

November 23, 2010

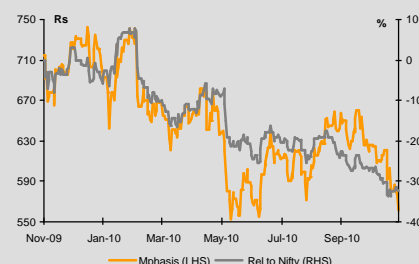
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 561	Rs 630
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Sensex	19,585
Nifty	5,890

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(5)	(12)	(22)
Rel. to Nifty	(8)	(11)	(26)	(34)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	MPHL@IN
Equity Capital (Rs mn)	2099
Face Value(Rs)	10
No of shares o/s (mn)	210
52 Week H/L	752/545
Market Cap (Rs bn/USD mn)	118/2,604
Daily Avg Volume (No of sh)	488496
Daily Avg Turnover (US\$m)	6.8

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	60.6	60.6	60.6
FII/NRI	18.3	18.3	16.8
Institutions	7.7	7.7	7.0
Private Corp	7.8	7.7	8.6
Public	5.6	5.8	7.0

Source: Capitaline

Manik Taneja

manik.taneja@emkayglobal.com
+91 22 6612 1253

Priya Gajwani

priya.gajwani@emkayglobal.com
+91 22 6612 1385

- **Marginally ahead of estimated revenues at \$ 290 mn (+7% QoQ) mainly driven by recoveries of revenues forgone in Q3 in Asia Pac Region**
- **EBITDA mgns were at 23.8%, down by ~90 bps QoQ on reported basis (we estimated flat margins) while were down by ~110 bps to 22.3% (ex hedging contribution)**
- **Overall headcount addition was flat driven by reduction in BPO Headcount by 1,141 and increase by 300/836 in Apps/ITO (Total Headcount at 39,962). Pricing was nearly flat**
- **Current Valuations at 10.7x/10.2x based on E EPS Rs 52.3/55 for Oct11/Oct12 with HOLD rating and target price of Rs 630, will be reviewed post the call scheduled at 11.30 a.m. today**

Marginally better show on revenues, margins a tad lower than expectations

Mphasis reported Q4FY11 revenues at Rs 13.45 bn (+5.2% QoQ, +18% YoY), marginally ahead of Emkay est of Rs 13.3 bn helped by higher than expected hedging gains of Rs 272 mn (Emkay est of ~Rs 150 mn). US\$ revenues(ex hedging gains) were up by ~7% sequentially to US\$ 290 mn (in line with est) with ITO revenues increasing by ~9% QoQ and Apps revenues increasing by 8.3% QoQ. EBITDA margins declined by ~90 bps QoQ to 23.8% on reported basis (we estimated flat margins) while were down by ~110 bps to 22.3% (ex hedging contribution). Net Profits at Rs 2.84 bn (+4.9% QoQ, +16% YoY) were higher than Emkay est despite lower operating profits helped by higher forex gains (at Rs 130 mn V/s expectations of loss of ~Rs 10 mn) and lower taxes (at 9.5% V/s expectations of ~11.5%). **Co's operating metrics indicates that majority of all the revenue addition QoQ (~Rs 600 mn) has been driven primarily by recovery of revenues foregone in an Asia Pac telco a/c.**

Reported pricing flat across segments, overall headcount flat QoQ on a/c of BPO reduction

Mphasis's reported pricing was nearly flat across the different business segments (apps offshore pricing flat QoQ at US\$ 20/hr, onsite apps pricing up to US\$ 72/hr V/s US\$ 71/hr in July'10 qtr). Headcount addition was flat with (1,141)/+300/+836 in BPO, Apps and ITO respectively.

Could see near term bounce back in the stock, to review estimates post call tomorrow

We do not rule out a bounce back in the stock given the underperformance heading into the results driven by expectations of weak results (some sections of the street expected Q4FY11 profits of ~Rs 2 bn). We would review our FY12E/13E earnings of ~Rs 52.3/55 post the investor call scheduled for 11.30 a.m today. Key things to watch out during the call in our view are (1) comments on any further pricing renegotiations/ volume related discounts related to business driven by the parent and (2) tax rates.

We currently have a HOLD rating on Mphasis with a price target of Rs 630.

Year end Oct (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	42,639	11,275	26.4	9,087	43.3	48.1	13.3	9.9	5.2
FY11	50,366	12,652	25.1	10,911	52.0	39.8	10.9	8.3	3.6
FY12E	59,578	14,598	24.5	10,985	52.3	34.6	10.7	6.7	2.9
FY13E	69,534	16,164	23.2	11,552	55.0	29.9	10.2	5.5	2.3

Key Financials - Quarterly

Rs mn	Q July'09	Q Oct'09	Q Jan'10	Q Apr'10	Q July'10	Q Oct'10	YoY(%)	QoQ (%)	FY11	FY10	YoY (%)
Revenue	11,056	11,322	11,916	12,205	12,791	13,454	18.8	5.2	50,366	42,639	18.1
Operating Expenditure	8,136	8,376	8,780	9,055	9,632	10,246	22.3	6.4	37,713	31,364	20.2
Cost of revenues	6,986	7,242	7,794	8,077	8,598	9,051	25.0	5.3	33,520	26,901	24.6
as % of sales	63.2	64.0	65.4	66.2	67.2	67.3			66.6	63.1	
SG&A expenses	1,150	1,135	987	978	1,034	1,195	5.4	15.6	4,194	4463	(6.0)
as % of sales	10.4	10.0	8.3	8.0	8.1	8.9			8.3	10.5	
EBITDA	2,919	2,946	3,136	3,150	3,159	3,208	8.9	1.5	12,652	11,275	12.2
Depreciation	514	471	458	402	404	374	(20.5)	(7.4)	1,637	2,022	(19.0)
EBIT	2,406	2,475	2,678	2,748	2,755	2,834	14.5	2.9	11,015	9,253	19.0
Other Income	32	225	330	275	174	310	37.6	78.2	1,088	475	129.0
PBT	2,438	2,700	3,008	3,023	2,929	3,144	16.4	7.3	12,103	9,728	24.4
Total Tax	145	251	325	350	217	300	19.7	38.2	1,192	641	86.0
Adjusted PAT	2,292	2,450	2,683	2,673	2,712	2,844	16.1	4.9	10,911	9,087	20.1
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0			0	0	
APAT after MI	2,292	2,450	2,683	2,673	2,712	2,844	16.1	4.9	10,911	9,087	20.1
Extra ordinary items	0	0	0	0	0	0			0		
Reported PAT	2,292	2,450	2,683	2,673	2,712	2,844	16.1	4.9	10,911	9,087	20.1
Reported EPS	10.9	11.7	12.8	12.7	12.9	13.5	16.1	4.9	52.0	43.3	20.1

Margins (%)

							(bps)	(bps)			(bps)
EBIDTA	26.4	26.0	26.3	25.8	24.7	23.8	(222)	(90)	25.1	26.4	(132.1)
EBIT	21.8	21.9	22.5	22.5	21.5	21.1	(80)	(48)	21.9	21.7	17.0
EBT	22.1	23.9	25.2	24.8	22.9	23.4	(48)	47	24.0	22.8	121.7
PAT	20.7	21.6	22.5	21.9	21.2	21.1	(50)	(7)	21.7	21.3	35.3
Effective Tax rate	6.0	9.3	10.8	11.6	7.4	9.5	26	213	9.8	6.6	326.0

Source: Company, Emkay Research

(All fig in Rs mn except %)	April'09	July'09	Oct'09	Jan'10	April'10	July'10	Oct'10
Reported Revenues	10,485	11,056	11,322	11,916	12,205	12,791	13,454
Hedging Gains/(Losses)	-240	15	107	357	338	210	272
Revenues(ex Hedging)	10,724	11,041	11,215	11,559	11,867	12,581	13,182
Reported EBITDA	2,818	2,919	2,946	3,135	3,150	3,159	3,208
Reported Mgns, %	26.9	26.4	26.0	26.3	25.8	24.7	23.8
EBITDA ex Hedging gains/(losses)	3,058	2,904	2,839	2,778	2,812	2,949	2,936
EBITDA mgns(ex hedging), %	28.5	26.3	25.3	24.0	23.7	23.4	22.3

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Oct (Rs. m)	Oct'09	Oct'10	Oct'11E	Oct'12E
Net Sales	42,639	50,366	59,578	69,534
Growth (%)		18	18	17
Total Expenditure	(31,364)	(37,713)	(44,980)	(53,370)
Growth (%)		20	19	19
EBIDTA	11,275	12,652	14,598	16,164
Growth (%)		12	15	11
EBIDTA %	26.4	25.1	24.5	23.2
Other Income	292	581	-	-
Depreciation	(2,022)	(1,637)	(1,954)	(2,256)
EBIT	9,252	11,015	12,644	13,908
Interest	28	8	798	1,293
EBT	9,728	12,103	13,442	15,200
Tax	(641)	(1,192)	(2,457)	(3,648)
EAT	9,087	10,911	10,985	11,552
Growth (%)		20	1	5
EAT (%)	21.3	21.7	18.4	16.6

Cash Flow

Y/E, Oct (Rs. m)	Oct'09	Oct'10	Oct'11E	Oct'12E
Net Profit after Tax	9,087	10,911	10,985	11,552
Add : Depreciation	2,022	1,637	1,954	2,256
Add : Misc exp w/off	-	-	-	-
Net changes in WC	(3,410)	(3,068)	(2,001)	(2,128)
Operational Cash Flows	10,517	8,406	11,875	12,090
Capital expenditure	(1,163)	(919)	(1,800)	(2,500)
Investments	(7,612)	(7,004)	-	-
Investing Cash Flows	(8,776)	(7,923)	(1,800)	(2,500)
Borrowings	(20)	420	-	-
dividend paid	(858)	(858)	(1,255)	(1,285)
Issue of shares	112	4	0	-
Share Premium	105	41	-	-
Financing Cash Flows	(218)	(402)	(1,259)	(1,455)
changes in cash	1,240	(2)	7,900	8,238
Opening balance	546	1,786	1,784	9,684
Closing balance	1,786	1,784	9,684	17,922

Balance Sheet

Y/E, Oct (Rs. m)	Oct'09	Oct'10	Oct'11E	Oct'12E
Equity share capital	2,096	2,099	2,089	2,089
Reserves & surplus	21,359	30,892	39,332	49,532
Minority Interest	-	-	-	-
Networth	23,454	32,991	41,422	51,623
Secured Loans	-	454	-	-
Unsecured Loans	33	-	25	25
Loan Funds	33	454	25	25
Total Liabilities	23,488	33,445	41,447	51,647
Goodwill	2,946	3,886	4,230	4,230
Gross Block	10,044	10,258	13,345	15,845
Less: Depreciation	6,880	7,836	10,510	12,766
Net block	3,164	2,423	2,835	3,079
Capital WIP	127	89	88	88
Investment	7,612	14,600	13,429	13,429
Current Assets	18,091	23,286	32,699	44,783
Inventories	-	-	-	-
Sundry debtors	3,820	12,054	5,713	6,668
Cash & bank balance	1,786	1,784	9,684	17,922
Loans & advances	7,240	9,446	9,794	11,430
Other current assets	5,246	2	7,508	8,763
Current Liab & Prov	9,147	11,590	12,732	14,859
Current liabilities	6,414	8,094	8,651	10,097
Provisions	2,734	3,497	4,081	4,763
Net current assets	8,944	11,696	19,967	29,924
Misc exps	-	-	-	-
Deferred Tax	695	751	896	896
Total Assets	23,488	33,445	41,447	51,647

Key Ratios

Y/E, Oct	Oct'09	Oct'10	Oct'11E	Oct'12E
EPS (Rs)	43.3	52.0	52.3	55.0
CEPS (Rs)	52.9	59.8	61.6	65.8
Book Value Per Share (Rs)	111.7	157.1	197.2	245.8
Dividend Per Share (Rs)	3.5	5.2	5.2	5.5
Valuations Ratios (x)				
PER	13.3	10.9	10.72	10.2
P/CEPS	11.3	9.5	9.7	9.1
P/BV	5.2	3.6	2.9	2.3
EV/EBIDTA	9.9	8.3	6.7	5.5
EV/Sales	2.6	2.1	1.6	1.3
M-Cap/sales	2.8	2.4	2.0	1.7
Profitability Ratios (%)				
RoCE	48.8	39.8	34.6	29.9
RoNW	48.1	39.4	30.0	24.8
EBITDA Margin	26.4	25.1	24.5	23.2
EBIT Margins	21.7	21.9	21.2	20.0
Net Profit Margin	21.3	21.7	18.4	16.6

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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