INSTITUTIONAL EQUITY RESEARCH

Mphasis (MPHL IN)

Playing field levelled; Attractive risk-reward profile

13 April 2020

INDIA | IT Services | Initiating Coverage

Prior to the breakout of the Covid-19 pandemic, Mphasis had significantly underperformed its IT midcap peers due to concerns about its DXC revenue stream plateauing out. However, the Covid-19 breakout has levelled the playing field, with almost all midcap companies now operating with a 'segment of concern' (NITEC, MTCL, HEXW - Travel; LTI, LTTS, CYL - E&U). Compared with them, we find Mphasis to possess a much superior business profile (with low exposure to travel and diversified DXC channel) and a favorable risk reward (at relatively cheaper valuations). We also find the DXC concerns overdone, primarily due to the low impact on overall numbers (in the worst-case scenario); and its strong value proposition as a vendor to DXC. Concurrently, its Direct Core business is likely to remain strong, led by new-gen services and the Blackstone opportunity. We initiate coverage with a BUY rating.

Outlook for the DXC channel is muted, but concerns are overdone

The narrative for the DXC channel for Mphasis has changed significantly after the CEO change at DXC, and subsequent announcements of major restructuring (25% of DXC's revenue). Although Mphasis' exposure (<3% of revenue) to announced potential divestments at DXC is limited, there are concerns about the company's own business also getting impacted. However, we note that the recent change in mix in this channel (76% of DXC channel revenue from service transformation and GTM solution partners vs. 0% in FY17) is likely to keep Mphasis relevant in the overall DXC ecosystem. We also don't think that DXC's Luxoft's acquisition is going to dent Mphasis' revenue from DXC (page 7) as we believe it was a capability building acquisition, and the two are as different as they can be.

While cumulative DXC revenues since FY17 (when the MSA was signed) have already touched the 'cumulative minimum committed amount' for five years ($ 990mn), we note that the management has categorically clarified that 'annual revenues exceeding the minimum commitment towards that year, do not add-up to the cumulative minimum commitment'. Nonetheless, our sensitivity analysis (page 7) reveals that even at a 10% yoy decline in DXC revenues in FY22 (worst case scenario in our opinion), MPH's EPS will be impacted by only 2%, emphasising its limited impact. We forecast USD revenue growth of 6.4%/-3%/0% yoy in FY20/21/22 in DXC channel.

Direct Core remains a growth driver, upside risk from Blackstone/Digital

Mphasis' Direct Core segment (57% of revenue) has seen an impressive 3.6% CQGR over the last 10 quarters, aided by new-gen services (54% of Direct Core revenue, +7.4% CQGR). New client addition has been strong in the 'direct' channel segment (51 clients LTM vs. 34 last year). Additionally, deal wins momentum in Direct International (DI) has also remained strong with LTM deal wins of $ 660mn (0.8x book-to-bill, up 9.8% yoy).

Blackstone companies can turn out to be a potentially large opportunity for Mphasis ($1.5bn, 1.2x of Mphasis' revenues), where it gets a first-mover advantage. It currently has over a dozen accounts as clients in this channel, and it is targeting double-digit revenue contribution of Direct Core from Blackstone clients (from 7% currently), which we think is achievable. Also, Digital Risk (10% of revenue) is seeing a pickup in volumes with relatively lower interest rates in the US.

At 10x FY22 PE, valuations are factoring Covid-19 and DXC concerns

We believe that at 10x FY22 PE (vs 12-14x for LTI, LTTS, MTCL, and NITEC) valuation is at a significant discount to peers, and already reflects uncertainty in the DXC channel's outlook. Mphasis offers decent dividend yield at 3-4% and a payout ratio of over 100%. We assume -1% USD revenue growth for Mphasis in FY21 – similar to our assumptions for peers. We value the stock at 13x FY22 – 20% discount to our target multiple for LTI – on lower growth and uncertain outlook for the DXC channel to arrive at price target of Rs 850; Risks include significant revenue decline in the DXC *(more than our estimates)*, subdued growth in Direct Core, margins decline due to higher onsite costs and USD/INR appreciation.

BUY

CMP RS 675

TARGET RS 850 (+26%)

SEBI CATEGORY: MID CAP

COMPANY DATA

O/S SHARES (MN) :	187
MARKET CAP (RSBN) :	126
MARKET CAP (USDBN) :	1.7
52 - WK HI/LO (RS) :	1017 / 630
LIQUIDITY 3M (USDMN) :	4.3
PAR VALUE (RS) :	10

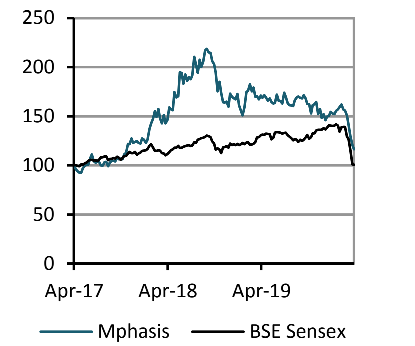
SHARE HOLDING PATTERN, %

	Dec 19	Sep 19	Jun 19
PROMOTERS :	52.2	52.2	52.2
FII / NRI :	28.6	28.8	30.0
FI / MF :	13.9	13.6	8.0
NON PRO :	1.2	1.2	1.3
PUBLIC & OTHERS :	4.2	4.1	8.6

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-17.3	-23.5	-30.6
REL TO BSE	1.8	2.0	-9.2

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY20E	FY21E	FY22E
Net Sales	88,240	87,514	96,499
EBIDTA	16,407	15,778	17,809
Net Profit	11,270	10,528	12,327
EPS, Rs	60.0	56.1	65.6
PER, x	11.2	12.0	10.3
EV/EBIDTA, x	7.0	7.2	6.2
P/BV, x	2.4	2.2	2.0
ROE, %	21.7	18.4	19.5

Source: PhillipCapital India Research Est.

Karan Uppal, *Research Analyst*
(+ 9122 6246 4106) kuppal@phillipcapital.in

Vibhor Singhal, *Research Analyst*
(+ 9122 6246 4109) vsinghal@phillipcapital.in

Covid-19 levels the playing field; Mphasis least impacted amongst midcap peers

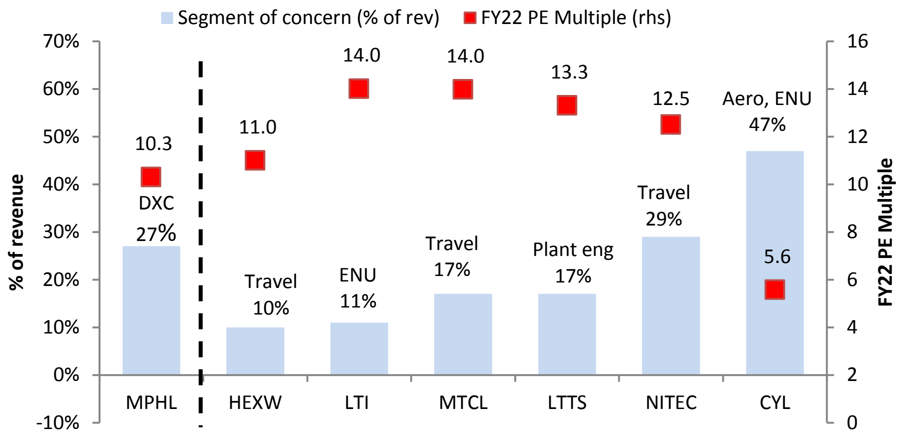
We see Covid-19 impacting the sector in two ways: (1) business operations would be impacted significantly, as companies are forced to move a large part of their workforce to 'work-from-home', and (2) clients' businesses being affected, which might lead to lower discretionary (and even non-discretionary in some cases) spending. As per our analysis and interaction with various consultants/corporates, the immediate (or near-term) impact of this is expected to be visible through: (1) weak order inflow in Q4FY20, due to deferment of deals, and (2) weak revenue growth in Q1FY21 (possibly Q2FY21 too), due to weaker order inflow in Q4 and clients' recovery expected only by Q3FY21. While Q4FY20 will report limited impact of the Covid-19 pandemic, the outlook appears to highly uncertain, as highlighted in our recent report **here**.

The Covid-19 breakout has actually levelled the playing field for Mphasis. Prior to the breakout of the Covid-19 pandemic, Mphasis had significantly underperformed its IT midcap peers due to concerns about its DXC revenue stream plateauing out. But now, almost all midcap companies are operating with a 'segment of concern' (NITEC, MTCL, HEXW - Travel; LTI, LTTS, CYL - E&U) – just like Mphasis (DXC). Infact, compared with them, we find Mphasis to possess a much superior business profile and relatively cheaper valuations.

Travel, transportation and hospitality (TTL) industry is hardest hit due to travel restrictions in most parts of the world and pullback of leisure travel by tourists due to pandemic spreading globally. These industries (airlines, cruise lines, hotels) are expected to aggressively push vendors for costs reductions. As per ISG, TTL ACV is expected to decline 45% yoy in Q2CY20. Companies like NIIT Tech (29% of revenue), Mindtree (17%), Hexaware (10%) and Cyient (32% Aerospace & Defence) to be impacted severely in FY21.

On similar note, Energy (Oil & Gas) industry is expected to be hit hard with low crude prices (Brent down ~50% YTD). Companies like LTI (11% of revenue), LTTS (17%), Cyient (15%) will be severally impacted in FY21.

All midcaps having a 'segment of concern' has levelled the playing field for Mphasis



Source: Company, PhillipCapital India Research

Mphasis, on the other hand, is relatively better placed with less than 2% exposure to TTL and Energy (cumulative). Mphasis's 'segment of concern' (DXC) has a highly diversified revenue profile (across banking, insurance, hi-tech) and hence, the impact of Covid-19 crisis on it, will be much lower than the more vulnerable players like NIIT Tech, Mindtree, Hexaware, LTI, LTTS and Cyient. With lower concern and cheaper valuations, Mphasis now appears to possess a much more favourable risk-reward profile, than most of its midcap peers.

DXC outlook hazy, but concerns overdone

DXC Channel revenue represents 27% of the total for Mphasis, and has grown impressively at c.22% (USD revenue) for FY18 and FY19. Revenue growth in this channel has decelerated in FY20 and will at best grow with the overall market growth rate (we expect 6.4% in FY20). DXC channel has 33 clients in $ 1mn annual revenue bucket, which represents huge potential for Mphasis to scale up in this channel.

Change of guard at DXC (new CEO – Mike Salvinio – May 2019) has got investors worried about the relationship between Mphasis and DXC, considering a major restructuring plan (more on this later).

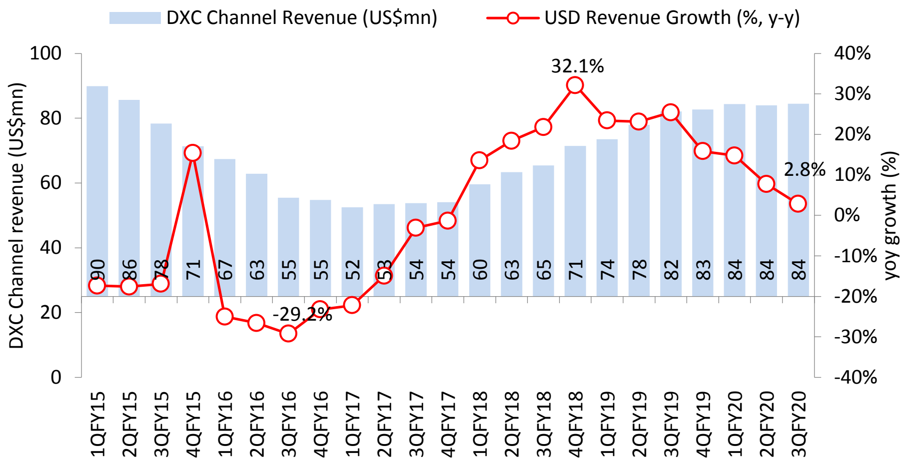
When Blackstone acquired 60% stake in Mphasis from HPE in FY16-17, as part of the agreement, HPE and Blackstone agreed on the terms of a five-year Master Services Agreement (MSA), with three additional automatic renewals of two years each. Under this MSA, HPE committed a minimum revenue amount of $ 990m over the next five years**.** Also, Mphasis is included in HPE's Preferred Provider Program, opening up significant avenues for growth.

Within DXC/HP, Mphasis has four engines of growth –

- HPE
- HP Inc
- Micro Focus (HPE non-core asset business merged with Micro Focus)
- DXC

As of Q3FY20, DXC contributed 88% to overall DXC/HP channel revenue for Mphasis while remaining 12% was contributed by non-DXC.

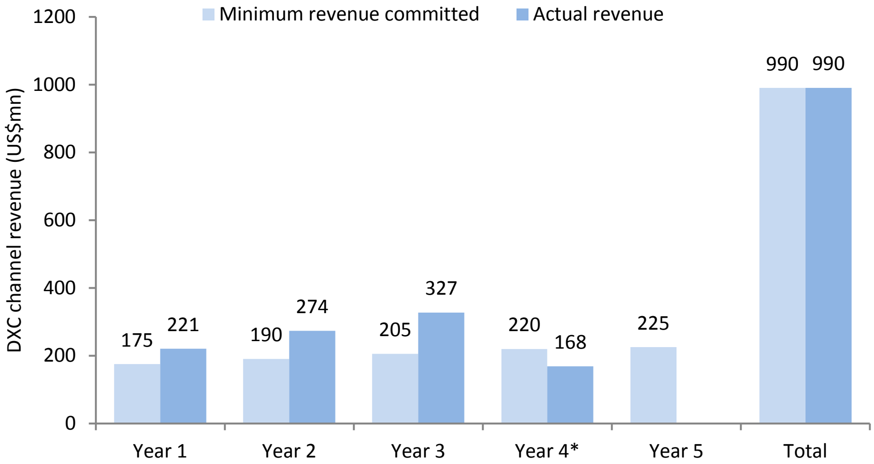
DXC's channel has stabilised after strong growth in the last two years



Source: Company, PhillipCapital India Research

While cumulative DXC revenues since FY17 (when the MSA was signed) have already touched the 'cumulative minimum committed amount' for 5 years ($ 990mn), we note that the management has categorically clarified that 'annual revenues exceeding the minimum commitment towards that year, do not add-up to the cumulative minimum commitment'. See the chart below for comparison on minimum revenue commitment against actual revenue.

Minimum revenue commitment vs actual revenue (in $mn)

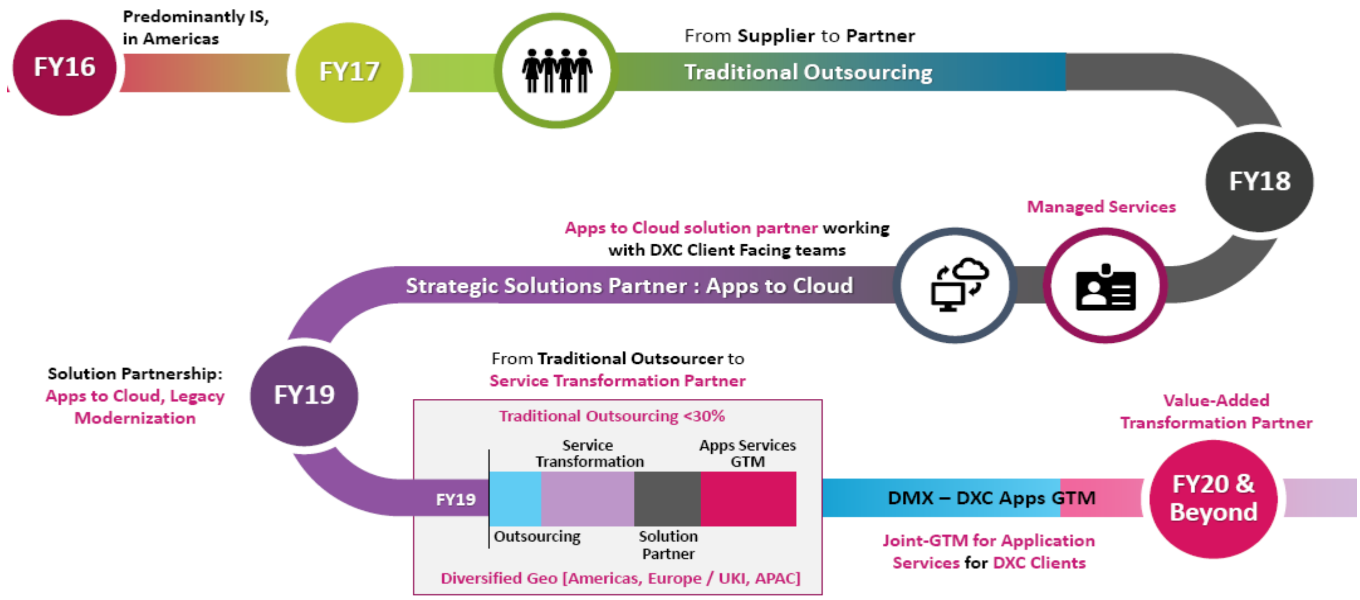


Source: Company, PhillipCapital India Research
Note: MRC was effective from Sep 2016, hence Year 1 actual revenue is from Q2FY17-Q1FY18 and likewise further;
**Year 4 represents two quarters (Q2-Q3FY20)*

Mphasis expanded its relationship with DXC starting from being a mere outsourcing supplier in FY16-17 to a strategic partner, and expanded geographically to Europe, UK, and APAC, from being present majorly in Americas previously. In early FY18, Mphasis won the first services transformation deal engagement, a multi-year complex contract based on delivering business outcomes, away from mere outsourcing.

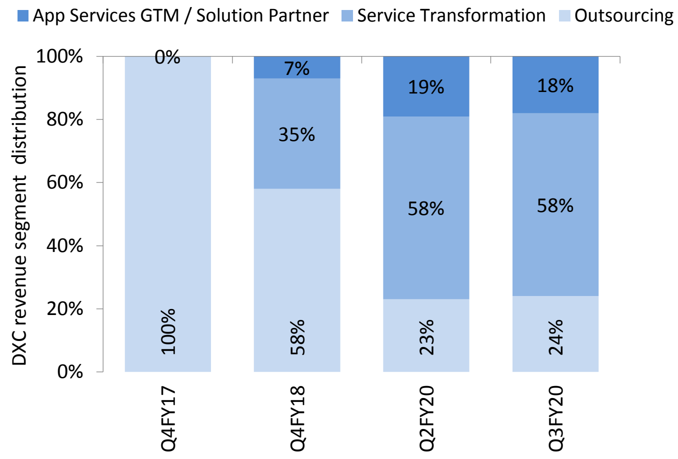
In FY19, Mphasis further strengthened DXC's growth-partner status by announcing DMX (DXC – Mphasis Next), where Mphasis teams worked alongside DXC directly in their accounts, expanding the application footprint for them. So, from 100% outsourcing revenue in FY16-17, Mphasis now derives 58% (as of Q3FY20) of revenue from Service Transformation and 18% (as of Q3FY20) with Joint GTM/Solution Partner with DXC. This metric is very positive in our view, as it gives Mphasis direct visibility in front of clients and makes Mphasis an even more critical partner for DXC in new-gen areas.

Mphasis and DXC/HP relationship has significantly evolved over last two years

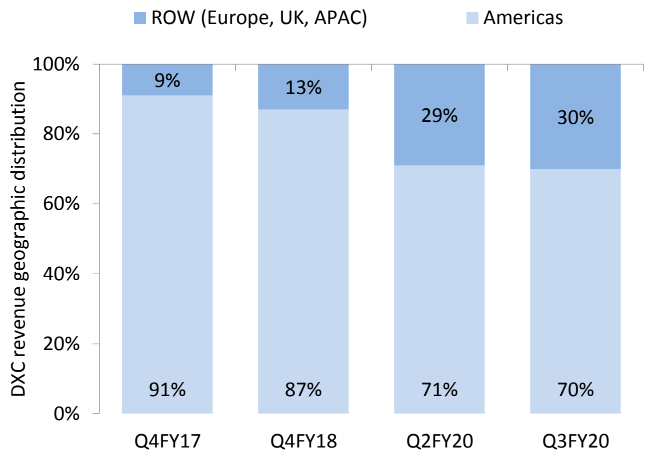


Source: Company, PhillipCapital India Research

Business mix has shifted from purely outsourcing ...



...along with diversifying geographically



Source: Company, PhillipCapital India Research

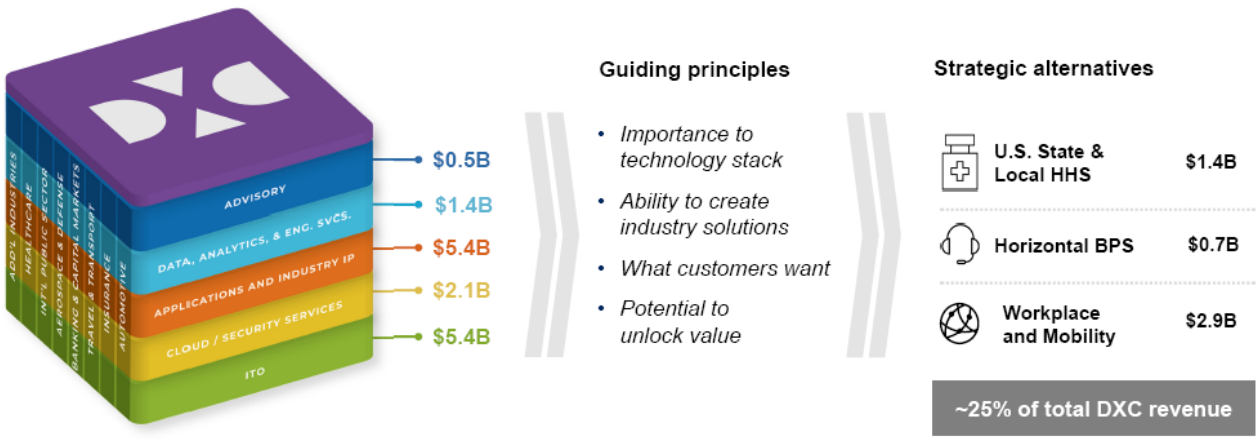
Service transformation: The objective of this segment for Mphasis is to partner with DXC in that latter's value-capturing journey by reducing its cost of running the business by deploying automation and cognitive assets for both DXC and Mphasis – to achieve contracted outcomes. This gives Mphasis good visibility, as DXC looks to reduce non-strategic vendors and its spend there.

Restructuring at DXC concerning for Mphasis, impact however is negligible
DXC in its Q2FY20 results announced a major restructuring, where it highlighted three businesses (listed below) for strategic alternatives, including potential divestitures to strategic or private equity buyers, a spin-off, or some other transaction. The businesses identified are:

1. US state and local health and human services business ($ 1.4bn revenue)
2. Horizontal BPS (business process services) business ($ 0.7bn revenue)
3. Workplace & mobility business ($ 2.9bn revenue)

Combined, these businesses have a total of $ 5bn annual revenue, which represents 25% of DXC's total revenue. DXC has mentioned that the timeline for execution of strategic alternatives (incl divestitures) will be the next 12 months, which is till Dec 2020.

25% of DXC business now identified as non-core



Source: Company, PhillipCapital India Research

From Mphasis' perspective, its exposure to these divisions is:

- **US State & Local Healthcare and Horizontal BPS businesses** – ZERO exposure
- **Workplace business** – Mphasis' DXC channel revenue exposure to this business is in single-digits. It is largely a legacy business (from HPE) that has already seen significant erosion.

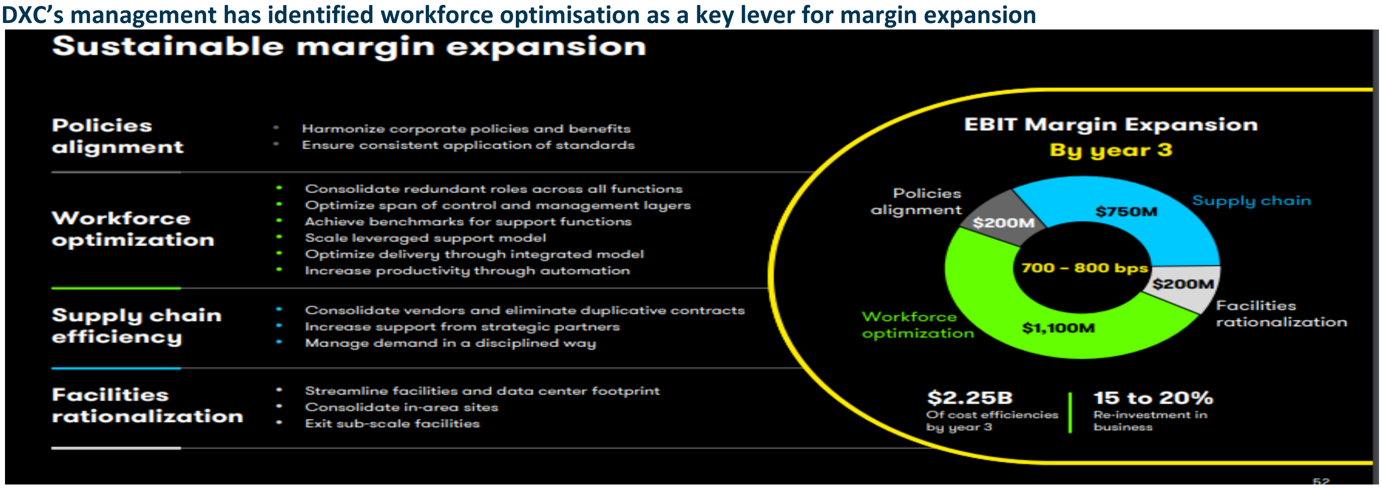
DXC on 11th March, 2020 announced the agreement to sell its US State and Local Health and Human Services business to Veritas Capital for $5.0bn. This leaves with rest two of the business to be divested.

We believe impact on Mphasis will be negligible, as its exposure to these 'to-be-divested' segments is <3% of overall revenue. Hence, management believes Mphasis doesn't have any meaningful material risk and continues to guide for at market growth in DXC channel.

Pyramid optimization at DXC can be an opportunity for Mphasis

DXC's CEO mentioned in the Q2FY20 call that the company was unable to implement complex employee pyramid optimization, which was one of the levers for margin expansion that former CEO Mike Lawrie had identified. We believe that Mphasis can be a low-cost substitute instead, that can improve its pyramid.

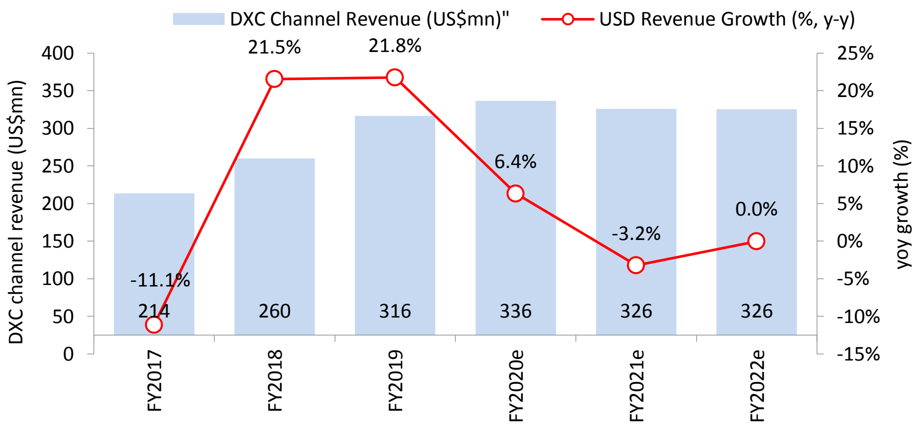
DXC's management has identified workforce optimisation as a key lever for margin expansion



Source: Company

We forecast DXC's channel USD revenue growth of 6.4% yoy in FY20 and -3%/0% in FY21/22. Absence of deal-win data, possible impact on the outlook of third-party outsourcers after management change and Covid-19 uncertainty results in limited visibility. Hence, our expectations are conservative.

Limited visibility for DXC channel – we keep our estimates conservative



Source: Company, PhillipCapital India Research

Our sensitivity analysis indicates minimal EPS impact
To illustrate the low impact of DXC channel's revenue growth, on Mphais's overall EPS (FY22), we did a sensitivity analysis. We take scenarios in the range of -10% to +5% USD revenue growths (yoy) for DXC, with -10% decline being the worst case in our view (on our base case assumption of -3% yoy decline in DXC in FY21).

Our sensitivity analysis reveals that even at an 10% yoy decline in DXC revenues in FY22 (assuming FY21 revenue declines by -3% yoy), Mphasis' overall revenue growth rate will fall to 6% and its FY22 EPS will be impacted by only -2.2%. The output of the sensitivity analysis is mentioned below.

Key assumptions:

- **Growth in Direct Core** in FY20/21/22: 15%/0%/13%
- **Growth in other businesses** in FY20/21/22: 6%/-1%/8%
- **EBIT margins** for FY20/21/22: 16.0%/15.3%/16.0% *(assuming DXC channel margins similar to company margins)*
- **ETR** for FY20/21/22: 24%/25%/25%

Mphasis's EPS sensitivity on DXC channel growth scenarios

FY22 DXC channel USD revenue growth (% yoy)*	-10%	-8%	-4%	0%	5%
MPH USD Rev growth (%) – FY22	6.2%	6.7%	7.7%	8.8%	10.1%
MPH EPS (Rs) – FY22	**64.0**	**64.3**	**64.9**	**65.5**	**66.2**
MPH EPS Impact (%) – FY22	-2.2%	-1.8%	-0.8%	0.0%	1.1%

Source: Company, PhillipCapital India Research *(*Assuming -3% decline in DXC channel in FY21)*

Highly attractive risk-reward profile, based on DXC channel growth scenarios

Price Target		FY22 DXC Channel USD Revenue Growth (% yoy)*				
		-10%	-8%	-4%	0%	5%
Target Multiple (FY22 PE)	10	640	643	649	655	662
	11	704	707	714	721	728
	12	768	772	779	786	794
	13	832	836	844	**852**	861
	14	896	900	909	917	927

% Upside		FY22 DXC Channel USD Revenue Growth (% yoy)*				
	675	-10%	-8%	-4%	0%	5%
Target Multiple (FY22 PE)	10	-4%	-4%	-3%	-2%	-1%
	11	5%	6%	7%	8%	9%
	12	15%	15%	16%	17%	19%
	13	24%	25%	26%	**27%**	28%
	14	34%	34%	36%	37%	38%

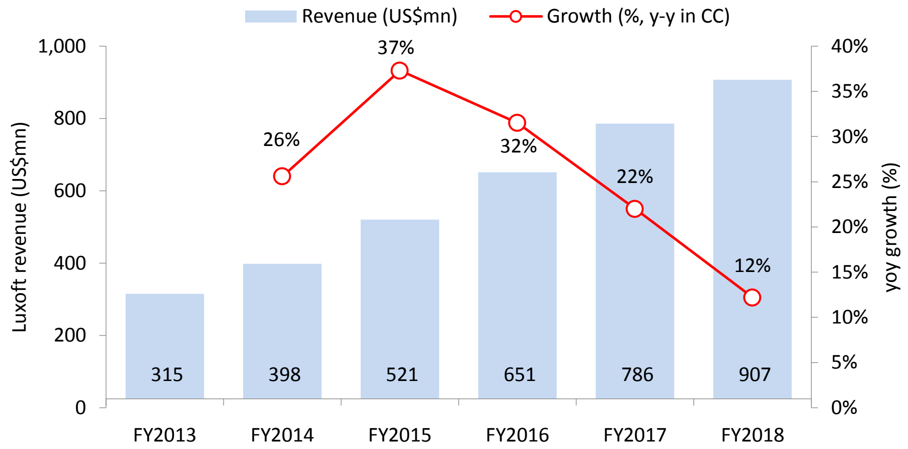
Source: Company, PhillipCapital India Research *(*Assuming -3% decline in DXC channel in FY21)*

Is DXC's Luxoft acquisition a threat to Mphasis?

DXC announced the acquisition of Luxoft Holding Inc in January 2019 with an all-cash transaction of $ 59 per share, c.48% premium over the 90-day average closing price, totalling an enterprise value of $ 2.0bn. It received final regulatory approval in June 2019 to complete the transaction.

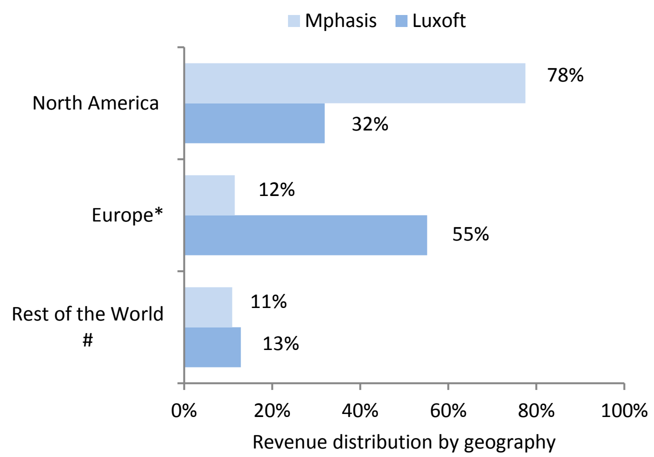
Over FY14-18, Luxoft has grown strongly with an average growth rate of +25%. It majorly derives revenue from Europe (including the UK), which represents 55% of its total revenue. In terms of verticals, Financial Services and Automotive are its largest, at 76% of total revenue. At the time of the acquisition, DXC's management gave guidance of 15% revenue CAGR for Luxoft for the next three years, and appeared confident about achieving that.

Luxoft's average revenue growth has been strong at 25%+ over FY14-18

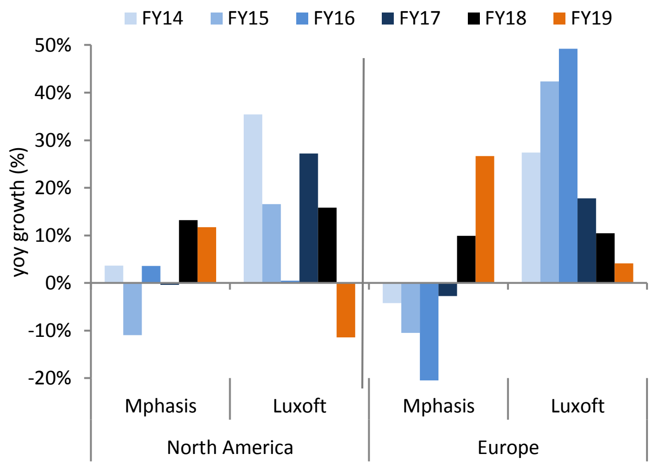


Source: Company, PhillipCapital India Research

Europe has largest share of revenue for Luxoft...



...with fastest growth (yoy) among major geographies



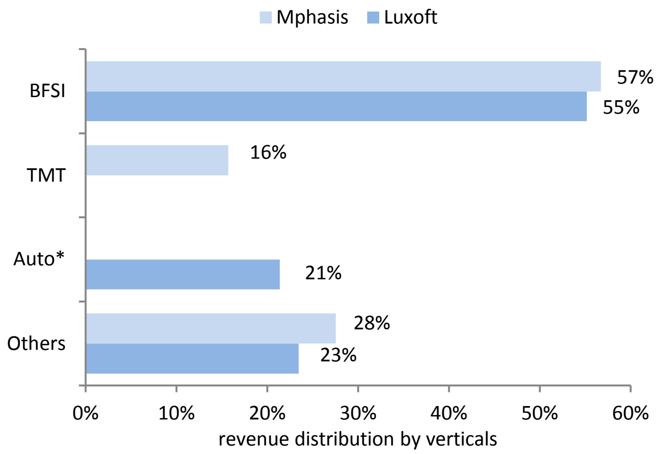
Source: Company, PhillipCapital India Research.

Note: For Luxoft, above data for FY19 growth among geographies is for 1HFY19 over 1HFY18

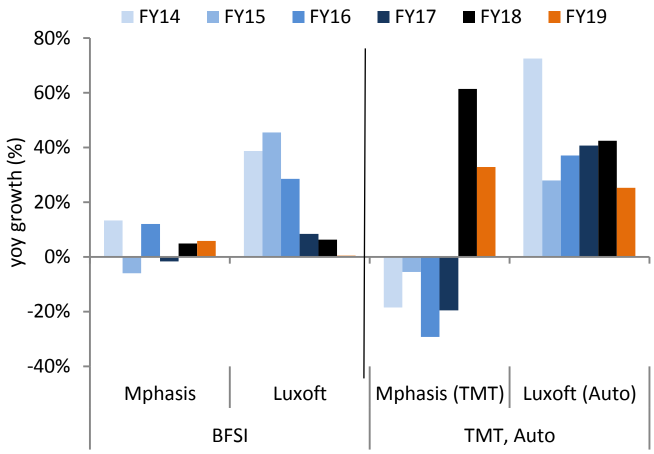
**Europe, for Mphasis, includes EMEA*

#Rest of the world for Luxoft includes Russia, APAC and others – while for Mphasis, it includes India and others

Financials and auto are major verticals ...



...with auto being the fastest for Luxoft



Source: Company, PhillipCapital India Research.

Note: For Luxoft, above data for FY19 growth among verticals is of 1HFY19 over 1HFY18

**Auto vertical for Mphasis includes Logistics*

Why did DXC acquire Luxoft?

We believe there are four key reasons for DXC's acquisition of Luxoft: (1) digital capabilities, (2) C-suite relationships, (3) high-quality digital talent, and (4) expansion in Europe.

Digital capabilities: Luxoft offers differentiated digital capabilities in areas such as analytics, user experience, user interface, IoT and blockchain, and is a significant player in outsourced engineering services, cloud and devops. Its automotive platforms and IP include autonomous driving platforms, human-machine interface, digital-cockpit user experience, telematics, and IoT for connected vehicles. In Financial Services, Luxoft has strong capabilities in customer experience and analytics. It also is a leading systems integrator for Murex and Avaloq implementations. In Healthcare, Luxoft solutions include digital labs, automated testing via computer vision, and secure management of health records, patient engagement, and blockchain technologies.

C-suite relationships and partnerships: Along with deep domain expertise, Luxoft team brings key C-suite relationship outside of IT mainly in the functions of R&D, marketing, and operations in key sectors such as automotive, financial services, healthcare, media and telecommunications, and travel and transportation – which are expected to increase DXC's reach in these industries. DXC mentioned that these stakeholders currently account for approximately $ 300bn of technology spend, 30-40% of total industry spend. Luxoft has strong partnerships with product and technology companies such as Murex, Avaloq, Calypso, LG Electronics, AWS, and Microsoft Azure. We believe that these relationships would be immensely valuable to DXC for expansions.

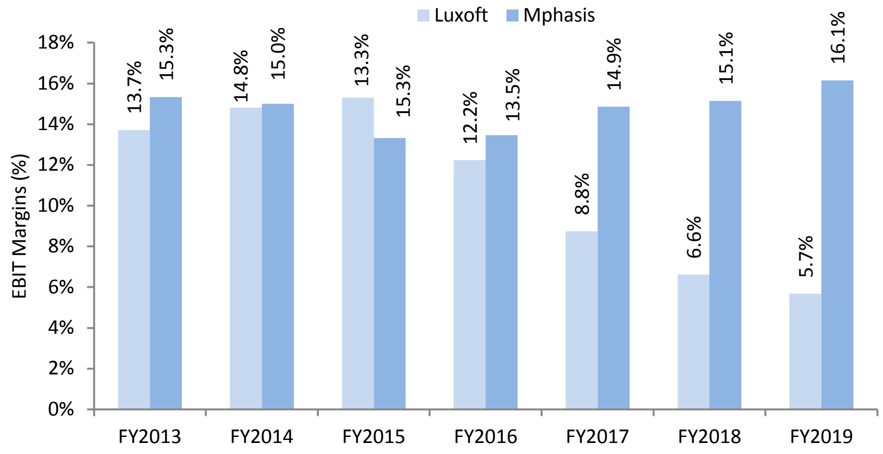
Talent: When it was acquired, Luxoft had employee strength of 13,000 and 80% of its total workforce had advanced degrees (masters and Phds) with 70% of them having 5+ years of experience. Luxoft's engineering talent is primarily based in Central and Eastern European delivery centres (Ukraine, Poland, and Romania).

Expansion in Europe: Europe represents 55% of Luxoft's revenue (including UK). Barring UK, Europe has been its fastest growing geography, which has C-suite relationships with marketing, R&D, and operations functions of its clients – which DXC can leverage to expand its own offerings in Europe, in our view.

Will Luxoft impact Mphasis' revenue from the DXC channel?

We believe that this acquisition by DXC will not have a material impact on Mphasis. The main reason is that this was a capability-building acquisition for DXC, which is expected to address the gaps in DXC's digital offerings, and increase its reach beyond IT executives. The acquisition was not done to optimize its vendor costs. Interestingly, Luxoft's margin profile is much worse than Mphasis.

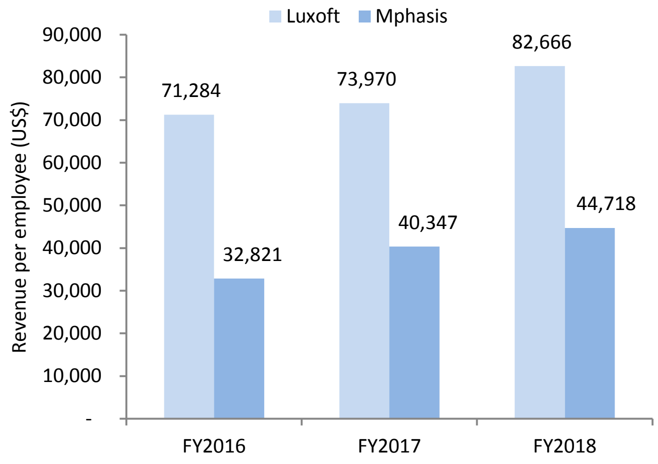
Lower employee costs translate into better margins for Mphasis than Luxoft



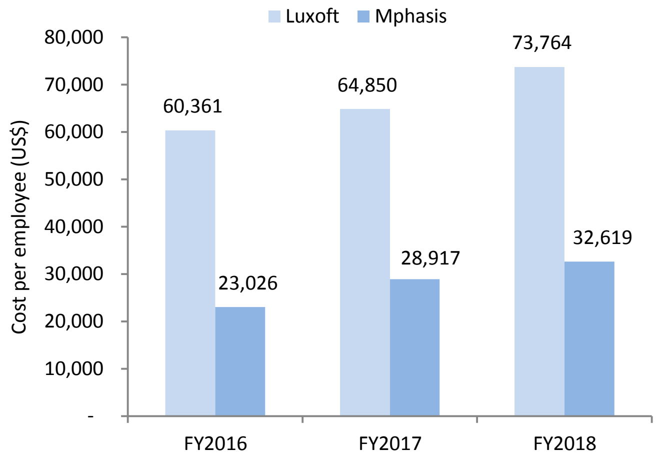
Source: Company, PhillipCapital India Research; *(Note: For Luxoft, EBIT Margins are for 1HFY19)*

Analyzing employee productivity and costs, we argue that Mphasis scores high on employee costs due to a majority of its delivery team being based out of India, compared to Luxoft's delivery teams being based out of Eastern and Central Europe., hence its costs per employee and margins are inferior to Mphasis.

Revenue per employee (in USD) is high for Luxoft...

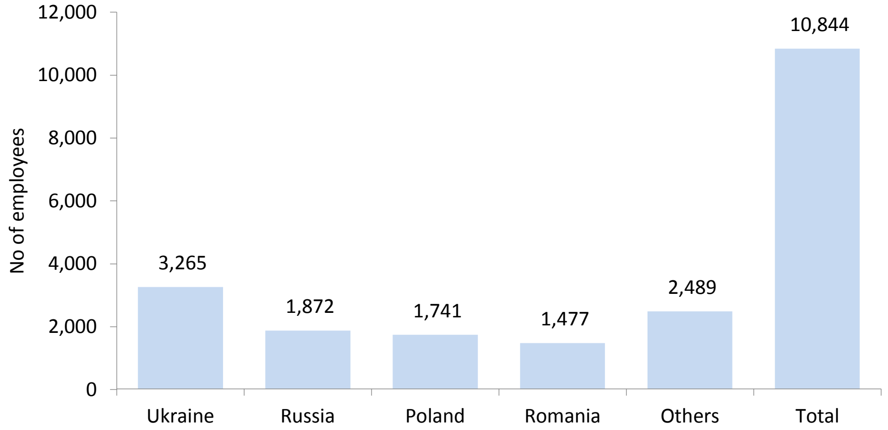


...and so is cost per employee (in USD)*



Source: Company, PhillipCapital India Research *(Note above cost per employee includes employee costs and S&M and G&A expenses)*

Majority of Luxoft's delivery teams are based out of Europe



Source: Company, PhillipCapital India Research. *(The above data is as of March 2018)*

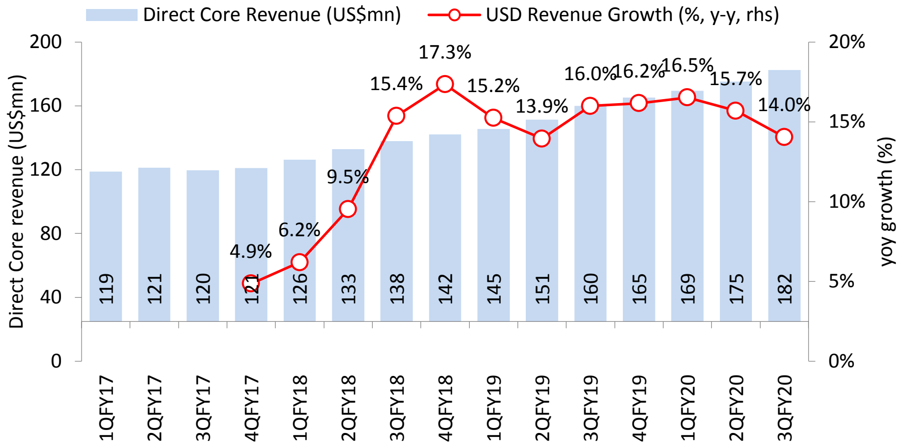
Overall, we don't think that there is any material threat to Mphasis from Luxoft's acquisition by DXC. Luxoft is a niche services player, strong in digital, and is primarily exposed to European Markets and the UK, where Mphasis has limited presence (EMEA is 10% of revenue) and is underpenetrated. We argue that it was a capability driven acquisition, made to fill up the digital-services gap by DXC, along with increasing its reach beyond IT executives.

Also, the cost of service delivery is much higher in Luxoft due to: (1) delivery teams sitting out of Europe as compared to India for Mphasis, and (2) highly qualified workforce (80% having masters and Phd), resulting in much lower margins for Luxoft. Comparing the margin profile and costs, it would be beneficial for DXC to shift more work offshore to Mphasis. Hence, moving work from Mphasis to Luxoft technically doesn't make economic sense, and as such, doesn't threaten its own business from it.

Direct core has been a growth driver for Mphasis

Direct Core makes up for 57% of Mphasis' total revenue and its CQGR has been impressive at 3.6% over the last 10 quarters. Even in 9MFY20, Direct Core grew at a healthy average growth of 16.1% yoy in CC, while in FY19, exit rate was strong at 18.8% yoy in CC. This strong growth momentum is propelled by strategic accounts (largest segment), Blackstone companies, and new accounts. Strategic accounts revenue growth was above market YTDFY20 (double-digit yoy growth in Q2FY20). Blackstone portfolio CC growth was 50%+ and new accounts 80%+ yoy in YTD FY20.

Direct core revenue growth has been consistently strong for the last two years

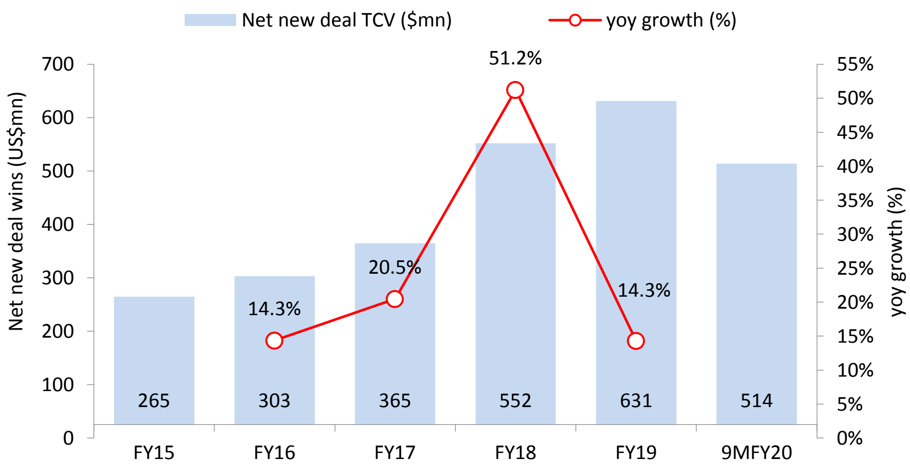


Source: Company, PhillipCapital India Research

Mphasis has been winning net new deals in the Direct International Channel with broad-based growth across Direct Core and Digital Risk. Over the last twelve months, Mphasis won net new deals of $ 660mn with a book-to-bill of 0.8x; 80% of such deals in FY19 and YTDFY20 are in New Gen/Digital Services. In the last twelve months, deals-win TCV is up 9.8% yoy, which we think is strong, considering it includes $ 210mn deal wins in Q2FY19, which was the highest ever net new deal TCV that the company won. Most of the new deals are institutionalized with an early engagement sales process and robust account planning in place. Deal wins have been broad-based across strategic accounts, new clients, and its Blackstone portfolio.

Mphasis has been able to close robust deals through March 2020, which is commendable given delays in deal closures across industry. Ramp up of these deals in FY21 is expected to offset negative impact in business caused by Covid-19 crisis.

Mphasis deal wins in Direct International have improved since FY18



Source: Company, PhillipCapital India Research

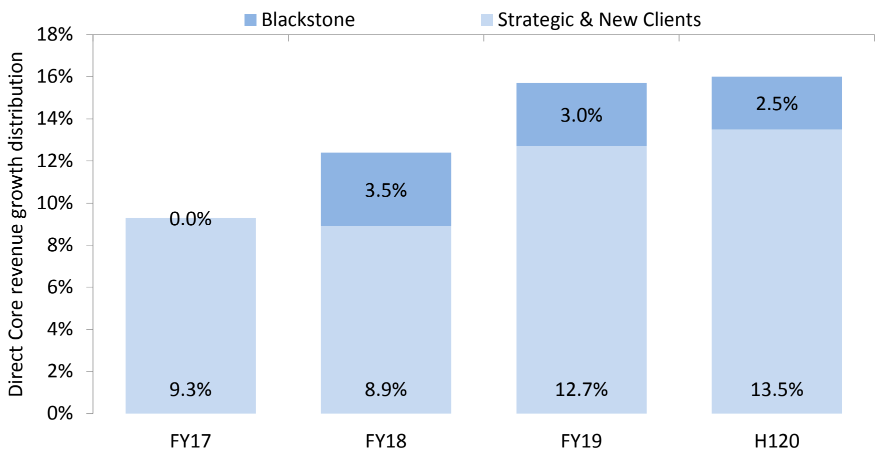
Blackstone opportunity – Mphasis is a preferred IT-services vendor

In Blackstone companies, the major advantage Mphasis has over its competition is that it has the first opportunity to interact with the CXOs of these companies. The portfolio of Blackstone companies is not standardized and not all are in the Fortune 1000 list. This suggests that a majority of the companies do not have mature IT outsourcing practices, which is a great opportunity for Mphasis to tap, in our view. Mphasis believes the addressable opportunity size from Blackstone portfolio companies is $ 1.5bn, c.1.2x of Mphasis' revenue. We believe Blackstone portfolio companies should continue to help Mphasis accelerate its Direct Core revenue growth.

Blackstone is 4% of its overall revenue (7% of Direct Core revenue); its outlook is positive. Out of the total portfolio within the Blackstone channel, Mphasis has over a dozen relationships – two of them are now its top-20 clients. In 12+ relationships, companies remained clients even after they were no longer Blackstone companies – suggesting a healthy affiliation and strong execution from Mphasis.

YTD FY20, Blackstone accounts grew >50% YoY. Management targets double digits share of direct core revenue, from the current 7% share – which we think is achievable. Mphasis aims to aggressively pursue this portfolio over next 24 months.

Direct Core growth contribution from Blackstone, and Strategic & New Clients



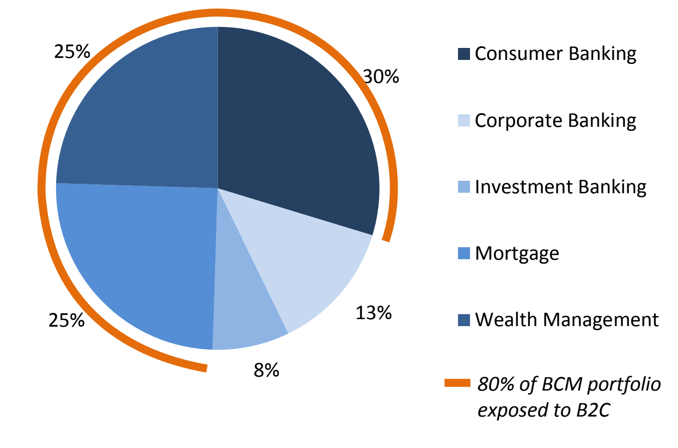
Source: Company, PhillipCapital India Research

Well-diversified within banking and financial services

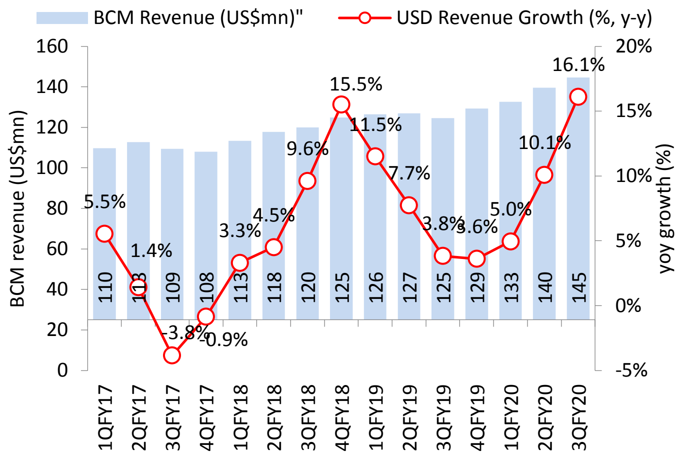
Although Banking and Capital Markets (BCM) is Mphasis' largest vertical, with 46% revenue share as of Q3FY20, it is fairly diversified within micro verticals such as Consumer Banking, Corporate Banking, Investment Banking, Mortgage, and Wealth Management. USD revenue in BCM for Mphasis has grown decently at 2.3% CQGR over the last 10 quarters. Yoy growth trends in this vertical continue to improve over the last four quarters (see chart below). The growth has been broad based across banking and capital markets as well as in Direct Core and Digital Risk.

There are concerns about the slowdown in the BFS segment, mainly led by capital markets, but Mphasis' management is seeing strong demand in areas of customer experience, data analytics, core application transformation, and cyber security. This is enabling the company to expand wallet share in new spend areas. However, pricing pressures continue to persist in legacy areas such as ADM and IMS. Segments such as Consumer Banking, Wealth Management and Mortgage are B2C-focused and prone to digital disruption; almost all of them are riding an investment cycle in transformation and digital technologies.

Revenue from BCM micro verticals – Q3FY20



BCM revenue growth (yoy) has been improving

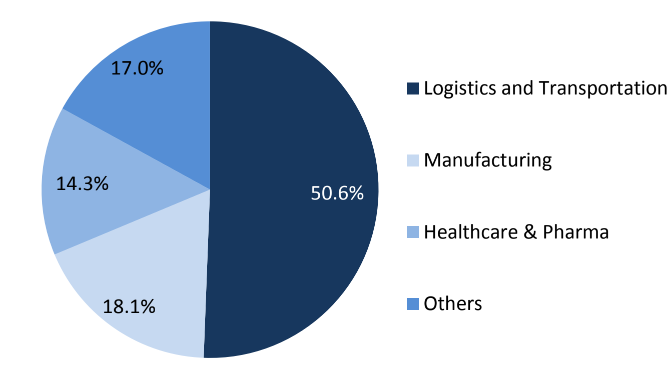


Source: Company, PhillipCapital India Research

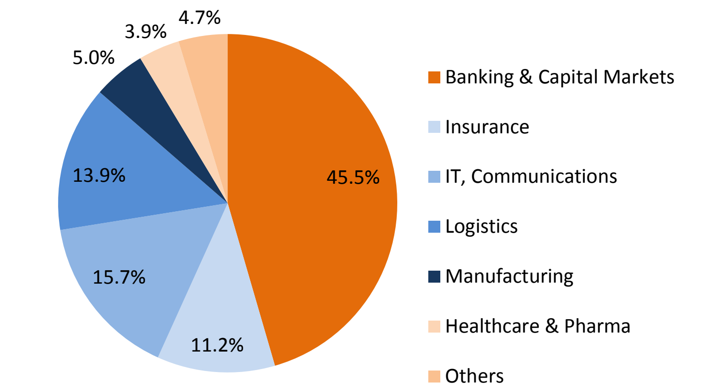
Emerging segments are also well diversified

Emerging segments as a unit constitutes 28% of Mphasis' revenue and has seen 4.5% CQGR over the past 10 quarters, higher than the company average at 3.1%. Within this vertical, Logistics & Transportation is the largest with 51% share (13.9% of overall revenue); its USD revenue grew 8.4% qoq in Q3FY20. Management indicated that this vertical has a healthy mix of longstanding strategic customers and new deals, with good potential for growth. Other verticals that are sizeable include manufacturing (5% of revenue) and healthcare & pharma (3.9% of revenue).

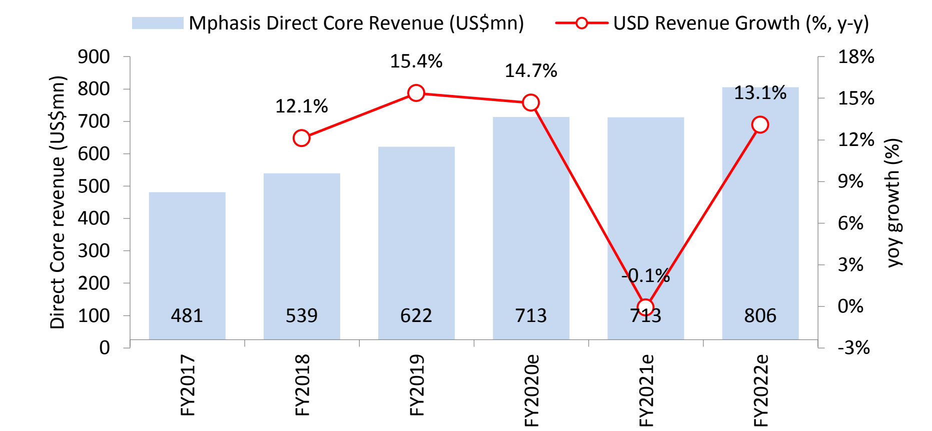
Emerging segment is well diversified for Mphasis…



…helping in overall diversification



Mphasis' Direct Core – Revenue growth to take a hit in FY21 due to Covid-19 impact



Source: Company, PhillipCapital India Research

We expect direct core revenue growth to take a hit in FY21 impacted by Covid-19 crisis. Overall, we forecast 0%/13% for FY20/21 dependent on:

1. H1FY21 will be significantly impacted by Covid-19 led lockdowns (in US/EU/India), leading to lower billings, inability to ramp up the new deal wins, pricing pressure in existing contracts and inability to sign new deals.
2. We expect recovery to happen only in H2FY21, that too dependent on the extent of recovery in US/Europe.
3. We believe if situation normalises by H2FY21, Mphasis direct core revenue will likely start growing again ahead of industry average, and hence we assume 13% growth in FY22.

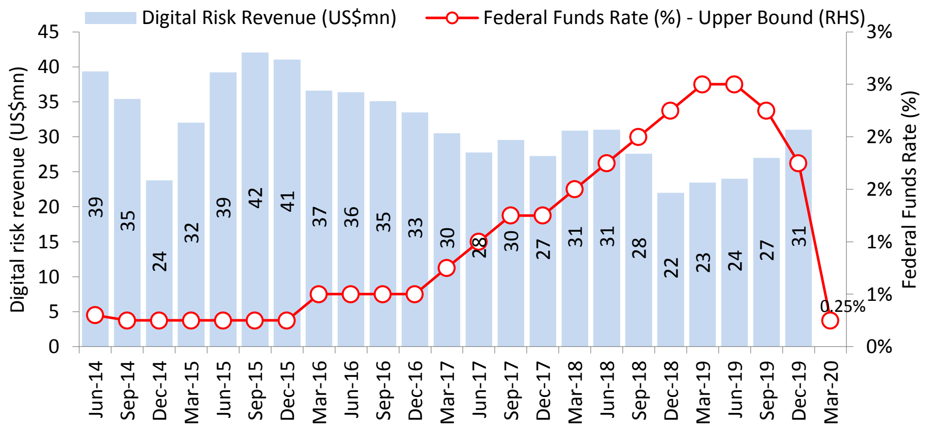
Digital Risk – seeing revival with falling US interest rates

Mphasis acquired 'Digital Risk' in January 2013 for $ 175mn, with an additional earn-out component. Digital Risk is one of the largest independent providers of risk, compliance and transaction management solutions in the US mortgage market. It offers end-to-end origination, diligence, and compliance services for mortgage, consumer lending, financial services, and other regulated industries.

Being closely linked to mortgage and consumer lending, this business is correlated with the interest-rate movements in the US. As the interest rates rise, there are few takers of loans for houses, but as the rates start declining, more people want to take loans, which increases the volume of Digital Risk. In the last interest rate hike cycle, the Federal Funds Rate increased from 0.1% in December 2015 to touch 2.4% in March 2019. During this period, Digital Risk's quarterly revenue declined from $ 41mn to $ 23mn. However, since the interest rates in the US are on a downward trajectory, the company's volume are recovering, resulting in pick-up in revenue.

Over last two quarters, the Digital Risk business has seen good momentum with strong growth of 13-14% qoq in CC due to a pick-up in volumes. Its quarterly run rate has now crossed the management's initial guidance of $ 28-30mn, and now stands at $ 31mn for Q3FY20. The management seems confident of Digital Risk quarterly revenue staying above $ 28-30mn for next two quarters. It believes that this is not just the volume recovery, but that the company is also selling to new clients and new deals are taking place because of its capability and differentiation.
After declining for the last three years, mostly due to increasing interest rate cycle in the US, we forecast Digital Risk revenue to clock USD revenue of $ 113mn (+8.4% yoy) in FY20 and $ 117mn (4% yoy) in FY21, based on volume recovery in the business.

Digital risk revenue is inversely correlated to the US interest-rate cycle

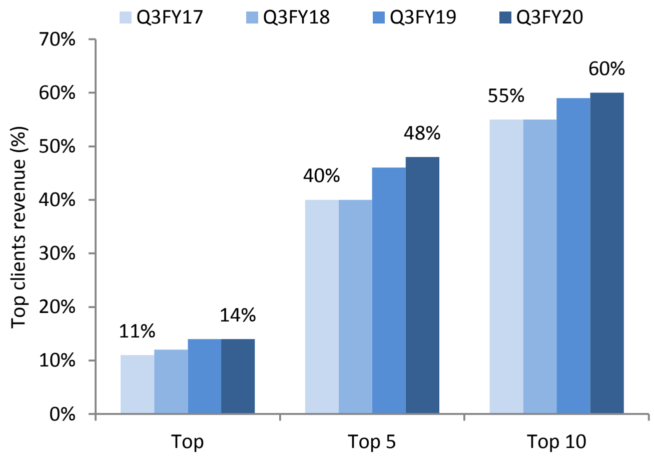


Source: Company, Bloomberg, PhillipCapital India Research

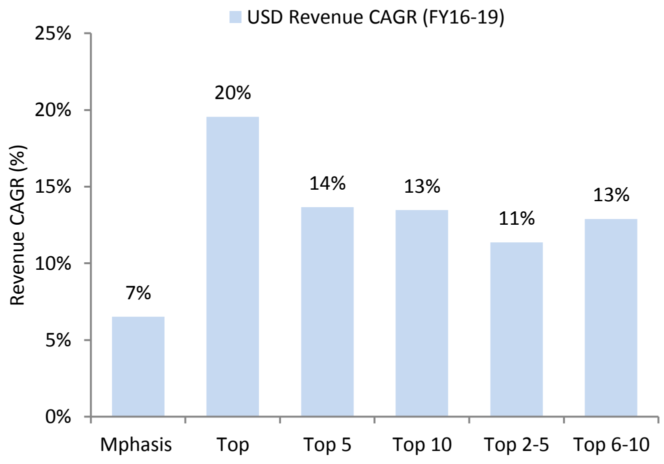
Client concentration remains high

Mphasis' top clients are in the Direct Core segment, which is a high growth area for the company. But the client concentration remains high at Mphasis (see chart below) just like at other mid-cap IT companies. USD revenue growth from top clients has outperformed the company average with the top client, top-5, and top-10 clients seeing CAGRs of 20%, 14% and 13% over FY16-19, as compared to the company's average growth of 7%. But the concentration risk still remains high (typical of mid-cap IT companies) for Mphasis and any slowdown in top accounts can impact future revenue growth.

Client Concentration at Mphasis continues to increase…

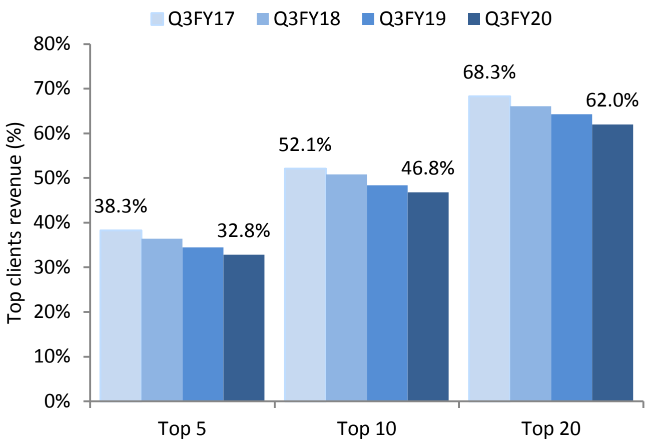


…with top clients outperforming company growth

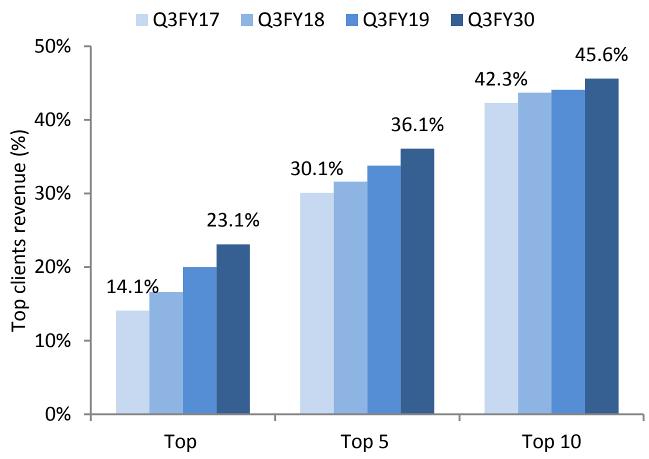


Source: Company, PhillipCapital India Research

LTI's client concentration is reducing…



…while Mindtree's is increasing

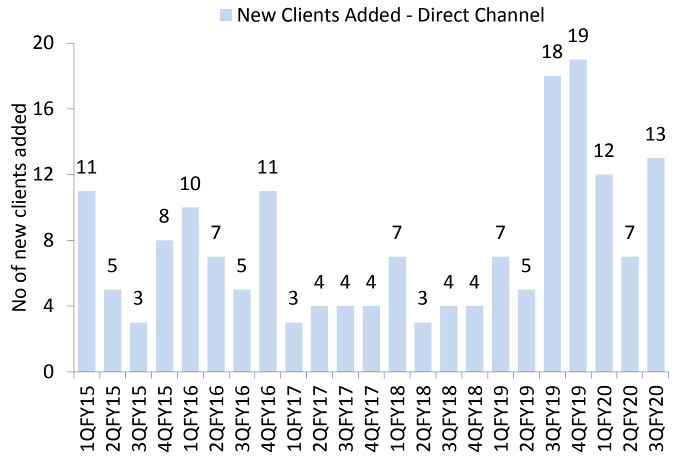


Source: Companies, PhillipCapital India Research

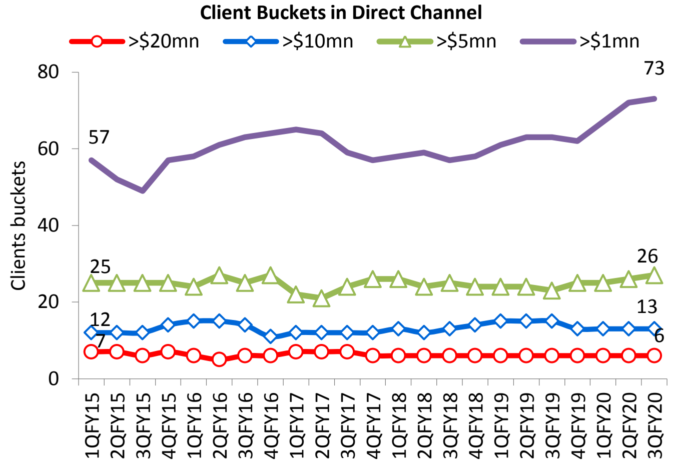
New client addition remains strong, however scaling up is an issue

New client addition in the Direct channel remains strong at Mphasis, as the company added 51 new clients in the last 12 months (34 and 18 in the prior two years). This is significant, as it represents more than 70% share in overall clients added (remaining share of DXC channel). However, once Mphasis has entered a new account, it hasn't been able to scale up. This is apparent from its client buckets where its $ 5-20mn accounts have remained flat over the last five years. This means that either Mphasis is unable to increase the revenue once it breaks into a particular client, or that churn is high in the $ 5-20mn buckets, and thus there hasn't been any uptick over the last five years. Either way, this is an issue that raises its dependence on its top clients, thus increasing its client-concentration risk. This is in contrast to LTI, where the company has been able to scale up new accounts and retain existing ones in its $ 5-20mn and thus in turn able to reduce client concentration.

New clients' addition remains strong in the direct channel



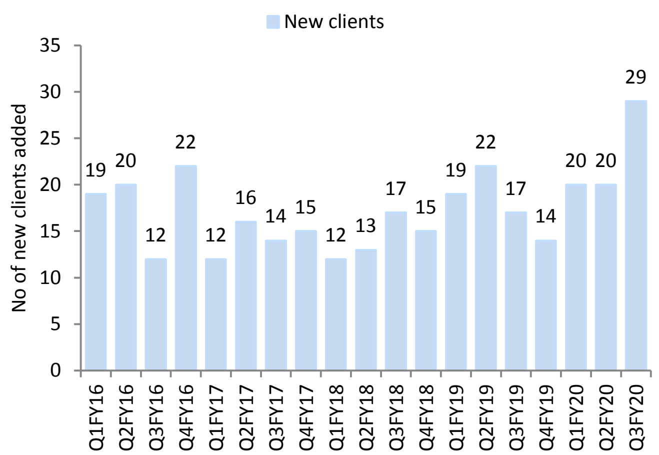
while the $ 5-20mn bucket remains stable



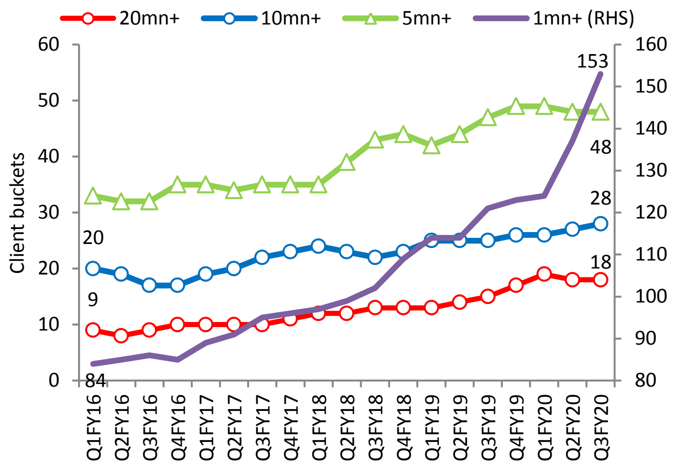
Source: Company, PhillipCapital India Research

LTI has been adding more clients than Mphasis; at 83 net additions vs. Mphasis' 51 on LTM basis. Additionally, it has been able to retain and increase the number of clients it newly entered, which can been seen in the expansion of all client buckets (see chart below). We believe Mphasis needs to articulate its offerings and execute more effectively to reduce client concentration and simultaneously broad-base its client base.

LTI's new-client additions remain strong



LTI's client buckets – addition across all buckets

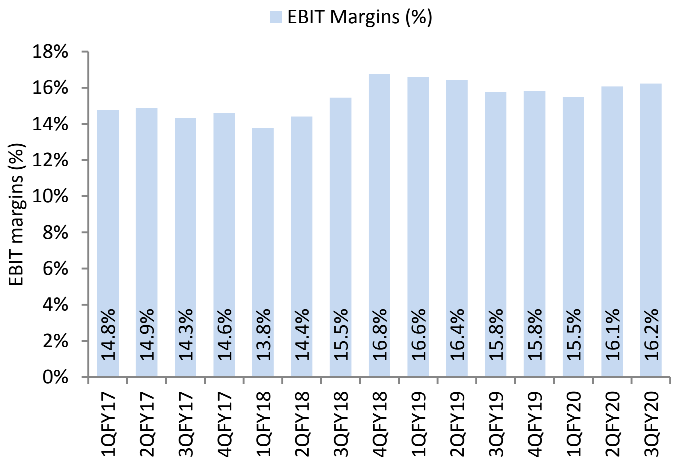


Source: Company, PhillipCapital India Research

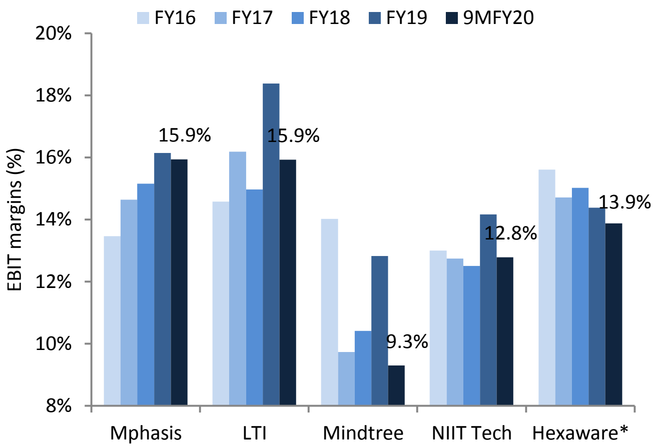
Margins at higher end of mid-cap peers with low volatility

Mphasis has managed its margins well vs. its mid-cap peers, where we have seen high volatility – especially for Mindtree and Zensar. Typically with most mid-cap companies, margins fluctuate higher than large-cap companies due to reasons such as client-specific issues, acquisition impact, deal-transition costs, one-time bonuses, and loss of clients to competition, etc.

Mphasis EBIT margins have been fairly stable...



... and at higher end among the mid cap players



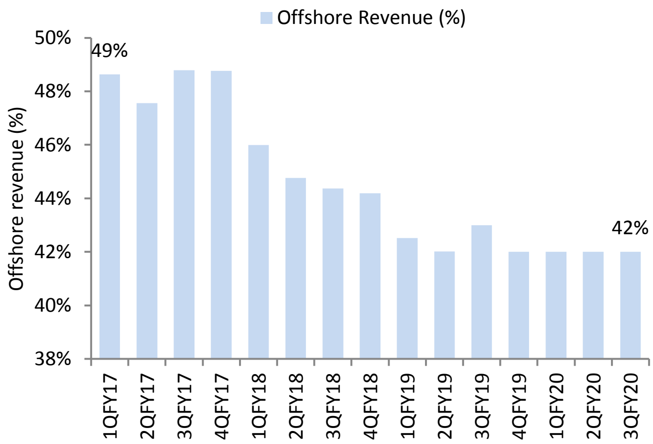
Source: Company, PhillipCapital India Research; Note: Hexaware has December year end, hence above numbers are adjusted

The impact of wage hikes in Q3FY20 was lower than expected due to staggered wage hikes linked to employee career progression (re-skilling, digital training, etc). YTD FY20 EBIT margins have been 16%, which is within the management's guided range of 15.5-17.0% for FY20.

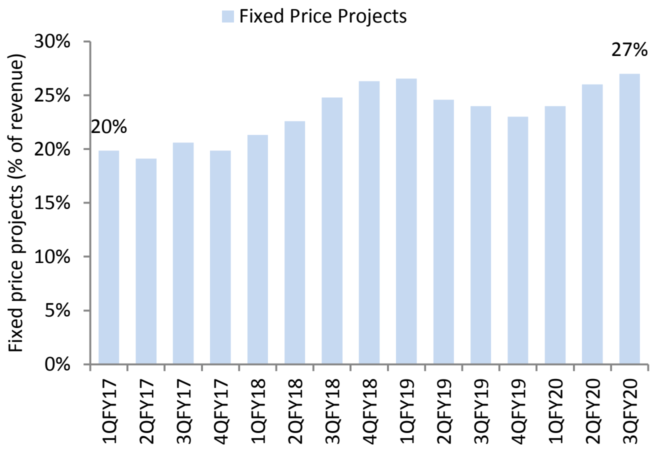
Margins will be under pressure because of likely revenue decline in 1HFY21 due to Covid-19 crisis. We forecast margins to drop 70bps in FY21 to 15.3% before bringing it back to normal 16% levels in FY22.

In terms of margin levers, we think that the company can potentially increase its offshore revenue percentage (42% as of Q3FY20). Another lever is fixed-price projects (26% of revenue) where the company can deploy automation solutions in projects with repeatable tasks – to increase margins. Blended utilization at 83% is relatively low compared with the recent peak of 87%, which can also be a lever for expansion.

Uptick in offshore revenue can be a margin lever ...



...along with higher fixed-price projects



Source: Company, PhillipCapital India Research

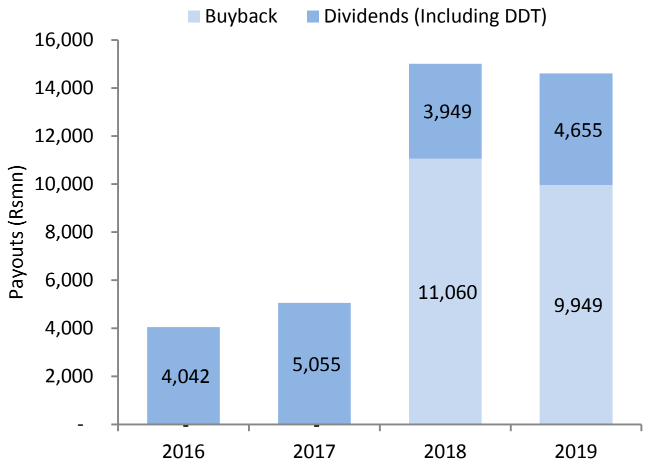
After Blackstone acquisition, shareholder payouts have increased significantly

Blackstone acquired 60% stake in Mphasis from HP Enterprises in FY16-17. It sold 8% in market May 2018 to enable more liquidity. During the recent correction (caused by Covid-19 crisis), Blackstone increased stake by 4.01% through 17th to 20th March 2020 and its current stake now stands at 56.2%.

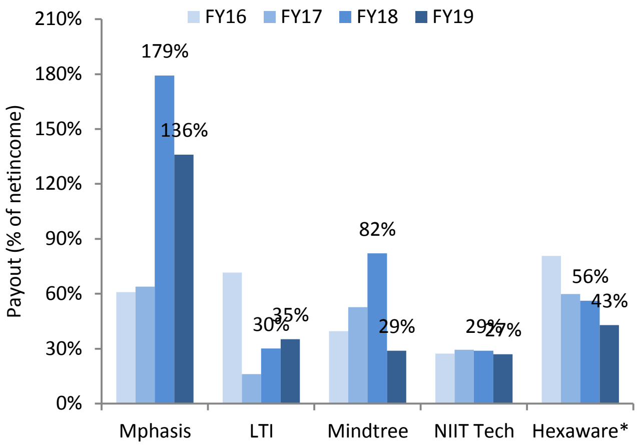
After Blackstone's entry, payouts have increased substantially in the form of dividends and payouts (see chart below). Mphasis' dividend payout ratio over the last three years is 46%. We expect this to continue in FY20 at 50%, which gives a handsome dividend yield of +3-4%.

Along with dividends, Mphasis also did buyback of Rs 11bn in FY18 and Rs 9.5bn in FY19. The last buyback's moratorium period is over in December 2019. Mphasis has a gross cash of Rs 21.3bn and net cash of Rs 15.86bn as of Q3FY20.We expect payout to shareholders to continue remaining healthy.

Payout increased after Blackstone acquisition in FY17



It has the best payout (dividends + buyback) among peers



Source: Companies, PhillipCapital India Research

Valuations are highly attractive

We believe that the current valuation of Mphasis at 10x FY22 PER (vs. 12-14x for LTI, LTTS, MTCL, and NITEC) is already reflecting the Covid-19 and DXC led uncertainties. We value the stock at 13x FY22 (20% discount to peers like LTI on lower growth, and uncertain outlook in DXC) to arrive at target price of Rs 850. We initiate with a BUY rating.

We believe there is upside risk to the estimates if the DXC channel again starts growing at FY17-18 levels. Mphasis also offers decent dividend yield at 3-4% with 100% payout ratio (including buybacks).

Key assumptions:

- **Growth in Direct Core** in FY20/21/22: 15%/0%/13%
- **Growth in DXC channel** in FY20/21/22: 6%/-3%/0%
- **Growth in Digital Risk** in FY20/21/22: 8%/4%/7%

Bull-Base-Base case scenarios for Mphasis (Covid-19 impact)

	BULL Case			BASE Case			BEAR Case		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Direct Core (growth %)	15	7	13	15	0	13	15	-5	8
DXC (growth %)	6	0	5	6	-3	0	6	-5	-10
Others (growth %)	6	5	8	6	-1	8	6	0	0
Overall Growth (%)	**11**	**5**	**10**	**11**	**-1**	**9**	**11**	**-4**	**2**
EBIT Margins (%)	16.0	15.5	16.0	16.0	15.3	16.0	16.0	15.0	15.5
EPS	**59.7**	**60.2**	**70.1**	**59.7**	**56.4**	**65.6**	**59.7**	**53.6**	**58.2**
CMP implied P/E	**11.3**	**11.2**	**9.6**	**11.3**	**12.0**	**10.3**	**11.3**	**12.6**	**11.6**
Target Multiple			14			13			11
Target Price			980			850			640
Upside (%)			**45%**			**26%**			**-5%**

Source: Company, PhillipCapital India Research

Decent return ratios with healthy cash generation

Mphasis ROE is at 20%. Cash generation remains healthy with average OCF/PAT ratio of 88% and positive FCF generation since the last five years (annual FCF generation of $ 100mn in FY19).

MPHL's bottom P/E multiple in the range of 10-12x in previous down cycles

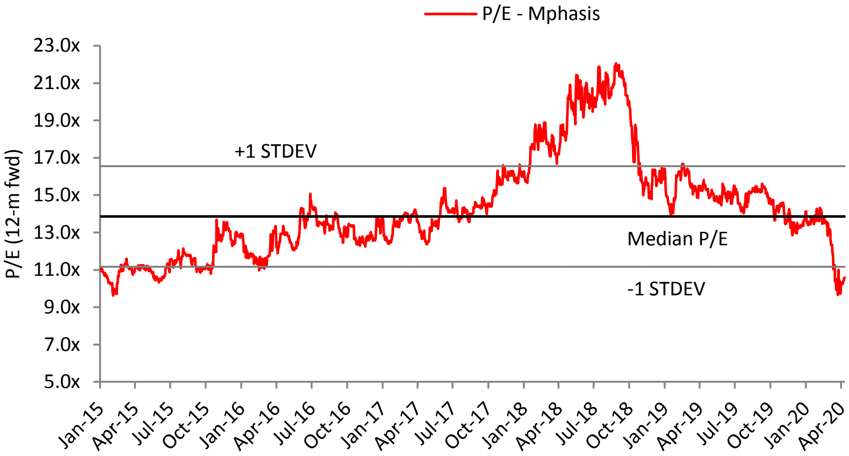
To analyse the bottom PE multiples which market assigns to Mphasis, we analysed FY12-16 period, when HP channel formed a dominant part of Mphasis revenue and it was declining significantly, due to struggling parent (HP Enterprise services). Being an IMS heavy player, HPES's business started declining in FY11, due to shift to cloud computing. Mphasis management was unable to expand its other businesses during this period, and the overall company growth declined in the range of -1% to -8%. In that period, Mphasis traded in the range of 10-12x one year forward P/E.

Historically, Mphasis's bottom P/E multiple in the range of 10-12x

Financial year	**FY12**	**FY13**	**FY15**	**FY16**
Year ending	*Oct-12*	*Oct-13*	*Mar-15*	*Mar-16*
$ Revenue growth	**-6.6%**	**-1.1%**	**-7.8%**	**-3.5%**
DXC / HP Channel	-19.8%	-22.4%	-13.8%	-26.1%
Direct International	19.0%	26.5%	-14.7%	14.0%
% of revenue				
DXC / HP Channel	56.5%	44.4%	34.5%	26.0%
Direct International	43.5%	55.6%	58.5%	68.0%
Others	na	na	7.1%	6.0%
EBIT Margins	16.4%	15.3%	13.3%	13.5%
ROE	19%	16%	13%	12%
1 yr forward average P/E multiple	**9.7**	**10.8**	**11.1**	**11.7**

Source: Company, Bloomberg, PhillipCapital India Research

Valuation now appears highly attractive



Source: Company, Bloomberg, PhillipCapital India Research

Comparative Valuation

IT Midcaps – Recommendations summary

	CMP	Mkt Cap	Target	PT	Upside	Rating	USD Rev Growth (%)		EBIT Margins (%)		EPS (Rs)	
	Rs	Rs bn	Multiple	Rs	%		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
LTI	1,389	242	16.0	1,580	14%	**BUY**	0.1	11.6	15.2	16.5	81	99
LTTS	1,168	121	15.0	1,330	14%	**BUY**	-0.6	12.4	16.0	17.1	75	88
MindTree	737	121	17.0	890	21%	**BUY**	-0.4	10.7	11.1	12.5	41	53
Cyient	220	24	8.0	320	45%	**BUY**	-3.1	6.5	10.4	10.8	35	40
NIIT Tech	1,110	69	11.0	1,090	-2%	NEU	-0.4	12.1	13.9	14.8	74	89
Mphasis	675	131	13.0	850	26%	**BUY**	-1.0	8.8	15.4	16.0	56	66
Hexaware	269	80	12.0	290	8%	NEU	4.0	9.9	13.0	13.4	21	24

IT Midcaps – Financials and valuation snapshot

	USD Revenues ($mn)			INR Revenues (Rs mn)			EBIT (Rs mn)			PAT (Rs mn)		
Companies	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
LTI	1,519	1,520	1,696	107,937	107,902	122,082	17,374	16,425	20,099	14,971	14,158	17,248
LTTS	796	791	889	56,232	56,159	64,035	9,479	8,974	10,918	8,185	7,758	9,124
MindTree	1,096	1,091	1,209	77,396	77,492	87,013	7,790	8,567	10,839	6,266	6,800	8,641
Cyient	634	614	654	44,734	43,598	47,075	4,306	4,516	5,098	4,085	3,833	4,346
NIIT Tech	594	591	663	41,769	41,986	47,714	5,558	5,819	7,073	4,472	4,606	5,540
Mphasis	1,241	1,229	1,336	87,957	87,230	96,211	14,109	13,402	15,412	11,219	10,586	12,315
Hexaware	793	825	907	55,824	58,842	65,273	7,745	7,652	8,752	6,409	6,382	7,300
	$ Revenue Growth (%)			**EBIT Margins (%)**			**EPS (Rs)**			**EPS Growth (%)**		
Companies	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
LTI	12.6	0.1	11.6	16.1	15.2	16.5	86	81	99	-1.2	-5.4	21.8
LTTS	10.0	-0.6	12.4	16.9	16.0	17.1	79	75	88	6.5	-5.2	17.6
MindTree	9.4	-0.4	10.7	10.1	11.1	12.5	38	41	53	-16.9	8.5	27.1
Cyient	-4.0	-3.1	6.5	9.6	10.4	10.8	37	35	40	-16.1	-6.1	13.4
NIIT Tech	12.4	-0.4	12.1	13.3	13.9	14.8	72	74	89	8.5	2.7	20.3
Mphasis	10.9	-1.0	8.8	16.0	15.3	16.0	60	56	66	7.6	-5.6	16.3
Hexaware	17.1	4.0	9.9	13.9	13.0	13.4	21	21	24	9.4	-0.5	14.4
	ROE (%)			**PE (x)**			**PB (x)**			**Div Yield (%)**		
Companies	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
LTI	28.0	23.1	24.0	16.1	17.1	14.0	4.5	4.0	3.4	2.1%	2.3%	2.3%
LTTS	29.5	23.9	24.0	14.8	15.7	13.3	4.4	3.7	3.2	1.9%	2.1%	2.5%
MindTree	19.2	18.4	20.1	19.3	17.8	14.0	3.7	3.3	2.8	1.1%	1.8%	1.8%
Cyient	15.5	13.3	13.8	5.9	6.3	5.6	0.9	0.8	0.8	5.5%	5.5%	5.5%
NIIT Tech	18.2	16.8	17.8	15.4	15.0	12.5	2.8	2.5	2.2	2.3%	2.3%	2.3%
Mphasis	21.6	18.5	19.4	11.3	12.0	10.3	2.4	2.2	2.0	4.4%	4.2%	4.9%
Hexaware	23.2	20.6	21.0	12.5	12.6	11.0	2.9	2.6	2.3	2.4%	2.4%	2.4%

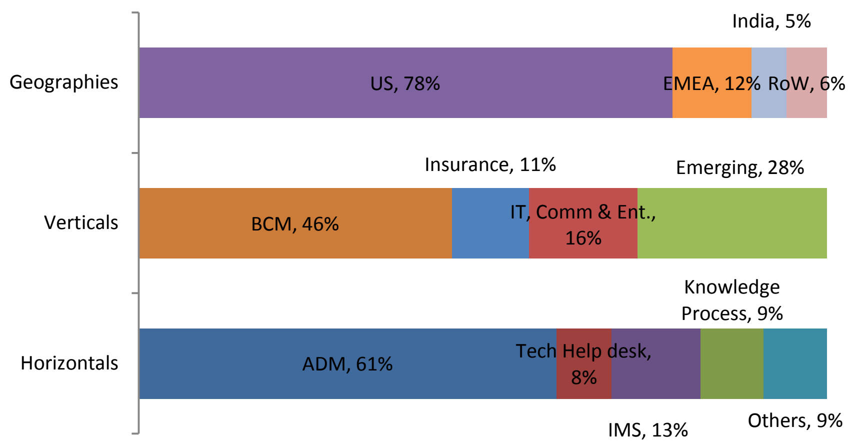
Source: Companies, PhillipCapital India Research

Company Overview

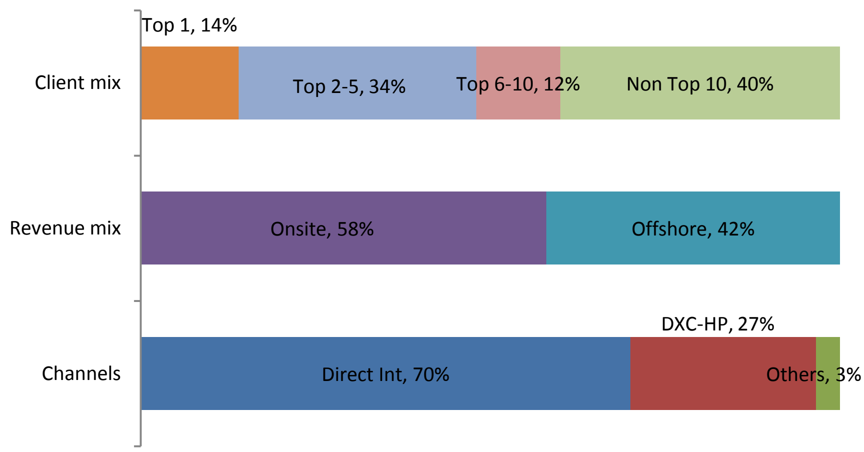
- Mphasis was formed in the year 2000 through the merger of two IT companies – US based IT consulting Mphasis Corporation (founded in 1998) and Indian IT services company BFL Software (founded in 1992)
- In June 2006, Electronics Data Systems Corporation (EDS) acquired a majority holding in Mphasis' equity capital.
- In August 2008, EDS was acquired by Hewlett-Packard (HP).
- On 4 April 2016 HP entered into a definitive agreement with private equity funds managed by Blackstone to sell the shares held by it in Mphasis. In September 2016, Blackstone Group, through its fund "Marble II PTE", completed the share purchase and Mphasis became a Blackstone group company. This is the largest acquisition by Blackstone in India.

Mphasis' overall revenue declined from FY11, mainly due to a decline in the HP business. However, after Blackstone's acquisition of a majority of HP's stake, the turnaround started. As part of the agreement, HPE and Blackstone agreed on the terms of a Master Services Agreement (MSA) for a period of five years, with an additional three automatic renewals of two years each. Under this MSA, HPE committed a minimum revenue amount of $ 990mn over the next five years. Also, Mphasis is included in HPE's Preferred Provider Program, opening up significant avenues for growth.

Mphasis revenue by segment



Mphasis revenue by segment



Source: Company

Financials

Income Statement

Y/E Mar, Rs mn	FY19	FY20E	FY21E	FY22E
Net sales	**77,311**	**88,240**	**87,514**	**96,499**
Growth, %	18	14	-1	10
Employee expenses	-10,783	-14,090	-13,915	-15,536
Other Operating expenses	-53,288	-57,743	-57,822	-63,153
EBITDA (Core)	**13,240**	**16,407**	**15,778**	**17,809**
Growth, %	24.2	23.9	(3.8)	12.9
Margin, %	17.1	18.6	18.0	18.5
Depreciation	-759	-2,298	-2,376	-2,397
EBIT	**12,481**	**14,109**	**13,402**	**15,412**
Growth, %	25.4	13.0	(5.0)	15.0
Margin, %	16.1	16.0	15.3	16.0
Other Income	1,579	1,463	1,275	1,663
Pre-tax profit	**14,073**	**14,896**	**14,037**	**16,436**
Tax provided	-3,339	-3,625	-3,509	-4,109
Profit after tax	**10,734**	**11,270**	**10,528**	**12,327**
Others (Minorities, Associates)	0	0	0	0
Net Profit	**10,734**	**11,270**	**10,528**	**12,327**
Growth, %	25.7	5.0	(6.6)	17.1
Net Profit (adjusted)	**10,734**	**11,270**	**10,528**	**12,327**
Wtd avg shares (m)	193	188	188	188

	FY19	FY20E	FY21E	FY22E
$ Revenue ($ mn)	**1,119**	**1,241**	**1,229**	**1,336**
Growth, %	13.1	10.9	(1.0)	8.8
Re / $ (rate)	69.9	70.9	71.0	72.0

Balance Sheet

Y/E Mar, Rs mn	FY19	FY20E	FY21E	FY22E
Cash & bank	17,116	16,111	18,398	21,928
Debtors	18,487	19,158	21,831	24,728
Other current assets	4,170	4,141	3,972	4,394
Total current assets	41,031	39,909	44,690	51,462
Investments	2,592	3,704	3,704	3,704
Net fixed assets	21,727	22,885	23,085	23,285
Total assets	**73,711**	**82,150**	**86,693**	**94,759**
Current liabilities	19,937	22,137	21,421	23,311
Non-current liabilities	1,275	8,068	8,064	8,075
Total liabilities	21,213	30,205	29,485	31,387
Paid-up capital	1,862	1,865	1,865	1,865
Reserves & surplus	50,636	50,080	55,344	61,508
Shareholders' equity	52,498	51,945	57,209	63,372
Total equity & liabilities	**73,711**	**82,150**	**86,693**	**94,759**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY19	FY20E	FY21E	FY22E
Pre-tax profit	14,073	14,896	14,037	16,436
Depreciation	759	2,298	2,376	2,397
Chg in working capital	-90	1,714	-2,853	-2,346
Total tax paid	-3,339	-3,625	-3,509	-4,109
Cash flow from operating activities	**11,403**	**15,282**	**10,051**	**12,378**
Capital expenditure	-3,623	-3,456	-2,576	-2,597
Chg in investments	577	-1,112	0	0
Cash flow from investing activities	**-3,173**	**-4,369**	**-2,576**	**-2,597**
Free cash flow	8,230	10,913	7,475	9,781
Equity raised/(repaid)	-70	2	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-6,049	-5,635	-5,264	-6,163
Other financing activities	-6,713	-6,285	76	-87
Cash flow from financing activities	**-12,833**	**-11,918**	**-5,188**	**-6,250**
Net chg in cash	-4,602	-1,005	2,287	3,530

Valuation Ratios

	FY19	FY20E	FY21E	FY22E
Per Share data				
EPS (INR)	55.5	60.0	56.1	65.6
Growth, %	27.8	8.1	(6.6)	17.1
Book NAV/share (INR)	271.4	276.6	304.6	337.5
CFPS (INR)	43.5	110.4	44.8	61.9
DPS (INR)	26.7	30.0	28.0	32.8
Return ratios				
Return on assets (%)	15.1	15.1	13.0	14.1
Return on equity (%)	20.4	21.7	18.4	19.5
Return on capital employed (%)	19.8	20.7	17.5	18.7
Turnover ratios				
Asset turnover (x)	2.8	3.4	3.6	3.6
Sales/Total assets (x)	1.1	1.1	1.0	1.1
Sales/Net FA (x)	3.8	4.0	3.8	4.2
Working capital/Sales (x)	0.1	0.0	0.1	0.1
Receivable days	87.3	79.2	91.1	93.5
Working capital days	18.8	8.6	22.1	25.5
Liquidity ratios				
Current ratio (x)	2.1	1.8	2.1	2.2
Quick ratio (x)	2.1	1.8	2.1	2.2
Dividend cover (x)	2.1	2.0	2.0	2.0
Net debt/Equity (%)	(27.2)	(26.9)	(28.4)	(31.1)
Valuation				
PER (x)	12.2	11.2	12.0	10.3
PEG (x) - y-o-y growth	0.4	1.4	(1.8)	0.6
Price/Book (x)	2.5	2.4	2.2	2.0
Yield (%)	4.0	4.4	4.2	4.9
EV/Net sales (x)	1.5	1.3	1.3	1.1
EV/EBITDA (x)	8.9	7.0	7.2	6.2
EV/EBIT (x)	9.4	8.2	8.5	7.1

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	>= +10%	Target price is equal to or more than 10% of current market price
NEUTRAL	-10% > to < +10%	Target price is less than +10% but more than -10%
SELL	<= -10%	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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