

## Company Flash

12 March 2008 | 6 pages

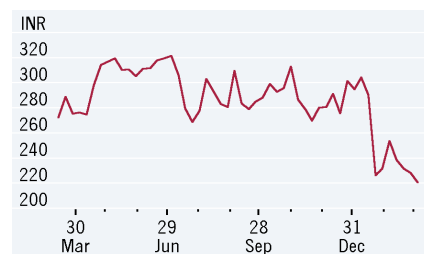
# Mphasis (MBFL.BO)

## Citi India Conference 2008: Day 2 Takeaways

- Conference takeaways** — Mphasis spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- Cautious on application near-term** — Management commented that projects-based business in organic Mphasis application work (~15% of Mphasis overall revenue) was seeing sporadic cases of 1-3 week delays as employees are transitioned from one project to another. This could impact near-term growth and profitability (onsite utilization affecting profitability). ITO and BPO businesses continue to see strong traction.
- EDS channel remains robust** — EDS channel now accounts for ~52% of revenue (3Q FY08) and continues to grow fast. Mphasis has been adding 10-12 EDS clients every quarter. The current pending order backlog from EDS is well over US\$1bn. Moreover, all application deals in the market place being pursued by EDS have a significant offshore component.
- Longer-term growth intact** — The company believes that longer-term growth remains intact and sporadic cases of project delays are likely to be temporary. Also, the supply side is easing and wage hikes could moderate in FY09. The company is closely watching teir-1 IT players for benchmark wage hikes.
- Pricing continues to trend up** — The company continues to see uptick in pricing across most clients, though there are some cases of clients asking for some pricing discounts (volume-based) – part and parcel of the business. At the company level, management expects average billing to increase 3-4%.

<b>Buy/High Risk</b>	<b>1H</b>
Price (12 Mar 08)	Rs197.50
Target price	Rs355.00
Expected share price return	79.7%
Expected dividend yield	1.5%
<b>Expected total return</b>	<b>81.3%</b>
Market Cap	Rs41,199M US\$1,021M

### Price Performance (RIC: MBFL.BO, BB: MPHL IN)



### Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2006A	1,499	9.25	16.9	21.3	4.8	23.0	1.5
2007A	1,801	8.63	-6.7	22.9	4.1	21.6	1.5
2008E	2,599	12.35	43.1	16.0	3.4	23.6	1.5
2009E	3,695	17.57	42.2	11.2	2.8	27.5	1.5
2010E	4,577	21.76	23.9	9.1	2.2	27.2	1.5

Source: Powered by dataCentral

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# Mphasis

## Company description

Mphasis Ltd (formerly Mphasis BFL Ltd.) is a mid-tier Indian IT services company headquartered in Bangalore, India. The company has a presence in IT services (primarily application development and maintenance) and BPO services. It serves global clients across financial services, retail, logistics and transportation verticals and had 80 million-dollar clients at end-FY07. Mphasis BFL was originally formed by the integration of BFL Software, Mphasis Corp and Msource. It later acquired Navion Shanghai Software (2003), Kshema Technologies (2004), Princeton Consulting (Feb 2005) and Eldorado Consulting (March 2005) over a few years after the tech slowdown in the US. Post majority stake acquisition in Mphasis and merger with EDS India, Electronic Data Systems Corporation (EDS) holds over 60% in Mphasis.

## Investment strategy

We rate Mphasis as Buy/High Risk (1H) based on a fundamental 12-month view. Offshore IT outsourcing has now become a mainstream option. Scale and scalability offshore, in our view, remains the key criterion for success of MNC firms like IBM, Accenture, EDS, etc. Mphasis is in a sweet spot as the offshore arm of a global IT major, EDS, for whom getting its best shore strategy right is a key to success. The demand side of the business is near-guaranteed for Mphasis due to EDS' order backlog and new large deals it has signed. Supply-side scalability and execution record are also key factors. In our view, revenue and earnings growth should accelerate from here as offshore creditability of Mphasis is established. We expect a revenue CAGR of 39% and an EPS CAGR of 36% in FY07-10.

## Valuation

Our target price of Rs355 is based on 18x average FY09-10E EPS. We believe P/E remains the most appropriate valuation measure given the company's profitable record and high earnings visibility. The 18x target multiple is closer to the lower end of the last one-year trading band of 16-30x one-year forward earnings post the EDS acquisition of a majority stake. This multiple factors in some premium for the likelihood of de-listing as EDS would like to own a larger share of its offshore base. We forecast a revenue CAGR of 39% and EPS CAGR of 36% over FY07-10E. This is at the higher end of our coverage universe, with some upside potential from further wins in the offshore application space for the EDS-Mphasis combination. Eventual de-listing from Indian exchanges could be a likely endgame for Mphasis, in our view.

## Risks

Although our quantitative risk-rating system suggests Medium Risk for Mphasis, we rate it as High Risk given the risk ratings of similar IT peer-group companies in our coverage universe and greater global economic risks. Key risks that could impede the stock from reaching our target price include: (1) high client concentration; (2) a slowdown in the financial, retail, transportation & logistics

industries; (3) a slowdown in the US/global economies; (4) supply-side situation becoming more difficult, i.e., wage inflation being higher than that factored in our model, or higher-than-expected attrition; (5) surprises in INR appreciation; (6) risk of transfer pricing; and (7) limited quota for H1B visas.

# Appendix A-1

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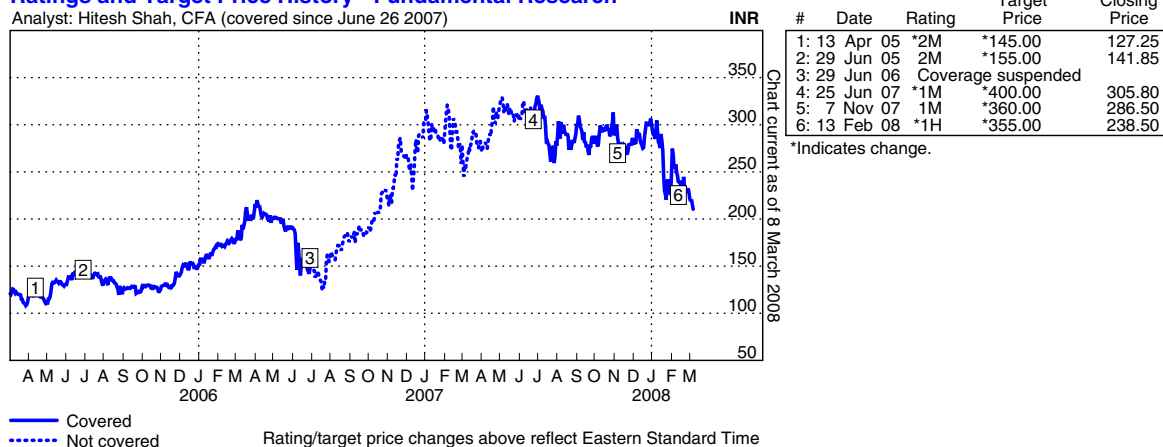
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Analyst: Hitesh Shah, CFA (covered since June 26 2007)



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