FIRST LIGHT

26 July 2021

RESEARCH

Mphasis | Target: Rs 2,500 | +4% | HOLD

Direct business growth negates shortfall in DXC - raise to HOLD

Persistent Systems | Target: Rs 2,920 | –4% | HOLD

An all-round growth beat; upgrade to HOLD

IndiaMart Intermesh | Target: Rs 7,200 | –1% | HOLD

Resilient showing in Covid-hit Q1

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.28	(1bps)	(21bps)	70bps
India 10Y yield (%)	6.20	1bps	17bps	40bps
USD/INR	74.47	0.2	(0.5)	0.4
Brent Crude (US$/bbl)	73.79	2.2	(1.5)	70.4
Dow	34,823	0.1	2.8	30.7
Shanghai	3,575	0.3	1.3	7.5
Sensex	52,837	1.2	0.5	38.5
India FII (US$ mn)	**20-Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	(80.5)	(37.0)	(3,203.8)	(1,176.5)
FII-E	(371.7)	(1,186.8)	6,897.3	(429.0)

Source: Bank of Baroda Economics Research

SUMMARY

Mphasis

- MPHL grew 6.3% QoQ USD in Q1, outperforming our (4%) and street estimates. EBIT margin was a miss at 15.9% due to the pandemic impact
- DXC contracted 18% QoQ but topline growth was shored up by a stellar pickup in direct channel business at 10% QoQ USD
- We upgrade to HOLD from SELL and roll over to a new Jun’22 TP of Rs 2,500 (vs. Rs 1,580), set at a higher 25.5x P/E multiple

Click here **for the full report.**

Persistent Systems

- PSYS reported stellar Q1FY22 numbers with dollar revenue growth of 9.1% QoQ (incl. Capiot) driven by BFSI and healthcare
- EBIT margin at 13.5% was broadly in line with our/consensus estimates. TCV stood at a robust US$ 245mn
- We upgrade to HOLD (V/s SELL earlier) and roll over to a new Jun’22 TP of Rs 2,920 (vs. Rs 1,340), set at a higher 30x P/E

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IndiaMart Intermesh

- INMART reported a decent Q1FY22 performance with 20% YoY revenue growth and a 50% EBITDA margin
- User engagement on its B2B platform bucked the Covid slowdown, but we expect peak margins and higher ARPU to normalise
- While we like INMART for its deep-rooted industry leadership, we see near-term earnings headwinds; retain HOLD, TP Rs 7,200 (vs. Rs 7,170)

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HOLD
TP: Rs 2,500 | ▲ 4%

MPHASIS | IT Services | 23 July 2021

Direct business growth negates shortfall in DXC – raise to HOLD

- **MPHL grew 6.3% QoQ USD in Q1, outperforming our (4%) and street estimates. EBIT margin was a miss at 15.9% due to the pandemic impact**
- **DXC contracted 18% QoQ but topline growth was shored up by a stellar pickup in direct channel business at 10% QoQ USD**
- **We upgrade to HOLD from SELL and roll over to a new Jun'22 TP of Rs 2,500 (vs. Rs 1,580), set at a higher 25.5x P/E multiple**

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Strong execution: In line with the robust uptrend in India's IT sector, MPHL registered strong Q1FY22 revenue growth of 6.3% QoQ USD vs. our estimate of 4%. Direct business grew 10% USD, more than making up for a shortfall in the DXC segment (-17.7% QoQ, 9% of Q1 revenue). EBIT margin stood at 15.9%, down 20bps QoQ and below our estimate of 16.7%. Gross margin at 28.4% contracted 260bps QoQ due to the one-time pandemic impact and lower utilisation.

Broad-based growth: All verticals except insurance delivered QoQ growth. Logistics and transformation grew 11.5% QoQ USD, the highest among verticals, continuing its recovery since a dip in Q1FY21. Banking and capital markets was up 9.2% QoQ USD. Insurance was weak, contracting 3%.

Robust deal wins: Q1 TCV stood at US$ 505mn, up 106% QoQ and 65% YoY. This included a lumpy, large deal worth US$ 250mn – MPHL's sixth consecutive quarter of large US$ 200mn+ wins. Per management, the nature of TCV has improved in terms of tenure and new-generation components. The pickup in deal wins is a result of demand tailwinds from the squeezing of longer-timeframe core transformation and cloud migration initiatives into a 3-5-year timeframe.

Outlook remains upbeat: Management reiterated its target of industry-leading growth in the direct business, with an overall EBIT margin band of 15.5-17% for FY22. MPHL hinted at opportunities for pricing increase amid robust demand and a supply crunch. The company is continuing to invest in (1) geographical footprint expansion, (2) adding leadership breadth and depth, (3) building digital competencies, and (4) focused new account acquisition (NCA).

Upgrade to HOLD: MPHL's stellar show in the direct business came as a positive surprise and counteracted the steep reduction in DXC business. We upgrade our rating to HOLD from SELL on the back of strong momentum in the direct channel and a receding mix of DXC business (at 9% of revenue vs. 20% in Q1FY21). Our revised Jun'22 TP of Rs 2,500 is set at a higher one-year forward P/E of 25.5x vs. 17x earlier, baking in a 15% discount to LTI.

Key changes

Target	Rating
▲	▲

Ticker/Price	MPHL IN/Rs 2,397
Market cap	US$ 6.0bn
Free float	40%
3M ADV	US$ 17.4mn
52wk high/low	Rs 2,450/Rs 976
Promoter/FPI/DII	52%/29%/14%

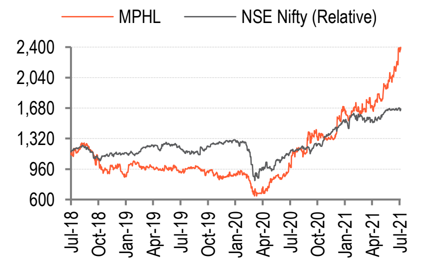
Source: NSE | Price as of 22 Jul 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	97,223	115,589	133,195
EBITDA (Rs mn)	18,028	22,163	25,814
Adj. net profit (Rs mn)	12,167	15,261	17,816
Adj. EPS (Rs)	65.4	82.0	95.7
Consensus EPS (Rs)	65.4	77.6	88.9
Adj. ROAE (%)	19.7	22.5	24.3
Adj. P/E (x)	36.7	29.2	25.0
EV/EBITDA (x)	24.8	20.2	17.2
Adj. EPS growth (%)	2.7	25.4	16.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

HOLD

TP: Rs 2,920 | ⋎ 4%

PERSISTENT SYSTEMS | IT Services | 24 July 2021

An all-round growth beat; upgrade to HOLD

- **PSYS reported stellar Q1FY22 numbers with dollar revenue growth of 9.1% QoQ (incl. Capiot) driven by BFSI and healthcare**
- **EBIT margin at 13.5% was broadly in line with our/consensus estimates. TCV stood at a robust US$ 245mn**
- **We upgrade to HOLD (V/s SELL earlier) and roll over to a new Jun'22 TP of Rs 2,920 (vs. Rs 1,340), set at a higher 30x P/E**

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Stellar growth: PSYS reported 9.1% QoQ USD revenue growth, ahead of our estimate of 5.9%. This was the company's best first-quarter growth rate, albeit aided by Capiot acquisition revenue. EBIT margin stood at 13.5%, up 40bps QoQ, in line with our estimate of 13.6%. Increased visa costs and higher attrition limited further margin gains. Offshore revenue share increased 80bps QoQ to 55.5%.

Broad-based traction across markets and verticals: Geography-wise, revenue growth was fuelled by India/North America at 17.2%/8.7% QoQ. The strong performance in India was backed by multi-year transformation deals with mid-tier NBFCs. Among verticals, BFSI and healthcare & life science both grew in double digits at 11.7% and 15.9% respectively. Alliance business performed well as the top client grew 3.7% QoQ. PSYS's top 10 clients grew 10.1% QoQ.

Strong TCV maintained: TCV stood at US$ 244.8mn, including new contracts worth US$ 147.7mn. ACV was at US$ 188.8mn. The company saw key wins across verticals such as software, hi-tech & emerging industries, BFSI and healthcare & life sciences. Most of these deals have a long tenure and are centered around core transformation and cloud migration.

Attrition shoots up amid supply constraints: A total of 1,224 employees (400 freshers) were hired in Q1FY22. Attrition surged to 16.6% vs. 11.7% in Q4FY21 given increased demand for digital skills in the industry. PSYS has launched several initiatives to combat the rising attrition, including flexible working hours and salary hikes (due in Q2), besides ramping up hiring with plans to recruit 2,000 freshers in FY22. Utilisation remained high at 80%+ levels.

Upgrade to HOLD: Incorporating the stellar Q1 print and all-round positive outlook, we raise FY22/FY23 EPS estimates by 15%/31% and increase our target one-year forward P/E from 19x to 30x (inline with target valuation multiple for LTI) – this yields a higher Jun'22 TP of Rs 2,920 (vs. Rs 1,340). With stellar start in Q1, PSYS is in strong position to clock industry leading growth in FY22. Upgrade to HOLD V/s SELL earlier.

Key changes

Target	Rating
▲	▲

Ticker/Price	PSYS IN/Rs 3,039
Market cap	US$ 3.3bn
Free float	70%
3M ADV	US$ 7.7mn
52wk high/low	Rs 3,130/Rs 725
Promoter/FPI/DII	30%/26%/44%

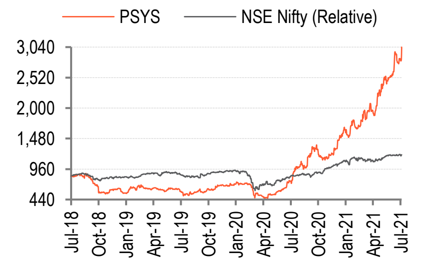
Source: NSE | Price as of 23 Jul 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	41,879	54,654	64,905
EBITDA (Rs mn)	6,830	8,765	11,084
Adj. net profit (Rs mn)	4,507	5,899	7,294
Adj. EPS (Rs)	56.5	74.0	91.4
Consensus EPS (Rs)	56.5	76.3	91.7
Adj. ROAE (%)	17.1	19.9	21.5
Adj. P/E (x)	53.8	41.1	33.2
EV/EBITDA (x)	35.4	27.5	21.7
Adj. EPS growth (%)	32.4	30.9	23.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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HOLD
TP: Rs 7,200 | ▼ 1%

INDIAMART INTERMESH | Internet | 23 July 2021

Resilient showing in Covid-hit Q1

- **INMART reported a decent Q1FY22 performance with 20% YoY revenue growth and a 50% EBITDA margin**
- **User engagement on its B2B platform bucked the Covid slowdown, but we expect peak margins and higher ARPU to normalise**
- **While we like INMART for its deep-rooted industry leadership, we see near-term earnings headwinds; retain HOLD, TP Rs 7,200 (vs. Rs 7,170)**

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Resilient performance: INMART's Q1 performance was better than our estimates on both revenue and operating margin. Revenue increased 20% YoY (13% est.) with a 50% EBITDA margin (43% est.). The second Covid wave had a less pronounced impact on business compared to the first wave. Paying suppliers declined by 6k in Q1FY22 vs. a 14k drop in Q1FY21. Operating margin was cushioned by lower costs as employees worked from home. Net profit at Rs 907mn increased 19% YoY, in line with operating profit growth.

User engagement bucks slowdown: Unlike the first pandemic phase last year, the activity level on INMART's online B2B classifieds platform did not slow down this time around. Traffic was up 40% YoY to 268mn visitors in Q1, continuing the growth trend seen over the previous three quarters. Similarly, daily unique business inquiries and registered buyers increased by 22% and 30% YoY respectively.

ARPU rise aberrational and expected to reverse: Q1 annualised revenue per paying customer (ARPU) stood at Rs 49,708, up 6% QoQ (and 9% YoY), marking the highest sequential increase since the company began this disclosure in Q1FY19. An unintentionally favourable client mix boosted ARPU as the number of low-paying silver-category clients reduced owing to the pandemic impact (80-90% of the drop in paying suppliers was from the silver category). Recovery in this client base as Covid restrictions ease will reverse the revenue upside. Management expects ARPU to normalise at Rs 46,000-47,000, similar to the prior three quarters.

Peak operating margin to come off: The 50% Q1 EBITDA margin was supported by pandemic-led cost reductions and is unlikely to sustain as business activity returns to normal. Management expects EBITDA margin closer to 40%.

Reiterate HOLD: We marginally adjust earnings assumptions and reiterate HOLD with a revised Jun'22 TP of Rs 7,200 (Rs 7,170 earlier). We continue to value INMART at a one-year forward P/E multiple of 52.5x – in line with the stock's average post Covid multiple that captures the pandemic-led inflection for internet businesses.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	INMART IN/Rs 7,251
Market cap	US$ 3.0bn
Free float	42%
3M ADV	US$ 14.4mn
52wk high/low	Rs 9,950/Rs 2,341
Promoter/FPI/DII	50%/28%/23%

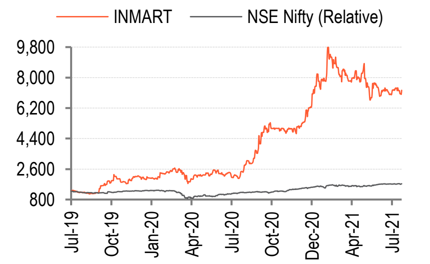
Source: NSE | Price as of 23 Jul 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	6,650	7,714	9,817
EBITDA (Rs mn)	3,333	3,427	4,227
Adj. net profit (Rs mn)	2,867	3,357	4,027
Adj. EPS (Rs)	94.5	110.4	132.5
Consensus EPS (Rs)	94.5	115.8	133.3
Adj. ROAE (%)	30.3	19.0	19.3
Adj. P/E (x)	76.7	65.7	54.7
EV/EBITDA (x)	66.1	64.4	51.9
Adj. EPS growth (%)	89.8	16.9	20.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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