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Asia Pacific Equity Research
21 June 2018

J.P.Morgan

Initiation
Overweight
MBFL.BO, MPHL IN
Price: Rs1,060.55
Price Target: Rs1,285.00

Mphasis Limited

Initiate with OW; Sustainable premium growth profile leading to robust earnings growth

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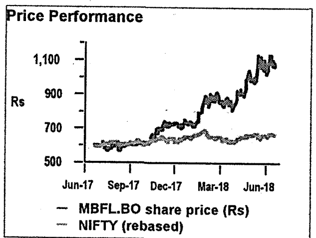
We initiate coverage on Mphasis with an OW rating and Jun-19 PT of Rs1,285. Our PT is premised on a target P/E of 20x - we believe this is defensible given Mphasis' robust growth profile, which we expect will sustain through FY20. The stock has been a strong outperformer – admittedly, much of the re-rating has already happened; we do not factor in further re-rating. We believe that stock returns hereon will primarily be earnings-driven (and less P/E driven).

- **Mphasis has achieved a significant structural improvement in its legacy HP/DXC business (26% of FY18 revenues)** - this is business sourced from its erstwhile parent through its various evolutions (EDS → HP acquiring EDS in 2008 → HP Enterprises merging with CSC to form DXC in 2017) - this legacy business has been a historical underperformer for Mphasis. What has helped changed this is the global restructuring at HP, which has demerged HP into several entities including DXC. DXC has an independent services mandate; this renewed services focus in turn is helping Mphasis. Also, to its credit, Mphasis has reenergized this relationship by investing in it and taking a value-added approach, thus expanding its influence here. There is still good room for Mphasis to grow within DXC given DXC's base (US$25 billion) and its still small contribution to Mphasis revenues (<1% of DXC revenues).
- **Adding to DXC's revival is the continued strong showing of the direct core, the non-HP revenue stream.** This unit accounted for most of Mphasis's revenues (~55% in FY18) and has consistently grown well ahead of industry. Mphasis has built credible digital-related capabilities here, which position it well for rising digital Services client spend. Notably, Mphasis classifies 43% of its direct core business as accruing from digital-related areas.
- **The third leg of growth is in its infancy yet.** We do not model in a significant contribution from this channel in our forecasts. Mphasis estimates the addressable market in Blackstone's portfolio at US$1.6-1.8 billion; even 5-6% share herein for Mphasis over the next 3-4 years would tilt the growth picture.
- **Valuation and Risks:** Our target one-year forward P/E is ~20x, which we believe is justified by near mid-teen % revenue growth and stable-to-gently rising margins. Risks include (a) Undue pricing squeeze by DXC/HP, which has the potential to hurt growth and margins given HP/DXC's contribution to revenues (26% in FY18) and (b) Mphasis being unable to expand its digital suite of offerings to participate meaningfully/duly in the ***industrialization of digital*** theme fast gaining traction, and which we expect to hit inflection point in 2HCY19/CY20.

Price Performance



	YTD	1m	3m	12m
Abs	43.7%	-2.0%	26.0%	77.9%
Rel	40.5%	-4.4%	19.6%	66.3%

Share Price: Rs1,060.55, Date of Price: (20-Jun-18), Bloomberg MPHL IN, Reuters MBFL.BO

(Year-end Mar, INR mn)	FY17	FY18E	FY19E	FY20E
Revenue	60,764	65,459	79,361	89,652
Operating Profit	9,096	9,917	12,927	14,614
EBITDA	9,565	10,501	13,746	15,484
Net profit (Reported)	8,341	8,376	10,957	12,396
EPS	39.72	42.11	56.72	64.17
P/E (x)	26.7	25.2	18.7	16.5
EV/EBITDA (x)	18.6	17.8	13.3	11.6
Cash	28,845	21,719	25,479	28,740
Equity	61,527	54,818	63,280	69,478

	FY17	FY18E	FY19E	FY20E
ROE(%)	13.4	14.4	18.6	18.7
CORE ROIC(%)	-	-	-	-
Quarterly EPS (Rs)	**1Q**	**2Q**	**3Q**	**4Q**
EPS (19) E	-	-	-	-
EPS (20) E	-	-	-	-
Local	**1M**	**3M**	**12M**	
Abs. Perf.(%)	(5.9%)	26.0%	77.9%	
Rel. Perf.(%)	(7.5%)	19.6%	66.3%	
Target Price (30-Jun-19)				1285.00

Date of Price	20-Jun-18
52-Week range	1,149.90-525.50
Share Out. (Com)	193MN
Market Cap	205BN
Market Cap(US)	US$2,996MN
Free float	-
Avg daily val	762.36MN
Dividend Yield	2.7%
Index	1,0772.05
Exchange rate	68.38

Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 35 for analyst certification and important disclosures, including non-US analyst disclosures.

Key catalyst for the stock price:	Upside risks to our view:	Downside risks to our view:
•Impressive margin show in FY19 •Strong momentum in deal wins •Robust low-to-mid teen revenue growth coupled with Rupee depreciation leading to strong earnings growth	•Operating leverage leading to higher than expected revenue growth •Greater penetration into Blackstone portfolio of companies than we expect •Greater penetration into non-DXC entities in HP channel (HPE and HP Inc.) •INR depreciation •More generous capital return policy more favorable than expected	•Mphasis unable to expand its digital suite of offerings to participate meaningfully/duly in the industrialization of digital theme •Undue pricing squeeze exerted by DXC/HP •INR appreciation

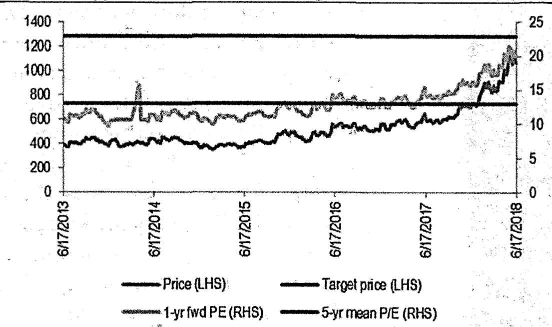
Key financial metrics	FY17A	FY18A	FY19E	FY20E
Revenues (USD)	905	1,015	1,167	1,318
Revenue growth (USD) (%)	-2.4%	12.1%	15.0%	13.0%
Revenues (LC)	60,763	65,459	79,361	89,652
Revenue growth (%)	-0.2%	7.7%	21.2%	13.0%
EBITDA (LC)	9,688	10,625	13,746	15,484
EBITDA margin (%)	15.9%	16.2%	17.3%	17.3%
EBIT (LC)	9,096	9,916	12,927	14,614
EBIT margin (%)	15.0%	15.1%	16.3%	16.3%
Tax rate (%)	28.2%	25.7%	26.0%	26.0%
Net profit (LC)	8,036	8,375	10,957	12,396
EPS (LC)	38.3	42.8	56.7	64.2
EPS growth (%)	19.1%	11.8%	32.7%	13.1%
DPS (LC)	17	20	28	32
BVPS (LC)	4.4	4.4	4.8	5.3
Net margin (%)	13.2%	12.8%	13.8%	13.8%
Net debt	-26,485	-17,819	-21,368	-24,629
ROIC (ex cash) (%)	12.7%	14.6%	17.8%	18.4%
ROE	13.1%	14.9%	18.1%	18.7%
Key model assumptions	**FY17A**	**FY18A**	**FY19E**	**FY20E**
Volume growth	-18.9%	-1.4%	4.8%	4.2%
Utilization (incl. trainees)	87.3%	86.6%	88.5%	88.6%
Exchange rate (USDINR)	67.1	64.5	68.0	68.0

Source: Bloomberg, Company and J.P. Morgan estimates.

Valuation and price target basis

We initiate coverage on Mphasis with an OW rating and Jun-19 PT of Rs1,285. Our target one-year forward P/E is ~20x, which we believe can be defended by near-mid teen % revenue growth and stable-to-gently rising margins.

Chart to support valuation and price target



Source: Bloomberg, Company and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY19E	FY20E	FY19E	FY20E
1% chg in sales volume growth	1.0%	1.0%	0.9%	0.9%
1% chg in avg. realization	5.3%	5.3%	4.9%	4.9%
1% chg in emp cost per emp	3.0%	3.0%	2.8%	2.7%
1% chg in INR	2.8%	2.8%	2.6%	2.6%

Source: J.P. Morgan estimates.

JPMe vs. consensus, change in estimates

EPS	FY19E	FY20E
JPMe old		
JPMe new	56.7	64.2
% chg	-	-
Consensus	52.0	59.0

Source: Bloomberg, J.P. Morgan estimates.

Comparative metrics

	JPM Rec.	JPM PT In Rs	CMP Rs	Mkt Cap $Mn	P/E FY19E	P/E FY20E	EV/EBITDA FY19E	EV/EBITDA FY20E	EV/Sales FY19E	EV/Sales FY20E	YTD Stock perf.
Mphasis	OW	1,285	1,062	3,014	20.4	18.0	14.9	13.1	2.5	2.3	46%
TCS	N	1,750	1,826	102,443	24.5	22.3	17.9	16.2	4.7	4.3	35%
Infosys	OW	1,230	1,243	39,865	19.2	17.3	12.1	10.8	3.2	2.9	20%
Wipro	N	275	260	17,256	14.1	13.2	9.0	8.6	1.8	1.7	-17%
HCL Tech	OW	1,020	911	18,623	13.9	13.2	9.0	8.5	2.0	1.8	2%
TechM	N	740	690	9,932	15.0	13.6	10.1	9.5	1.8	1.7	37%
Mindtree	NC		996	2,398	24.9	21.0	15.7	13.3	2.4	2.2	63%
Hexaware	NC		433	1,883	22.6	20.0	16.6	14.4	2.7	2.4	27%
L&T Infotech	NC		1,672	4,213	26.1	21.9	21.9	16.9	3.7	3.1	49%

Source: Bloomberg, Company and J.P. Morgan estimates. Bloomberg consensus for stocks Not Covered. Prices are as of June 20, 2018

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Investment positives

We initiate coverage on Mphasis with an OW rating and Jun-19 PT of Rs 1,285. Mphasis is executing well on a multi-pronged growth strategy, which makes the growth less risky and more diversified, in our view. The multiple pillars underpinning Mphasis growth over the next 2-3 years include (a) sustained revival of the DXC/HP business (~26% of FY18 revenues) – Mphasis has reconfigured this account by investing in this relationship and taking a value-added approach, thus expanding its influence within the account, (b) continued growth of Direct Core on the back of Mphasis's digital offerings (we expect Direct Core to grow 400-500 bps above industry over FY19/20, broadly in line with its past trends) and (c) a rather recent growth avenue that we expect to be more influential going forward – business from the Blackstone portfolio. Currently, we estimate the contribution from here at rather low-single digit as % of overall revenues, but expect this should measurably rise over the next 2-3 years. With robust growth as a result of these drivers, margin management should become much easier (thus, we see Mphasis likely margins to track the upper half of 15-17% target EBIT margins). We estimate FY18-20 EPS CAGR at 22% CAGR. We enumerate the drivers of the Mphasis investment story in this section.

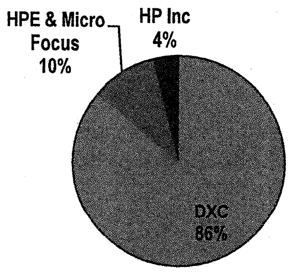
Enumerating the five drivers of the Mphasis investment story

Driver 1: Deep-level, fundamental transformation of the DXC/HP relationship.

Mphasis is doing far better than the minimum guaranteed annual business, taking the relationship to a different plane. It has consciously invested in enlarging the scope of its engagements though better and expanded go-to-market (viz. sales/account management channels) touching more decision-makers within the client organization. Mphasis has sought to elevate the quality/nature of work by going beyond legacy-type assignments, which largely characterized the HP relationship for much of Mphasis history. The relationship increasingly incorporates application transformation/cloud-based transaction, modernization (digitization) of the core going beyond application management, IMS.

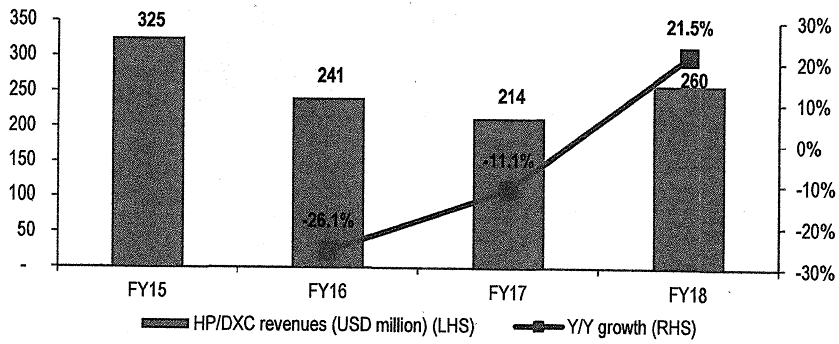
In addition, Mphasis has incorporated best practices of its Direct Core (renewing the core using digital technologies, using platforms for increasing automation) to reinvigorate the relationship. As Figure 1 shows below, bulk of the current revenues for Mphasis from the HP stable accrues from DXC – Mphasis penetration within the other existing HP entities is minuscule suggesting room for broader penetration for Mphasis across HP entities besides deepening penetration within DXC. Figure 2 and Figure 3 show the success of this turnaround reflected in the HP/DXC revenue curve.

Figure 1: Within the entire HP stable (DXC, HP Inc., HPE and Micro Focus) DXC is dominant contributing ~86% of Mphasis's revenues from the HP channel



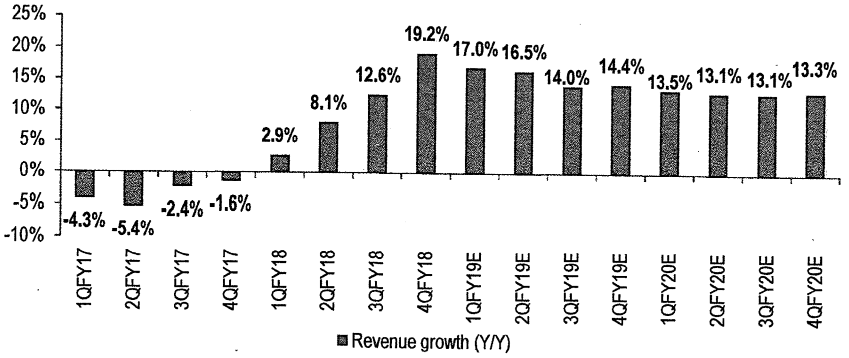
Source: Company reports

Figure 2: HP/DXC business has seen a dramatic turnaround in FY18; revenues increased ~22% after declining for the last 10 years



Source: Company reports

Figure 3: Revival of HP/DXC business has helped push up overall revenue growth through FY18 and we expect will sustain growth through FY20



Source: Company reports, J.P. Morgan estimates

Driver 2: Above-industry growth in Direct Core

Prior to FY18, the one segment that has fared well for Mphasis is Direct Core or DC (i.e. business from non-HP clients) with consistent double-digit % growth (see Figure 4). This arm (DC) really represented the most modernized/contemporary offerings of

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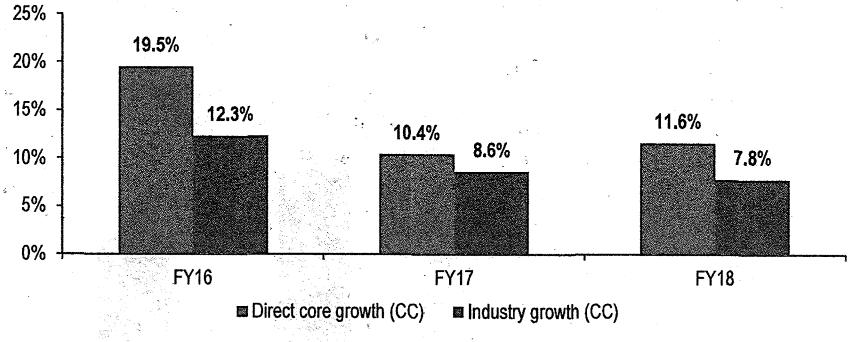
Mphasis and where Mphasis focused much of its investments (including acquisitions). Mphasis increased its penetration in various verticals on the back of its newer offerings in this segment. Strikingly, 83% of deals won in FY in this segment were from newer areas (digital and next-gen) services. The rising contribution of the new finds is reflected in Mphasis improving billing rates (particularly onsite) as these offerings are more onsite-centric at more favorable pricing than traditional work. We estimate that digital-centric offerings constitute over 70% of the growth in DC in FY18. Much of the sales initiatives are being supplemented with the strong solutioning skills of enterprise architects, who can also help drive proactive sales – **Mphasis has made the enterprise architect professional layer an integral part of the sales effort.**

Figure 4: Direct core (DC) has grown well ahead of industry for the last 3 years; we expect DC to grow 4-5% points ahead of industry over the next 2 years



Source: Company reports, Nasscom

Driver 3: Blackstone portfolio to drive another leg of growth

Blackstone has shown success in driving business from portfolio companies to benefit each other. Mphasis is tapping into this by specifically investing in a separate sales and account management channel for this. A beginning has been made; Mphasis has signed deals worth US$158 million Total Contract Value (TCV) in FY18. We believe that this can scale up to 2-3x of by FY20 – we estimate that this channel can provide 3-4% additional points of annual growth by FY20. This is not necessarily captive business but something Mphasis has to win on its own strengths, though introductions and facilitations are much easier thanks to Blackstone. The margin profile of the Blackstone portfolio, taken as a whole, should be comparable with Mphasis's company average. The mechanics of execution on the Blackstone opportunity can take the form of a shared services business model (platform-based) to service Blackstone clients for scale (e.g. infrastructure/IT management) or large specific, individual engagements (particularly for the larger companies in Blackstone portfolio – e.g. Reuters)

Driver 4: Healthy revenue growth + improving pricing = operating leverage = EPS growth > revenue growth

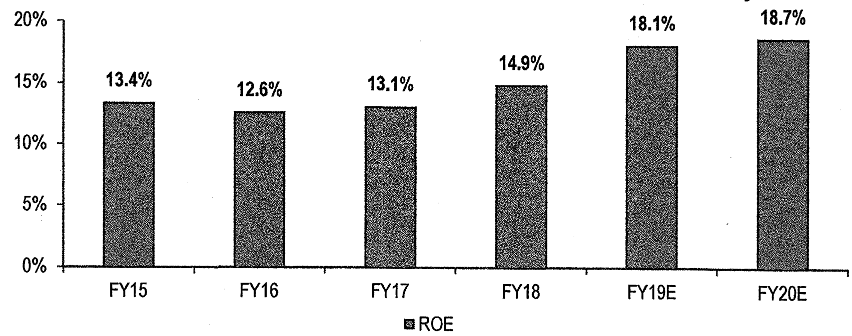
Over a moderate margin base, good growth with rising realizations (pricing) can potentially improve margins, resulting in EPS growth exceeding revenue growth. Thus, we see earnings growth ahead of revenue growth (under conditions of stable INR). We estimate FY18-20 EPS CAGR at 22% CAGR.

What's more, the ***One Mphasis*** approach breaks down silos and is increasingly getting various service units to present a unified face to the customer - if client mining improves as a result, then it can be beneficial for margins (a USD 20 million client is generally significantly more profitable than four USD 5 million clients). This is not our base-case, but markedly improved client mining helps the cause of margins.

Driver 5: Attractive ROEs, free cash flow generation combined with growth can sustain well above-average sector P/E

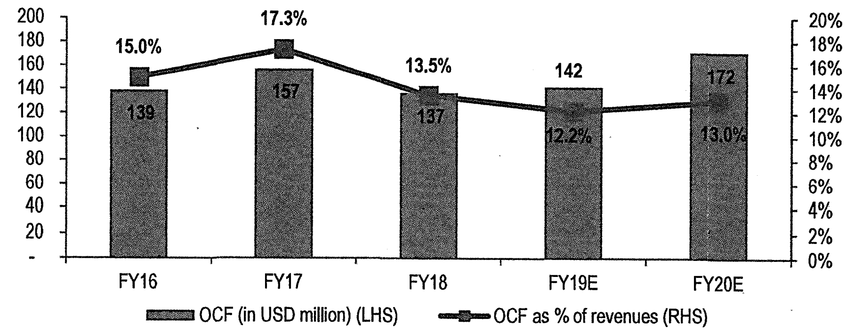
What we like about Mphasis earnings growth profile is the accompanying attractive ROE and cash flow generation (see Figures 5 and 6). Decent sustainable mid-teen earnings growth combined with attractiveness of cash flow generation can sustain P/E of 19-20x, in our view. Mphasis's cash flow as % of EBITDA is among the highest of its peers (see Figure 7).

Figure 5: We expect Mphasis' return on equity to increase ~400bps over the next two years



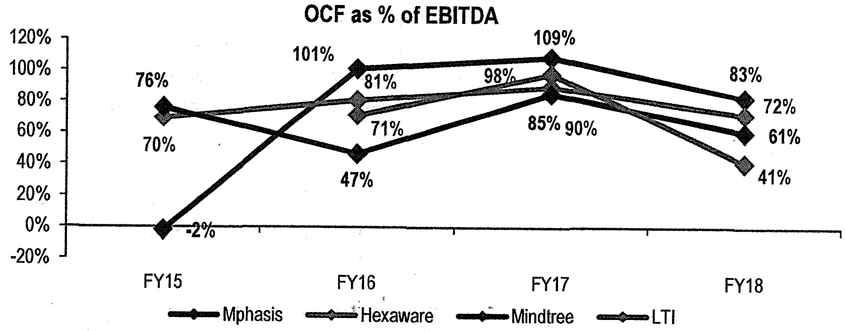
Source: Company reports, J.P. Morgan estimates

Figure 6: Mphasis' OCF as % of revenues estimated to remain stable at ~13% levels



Source: Company reports, J.P. Morgan estimates

Figure 7: Mphasis' operating cash flow to EBITDA at ~83% is highest among its peers; this has come down in FY18 from its FY16-17 levels



Source: Company report

Laying out the contours of the renewed HP/DXC relationship

DXC/HP business turnaround a key value driver

Mphasis has effected a drastic turnaround in FY18 after prolonged decline in its HP business since FY10. Revenues from HP channel declined to 24% of overall revenues in FY17 from 71% in FY10. In May-17, Mphasis entered into a new partnership with DXC which elevated its status to a service partner from the status of a low cost delivery vendor for DXC/HP. Mphasis has expertise in cloud and cognitive services and the two companies have decided to work together to help clients modernize their enterprise applications for public, private and hybrid cloud. **The structure of the new partnership has placed Mphasis as a front end joint go-to-market (GTM) partner which we think will help Mphasis get larger share of client budgets while at the same time enable DXC to approach clients with a modern technology agenda.**

DXC at a glance

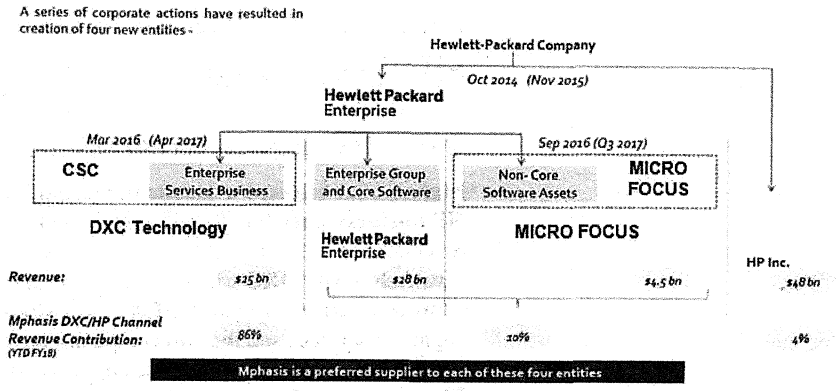
DXC key facts:

- **FY18 revenue:** US$ 24.6 billion
- 6,000 clients across 70 countries
- **Verticals:** BFSI, Public Sector, Manufacturing, Energy, Healthcare, Retail and Travel & Transport
- **Geographies:** North America, UK, Europe, Australia
- Traditional services generate ~70% of revenues

DXC was formed in 2017 in connection with the spin-off and combination with Computer Science Services (CSC) of the Enterprise Services business of HP (Hewlett Packard). It is an end-to-end IT services company which drives digital transformation for its 6,000 clients (200+ Fortune 500 clients) across 70 countries. DXC's FY17 (year ending March) revenues stood at US$ 25 billion dollars out of which, Mphasis has been able to tap into <1%, leaving large headroom for further penetration. DXC's clients span multiple industries including Banking & Financial Services, Public sector, Manufacturing, Insurance, Energy, Healthcare, Retail, Travel &Transport verticals. DXC has win rates of >65%, and enjoys a highly recurring nature of services (>95% renewal rates). DXC operates with offshore leverage of about 50%. The company primarily services North American clients, representing ~50% of its revenue, followed by the UK and continental Europe. Traditional offerings (which include legacy assets from CSC and Everett) constitute ~70% of the total mix which is expected to decline 4-7% rate over the next few years. Digital solutions (15% of total mix) comprise CSC's next-gen services like cloud offerings, big data and analytics. This area has high growth potential as digital is still in its early stage and can drive IT spending over the next 10 years. **Focus on services is likely higher with DXC than in erstwhile HP structure.**

In FY18, Mphasis' revenue from DXC business grew 21% Y/Y, despite continued decline in DXC revenues for the same period. This indicates that Mphasis' penetration in HP/DXC channel is improving. The structure of this deal is such that Mphasis is largely involved in creating solution/services for the clients while DXC is involved mainly at the sales front. DXC believes the digital trend is still in its early innings and could be one of the key drivers of IT spending over the next 10-15 years. The company estimates digital total addressable market at $90B (or 10% of total IT services spending), growing at a 25% CAGR (vs. 0-3% growth in rest of the market). DXC's scale, diversified across various industries should help it win in the Digital area.

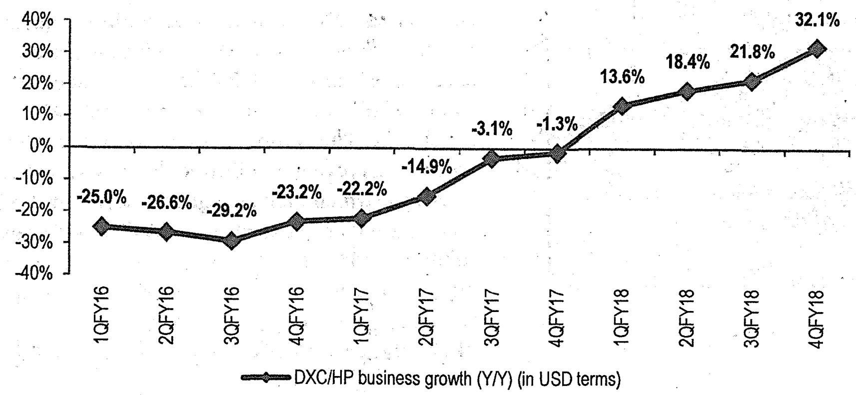
Figure 8: Structure of HP/DXC channel



Source: Company presentation

Mphasis has stepped up investing in its relationship with HP/DXC. With its expertise in Application Development & Maintenance (ADM) and Infrastructure management Services (IMS), we expect Mphasis to remain a key partner for DXC. The MSA between HP and Blackstone gives much needed stability to Mphasis' DXC segment. The current annual revenue run rate (USD 260 million) is comfortably above the minimum revenue commitment of US$990 million over the next five years.

Figure 9: Mphasis DXC/HP business saw a rapid turnaround in 4QFY17 after CSC-HP Enterprises merger



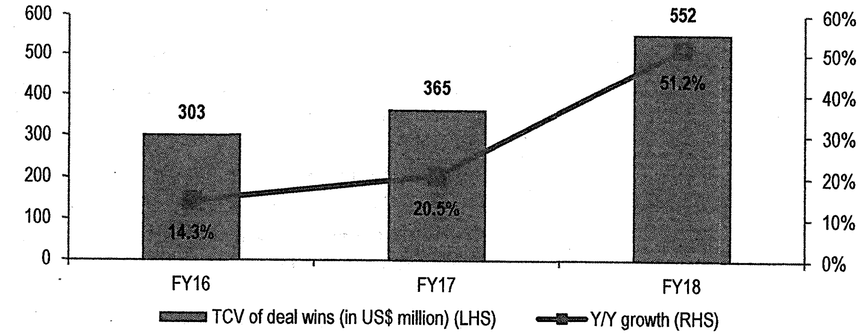
Source: Company reports

Qualitative drivers for Mphasis

With the spin-off of HP Enterprises (the services arm of Hewlett Packard Company), the focus on services is likely higher than the erstwhile parent company. Also, DXC has a large share of legacy business (inherited from CSC) and the company is re-mixing its strategy to tap into the new-gen areas. Vendors like Mphasis who have expertise in the areas of application modernization and cloud modernization are likely to play a crucial role for DXC as its service partners (rather than low-cost vendors). A key stated imperative for DXC is to increase margins which Mr. Michael Lawrie, the CEO of DXC would like to execute on, as he did in

CSC. As part of cost management, DXC will likely consolidate its vendor footprint, which should help strategic partners such as Mphasis in gaining share. DXC would seek services of offshore vendors like Mphasis which will increase their share in DXC's overall business. Mphasis's increasing success with DXC is reflected in marked jump in TCV of deal wins (~51% growth in FY18), a large part of the increase of this, we believe has come from this channel.

Figure 10: Due to greater penetration into DXC's top client segment and Blackstone portfolio, TCV of deal wins increased ~51% in FY18



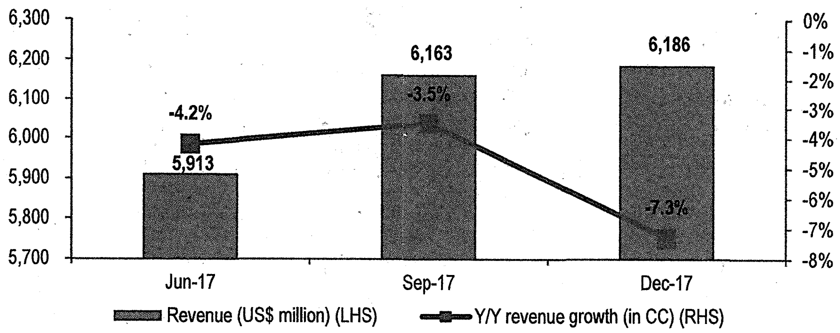
Source: Company reports

Investment risks

Any weakness/pressure in DXC

DXC plays a key role in Mphasis FY19-20 growth strategy. After the formation of DXC and elevation of Mphasis' status in it, revenue growth in this segment has been much ahead of the overall company level. Mphasis is doing well with the current sponsors of DXC but for sustained growth, it is crucial for the company to find new sponsors within DXC. The contribution of revenues from DXC in HP/DXC channel has increased to 86% in 4QFY18 from 80% in 4Q FY17. Mphasis has shown intent to engage with other HP entities within and beyond the DXC portfolio (such as HPE and HP Inc.). DXC itself faces revenue challenges since the merger and consequently and its FY20 revenue growth target is muted (1% to 4%). DXC' legacy revenue could shrink faster than expected and/or the mix-shift to faster growth digital revenue could be slower than expected. If DXC squeezes pricing for Mphasis in response to its own competitive pressures, it can impact Mphasis's growth/margin profile given its dependence on DXC. **Notably, in FY18, 54% of the company's incremental revenues were contributed by DXC channel indicating Mphasis' dependence on this channel.**

Figure 11: DXC revenues have been declining for the last three quarters; stabilization is expected only by FY20



Source: Company reports

Mid-to-small players unable to get due share of the industrialization of digital opportunity

As new technologies burst onto the scene, their use cases are unknown or unclear. Client firms grapple with early uncertainty and likely gravitate towards service providers with a consulting positioning, such as Accenture, Deloitte, and IBM. As use cases develop and client confidence in deploying digital technologies on a larger scale picks up, we believe that clients feel more confident in envisaging the end-state of their digital programs. At this stage, clients may increasingly engage with Indian vendors who can help implement such programs at a lower cost and to tighter process adherence. India IT firms, meanwhile, are also investing to acquire the needed skills. Thus, there is both a push (from the client) and pull (from the vendor). As dependence on consulting specialists becomes less acute and programs become more system-integration driven, we see the **'industrialization of digital'** theme gaining currency, strong enough to hit an inflection point. Tier-1 firms such as TWITCH

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(TCS, Infosys, Wipro, HCLT, TechM and Cognizant) among others are the key beneficiaries. As the digital transformation gets more ecosystem-based rather than platform-based, smaller players like Mphasis who specialize in selective domains/services may get into a disadvantageous space. There is a risk that Tier-1 firms with their all-round digital transformation capabilities can outplay firms like Mphasis.

Pressure on execution as share of FPP unduly increases

As projects migrate more to fixed-price like structure, companies like Mphasis get the flexibility to optimize their resources channelized towards a project under this model. Even though such migrations can help lift operating margins, the downside can be quite adverse for relatively smaller companies like Mphasis if they overdo fixed price projects. Fixed price revenue contribution to Mphasis revenues at 23.5% (FY18) is quite small but overdoing such projects is risky. Wrong estimation can impact mid-caps if margin for error is low. Moreover, poor execution of a project can lead to loss in business from large clients and for smaller players like Mphasis, it can severely impact revenues and margins.

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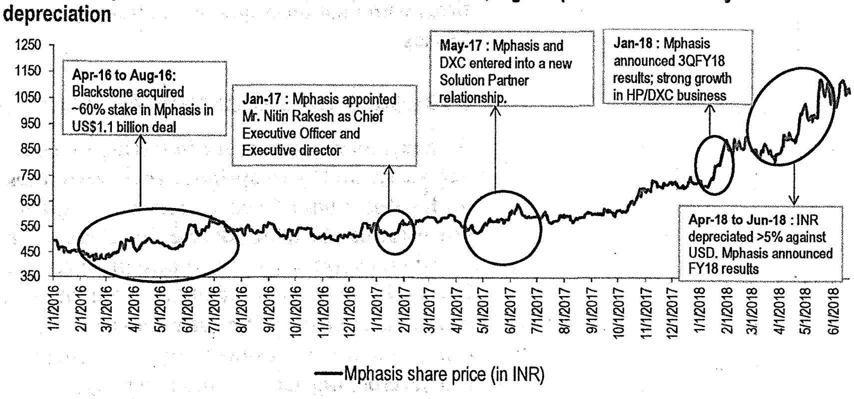
Valuation

Share price analysis

Figure 12: Mphasis stock has rallied ~50% since Jan-18, a good part of this aided by INR depreciation



Source: Bloomberg. Note the stock has outperformed the NIFTY by 50% over the period shown in the chart.

April to August 2016: Blackstone entered into an agreement with Hewlett Packard Enterprises to buy a majority stake in Mphasis. The transaction was completed in Aug-16. Stock price moved up 23% between 4-Apr-16 and 8-Aug-16.

January 2017: Mphasis appointed Mr. Nitin Rakesh as its Chief Executive Officer and Executive Director. Stock price moved up 10.4% between 20th January 2016 and 30th January 2016.

May 2017: Mphasis and DXC announced a new Solution Partner relationship which elevated the status of Mphasis to a service partner from a low-cost subcontractor. Stock price increased 13.4% between 24th May 2017 and 9th June 2017.

January 2018: Mphasis announced its 3QFY18 results. HP/DXC business registered strong growth for third straight quarter. Share price increased 7% on 29th January 2018.

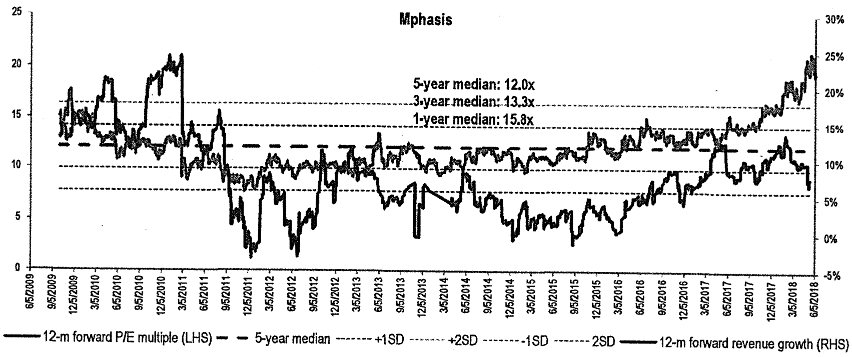
April to June 2018: INR depreciation of >5% against USD led Mphasis' stock price rally. Stock price increased ~40% during this period.

Table 1: Mphasis' relative valuation versus peers

Company	CMP (INR)	Market Cap (USD mn)	FY17-20 revenue CAGR	FY17-20 EBIT CAGR	FY17-20 EPS CAGR	P/E FY19E	P/E FY20E
TCS	1,822	102,411	10.0%	9.0%	8.0%	12.2	11.1
Infosys	1,243	39,859	8.4%	6.4%	5.6%	19.2	17.3
Wipro	260	17,244	4.6%	3.3%	6.5%	14.1	13.2
HCLT	911	18,617	11.3%	8.0%	5.5%	13.9	13.2
TechM	691	9,935	8.5%	14.9%	12.8%	16.6	14.9
Mphasis	1,062	3,009	13.1%	16.6%	17.6%	18.7	16.5
Mindtree	996	2,397	9.2%	20.2%	20.3%	24.9	21.0
Hexaware	432	1,883	12.7%	14.8%	16.6%	22.6	20.0
L&T Infotech	1,669	4,215	14.0%	14.4%	13.4%	21.9	18.9
L&T Tech	1,312	1,974	15.3%	15.8%	15.8%	23.1	19.4
Persistent	813	955	8.1%	13.3%	10.6%	17.6	15.1

Source: J.P. Morgan estimates, Bloomberg, prices as of 20th June 2018

Figure 13: We project a 12-m forward P/E of 19-20x, which is much higher than Mphasis's past averages indicate as the company's competitive positioning has structurally improved, leading to far higher sustainable growth in the future than in the past - past multiples are not indicative of the future, we think



Source: Bloomberg

We ascribe 20x multiple to Mphasis' FY20 EPS. We believe it can be defended by near-mid teen % revenue growth and stable-to-gently rising margins. Our projected P/E multiple is much higher than Mphasis's past averages which indicates the structural improvement in company's competitive positioning, leading to far higher sustainable growth in the future than in the past - past multiples are not indicative of the future, we think.

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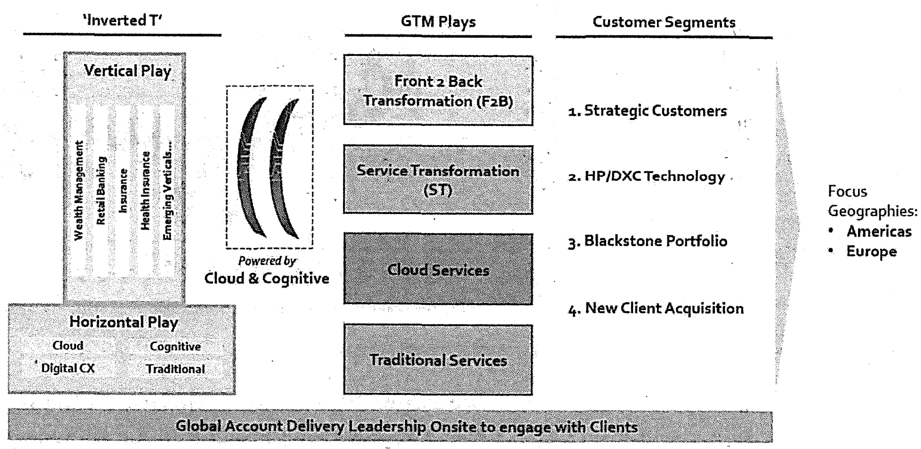
Mphasis' template to win customer wallet

The turnaround in Mphasis' fate has come through (i) strong management team, (ii) optimal corporate strategy, and (iii) excellent execution. Mphasis has infused new talent at every level, from Senior Management to the bottom of the pyramid. All this has been aligned with the changing industry scenario where traditional jobs are becoming redundant and knowledge of digital technologies is preferred.

Mphasis has articulated its strategy on the back of its front-to-back (F2B) template. With strong industry knowledge, it applies its F2B (Front to Back) transformation template (Figure 15) applying Service transformation, cloud services, data transformation etc. to cater to its well segmented customer segments. The company has categorized its customer segments into four buckets: (i) strategic customers, (ii) HP/DXC customers, (iii) Blackstone portfolio customers and, (iv) new clients acquired. **Through its digital transformation template (Figure 14), Mphasis has been able to shrink the traditional core and challenge the larger, traditional larger vendors.**

Figure 14: Mphasis corporate strategy



Source: Company presentation

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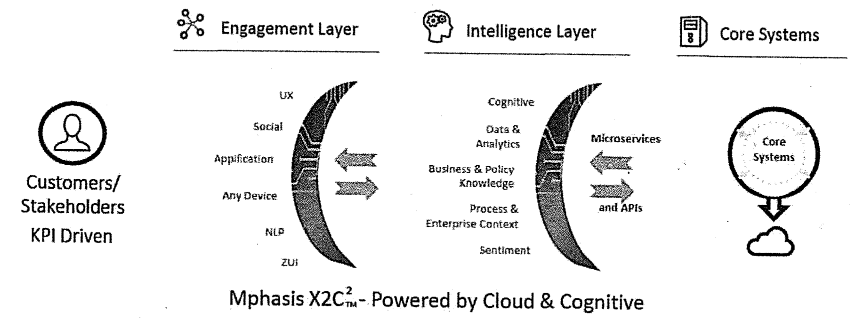
Figure 15: Mphasis Front-to-Back (F2B) and Service Transformation framework



Source: Company presentation

Mphasis F2B framework

Intermediate layers add customized customer experience by harnessing the power of artificial intelligence and other machine learning techniques. These layers act as interfaces which interact with customers (engagement layer) and the core or traditional systems (intelligent layer)

Mphasis introduces disruptive technologies (in digital) to legacy environments through its F2B and Service Transformation framework with the motive of shrinking the core systems. The core or traditional systems are mostly tech and operation based which lacks agility, flexibility, modernization, and personalization. The *appification* of services in most domains makes it crucial to deliver a pleasant customer experience with customized services. In most of the core-led ecosystems, the benefits arising from an attractive front-end (customer facing services) get eroded by the outdated back-end (the core system).

Mphasis has addressed this issue by creating two defining and demarcating intermediate layers called engagement layer and intelligence layer. The engagement layer delivers a nice customer experience through different technologies and channels like apps, NLP, ZUI, etc. These technologies take support of various open-sources to deliver services in a more interactive manner. For example, Mphasis has customized Alexa, Amazon's voice assistant for delivering banking and financial services to the customers. Similarly, Mphasis' latest humanoid robot named Edison, has the ability to interact with clients using data on the network/cloud. With customers demanding more and more customized services through interactive channels (chatbots, voice assistants, apps, etc.), Mphasis' capability of building such platforms can prove instrumental in winning large digital transformational deals.

The intelligence layer is focused at delivering customized experience to the customers using various **"intelligent"** technologies like AI, machine learning, and sentiment analysis. This requires bringing the ecosystem to cloud and rigorous self-learning process by the system. The intelligence layer interacts with the core through APIs and microsystems. API is the key to penetrate core, shrink it and move to the intelligence layer to analyze individual customer's requirements and deliver a customized experience.

The road ahead

Entering into FY19, Mphasis has planned to invest in large deal wins by building its capabilities in digital and ramping up sales & marketing efforts. The company sees Europe as a potential growth market and has been trying to expand its footprint in this region. It has restructured the regional leadership will be focusing more on client acquisition. Mphasis has shown intention of building momentum in

Blackstone channel where it is placed as a key IT services vendor. Its position in Blackstone portfolio allows it to showcase its digital capabilities to other enterprises in the portfolio which has helped Mphasis win deals with TCV of US$ 158 million.

Mphasis will expand its footprint in Europe which is a relatively underpenetrated market for the company. It will leverage the brand name of DXC in these geographies.

DXC/HP restructuring has placed Mphasis as a key IT services partner. Mphasis' DXC/HP channel grew 8.3% Q/Q in 4QFY18 in CC terms, far above market growth. Mphasis is planning to leverage DXC brand in other geographies beyond US. It is helping DXC partner with client in geographies which are not of strategic importance to DXC. Along with strengthening its relationship with DXC, Mphasis is also looking for opportunities in other HP entities.

After delivering an excellent margin performance in 4QFY18, Mphasis has guided for 15-17% EBIT margin range for FY19. This has to come through restructuring people supply chain by optimizing onshore pyramid structure. Due to its focus on digital, Mphasis has seen increase in pricing power which will aid revenue growth in FY19. Mphasis has been trying to re-brand itself as a customer-centric IT vendor with capabilities of leading full-scale digital transformation projects. Its approach of engaging its clients in recognizing their technological deficiencies is likely to play a key role in accelerating customer acquisition and increase deal size.

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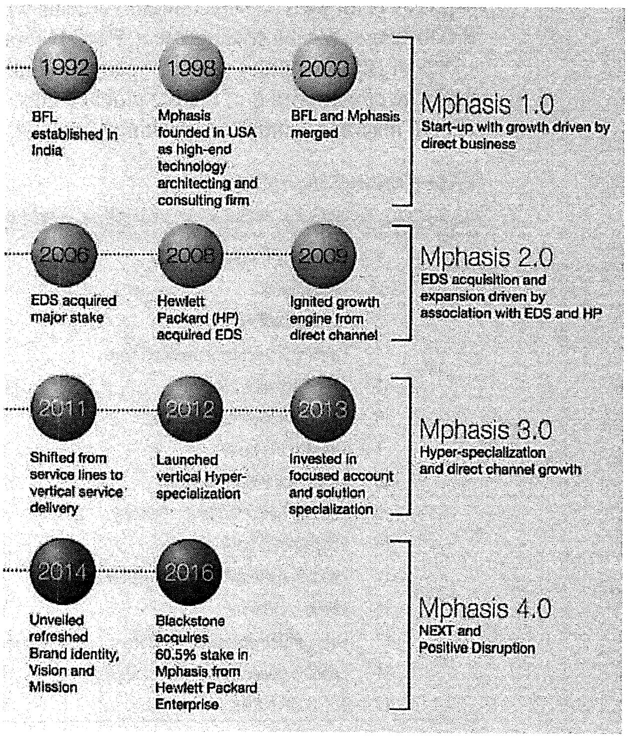
Company overview

Mphasis is an IT services company with expertise in Application Development and Maintenance (ADM), infrastructure outsourcing, and business and knowledge process outsourcing. The company caters to digital transformation needs of its clients by applying the formula of integrated cloud and cognitive technology. It operates through Banking and Capital Market, Insurance, Information Technology, Communication and Entertainment, and Emerging Industries segments. Mphasis offers application development, maintenance and modernization; specialized services; enterprise architecture, integration, and business process management services; accessibility consulting services; enterprise Web technologies; and user experience management services, as well as digital services.

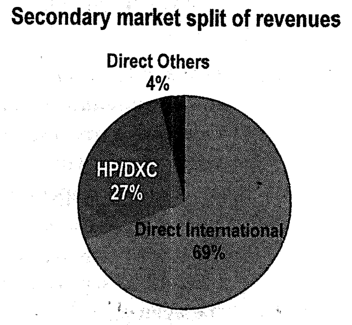
Figure 16: History of Mphasis



Source: Company reports

Mphasis operates broadly through two channels: Direct International and HP/DXC business. Direct International comprises ~70% of Mphasis business out of which Direct Core accounts for 78% of revenues. This segment (Direct Core) has grown at ~12% in FY18. Rest of the Direct International business is comprised of Digital Risk business, which offers differentiated solutions to the mortgage, consumer lending, and other regulated industries. This business is key to Mphasis' strength in BFSI domain which accounts for 13 out of top 15 clients for the company.

Figure 17: ~70% of Mphasis revenues come from Direct International channel; however, DXC/HP revenue growth has exceeded the overall company growth in FY18



Source: Company reports

Mphasis is focused on select micro verticals within BFSI, such as Consumer Banking & Mortgage, Wealth Management, P&C Insurance and others which account for ~78% of BFSI revenues. The company has maintained long relationships with marquee clients with 6 of the top global banks, 7 of the top mortgage lenders and 3 of the top insurance companies making to the list.

Table 2: Mphasis top-15 clients

	Client	Domain	Years of relationship
1	Large North American bank	BFSI	18
2	Global Bank	BFSI	8
3	Large global insurer	BFSI	14
4	Leading investment services firm	BFSI	17
5	Large logistics company	Logistics	21
6	Niche US West Coast bank	BFSI	5
7	Leading US bank	BFSI	2
8	Large real estate company	BFSI	6
9	Leading loan mortgage company	BFSI	9
10	Large global bank	BFSI	13
11	Leading general/life insurance company	BFSI	14
12	Leading US bank	BFSI	14
13	Large pharmaceutical company	Healthcare	16
14	Leading general insurance company	BFSI	4
15	Top 3 UK banks	BFSI	13

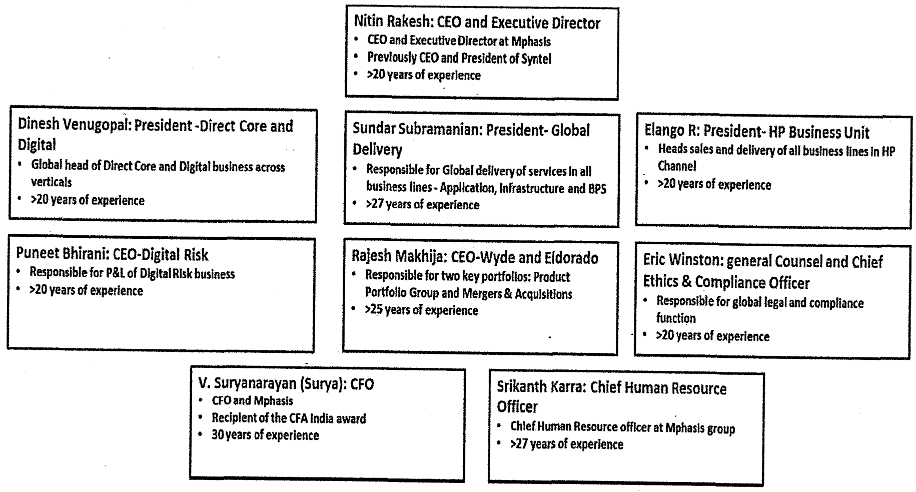
Source: Company presentation

The second channel of operation is HP/DXC business which underwent structural overhaul in early 2017. Through its investment in relationship with HP Mphasis has successfully changed its position from a low-cost subcontractor to a preferred partner for DXC. This segment is stabilizing after declining consistently for some years. Proportion of revenue from HP business declined to 24% of overall revenues in FY17 from 71% in FY10. Since 1QFY18 this channel has changed from drag to driver with after an impressive turnaround. Partnership with DXC helps Mphasis use its brand name and cater to its client base of 6,000+ mostly US centric clients, as a preferred vendor.

In April-2016, Blackstone, a global private equity firm acquired 60.4% ownership in Mphasis from HP. This led to change in the top management with Nitin Rakesh taking over as the CEO and Executive Director. Acquisition by Blackstone gives Mphasis access to its company portfolio of 99 relevant clients

Management profile

Figure 18: After restructuring, Mphasis has an experienced management led by Mr. Nitin Rakesh as the CEO & Executive Director



Source: Company presentation

Shareholding pattern

Table 3: Mphasis promoters (Blackstone group) hold 60.38% shares (as of Mar-18) (the recent sell-down of 8% by Blackstone is not reflected here)

Category	Total No. of shares	% to total capital
Promoter & promoter group	116,691,668	60.4%
Foreign Portfolio Investors	44,051,544	22.8%
Financial Institutions and Banks	1,740,386	0.9%
Mutual Funds	12,906,201	6.7%
Bodies Corporate	10,901,250	5.6%
Individuals	6,553,475	3.4%
Others	415,658.00	0.2%
Total	**193,260,182**	**100.0%**

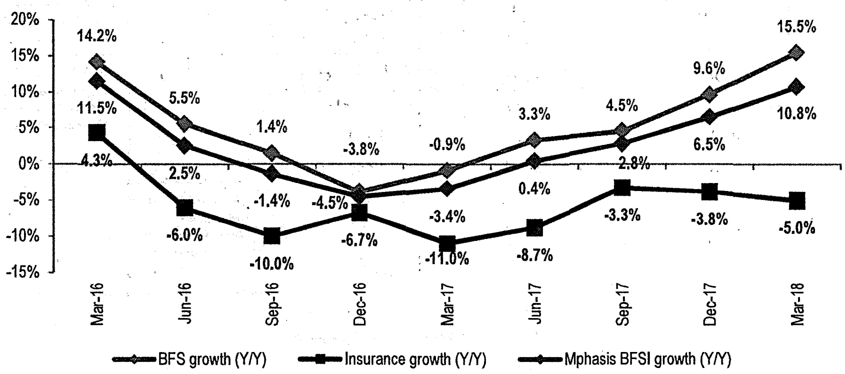
Source: Company reports

Segmental overview

BFSI an outsized vertical – BFS performance strong though insurance dragged down by Digital Risk

As of Mar-18, BFSI accounted for ~59% of Mphasis revenues which grew below peers (Hexaware, Mindtree and L&T Infotech). However, softness in this vertical seems to have bottomed out and Mphasis has started showing growth in this segment on the back of strong deal wins. As of Mar-18, 2/3rd of Mphasis clients in their strategic list were BFSI. Within BFSI, Insurance has been consistently declining for the last seven quarters on Y/Y basis. Digital Risk, which plays a key role for Mphasis in mortgage and consumer lending industry (insurance), after a period of prolonged weakness has entered a stable phase with revenues maintained in the range of US$28 million to US$30 million.

Figure 19: Insurance has been a major drag in BFSI segment for the last 10 quarters, largely due to pressures in Digital Risk

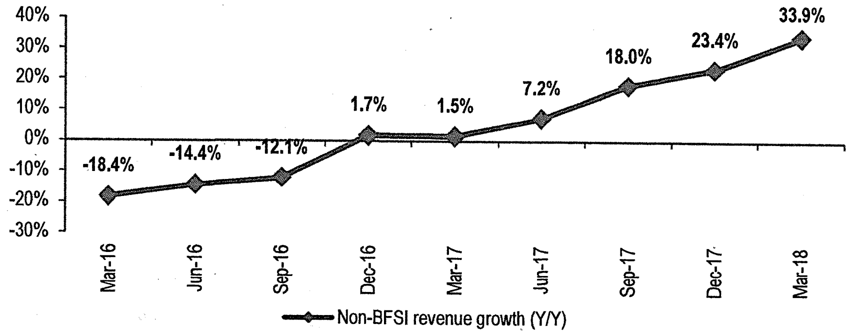


Source: Company report

Strength in non-BFSI segments (IT, Communications & Logistics and Emerging Industries) encouraging

IT, Communications & Logistics and Emerging Industries has seen a turnaround in FY18. This acceleration has been seen through HP/DXC channel business where Mphasis has seen some deal wins specifically in areas like travel & transportation and healthcare. Also, a few of Blackstone portfolio companies have been classified in the emerging segment and as Mphasis taps more into Blackstone portfolio, this segment will contribute more to overall company growth.

Figure 20: On the back of deal wins, non-BFSI segment saw a turnaround in FY18

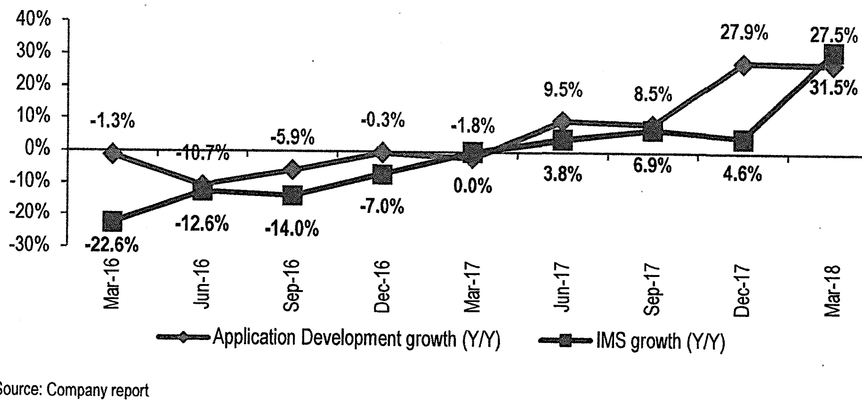


Source: Company report

Application Development and IMS have led growth

Application Development and IMS together registered a growth of ~29% Y/Y in Mar-18 quarter. Contribution to revenue from these two service lines has declined to ~41% in 4QFY18 from 45% in 3QFY15, led primarily by decline in IMS. IMS was crucial to Mphasis' HP business which went downhill for the last 5 years. Share of IMS to Mphasis overall revenues declined dramatically from ~20% in 1QFY15 to 15.2% in 4QFY18. Application Maintenance, which constitute one-third of Mphasis revenue has grown tepidly in FY18, not surprising given that this is legacy. Knowledge Process (~11% of revenues) has been declining at a high rate for the last 7 quarters. Application development, helped by digital, has compensated for the tepidness in application maintenance and IMS.

Figure 21: Growth in IMS has picked up through FY18; this service line was weak prior to FY18 due to pressures in HP



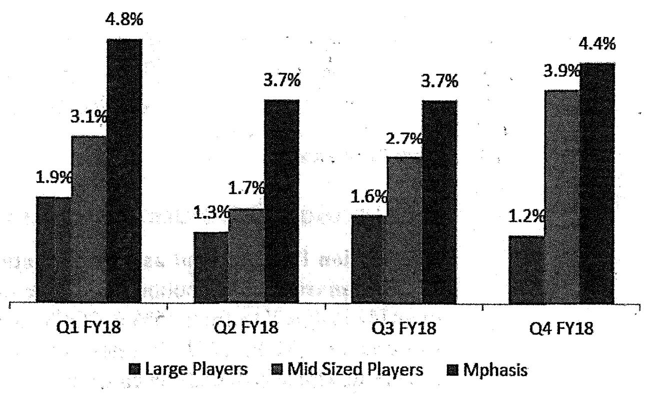
Source: Company report

Increase in contribution from Fixed-Price can act as a margin lever

Mphasis gets the flexibility of right-shoring its manpower and apply automation techniques in a fixed-price project which can later be bundled on platforms like Infragenie. But due to dynamic nature of digital projects where requirements change very frequently, doing fixed price digital project is fairly risky and hence both clients and vendors take the T&M route. However, Mphasis has seen nice acceleration in

FPP mix with revenue mix improving from ~12% in 1QFY16 to ~26% in 4QFY18. For a company like Mphasis, FPP allows the flexibility of optimizing its resources channelized towards a project. Mphasis revenue from fixed-price projects is one of the lowest among its peers. As of Mar-18, ~74% of the revenues were attributable to Time & Materials model. This structure is mainly dependent on the type of service rather than the channel.

Figure 22: In FY18, Mphasis has grown ahead of large and mid-sized players



Source: Company presentation

Financial Analysis

P&L analysis

Revenue growth revival in FY18

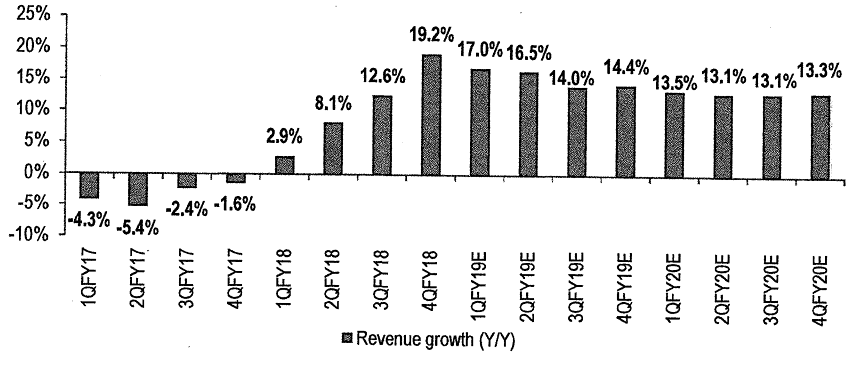
Mphasis has delivered strongly on revenue growth after DXC restructuring in 4QFY17. Out of the eight quarters prior to 4QFY17, Mphasis revenues declined in seven, entirely led by HP business. Following this period of sluggishness, revenues have grown at 21.5% in FY18 on the back of strong deal wins. With strong traction in DXC/HP business, strong deal pipeline and access to Blackrock portfolio, we expect Mphasis to sustain its revenue growth momentum in the near future. The company is confident of sustaining above industry growth in Direct Core and DXC business.

Table 4: Snapshot of Mphasis P&L metrics

	FY15	FY16	FY17	FY18	FY19E	FY20E
Employee expense as % of revenues	60.0%	58.3%	59.3%	61.1%	58.9%	58.1%
Selling expense as % of revenues	6.3%	6.5%	6.9%	6.6%	7.0%	7.5%
General and Administrative expense as % of revenues	5.1%	5.5%	5.7%	5.4%	5.6%	6.0%
EBITDA margins	15.0%	14.8%	15.9%	16.2%	17.3%	17.3%
EBIT margin	13.3%	13.6%	15.0%	15.1%	16.3%	16.3%
PAT margin	11.7%	12.0%	13.7%	13.3%	14.1%	14.1%

Source: Company reports, J.P. Morgan estimates

Figure 23: In FY18, Mphasis revenue growth (Y/Y) has escalated to ~20% in 4QFY18



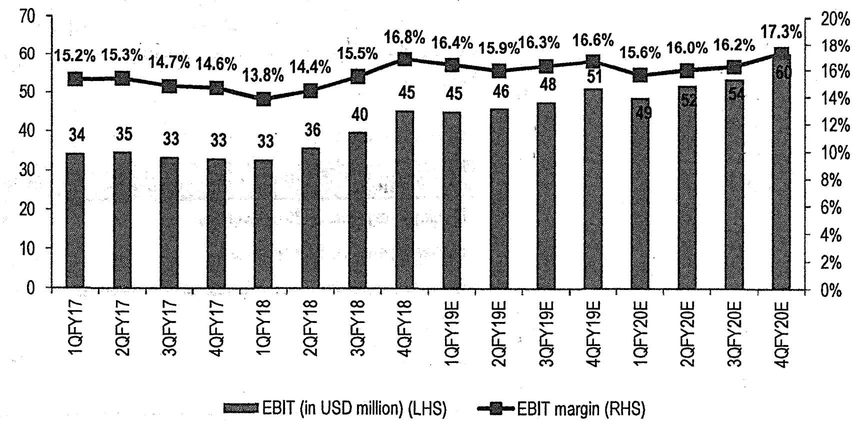
Source: Company reports, J.P. Morgan estimates

Stable margin aided by revenue growth

Higher revenue growth in FY18 has been accompanied by higher manpower cost, keeping the margin trajectory flattish. In FY18, employee cost as % of revenues inched up to ~61.1%, 2pp higher than FY17 levels. This increase in manpower cost has come through increase in onsite mix. Proportion of onsite employees (excluding trainees) has increased to 21.5% in 4QFY18 from 17.7% in 4QFY17. **Most of the deal wins from Mphasis have been in new gen area which is a bit more onsite centric.** As the contract size in digital becomes more integrated with the overall business, it will get more offshore focused and hence can turn out to be margin accretive.

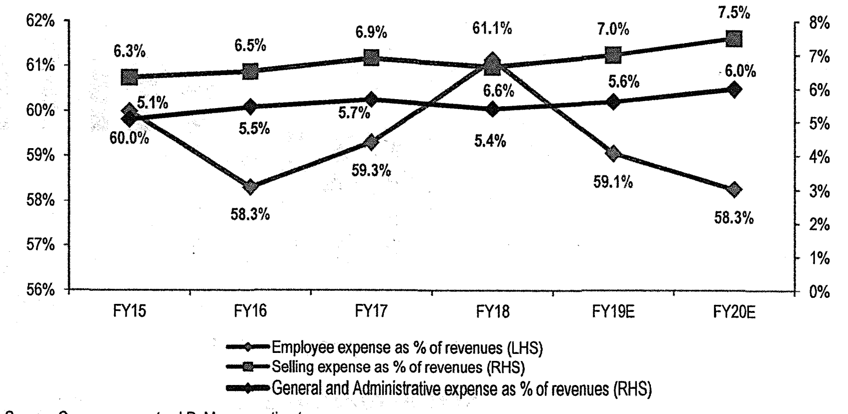
SG&A expense as % of revenue stayed flattish. However, Digital Risk which has been a margin drag has now entered into a stable phase with margins trending upwards. The company identifies conversion of deal pipeline as an important margin lever. Moreover, increasing share of FPP projects in the overall portfolio can support margins going forward into FY19. Utilization has come down in FY18 but is still at high levels. But we see some headroom left to lift margins by increasing utilization.

Figure 24: Mphasis delivered its strongest margin performance in 4QFY18 with EBIT margins at 16.8%; the company has guided for 15-17% EBIT margin range for FY19



Source: Company reports, J.P. Morgan estimates

Figure 25: Employee cost as % of revenue has inched up to ~61% in FY18 largely due to greater onsite mix

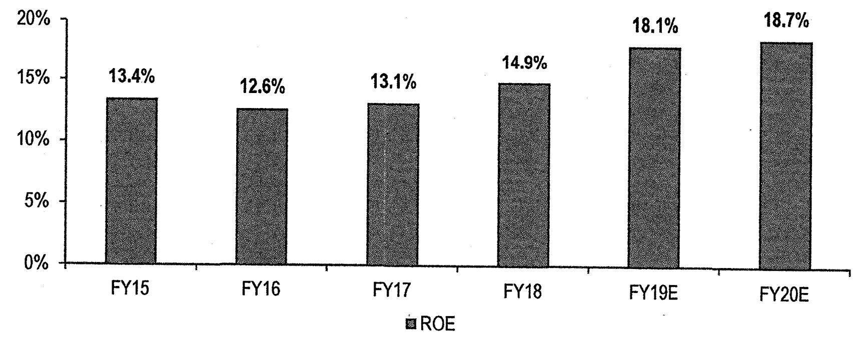


Source: Company reports, J.P. Morgan estimates

Balance sheet analysis

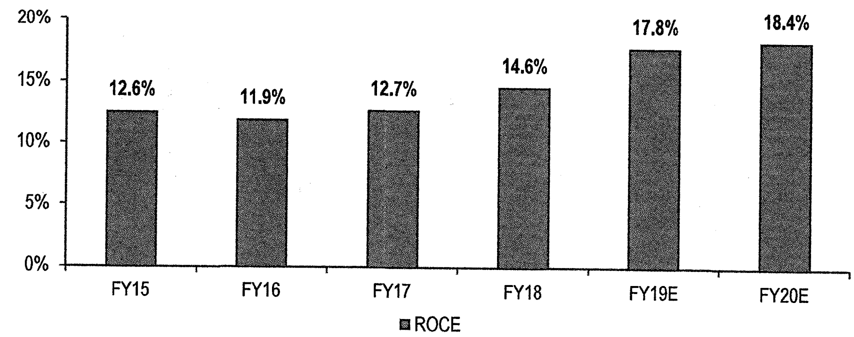
Mphasis' return of equity (ROE) and return on capital employed (ROCE) have been steadily increasing over the last four years. On the YTD basis, both ROE and ROCE have crossed 14%+ levels. We assume that with strong topline growth and better margin management, the return ratios can see further increment in the next 2 years.

Figure 26: ROE has inched up to 15% in FY18



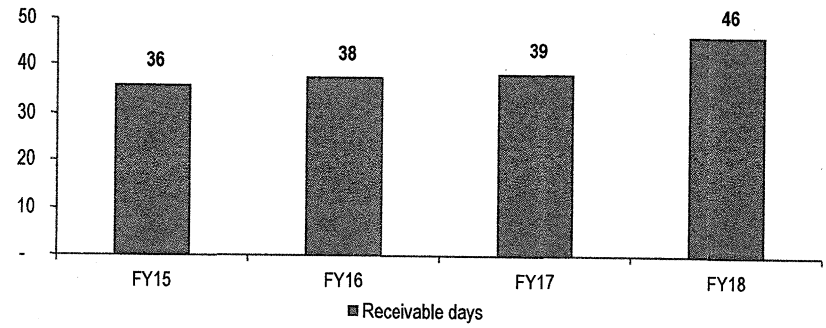
Source: Company reports, J.P. Morgan estimates

Figure 27: Strong performance in FY18 resulted in accretion of ROCE



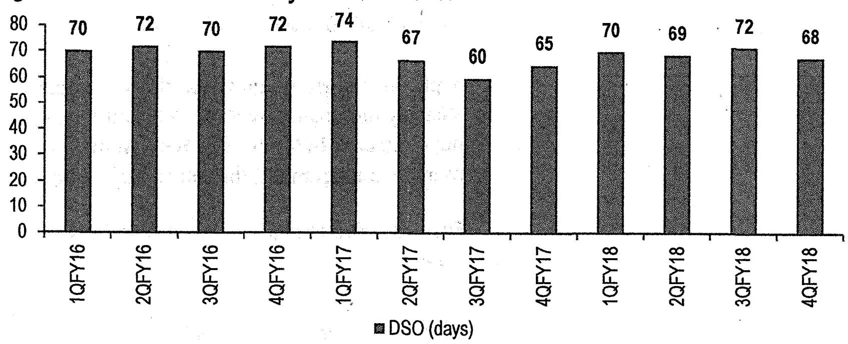
Source: Company reports, J.P. Morgan estimates

Figure 28: Mphasis' receivable days have increased to 46 in FY18 from 39 in FY17



Source: Company reports, J.P. Morgan

Figure 29: DSO has come down by 4 in 4QFY18 to 68

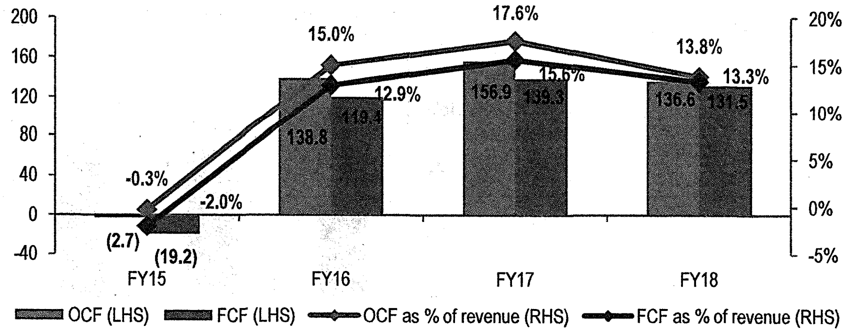


Source: Company reports

Cash flow analysis

Operating cash flow (OCF) as % of revenue is a respectable ~14% in FY18, down from ~17.6% in FY17 (as balance sheet investments for growth picked up). Free cash flow (FCF) declined to 13.3% of revenues in FY18, 230bps down from FY17 levels.

Figure 30: Mphasis's cash flow generation has declined in FY18 (vs FY17 as % of revenues) as growth strongly came back

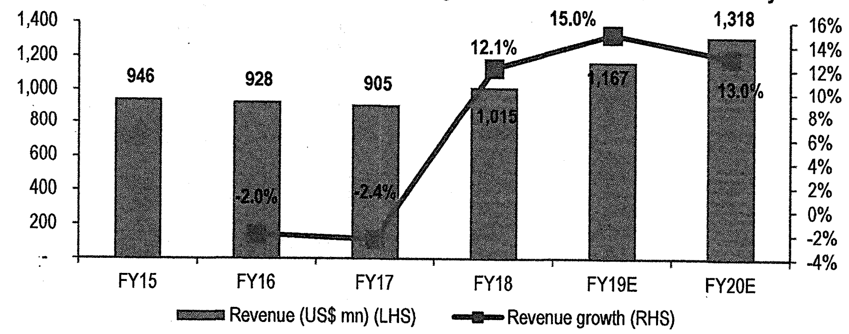


Source: Company reports

Forecasts

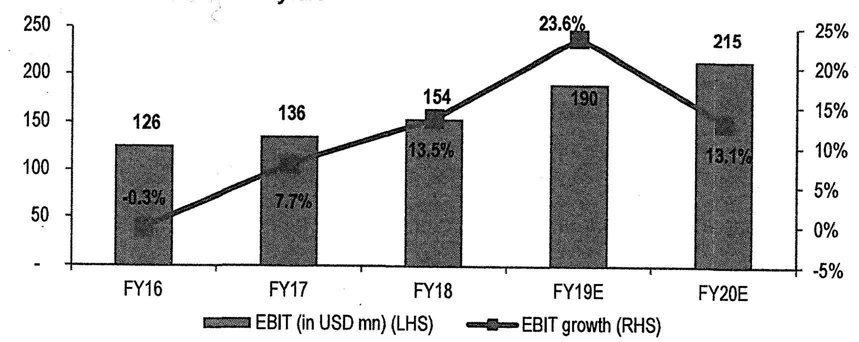
We assume INRUSD rate at Rs68/US$ for the next 8 quarters. This is in line with the current spot rate.

Figure 31: We estimate that Mphasis revenues will grow at 14% CAGR over the next two years



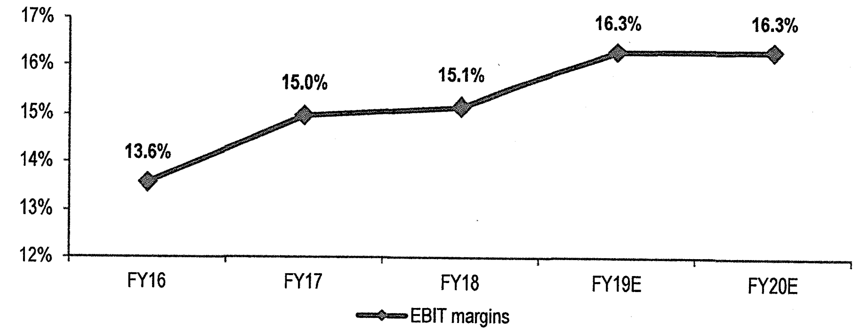
Source: Company data, J.P. Morgan estimates

Figure 32: Due to improvement in margins, EBIT will grow at a higher rate than revenues, at 16.6% CAGR over the next two years



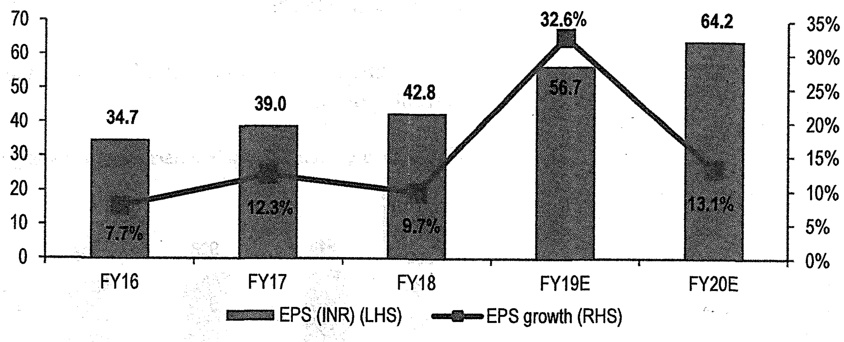
Source: Company data, J.P. Morgan estimates

Figure 33: We estimate Mphasis margins to improve by 100-150 bps in FY19 and FY20



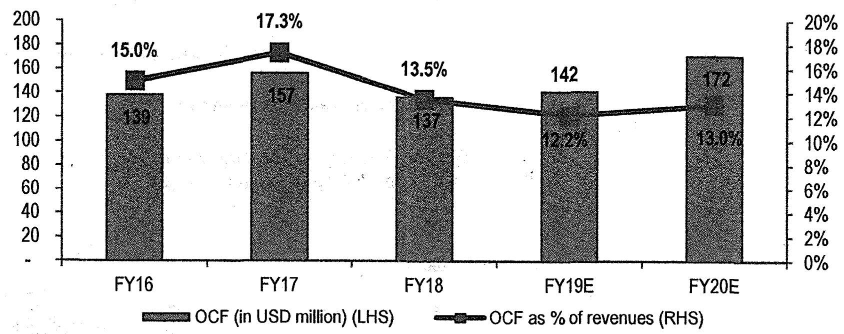
Source: Company data, J.P. Morgan estimates

Figure 34: We estimate EPS to grow at 22% CAGR over the next two years due to moderation in tax rate



Source: Company data, J.P. Morgan estimates

Figure 35: We estimate Mphasis' OCF as % of revenues to remain stable at 13% levels



Source: Company data, J.P. Morgan estimates

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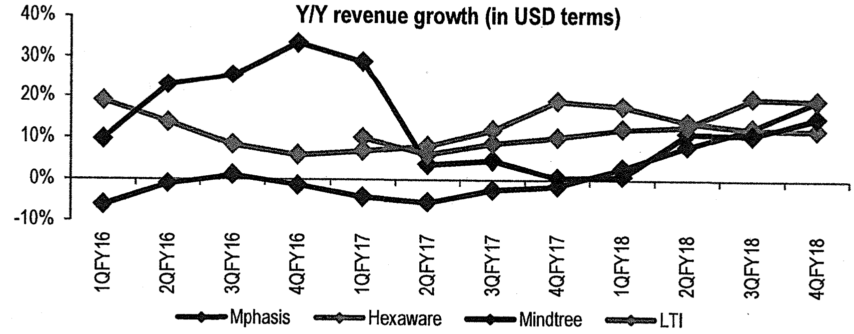
Mphasis vis-à-vis peers

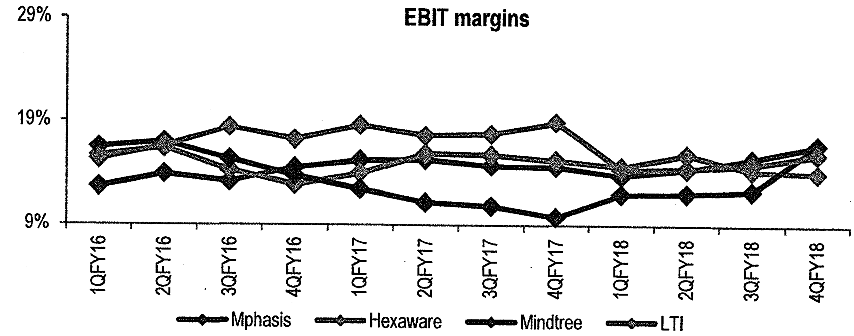
We compare Mphasis with three other mid-cap peers: Mindtree (Not Covered), Hexaware (Not Covered) and L&T Infotech (LTI) (Not Covered).

Figure 36: Mphasis' has been catching up with its peers on revenue growth; in 4QFY18, Mphasis grew above its immediate peers



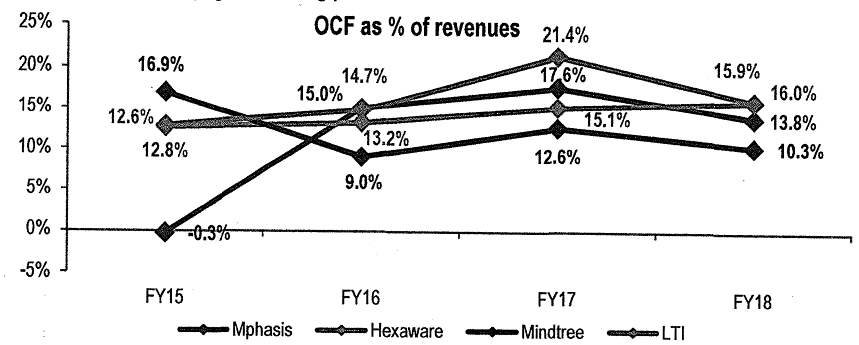
Source: Company reports

Figure 37: Mphasis has maintained a stable EBIT margin trajectory with only LTI operating at a higher margin structure



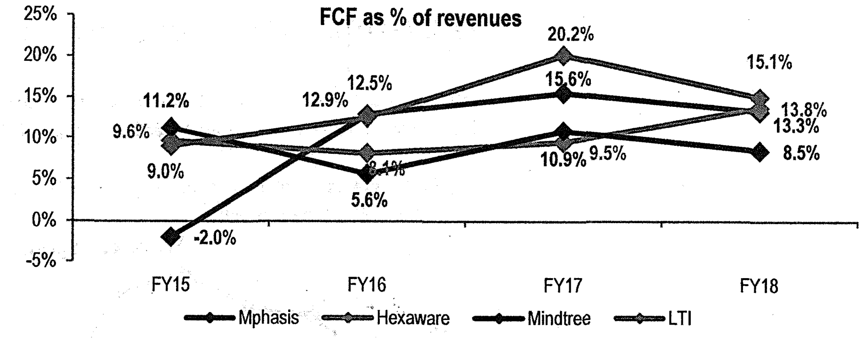
Source: Company reports

Figure 38: Mphasis has been better at cash generation relative to its peers; Mphasis FY18 OCF as % of revenue was the highest among peers



Source: Company reports

Figure 39: Mphasis FCF is comparable with its peers



Source: Company reports

Investment Thesis, Valuation and Risks

Mphasis Limited *(Overweight; Price Target: Rs1,285.00)*

Investment Thesis

Mphasis is executing well on a multi-pronged growth strategy, which makes the growth less risky and more diversified, in our view. The multiple pillars underpinning Mphasis' growth over the next 2-3 years include (a) sustained revival of the DXC/HP business (~26% of FY18 revenues) – Mphasis has reconfigured this account by investing in this relationship and taking a value-added approach, thus expanding its influence within the account, (b) continued growth of Direct Core on the back of Mphasis's digital offerings (we expect Direct Core to grow 400-500 bps above industry over FY19/20, broadly in line with its past trends) and (c) a rather recent growth avenue that we expect to be more influential going forward – business from the Blackstone portfolio.

Valuation

We initiate coverage on Mphasis with an OW rating and Jun-19 PT of Rs 1,285. Our target one-year forward P/E is ~20x, which we believe is justified by expected near-mid teen % revenue growth and stable-to-gently rising margins.

Risks to Rating and Price Target

Risks emanate from (a) Mphasis being not able to expand its digital suite of offerings to participate meaningfully/duly in the industrialization of digital theme fast gaining traction and which we expect to hit inflection point in 2HCY19/CY20, (b) Undue pricing squeeze exerted by DXC/HP, which has the potential to hurt growth and margins, given the contribution of the HP group to Mphasis revenues.

Upside risks are: (a) Operating leverage leading to higher than expected revenue growth, (b) greater penetration into Blackstone portfolio of companies and HP entities outside DXC (HPE and HP Inc.), (c) further INR depreciation, and (d) chunky buybacks with the promoter

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Mphasis Limited: Summary of Financials

Income Statement	FY17A	FY18A	FY19E	FY20E
Revenue	**60,764**	**65,459**	**79,361**	**89,652**
COGS	(43,649)	(47,308)	(55,816)	(62,300)
Gross profit	-	-	-	-
SG&A	(7,549)	(7,683)	(9,799)	(11,868)
Adj. EBITDA	**9,565**	**10,501**	**13,746**	**15,484**
D&A	(469)	(584)	(819)	(870)
Adj. EBIT	**9,096**	**9,917**	**12,927**	**14,614**
Net Interest	1,973	1,394	1,881	2,138
Adj. PBT	**11,341**	**11,407**	**14,807**	**16,751**
Tax	(3,154)	(2,900)	(3,850)	(4,355)
Minority Interest	-	-	-	-
Adj. Net Income	**8,341**	**8,376**	**10,957**	**12,396**
Reported EPS	39.72	42.11	56.72	64.17
Adj. EPS	**39.72**	**42.11**	**56.72**	**64.17**
DPS	**17.00**	**20.00**	**28.36**	**32.09**
Payout ratio	42.8%	47.5%	50.0%	50.0%
Shares outstanding	210	193	193	193

Cash Flow Statement	FY17A	FY18A	FY19E	FY20E
Cash flow from operating activities	**5,755**	**8,958**	**9,652**	**11,674**
o/w Depreciation & amortization	593	709	819	870
o/w Changes in working capital	(3,026)	(258)	(2,125)	(1,592)
Cash flow from investing activities	**8,062**	**(2,411)**	**(3,663)**	**(2,215)**
o/w Capital expenditure	-	(338)	(3,035)	(2,215)
as % of sales	-	*0.5%*	*3.8%*	*2.5%*
Cash flow from financing activities	**(10,877)**	**(13,661)**	**(2,228)**	**(6,198)**
o/w Dividends paid	(3,608)	(3,863)	(5,479)	(6,198)
o/w Shares issued/(repurchased)	-	-	-	-
o/w Net debt issued/(repaid)	(515)	1,300	212	0
Net change in cash	**2,933**	**(7,127)**	**3,760**	**3,261**
Adj. Free cash flow to firm	**9,193**	**7,580**	**5,225**	**7,877**
y/y Growth	*(228.6%)*	*(17.5%)*	*(31.1%)*	*50.8%*

Balance Sheet	FY17A	FY18A	FY19E	FY20E
Cash and cash equivalents	28,845	21,719	25,479	28,740
Accounts receivable	6,279	8,116	10,130	11,478
Inventories	-	-	-	-
Other current assets	9,368	9,625	11,738	13,300
Current assets	**44,492**	**39,460**	**47,346**	**53,519**
PP&E	19,222	18,863	21,080	22,425
LT investments	-	-	-	-
Other non current assets	9,457	11,530	12,158	12,158
Total assets	**73,171**	**69,853**	**80,584**	**88,101**
Short term borrowings	2,602	3,899	4,111	4,111
Payables	3,878	5,024	5,725	6,315
Other short term liabilities	4,406	5,097	6,397	7,126
Current liabilities	**10,886**	**14,020**	**16,233**	**17,552**
Long-term debt	-	0	0	0
Other long term liabilities	758	1,016	1,071	1,071
Total liabilities	**11,644**	**15,036**	**17,304**	**18,623**
Shareholders' equity	61,527	54,818	63,280	69,478
Minority interests	-	-	-	-
Total liabilities & equity	**73,171**	**69,853**	**80,584**	**88,101**
BVPS	**292.98**	**275.57**	**327.58**	**359.67**
y/y Growth	*(2.2%)*	*(5.9%)*	*18.9%*	*9.8%*
Net debt/(cash)	(26,244)	(17,820)	(21,368)	(24,629)

Ratio Analysis	FY17A	FY18A	FY19E	FY20E
Gross margin	-	-	-	-
EBITDA margin	15.7%	16.0%	17.3%	17.3%
EBIT margin	15.0%	15.1%	16.3%	16.3%
Net profit margin	13.7%	12.8%	13.8%	13.8%
ROE	13.4%	14.4%	18.6%	18.7%
ROA	11.0%	11.7%	14.6%	14.7%
ROCE	10.1%	12.0%	15.2%	15.3%
SG&A/Sales	12.4%	11.7%	12.3%	13.2%
Net debt/Equity	(42.7%)	(32.5%)	(33.8%)	(35.4%)
Net debt/EBITDA	(274.4%)	(169.7%)	(155.4%)	(159.1%)
Sales/Assets (x)	0.8	0.9	1.1	1.1
Assets/Equity (x)	1.2	1.2	1.3	1.3
Interest cover (x)	NM	NM	NM	NM
Operating leverage	(6007.2%)	116.8%	142.9%	100.6%
Tax rate	27.8%	25.4%	26.0%	26.0%
Revenue y/y Growth	(0.2%)	7.7%	21.2%	13.0%
EBITDA y/y Growth	7.3%	9.8%	30.9%	12.6%
EPS y/y Growth	6.4%	6.0%	34.7%	13.1%

Valuation	FY17A	FY18A	FY19E	FY20E
P/E (x)	26.7	25.2	18.7	16.5
P/BV (x)	3.6	3.8	3.2	2.9
EV/EBITDA (x)	18.6	17.8	13.3	11.6
Dividend Yield	1.6%	1.9%	2.7%	3.0%

Source: Company reports and J.P. Morgan estimates.
Note: Rs in millions (except per-share data).Fiscal year ends Mar. o/w - out of which

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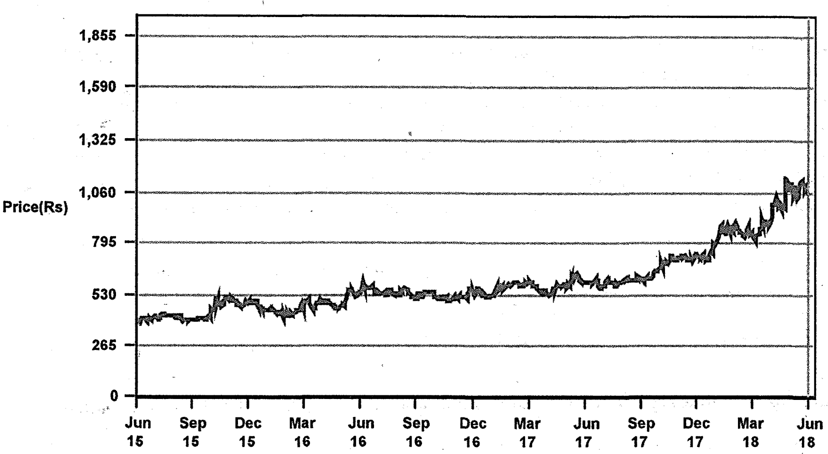
Mphasis Limited (MBFL.BO, MPHL IN) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

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