

**SELL**

TP: Rs 2,651 | ▼ 12%

**MPHASIS**

| IT Services

| 25 January 2025

## Not a steady performing Tier-2 player yet

- 3QFY25 has yet again proven the volatility in Mphasis's business compared to its Tier-2 peers like Persistent & Coforge
- Commentary on strength in 4QFY25 will hold the stock up, near term. 'Higher for longer interest rate' does not bode well for a growth pickup
- We downgrade to a SELL from HOLD largely on lower target PE multiple. We are looking for a smoother and stronger QoQ performance

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**Weaker than expected revenue performance:** It grew by 0.2% CC QoQ terms against our expectation of 2%. This weak growth has been driven by a higher onsite shift. The EBIT margin at 15.3% was broadly in line

**TCV at its highest levels in the last 6 quarters:** Plus, an additional US\$100mn in January 2025 leads the company to say that QoQ growth would likely be the highest in the last 12 quarters

**Over-indexation to BFSI and top 10 clients have impacted growth:** The almost 60% exposure to BFSI and similar kind of exposure to top 10 clients (reduced to 53% in 3QFY25) had been dragging the company growth down. This level of exposure will likely remain in the near term, but the company has indicated that it wants to broaden its revenue mix and client base in the medium to long term.

**The interest rate cycle has not played out its favor yet:** A potential reversal in the interest rate cycle in the US could have played out positively for it (especially on the mortgage side). However, despite the 100bps of Fed funds rate cut, the US 10 year yield is higher by ~100bps from September 2024 when the cuts started. The mortgage rate drops have also reversed. The current PE multiple that the stock is trading at seems to still build in a decline in interest rates in the next 12 months.

**Downgrade to a SELL:** We broadly maintain EPS estimates for FY26/27. However, we reduce the target PE multiple to 23.4x by introducing a discount of 5% to the target PE multiple of TCS. While the Tier-2 promise of faster growth exists, Mphasis has not been able to demonstrate smoother and consistent QoQ growth in the last 24 months. After a sharply negative year in FY24, we are likely to see a mid-single digit US\$ revenue growth in FY25. We are building in a low double-digit growth in FY26, and the discount is due our lack of confidence in achievement of this. We think the current multiple given by the market builds in the hope of a sustainable turnaround. While commentary around relatively strong 4QFY25 could hold up the stock, we need sustained performance for the current PE multiple to hold up or more importantly to expand. 'Higher for longer interest rate' does not bode well.

### Key changes

Target	Rating
▼	▼

Ticker/Price	MPHL IN/Rs 3,009
Market cap	US\$ 6.6bn
Free float	60%
3M ADV	US\$ 20.2mn
52wk high/low	Rs 3,238/Rs 2,187
Promoter/FPI/DII	40%/21%/35%

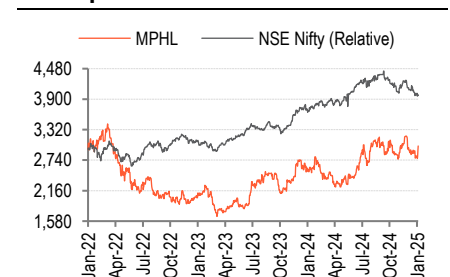
Source: NSE | Price as of 24 Jan 2025

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,32,785	1,42,702	1,63,536
EBITDA (Rs mn)	24,220	26,807	33,049
Adj. net profit (Rs mn)	15,549	17,204	19,801
Adj. EPS (Rs)	82.6	90.2	103.7
Consensus EPS (Rs)	82.6	90.5	104.1
Adj. ROAE (%)	18.6	19.9	22.2
Adj. P/E (x)	36.4	33.4	29.0
EV/EBITDA (x)	23.3	21.2	17.5
Adj. EPS growth (%)	(5.1)	9.2	15.0

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## Key points from the quarter and the call

- Revenue stood at US\$419mn, growing 0.2% QoQ and 4.6% YoY in CC terms, with direct revenue representing 96% of total revenue. This is much below our estimate of 2% QoQ CC growth
- The Direct revenue grew 0.2% QoQ and 5.1% YoY in constant currency terms.
- The EMEA region declined by 5% sequentially, while the Rest of the World grew by 3.3% QoQ and 14% YoY in constant currency terms.
- Sequentially, new clients in BFS and TMT verticals contributed to revenue growth.
- BFS saw wallet share gains and strong execution in new account wins, while TMT benefited from large deal conversions.
- EBIT margin declined by 10 bps QoQ and grew 40 bps YoY to 15.3%. This is broadly in line with our estimate of 15.2%
- TCV closures reached US\$351mn, the highest in the past six quarters, with five large deals in 3QFY25. An additional US\$100mn BFS deal was closed in January 2025.
- Outlook:
  - The outlook for the remainder of FY25 indicates steady execution and pipeline growth, particularly in AI-led opportunities, while targeting sustainable margins within the 14.6% to 16% range.
  - The company expects to outperform industry growth with strong TCV revenue conversion and high TCV wins.
  - Confidence remains high for 4Q to be the best quarter in the last three years in terms of sequential growth, supported by a high TCV in 3Q and a large deal signed early in 4Q
- The logistics vertical encompasses a variety of segments, including logistics, airlines, railroads, and supply chain, which have different growth dynamics and trajectories. The airline business within this vertical has been growing well, although it is still small in base size. It is expected to become a more significant part of the business over the next 18 to 24 months. The decline in the logistics vertical is not due to a single large customer, but a combination of factors. Seasonality and the cyclical nature of the business, along with global macroeconomic conditions and supply chain headwinds, have contributed to the decline. An uptick in deal-making is expected in logistics and transportation vertical
- Healthcare has seen patchy performance, with a few good quarters followed by payer-related headwinds. There is good visibility in the pipeline for verticals that require attention
- The insurance vertical has seen decent growth over the last six quarters. The growth is partially linked to an acquisition and expanding wallet share within the vertical. The insurance business is spread across both the UK/European and US

markets. The momentum in the insurance vertical is expected to continue, with visibility into existing clients and potential deals that will drive growth

- There have been no significant client conversations in the insurance segment regarding the California fires yet.
- The furlough impact for 3QFY25 is estimated at around 2%, like the impact experienced in the previous year. No material extension of furloughs into 4Q is anticipated, with the situation this year being better than in the past two years. This improvement in furlough impact contributes to confidence in 4Q performance.
- AI-led productivity is not expected to be a major headwind to wallet share or margin. The ability to bundle multi-tower or AD with AMS or run with change, especially with strong modernization story linked to it, helps protect margins and potentially grow wallet share
- There was churn in the business earlier, with significant fluctuations in the contribution from mortgage and other stressed top 10 accounts. This stabilized by the end of 2023, marking a bottoming of the business.
- The current sequential growth is the fourth consecutive quarter, showing signs of improvement in TCV to revenue conversion.
- Earlier, slow conversion and uncertainties in the macro environment impacted revenue growth, with clients being cautious due to unclear long-term budget planning and high scrutiny on projects.
- Improvements in TCV to revenue conversion are due to factors such as the peak of the interest rate cycle in mid-2024, followed by rate cuts, providing a boost in volumes and confidence in the market.
- The positive outcome of the elections and certainty around tax cuts has led to higher enterprise confidence, allowing businesses to plan budgets more effectively.
- The business environment is improving, with more clarity and confidence compared to the same time last year when recovery was uncertain.
- The company prioritizes growth while aiming to keep margins steady
- The company has seen revenue growth with a reduction in headcount, mainly due to three factors:
  - Lower industry utilization initially due to the reshaping of the company pyramid, which took multiple quarters to adjust
  - Onsite headcount has increased due to deals that initially require onsite work, but transition to offshore over time. This affects the revenue to headcount correlation in the short term
  - AI: AI-driven efficiencies are starting to play a significant role in reducing manual effort
- The correlation between revenue growth and headcount growth will not go away, but it won't be as high as it used to be on the last 10 years

- Utilization has been around 74-75% for the last two to three quarters, and this is likely to continue unless there is a significant shift in demand. The increase in on-site headcount over the last few years has helped improve blended utilization
- The transition timelines for managed services have improved, meaning the company is now able to accelerate revenue recognition from these deals more quickly. The improvement comes from a combination of right-shoring and effort elimination. This shift is helping to drive non-linearity in the headcount-to-revenue correlation

**View on the Indian IT services sector:** We reinitiated coverage on the Indian IT Services with UW stance through a report on 1 January, 2025 (**Slow is the (new/old) normal**).

Current valuations are disconnected with fundamentals. Since 1 June 2024, Nifty IT has outperformed Nifty significantly. However, consensus earnings for FY25 and FY26 have not moved much during this period. It has been an entirely PE expansion story. Tier-1 and Tier-2 Indian IT services stocks are trading at +1 SD and +2 SD above their five-year means respectively. The PE premium of Tier-2 to Tier-1 is at its historic peak.

Current high PE multiples imply sharp growth pickup in FY25-FY27E. We think it will be slower. We do not believe structurally Indian IT services industry will see the pandemic's 'compressed transformation' type of demand in the foreseeable future. We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR – seen during FY15-FY20.

10-year study of valuations and earnings growth indicates that Indian IT stocks are currently trading at +2.1 SD to +18.3 SD higher valuations compared to the mean multiples during the FY15-FY20 period. Yes, we would admit that certain companies have undergone a structural change for the better, but not to the extent that the bulls assume and not all of them.

### Multiple speed breakers post FY25 drives our underweight stance

- Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc all point to uncertainty in the coming days which may delay decision making.
- Higher for longer interest rate environment: One of reasons for optimism around the Indian IT service sector in recent quarters has been the view that US would achieve a soft landing in 2025 (which we define as 0.5- 1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the recent peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'. However, recent inflation prints, stronger GDP growth, and a higher fiscal deficit have raised concerns. With US 10-year yields rising to 4.7% from a September 2024 low of 3.6%, there are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in

sectors like BFSI and Telecom, and dampen US consumption in areas like housing, autos and retail.

- Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.
- Gen AI – value compressive in the near term: Gen AI has significantly boosted revenue in semiconductors, data centers, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arise due to heavy investment in surrounding services
- Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyperscalers, are increasing capex on AI-related data centers. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS
- Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach \$85bn, double that in FY15. Due to the higher base now, growth may not be as rapid as it was when the base was lower
- The weak TCV for certain players in 1HFY25 and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26

**How we are valuing companies:** We are using PE methodology and using TCS as our industry benchmark. The target PE multiple used for TCS is 24.6x (which is the average PE multiple of TCS over the last 5 years less 1SD). This is by no means pessimistic. 24.6x is higher than the 23.6x multiple which was the mean multiple of the FY15-FY20 time frame when revenue growth was ~150bps faster. During the Global Financial Crisis (GFC) downturn, the stock traded in the single digit PE multiple territory. We are using a 1SD discount to the five-year PE as we believe that industry and TCS will see a 'slower for longer' growth situation.

### Why use a PE multiple that is 1SD lower than 5-year mean of TCS:

Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27.

While the strong consensus estimates seem to imply a soft-landing macro scenario in the US, the higher probability event is a 'no landing, higher-for-longer interest rate' scenario which we believe has a 50-60% probability. The probability of a recession is also not insignificant (20% based on Bloomberg estimates).

Some of the speed breakers are industry/technology related, and some are related to the macro and policy environment especially in the US which is the key market for Indian IT services firms. Besides the US, we believe the European market macro looks quite bad (Europe – including UK – forms about 30-40% of revenue for Indian IT services firms) and corporate IT spending would be muted

## Tier- 2 valuation reflects growth gap between it and Tier-1:

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to the Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take out projects which are likely to impact their margins adversely.

**Fig 1 – Quarterly results: Comparison of actuals with estimates**

Y/E Mar (Rs mn)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	3QFY25E	Dev (%)
USD Revenue (US\$ mn)	402	421	419	4.2	(0.4)	428	(2.0)
Net sales	33,379	35,362	35,613	6.7	0.7	36,123	(1.4)
Direct Costs	23,705	25,128	25,424	7.3	1.2	25,633	(0.8)
% of sales	71.0	71.1	71.4			71.0	
Gross Profit	9,674	10,234	10,189	5.3	(0.4)	10,489	(2.9)
% of sales	29.0	28.9	28.6			29.0	
Selling expenses	2,464	2,639	2,696	9.4	2.2	2,746	(1.8)
% of sales	7.4	7.5	7.6			7.6	
G&A expenses	2,239	2,151	2,035	(9.1)	(5.4)	2,238	(9.1)
% of sales	6.7	6.1	5.7		(6.1)	6.2	
Provision for doubtful debts	0	0	0			0	
EBIT	4,971	5,444	5,458	9.8	0.3	5,506	(0.9)
% of sales	14.9	15.4	15.3			15.2	
Other Income	14	182	235	1633.0	29.1	216	8.8
PBT	4,985	5,626	5,693	14.2	1.2	5,722	(0.5)
Exceptional item	0	0	0			0	
Provision for tax	1,250	1,392	1,413	13.0	1.5	1,414	(0.1)
Effective tax rate (%)	25.1	24.7	24.8		0.3	24.7	0.4
PAT (reported)	3,735	4,234	4,280	14.6	1.1	4,308	(0.6)
NPM (%)	11.2	12.0	12.0			11.9	

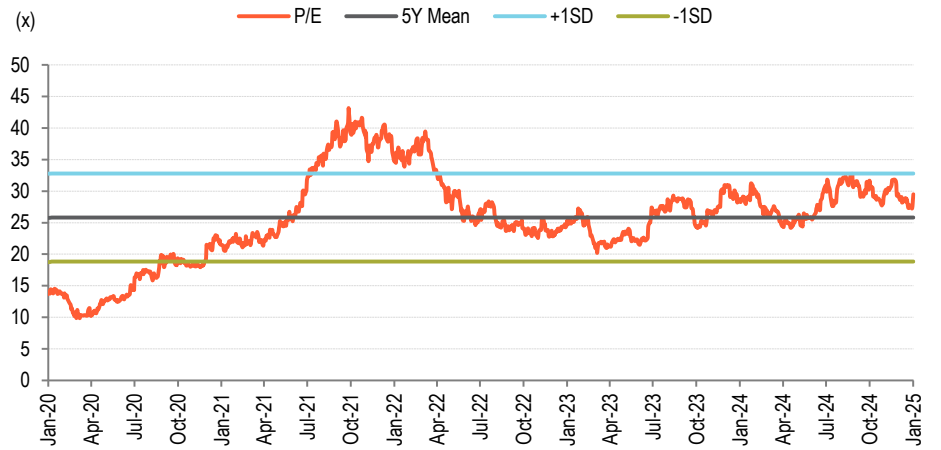
Source: Company, BOBCAPS Research

**Fig 2 – Revised Estimates**

	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.5	87.3	89.3	84.1	85.4	86.6	0.5	2.1	3.1
USD Revenue (in mn)	1,686	1,874	2,043	1,696	1,862	2,026	(0.5)	0.6	0.9
USD Revenue Growth (%)	4.8	11.1	9.0	5.4	9.8	8.8			
Revenue (Rs mn)	1,42,702	1,63,536	1,82,357	1,42,729	1,59,100	1,75,439	(0.0)	2.8	3.9
EBIT (Rs mn)	21,912	25,469	28,343	21,902	24,695	27,362	0.0	3.1	3.6
EBIT Margin (%)	15.4	15.6	15.5	15.3	15.5	15.6			
PAT Adjusted (Rs mn)	17,204	19,801	22,267	17,153	19,352	21,754	0.3	2.3	2.4
FDEPS-Adjusted (Rs)	90.2	103.7	116.7	89.9	101.4	114.0	0.3	2.3	2.3

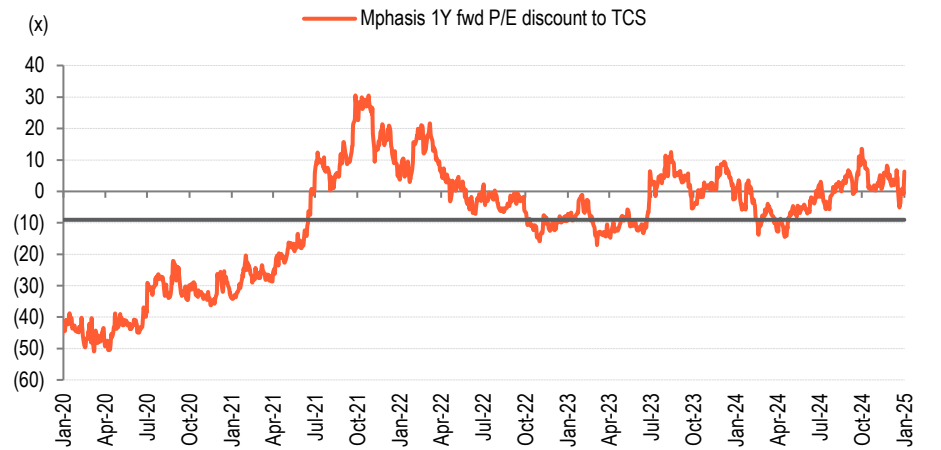
Source: Company, BOBCAPS Research

**Fig 3 – 5 Year PE trend**



Source: Company, BOBCAPS Research

**Fig 4 – Premium/ Discount to TCS**



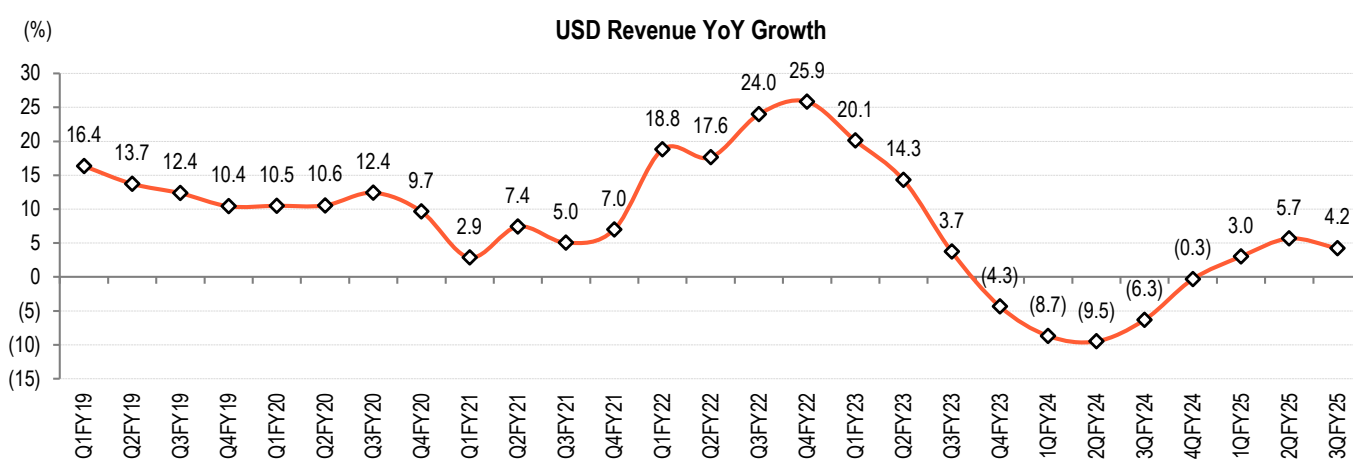
Source: Company, BOBCAPS Research

**Fig 5 – P&L at a glance**

(YE March)	FY13	FY14*	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Average exchange rate (INR/USD)	57.0	134.2	61.4	65.8	68.0	64.5	69.9	71.2	74.1	74.5	80.6	82.8	84.5	87.3	89.3
Net Sales (USD mn)	1,017	427	944	926	894	989	1,119	1,239	1,308	1,593	1,718	1,609	1,686	1,874	2,043
Growth (%)	-	-	-	(1.9)	(3.5)	10.7	13.1	10.8	5.6	21.7	7.8	(6.3)	4.8	11.1	9.0
Net Sales (Rs mn)	57,963	57,276	57,948	60,879	60,763	65,459	77,311	88,436	97,222	1,19,615	1,37,985	1,32,785	1,42,702	1,63,536	1,82,357
-Growth (%)	8.2	-	-	5.1	(0.2)	7.7	18.1	14.4	9.9	23.0	15.4	(3.8)	7.5	14.6	11.5
Direct Costs	43,396	42,464	43,424	45,362	44,118	47,892	56,407	63,503	69,610	86,829	1,00,475	95,950	1,01,776	1,16,115	1,29,189
Gross Profit	14,567	14,812	14,524	15,517	16,645	17,567	20,904	24,933	27,612	32,786	37,510	36,835	40,926	47,421	53,168
% of sales	25.1	25.9	25.1	25.5	27.4	26.8	27.0	28.2	28.4	27.4	27.2	27.7	28.7	29.0	29.2
Selling expenses	3,052	3,220	3,654	3,951	4,195	4,238	4,800	5,820	6,851	7,196	8,635	9,260	10,667	12,593	14,501
% of sales	5.3	5.6	6.3	6.5	6.9	6.5	6.2	6.6	7.0	6.0	6.3	7.0	7.5	7.7	8.0
G&A expenses	2,401	2,685	2,940	3,314	3,419	3,445	3,603	4,923	5,152	7,320	7,788	7,461	8,347	9,359	10,323
% of sales	4.1	4.7	5.1	5.4	5.6	5.3	4.7	5.6	5.3	6.1	5.6	5.6	5.8	5.7	5.7
Provision for doubtful debts	226.0	86.0	210.0	26.0	1.0	(33.0)	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	8,888	8,821	7,720	8,226	9,030	9,917	12,481	14,190	15,609	18,270	21,087	20,114	21,912	25,469	28,343
% of sales	15.3	15.4	13.3	13.5	14.9	15.1	16.1	16.0	16.1	15.3	15.3	15.1	15.4	15.6	15.5
Other income	1,394	500	1,968	1,954	2,385	1,620	1,747	1,780	1,330	1,605	1,617	2,178	2,637	2,323	2,599
Financial Expenses	(330)	(111)	(279)	(242)	(139)	(130)	(155)	(813)	(634)	(744)	(973)	(1,608)	(1,679)	(1,454)	(1,324)
PBT	9,952	9,210	9,409	9,938	11,276	11,407	14,073	15,157	16,305	19,132	21,731	20,684	22,870	26,338	29,618
-PBT margin (%)	17.2	16.1	16.2	16.3	18.6	17.4	18.2	17.1	16.8	16.0	15.7	15.6	16.0	16.1	16.2
Exceptional Item	0	(64)	(32)	(548)	(152)	(131)	0	0	0	0	0	0	0	0	0
Provision for tax	2,514	1,191	2,631	2,696	3,076	2,900	3,339	3,306	4,139	4,821	5,351	5,135	5,666	6,537	7,351
Effective tax rate (%)	25.3	12.9	28.0	27.1	27.3	25.4	23.7	21.8	25.4	25.2	24.6	24.8	24.8	24.8	24.8
Net profit	7,438	7,954	6,746	6,694	8,048	8,376	10,734	11,851	12,166	14,311	16,380	15,549	17,204	19,801	22,267
-Growth (%)	(6.1)	-	-	(0.8)	20.2	4.1	28.2	10.4	2.7	17.6	14.5	(5.1)	10.6	15.1	12.5
-Net profit margin (%)	12.8	13.9	11.6	11.0	13.2	12.8	13.9	13.4	12.5	12.0	11.9	11.7	12.1	12.1	12.2

Source: Company, BOBCAPS Research; \*FY14 is a 5-month period due to change in financial year by the company from October to March

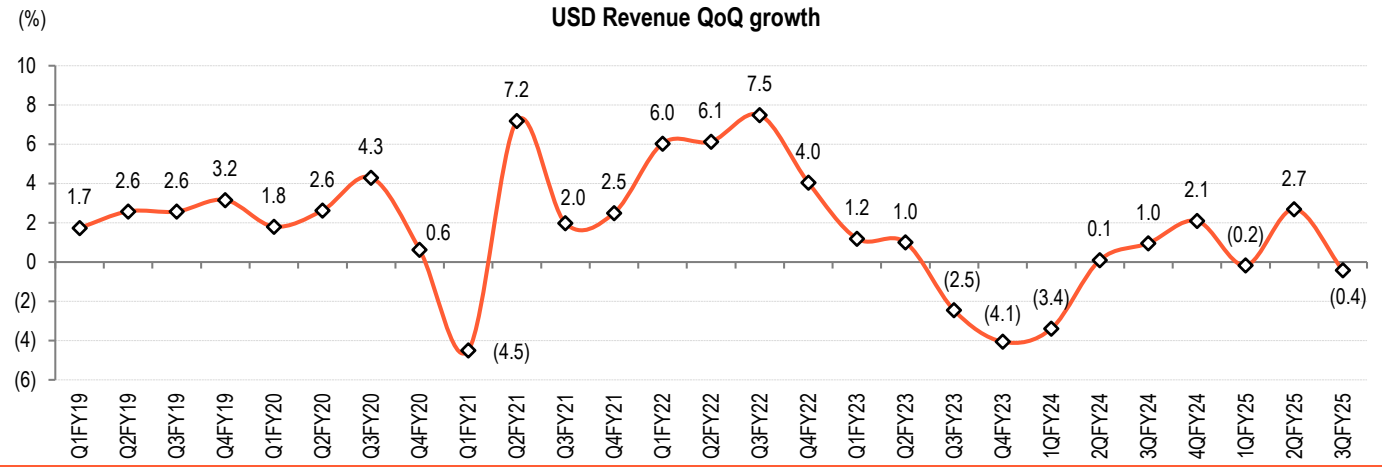
**Fig 6 – USD Revenue YoY Growth**



Source: Company, BOBCAPS Research

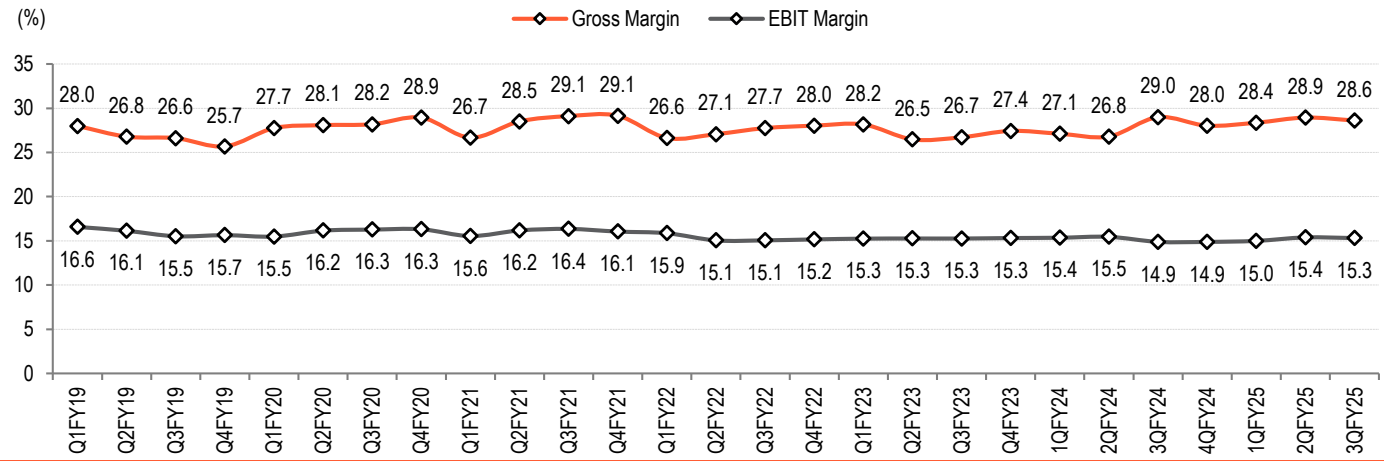


**Fig 7 – USD Revenue QoQ Growth**



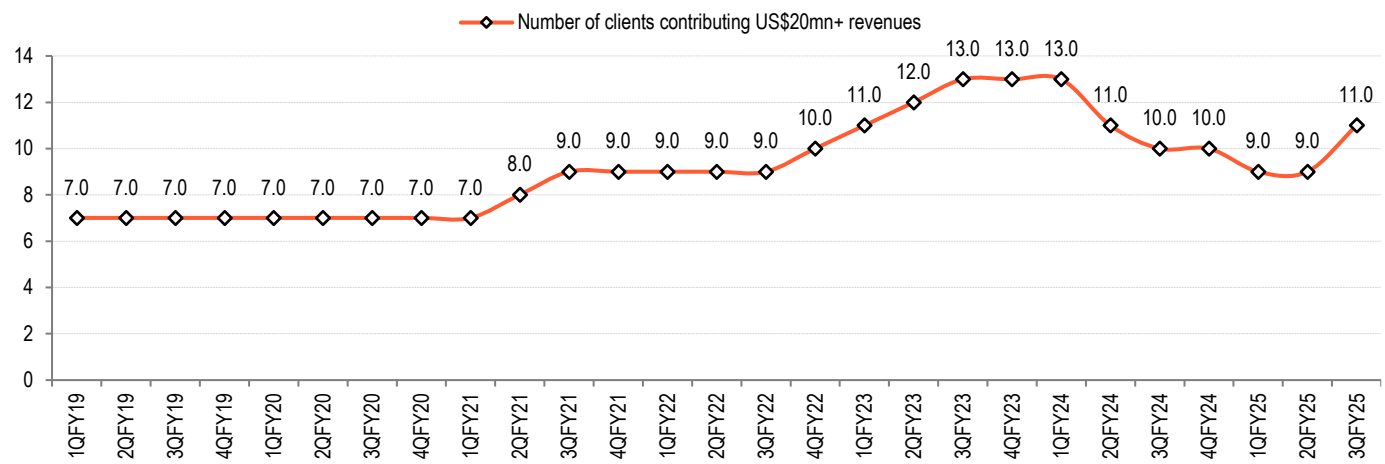
Source: Company, BOBCAPS Research

**Fig 8 – Gross Margin and EBIT margin**



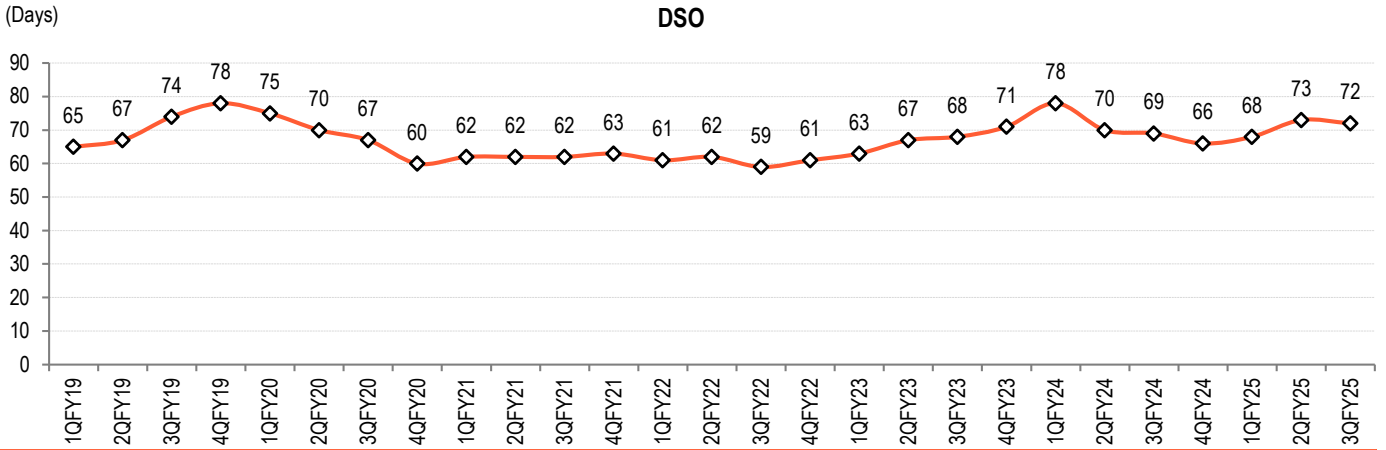
Source: Company, BOBCAPS Research

**Fig 9 – Number of clients contributing US\$20mn revenues**



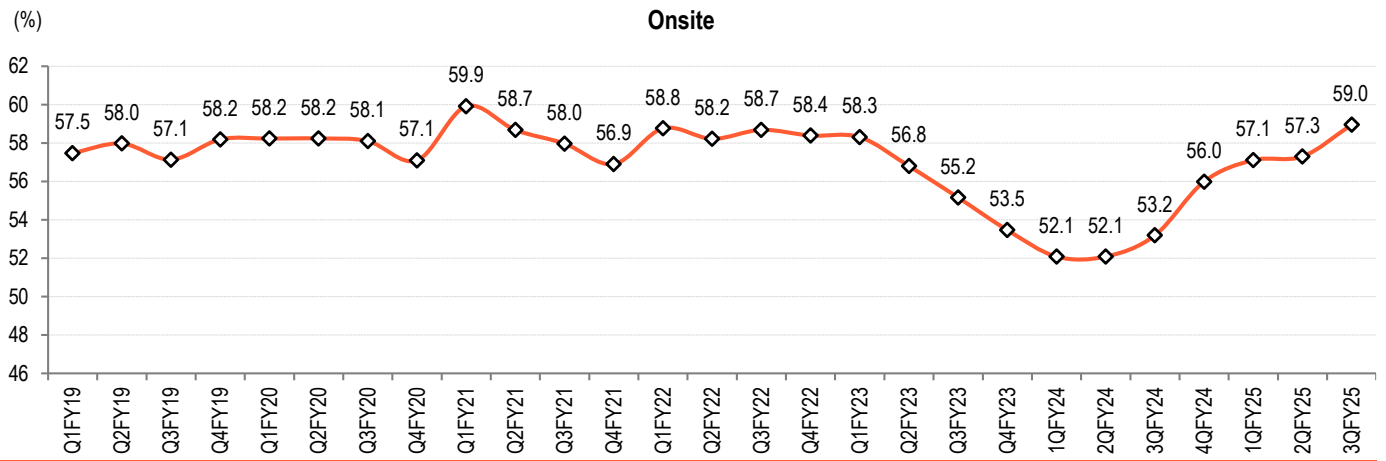
Source: Company, BOBCAPS Research

**Fig 10 – DSO**



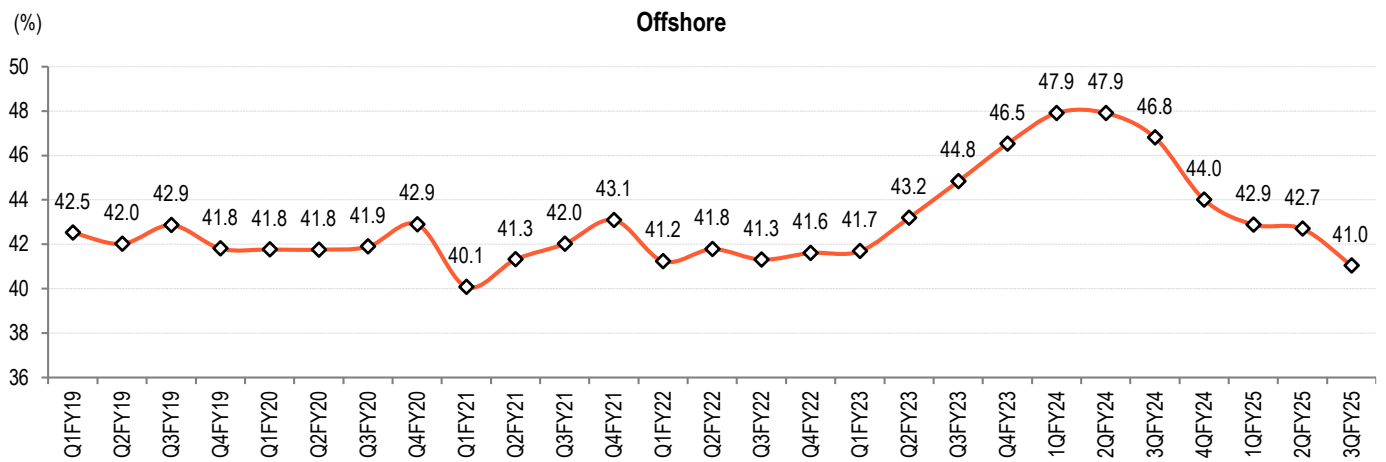
Source: Company, BOBCAPS Research

**Fig 11 – Onsite revenue contribution**

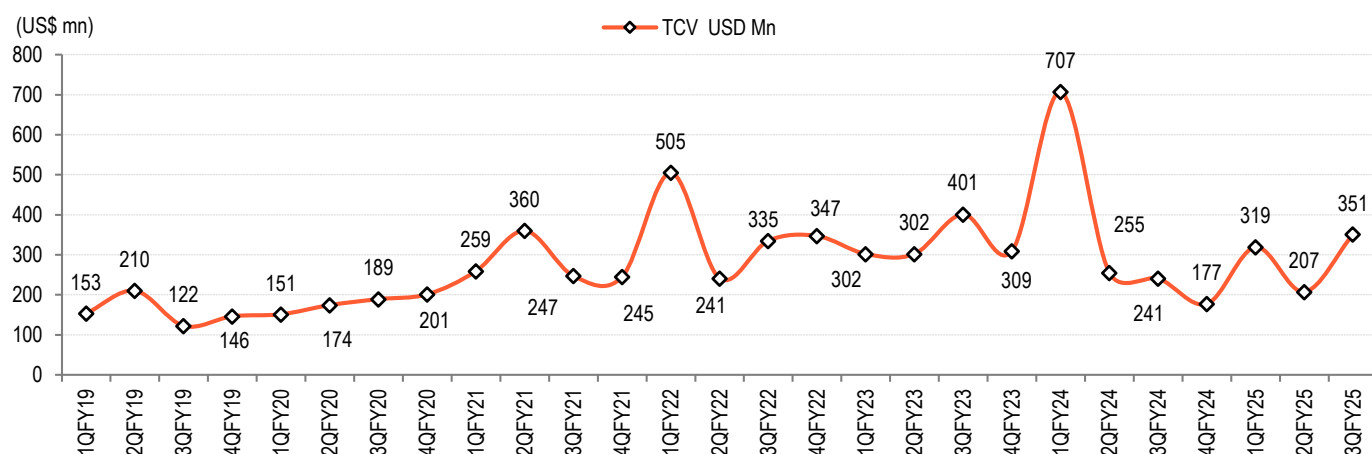


Source: Company, BOBCAPS Research

**Fig 12 – Offshore revenue contribution**



Source: Company, BOBCAPS Research

**Fig 13 – Order Inflow TCV (US\$m)**

Source: Company, BOBCAPS Research

**Fig 14 – Quarterly Snapshot**

Year to 31 March	Q1FY23	Q2FY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Rs mn											
INR/USD	77.8	80.1	82.3	82.3	82.2	82.7	83.3	83.2	83.4	83.8	84.8
USD Revenue (USD mn)	436	440	429	412	398	398	402	411	410	421	419
INR Revenue	34,112	35,199	35,062	33,612	32,520	32,765	33,379	34,121	34,225	35,362	35,613
Gross Margin	9,605	9,319	9,365	9,221	8,817	8,781	9,674	9,563	9,706	10,234	10,189
SGA	4,401	3,942	4,011	4,069	3,822	3,714	4,703	4,482	4,571	4,790	4,731
EBIT	5,204	5,377	5,354	5,152	4,995	5,067	4,971	5,081	5,135	5,444	5,458
Other income	357	434	400	426	504	490	542	642	736	587	627
PBT	5,329	5,551	5,510	5,341	5,258	5,217	4,985	5,224	5,373	5,626	5,693
Tax	1,310	1,366	1,387	1,288	1,297	1,297	1,250	1,291	1,328	1,392	1,413
PAT	4,019	4,185	4,123	4,053	3,961	3,920	3,735	3,933	4,045	4,234	4,280
EPS	21.4	22.2	21.9	21.5	21.0	20.8	19.8	20.9	21.4	22.4	22.6
<b>YOY Growth (%)</b>											
USD Revenue	20.1	14.3	3.7	(4.3)	(8.7)	(9.5)	(6.3)	(0.3)	3.0	5.7	4.2
INR Revenue	26.8	22.7	12.2	2.5	(4.7)	(6.9)	(4.8)	1.5	5.2	7.9	6.7
Gross Profit	34.0	20.0	8.0	0.4	(8.2)	(5.8)	3.3	3.7	10.1	16.5	5.3
EBIT	21.9	24.5	13.8	3.6	(4.0)	(5.8)	(7.1)	(1.4)	2.8	7.4	9.8
Net Profit	18.3	22.5	15.3	3.4	(1.5)	(6.3)	(9.4)	(3.0)	2.1	8.0	14.6
<b>QoQ growth (%)</b>											
USD Revenue	1.2	1.0	(2.5)	(4.1)	(3.4)	0.1	1.0	2.1	(0.2)	2.7	(0.4)
INR Revenue	4.1	3.2	(0.4)	(4.1)	(3.2)	0.8	1.9	2.2	0.3	3.3	0.7
EBIT	4.7	3.3	(0.4)	(3.8)	(3.0)	1.4	(1.9)	2.2	1.1	6.0	0.3
Net Profit	2.5	4.1	(1.5)	(1.7)	(2.3)	(1.0)	(4.7)	5.3	2.9	4.7	1.1
<b>Margins (%)</b>											
Gross Margin	28.2	26.5	26.7	27.4	27.1	26.8	29.0	28.0	28.4	28.9	28.6
EBIT margin	15.3	15.3	15.3	15.3	15.4	15.5	14.9	14.9	15.0	15.4	15.3
PAT	11.8	11.9	11.8	12.1	12.2	12.0	11.2	11.5	11.8	12.0	12.0
SGA	12.9	11.2	11.4	12.1	11.8	11.3	14.1	13.1	13.4	13.5	13.3

Source: Company, BOBCAPS Research

Fig 15 – Key Metrics

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>P and L (Rs mn)</b>											
Revenues	33,909	35,273	35,356	33,893	32,719	32,964	33,507	34,150	34,208	35,286	35,565
EBITDA	6,000	6,178	6,175	5,987	5,869	5,956	6,006	6,389	6,185	6,480	6,781
PAT	4,019	4,185	4,123	4,053	3,961	3,920	3,735	3,933	4,045	4,234	4,280
<b>Vertical/Industry (%)</b>											
BFS	53	54	54	53	49	47	47	47	48	48	49
Insurance	9	8	8	8	11	11	11	11	11	11	12
IT, C and E	13	13	13	13	15	17	16	16	16	16	17
Emerging Ind.	24	25	25	27	25	25	26	26	25	24	23
Total	100	100	100	100	100	100	100	100	100	100	100
<b>Absolute Numbers</b>											
BFS	18,097	19,128	18,967	17,997	16,121	15,542	15,684	16,076	16,302	16,892	17,306
Insurance	3,003	2,936	2,921	2,590	3,443	3,544	3,813	3,770	3,873	3,964	4,153
IT, C and E	4,539	4,563	4,578	4,301	4,927	5,703	5,219	5,449	5,490	5,820	6,030
Emerging Ind.	8,270	8,646	8,890	9,005	8,228	8,175	8,790	8,855	8,545	8,610	8,076
Total	33,909	35,273	35,356	33,893	32,719	32,964	33,506	34,150	34,210	35,286	35,565
<b>QoQ Growth (%)</b>											
BFS	4	6	(1)	(5)	(10)	(4)	1	2	1	4	2
Insurance	(3)	(2)	(1)	(11)	33	3	8	(1)	3	2	5
IT, C and E	6	1	0	(6)	15	16	(8)	4	1	6	4
Emerging Ind.	8	5	3	1	(9)	(1)	8	1	(4)	1	(6)
Total	4	4	0	(4)	(3)	1	2	2	0	3	1
<b>YoY (%)</b>											
BFS	32	23	11	3	(11)	(19)	(17)	(11)	1	9	10
Insurance	23	17	7	(16)	15	21	31	46	12	12	9
IT, C and E	19	28	12	0	9	25	14	27	11	2	16
Emerging Ind.	22	26	26	18	(1)	(5)	(1)	(2)	4	5	(8)
Total	27	24	14	4	(4)	(7)	(5)	1	5	7	6
<b>Regions (%)</b>											
USA	82	82	82	81	81	79	80	81	81	81	82
Europe	10	10	10	11	10	12	12	11	11	11	10
ROW	3	3	3	3	3	3	3	3	3	3	2
India	5	5	5	5	6	6	6	5	5	6	6
Total	100	100	100	100	100	100	100	100	100	100	100
<b>Delivery Location (%)</b>											
Onsite	58	57	55	53	52	52	53	56	57	57	59
Offshore	42	43	45	47	48	48	47	44	43	43	41
Total	100	100	100	100	100	100	100	100	100	100	100
<b>Project Type (%)</b>											
Time and Material	55	56	57	58	58	58	58	58	60	60	58
Fixed Price	45	44	43	42	42	42	42	42	40	40	42
Total	100	100	100	100	100	100	100	100	100	100	100
<b>Client concentration (%)</b>											
Top client	11	12	12	13	13	16	15	14	14	15	15
Top 5 clients	45	45	45	44	43	47	46	44	44	43	43
Top 10 clients	60	60	59	59	58	58	55	54	53	53	53
Non-Top 10 Clients	40	40	41	41	42	42	45	46	47	47	47

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>Clients Contributing:</b>											
\$ 200mn revenues	0	1	1	1	1	1	1	1	1	1	1
\$ 150mn revenues	3	3	3	3	3	3	3	3	3	2	2
\$ 100mn revenues	4	4	4	4	3	3	3	3	3	3	3
\$ 75mn revenues	6	6	6	5	5	4	4	4	4	4	5
\$ 50mn revenues	7	7	7	7	6	6	5	5	5	5	5
\$ 20mn+ clients	11	12	13	13	13	11	10	10	9	9	11
\$ 10mn+ clients	24	24	23	25	27	26	29	29	30	27	29
\$ 5mn+ clients	44	45	46	46	47	46	46	47	48	51	47
\$ 1mn+ clients	105	104	107	112	113	115	134	135	135	140	140
<b>(US\$ mn)</b>											
Revenues	436	440	429	412	398	398	402	411	410	421	419
EBITDA	77	77	75	73	71	72	72	77	74	77	80
PAT	52	52	50	49	48	47	45	47	48	51	50
<b>Productivity metrics</b>											
Per capita (annualised)											
Revenues	56,636	55,921	56,760	56,233	56,284	57,609	57,208	60,590	61,389	63,372	64,157
EBITDA	10,022	9,794	9,913	9,933	10,096	10,409	10,255	11,335	11,100	11,638	12,233
PAT	6,713	6,634	6,619	6,725	6,814	6,851	6,377	6,977	7,259	7,604	7,721
<b>Total contract value signed(US\$ mn)</b>	<b>302</b>	<b>302</b>	<b>401</b>	<b>309</b>	<b>707</b>	<b>255</b>	<b>241</b>	<b>177</b>	<b>319</b>	<b>207</b>	<b>351</b>
Total headcount	36,899	36,876	35,450	34,042	33,961	33,771	33,992	32,664	31,645	31,601	31,194
Net addition	365	(23)	(1,426)	(1,408)	(81)	(190)	221	(1,328)	(1,019)	(44)	(407)
Utilization – Offshore (excluding trainees) (%)	74	72	74	79	80	77	74	75	76	76	75

Source: Company, BOBCAPS Research

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>1,37,985</b>	<b>1,32,785</b>	<b>1,42,702</b>	<b>1,63,536</b>	<b>1,82,357</b>
EBITDA	24,340	24,220	26,807	33,049	36,576
Depreciation	3,253	4,106	4,895	7,580	8,233
EBIT	21,087	20,114	21,912	25,469	28,343
Net interest inc./(exp.)	(973)	(1,608)	(1,679)	(1,454)	(1,324)
Other inc./(exp.)	1,617	2,178	2,637	2,323	2,599
Exceptional items	0	0	0	0	0
EBT	21,731	20,684	22,870	26,338	29,618
Income taxes	5,351	5,135	5,666	6,537	7,351
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>16,380</b>	<b>15,549</b>	<b>17,204</b>	<b>19,801</b>	<b>22,267</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>16,380</b>	<b>15,549</b>	<b>17,204</b>	<b>19,801</b>	<b>22,267</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	0	0	0	0	0
Other current liabilities	19,797	24,910	30,215	34,454	38,141
Provisions	4,115	3,261	3,173	3,618	4,005
Debt funds	1,985	15,436	9,437	8,637	7,837
Other liabilities	9,573	9,749	9,674	9,674	9,674
Equity capital	1,884	1,890	1,897	1,897	1,897
Reserves & surplus	77,464	86,056	83,155	91,076	99,982
Shareholders' fund	79,348	87,946	85,052	92,972	1,01,879
<b>Total liab. and equities</b>	<b>1,14,818</b>	<b>1,41,302</b>	<b>1,37,551</b>	<b>1,49,355</b>	<b>1,61,537</b>
Cash and cash eq.	10,558	8,144	(569)	985	6,495
Accounts receivables	27,172	27,028	30,827	35,151	38,914
Inventories	0	0	0	0	0
Other current assets	16,218	16,434	18,251	20,812	23,039
Investments	17,526	30,899	25,413	25,413	25,413
Net fixed assets	3,543	6,285	10,050	12,886	13,108
CWIP	324	614	4	4	4
Intangible assets	29,586	41,793	42,895	42,895	42,895
Deferred tax assets, net	2,422	2,857	3,769	4,298	4,758
Other assets	7,469	7,248	6,911	6,911	6,911
<b>Total assets</b>	<b>1,14,818</b>	<b>1,41,302</b>	<b>1,37,551</b>	<b>1,49,355</b>	<b>1,61,537</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>16,524</b>	<b>25,450</b>	<b>23,379</b>	<b>26,634</b>	<b>29,909</b>
Capital expenditures	(2,859)	(18,094)	(8,050)	(10,416)	(8,455)
Change in investments	(202)	(13,808)	4,574	(529)	(460)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(3,061)</b>	<b>(31,902)</b>	<b>(3,476)</b>	<b>(10,945)</b>	<b>(8,915)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(2,975)	13,720	(5,779)	(800)	(800)
Interest expenses	(973)	(1,608)	(1,679)	(1,454)	(1,324)
Dividends paid	(9,415)	(10,357)	(10,322)	(11,881)	(13,360)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(13,363)</b>	<b>1,755</b>	<b>(17,780)</b>	<b>(14,135)</b>	<b>(15,484)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>876</b>	<b>(2,414)</b>	<b>(8,713)</b>	<b>1,554</b>	<b>5,510</b>
<b>Closing cash &amp; cash eq.</b>	<b>10,558</b>	<b>8,144</b>	<b>(569)</b>	<b>985</b>	<b>6,495</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	87.1	82.6	90.9	104.5	117.5
Adjusted EPS	87.1	82.6	90.2	103.7	116.7
Dividend per share	50.0	55.0	54.5	62.7	70.5
Book value per share	421.4	467.1	448.9	490.7	537.7

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.1	4.2	4.0	3.5	3.2
EV/EBITDA	23.2	23.3	21.2	17.5	15.8
Adjusted P/E	34.6	36.4	33.4	29.0	25.8
P/BV	7.1	6.4	6.7	6.1	5.6

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.4	75.2	75.2	75.2	75.2
Interest burden (PBT/EBIT)	103.1	102.8	104.4	103.4	104.5
EBIT margin (EBIT/Revenue)	15.3	15.1	15.4	15.6	15.5
Asset turnover (Rev./Avg TA)	124.7	103.7	102.3	114.0	117.3
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.6	1.6	1.6
<b>Adjusted ROAE</b>	<b>22.0</b>	<b>18.6</b>	<b>19.9</b>	<b>22.2</b>	<b>22.9</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	15.4	(3.8)	7.5	14.6	11.5
EBITDA	14.9	(0.5)	10.7	23.3	10.7
Adjusted EPS	14.0	(5.1)	9.2	15.0	12.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.6	18.2	18.8	20.2	20.1
EBIT margin	15.3	15.1	15.4	15.6	15.5
Adjusted profit margin	11.9	11.7	12.1	12.1	12.2
Adjusted ROAE	22.0	18.6	19.9	22.2	22.9
ROCE	18.3	14.8	15.2	17.8	18.5

### Working capital days (days)

	FY23A	FY24A	FY25E	FY26E	FY27E
Receivables	72	74	79	78	78
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA

### Ratios (x)

	FY23A	FY24A	FY25E	FY26E	FY27E
Gross asset turnover	38.9	21.1	14.2	12.7	13.9
Current ratio	2.6	2.1	1.7	1.7	1.8
Net interest coverage ratio	NA	NA	NA	NA	NA
<b>Adjusted debt/equity</b>	<b>(0.1)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

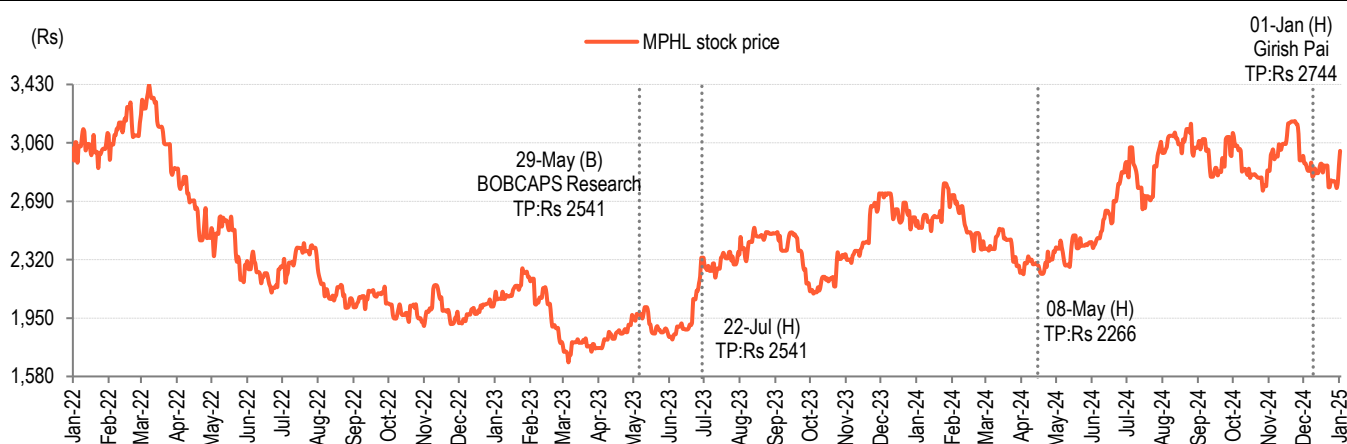
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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