)	0.0	0.0
P/E (x)	20.2	14.2	12.3	4.5	Others	196.9	4.3	(84.4)	0.0
P/BV (x)	3.6	3.1	2.5	1.8	Change in Working Cap	(857.7)	(1,516.5)	(2,100.3)	(3,990.6)
BVPS (Rs.)	46.9	53.9	66.8	95.2	CF - Operating Activities	2,843.4	2,278.8	1,877.3	5,807.1
Market Cap (Rs. Mn.)	36,319.2	36,301.7	36,335.4	36,335.4	Change in Fixed Assets	(1,706.9)	(2,443.7)	(1,619.4)	(2,819.3)
M Cap/Sales (x)	2.1	1.5	1.9	0.8	Change in Investments	(5.3)	261.5	(510.3)	0.0
EV (Rs. Mn.)	36,347.6	36,358.4	36,389.1	36,389.1	Investment Income	(1.8)	4.0	8.5	16.4
EV/EBITDA (x)	19.0	14.1	11.9	4.0	CF - Investing Activities	(1,714.0)	(2,178.2)	(2,121.2)	(2,802.9)
EV/Sales (x)	2.1	1.5	1.9	0.8	Increase in Equity	337.1	(239.7)	329.9	0.0
ROCE (%)	18.9%	22.2%	21.2%	44.1%	Changes in Borrowings	(8.5)	28.4	(3.0)	0.0
RONW (%)	17.9%	22.1%	20.6%	39.0%	Dividend Paid	(553.9)	(829.3)	(489.6)	(1,886.6)
Debtors T/o Days	87.5	87.4	98.4	95.0	CF - Financing Activities	(225.3)	(1,040.7)	(162.7)	(1,886.6)
Advances T/o Days	31.3	44.5	37.5	40.0	Net Change in Cash	904.1	(940.1)	(406.6)	1,117.7
Creditors T/o Days	41.0	45.6	47.3	35.0	Closing Cash & Bank Bal	1,892.6	952.5	545.9	1,663.6
Working Cap T/o Days	97.6	79.6	77.9	101.6					
Fixed Assets T/o (Gross)	3.1	3.1	2.0	2.0					
DPS (Rs.)	2.3	3.3	1.9	7.5					
Dividend Payout (%)	27.5%	27.8%	14.2%	20.2%					
Dividend Yield (%)	1.4%	2.0%	1.2%	4.4%					