

November 25, 2009

Rating	Accumulate
Price	Rs670
Target Price	Rs720
Implied Upside	7.5%
Sensex	17,199

(Prices as on November 25, 2009)

Trading Data

Market Cap. (Rs bn)	140.4
Shares o/s (m)	209.6
Free Float	39.3%
3M Avg. Daily Vol ('000)	1,494.6
3M Avg. Daily Value (Rs m)	958.4

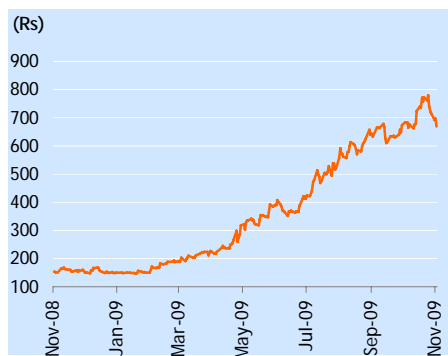
Major Shareholders

Promoters	60.7%
Foreign	16.8%
Domestic Inst.	7.3%
Public & Others	15.2%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.6)	108.2	335.9
Relative	(2.9)	84.6	238.1

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



Source: Bloomberg

Mphasis

Forex gain offset top-line miss

Mphasis reported better than expected net income for Q4FY09 results due to higher than anticipated forex gain.

- Top-line give miss, positive surprise at bottom-line:** Mphasis reported Q4FY09 revenue growth of 2.4% QoQ to Rs11.3bn (PLe: Rs11.6bn, Cons: Rs11.2bn), touch below our expectation, largely due to 4 lower working days. Operating margin expanded by 10bp QoQ to 21.9%. The company reported forex gain of Rs152.9mn, 1104% QoQ growth, resulted in net income growth of 7% QoQ to Rs2.5bn.
- Lineage to HP-EDS could help bid for large transformational projects:** We believe that due association with HP-EDS, the company could bid for large business transformational projects as a part of HP-EDS bid. The company managed to win 16 new clients out of which 13 from HP-EDS channel and 3 win were through independent channel. The company could maintain high utilization level when compared to its peers due to higher visibility in the revenue from HP-EDS. The pricing has been stable during the entire slow-down phase and we expect it to stay steady with no negative surprises. HP-EDS in its commentary said that Services revenue is tracking well and we expect deal wins by HP-EDS could help growth back on track for Mphasis.
- Concern due to high HP exposure:** HP continues to be the biggest client of Mphasis contributing ~12% of revenue for HP's internal outsourcing work (BPO). As the restructuring for HP moves towards the completion, they continue to cut the exposure to Mphasis. We expect that this will continue for few more quarters before stabilizing. The pace of decline could be a big headwind for the earning momentum.
- Valuation and recommendation:** The management maintained cautious tone in the conference call on the demand environment. The management said the IT spend would be under control. We remain optimistic on recovery of the outsourcing industry but believe that strong revenue momentum (CQGR: -5%) maintained by the company would be difficult to maintain. Moreover, due to recent run-up in the stock, we downgrade Mphasis to "Accumulate" with a target price of Rs720, a target multiple of 15.5x FY10e earning.

Key financials (Y/e Oct)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	29,773	42,639	47,314	54,205
Growth (%)	69.1	43.2	11.0	14.6
EBITDA (Rs m)	6,672	12,287	13,616	14,975
PAT (Rs m)	4,923	9,087	9,697	10,306
EPS (Rs)	19.4	43.2	46.2	49.1
Growth (%)	124.7	123.2	6.8	6.3
Net DPS (Rs)	3.5	6.0	5.0	5.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	22.4	28.8	28.8	27.6
RoE (%)	34.3	38.7	29.3	23.7
RoCE (%)	34.1	38.7	29.2	23.7
EV / sales (x)	4.7	3.3	3.0	2.6
EV / EBITDA (x)	21.1	11.4	10.3	9.4
PE (x)	34.4	15.4	14.4	13.6
P / BV (x)	9.8	6.0	4.2	3.2
Net dividend yield (%)	0.5	0.9	0.7	0.7

Source: Company Data; PL Research

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Q4FY09 Result Overview - Forex gain helped bottom-line growth

(Rs m)

Y/e Oct	Q4 FY09	Q3 FY09	QoQ gr. (%)	Q4 FY08	YoY gr. (%)	FY09	FY08	YoY gr. (%)
Consolidated Sales	11,322	11,056	2.4	8,947	26.5	42,639	29,773	43.2
Consolidated Operating Profit	2,475	2,406	2.9	1,693	46.2	9,252	4,816	92.1
OPM	21.86	21.76	10 bps	18.92	294 bps	21.70	16.18	552 bps
PBT	2,701	2,438	10.8	1,884	43.4	9,728	5,087	91.2
Tax	251	145		54		641	164	
<i>Tax Rate (%)</i>	<i>9.3</i>	<i>6.0</i>	<i>333 bps</i>	<i>2.9</i>	<i>643 bps</i>	<i>6.6</i>	<i>3.2</i>	<i>337 bps</i>
PAT	2,450	2,292	6.9	1,830	33.9	9,087	4,923	84.6
EPS (Rs)	11.69	10.90	7.2	8.73	33.9	43.23	19.37	123.2

Source: Company Data, PL Research

Application Maintenance - growth due to AIG acquisition

Practices (IT Services + BPO Sales)	Q4FY09	Q3FY09	QoQ	Q4FY08	YoY
Application Maintenance & Other Services	4189.1	3869.5	8.3%	3042.0	37.7%
Application Development	3056.9	3206.2	-4.7%	2684.1	13.9%
Customer Service	792.5	884.5	-10.4%	894.7	-11.4%
Service/Technical Help Desk	566.1	663.3	-14.7%	715.8	-20.9%
Transaction Processing Services	679.3	552.8	22.9%	536.8	26.5%
Infrastructure Management Services	1585.1	1547.8	2.4%	715.8	121.5%
Knowledge Process	452.9	331.7	36.5%	357.9	26.5%
% of (IT Services + BPO Sales)					
Application Maintenance & Other Services	37.0%	35.0%	200 bps	34.0%	300 bps
Application Development	27.0%	29.0%	-200 bps	30.0%	-300 bps
Customer Service	7.0%	8.0%	-100 bps	10.0%	-300 bps
Service/Technical Help Desk	5.0%	6.0%	-100 bps	8.0%	-300 bps
Transaction Processing Services	6.0%	5.0%	100 bps	6.0%	0 bps
Infrastructure Management Services	14.0%	14.0%	0 bps	8.0%	600 bps
Knowledge Process	4.0%	3.0%	100 bps	4.0%	0 bps

Source: Company Data, PL Research

**Telecom surprise pick-up contrary to peers growth**

Verticals Component	Q4 FY09	Q3 FY09	QoQ	Q4 FY08	YoY
Banking & Financial Services	4642.0	4532.8	2.4%	3936.7	17.9%
Technology & OEM 's	2490.8	2542.8	-2.0%	2057.8	21.0%
Telecom	1358.6	1216.1	11.7%	984.2	38.0%
Manufacturing & Retail	1471.9	1437.2	2.4%	1073.6	37.1%
Transport Logistics & Airline	566.1	552.8	2.4%	536.8	5.5%
Healthcare & Pharma	792.5	773.9	2.4%	357.9	121.5%
% of Total					
Banking & Financial Services	41.0%	41.0%	0 bps	44.0%	-300 bps
Technology & OEM 's	22.0%	23.0%	-100 bps	23.0%	-100 bps
Telecom	12.0%	11.0%	100 bps	11.0%	100 bps
Manufacturing & Retail	13.0%	13.0%	0 bps	12.0%	100 bps
Transport Logistics & Airline	5.0%	5.0%	0 bps	6.0%	-100 bps
Healthcare & Pharma	7.0%	7.0%	0 bps	4.0%	300 bps

Source: Company Data, PL Research

America witnessed muted growth; Strong Asia Pacific growth due to large deal win in Australia (Telecom)

Geo Spread	Q4 FY09	Q3 FY09	QoQ	Q4 FY08	YoY
America	7246.1	7,296.8	-0.7%	6,173.4	17.4%
Europe	2264.4	2,211.1	2.4%	1,699.9	33.2%
Asia Pacific	1019.0	663.3	53.6%	357.9	184.7%
India & Middle East	792.5	884.5	-10.4%	715.8	10.7%
Total	11322.0	11,055.7	2.4%	8,947.0	26.5%
% of Total					
America	64.0%	66.0%	-200 bps	69.0%	-500 bps
Europe	20.0%	20.0%	0 bps	19.0%	100 bps
Asia Pacific	9.0%	6.0%	300 bps	4.0%	500 bps
India & Middle East	7.0%	8.0%	-100 bps	8.0%	-100 bps
Total	100.0%	100.0%	0 bps	100.0%	0 bps

Source: Company Data, PL Research

Healthy deal win

Customer Size Distribution	Q4 FY09	Q3 FY09	QoQ	Q4 FY08	YoY
>1mn	106	106	0.0%	94	12.8%
>5mn	39	33	18.2%	32	21.9%
>10mn	23	23	0.0%	18	27.8%
>20mn	11	9	22.2%	8	37.5%

Source: Company Data, PL Research

**Weak outlook for top client**

	Q4 FY09	Q3 FY09	QoQ	Q4 FY08	YoY
Customer Concentration					
Top Customer	1,359	1,548	-12.2%	1,342	1.2%
Top 5	3,397	3,759	-9.6%	2,953	15.0%
Top 2-5	2,038	2,211	-7.8%	1,610	26.5%
Top 10	5,095	5,307	-4.0%	4,295	18.6%
Non Top 10 customers	6,227	5,749	8.3%	4,652	33.8%
Customer Concentration					
Top Customer	12.0%	14.0%	-200 bps	15.0%	-300 bps
Top 5	30.0%	34.0%	-400 bps	33.0%	-300 bps
Top 10	45.0%	48.0%	-300 bps	48.0%	-300 bps
Non Top 10 customers	55.0%	52.0%	300 bps	52.0%	300 bps

Source: Company Data, PL Research

Employee addition still slow; utilization running alarmingly high

	Q4 FY09	Q3 FY09	QoQ	Q4 FY08	YoY
People Management					
Onsite - Applications	1,858	1,684	10.3%	1,519	22.3%
Onsite - BPO	144	129	11.6%	118	22.0%
Offshore - Applications	10,328	9,685	6.6%	9,072	13.8%
Offshore - BPO	16,161	16,262	-0.6%	13,854	16.7%
Offshore - ITO	5,002	4,960	0.8%	4,232	18.2%
Total Headcount- Onsite	2,002	1,813	10.4%	1,637	22.3%
Total Headcount- Offshore	31,491	30,907	1.9%	27,158	16.0%
Overall Headcount	33,493	32,720	2.4%	28,795	16.3%
Utilization (excluding Trainees)-Blended					
Application	84.0%	78.0%	600 bps	81.0%	300 bps
BPO	70.0%	63.0%	700 bps	68.0%	200 bps
ITO	85.0%	83.0%	200 bps	78.0%	700 bps

Source: Company Data, PL Research

**FPP still low when compared to its peers - room for margin expansion**

Service Delivery	Q4 FY09	Q3 FY09	QoQ	Q4 FY08	YoY
Revenue from T&M	9,963	10,061	-1.0%	8,410	18.5%
Revenue from FPP	1,359	995	36.5%	537	153.1%
Onsite Revenue	3,283	2,764	18.8%	2,326	41.1%
Offshore Revenue	8,039	8,292	-3.1%	6,621	21.4%
% of Total					
Revenue from T&M	88.0%	91.0%	-300 bps	94.0%	-600 bps
Revenue from FPP	12.0%	9.0%	300 bps	6.0%	600 bps
Onsite Revenue	29.0%	25.0%	400 bps	26.0%	300 bps
Offshore Revenue	71.0%	75.0%	-400 bps	74.0%	-300 bps

Source: Company Data, PL Research

No surprises on pricing

Price Movement(USD/hr)	Q4 FY09	Q3 FY09	QoQ	Q4 FY08	YoY
Onsite - Applications	72	72	0.0%	69	4.3%
Onsite - ITO	70	70	0.0%	0	NA
Offshore - Applications	22	22	0.0%	22	0.0%
Offshore- BPO	8	9	-11.1%	10	-20.0%
Offshore - ITO	22	22	0.0%	21	4.8%

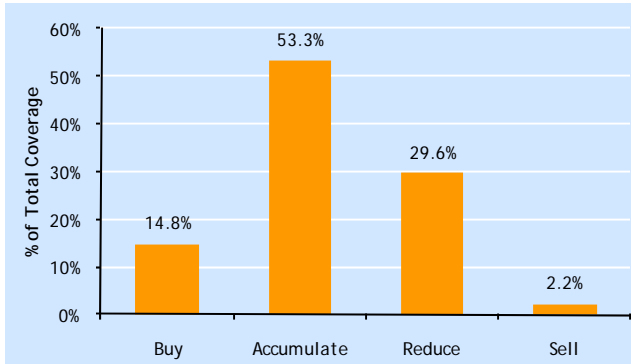
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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