

## Mphasis Ltd.

### Q1FY11 Results Update

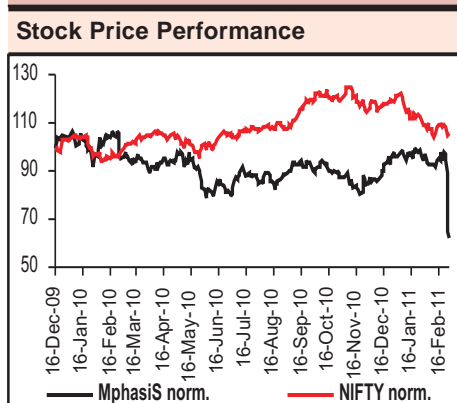
March 01, 2011

Key Stock Data	
Sector	ITeS
CMP	₹431.5
52-wk High / Low	₹711.4/ 443.4
Market Cap	₹90.98bn (\$2012.69mn)
Avg 6m daily vol.	476104
Nifty	5333.3
Reco:	BUY
Target Price:	₹512

Stock Codes	
Bloomberg Code	MPHL.IN
Reuters Code	MBFL.BO
BSE Code	526299
NSE Code	MPHASIS
Face Value	₹10 per share

Shareholding Pattern (31st Dec, 2010)	
Foreign	18.0%
Institutions	8.0%
Non Promoter Corporate Holding	8.3%
Promoters	60.5%
Public & Others	5.2%

Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
-34.7%	-28.3%	-32.9%	-35.2%



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Mphasis Ltd. (Mphasis) has disappointed the market with inconsistent financial disclosures. Apparently, financial transition had a significant negative impact, with sudden irreconcilable changes in reporting, affecting the granularity of forward estimates. Accordingly, the forecasts mentioned in this update may be subjected to pre-quarter revisions.

#### Key highlights of Q1FY11 business performance

- Growth determinants:
  - Seasonal impact on business due to holidays, taking out ~3.5% q-o-q.
  - Demand side shocks, milestone achievement, removing ~3.0% from topline q-o-q.
  - HP price revisions knocking out ~1.0% from topline q-o-q (effective from 1<sup>st</sup> Dec 2010).
  - Currency movements amounting to -0.7% topline q-o-q.
- Client additions look muted with significant change in the HP-channel makeup, possibly on account of price-cuts, translating to ~9.8% revenue decline q-o-q. Significant acquisitions include:
  - 2 ITO UID projects.
  - Payment solutions venture, contributing 2 wins.
- Hiring schedule (equivalents; q-o-q):
  - Applications:
    - Onsite: +5.1%
    - Offshore: +4.4%
  - BPO (non-HP internal): +6.4%
  - ITO: -0.2%
  - Attrition at uncomfortably high levels; Applications: 29%, ITO: 25%
- DSO's have spiked by +13.3% q-o-q.
- Overall we consider the Q1FY11 business performance to be transition-robust.

#### Outlook

Business environment looks robust with 1252, 471 open positions in Applications and ITO service-lines resp. We reiterate our confidence in governance @ Mphasis and, expect the company to step up SG&A spend post the recent 'HP-price cut' episode.

Though our earlier target was achieved, we restate valuations at 13.0x FY12E earnings, arriving at ₹512 per share.

#### Valuation analytics

	FY08*	FY09	FY10	FY11E	FY12E
EPS (₹)	13.74	43.21	51.82	34.73	39.46
EBITDA (₹Cr)	388.41	1127.45	1264.57	977.18	1131.67
P/E (x)	32.7	10.4	8.7	12.4	10.9
EV/EBITDA (x)	20.3	7.0	6.2	7.7	6.6

Source: Company E: Keynote Capitals Institutional Research Estimates  
\* 7mo ended 31st Oct 2008

**Highlights of Q1FY11**

(₹Cr)

	Q1FY10	Q4FY10	Q1FY11	Var y-o-y	Var q-o-q
<b>INCOME :</b>					
<b>Net Operating Income</b>	<b>1191.56</b>	<b>1345.40</b>	<b>1233.50</b>	<b>3.5%</b>	<b>-8.3%</b>
<b>Net Operating Income (\$mn)</b>	<b>255.82</b>	<b>296.21</b>	<b>270.98</b>	<b>5.9%</b>	<b>-8.5%</b>
<b>EXPENDITURE :</b>					
Direct Expenses	775.34	905.10	876.90	13.1%	-3.1%
SG&A	102.84	119.90	99.20	-3.5%	-17.3%
Total Expenditure	878.18	1025.00	976.10	11.2%	-4.8%
<b>EBITDA</b>	<b>313.38</b>	<b>320.40</b>	<b>257.40</b>	<b>-17.9%</b>	<b>-19.7%</b>
Other income	32.97	31.00	34.70	5.2%	11.9%
Interest	0.00	0.00	0.00	#NA	#NA
Gross Profit	346.35	351.40	292.10	-15.7%	-16.9%
Depreciation	45.60	37.40	35.90	-21.3%	-4.0%
PBT	300.75	314.00	256.20	-14.8%	-18.4%
Tax	32.48	30.00	29.50	-9.2%	-1.7%
<b>PAT</b>	<b>268.27</b>	<b>284.00</b>	<b>226.70</b>	<b>-15.5%</b>	<b>-20.2%</b>
<b>Cost Structure</b>					
Direct expenses	65.1%	67.3%	71.1%	602bps	382bps
SG&A	8.6%	8.9%	8.0%	-59bps	-87bps
<b>Margins</b>					
EBITDA margin	26.3%	23.8%	20.9%	-543bps	-295bps
PAT margin	22.5%	21.1%	18.4%	-414bps	-273bps

Source: Company

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