

## Open offer post change of hands...

Blackstone Capital Partners VIII and Blackstone Capital Partners Asia funds (BCP VIII and BCP Asia) has entered into an agreement to buy up to ~10.4 crore equity shares (55.3%) of Mphasis from Blackstone Capital Partners VI fund (BCP VI) for ~ ₹ 15216.8 crore. The acquirer is not a part of the seller's promoter group. Further, a wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA), University of California Investments and other long-term investors will co-invest along with Blackstone.

This transaction has triggered an open offer by the acquirer. The acquirer has announced an open offer for acquisition of up to ~4.92 crore shares at ₹ 1677/share amounting to ~ 8,261 crore shares. We believe the stock has long term potential and, hence, maintain BUY on the stock.

## Valuation & Outlook

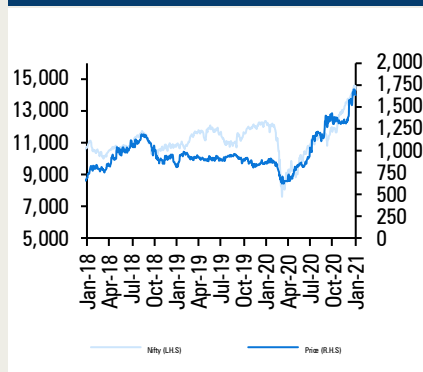
We believe that since the transaction is between two Blackstone funds, it will ensure business continuity, at least for the next few years. In addition, the company will benefit from traction in the Blackstone portfolio (overall opportunity of US\$1.5 billion). Further, we believe Mphasis can benefit from cross selling to companies of new investors [Abu Dhabi Investment Authority (ADIA) and University of California Investments]. This, coupled with less exposure to impacted verticals, capability to mine clients effectively, market share gains via vendor consolidation, low legacy exposure and healthy margins prompt us to be positive on the stock. Hence, we maintain our **BUY** rating on the stock with a target price of ₹ 2030 (22x PE on FY23E EPS) (earlier target price ₹ 1,830).



### Particulars

Particular	Amount
Market Cap (₹ crore)	33,053
Total Debt (₹ crore)	571
Cash and Invests (₹ crore)	2,103
EV (₹ crore)	31,521
52 week H/L	1836/ 661
Equity Capital (₹ crore)	186
Face Value (₹)	₹ 10

### Price Performance



### Key Risk

- Decline in deal pipeline and slowdown in digital technology can impact revenue growth adversely
- Lower than expected utilisation and other cost savings could impact margins adversely

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## Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	7,731.0	8,843.5	9,745.3	11,048.1	12,567.0	12.4%
EBITDA	1,323.8	1,650.4	1,844.8	2,165.4	2,488.3	14.7%
EBITDA Margins (%)	17.1	18.7	18.9	19.6	19.8	
Net Profit	1,073.4	1,184.8	1,245.7	1,471.1	1,699.6	12.8%
Diluted EPS (₹)	55.5	63.1	66.3	78.3	90.5	
P/E (x)	31.7	27.7	26.3	22.3	19.3	
RoE (%)	20.4	20.3	19.5	21.3	22.7	
RoCE (%)	24.1	22.3	22.3	24.2	25.7	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Total Revenues</b>	<b>8,844</b>	<b>9,745</b>	<b>11,048</b>	<b>12,567</b>
Growth (%)	14.4	10.2	13.4	13.7
Employee Benefit Expense	4,922.6	5,467.1	6,153.8	6,974.7
Other Expenses	2,270.5	2,433.4	2,728.9	3,104.0
<b>EBITDA</b>	<b>1,650</b>	<b>1,845</b>	<b>2,165</b>	<b>2,488</b>
Growth (%)	24.7	11.8	17.4	14.9
Depreciation	231.6	255.2	289.4	329.2
Other Income	177.8	135.3	145.4	163.0
Interest	81.2	64.0	60.0	56.0
PBT before Excep Items	1,515.4	1,660.9	1,961.4	2,266.1
Growth (%)	7.7	9.6	18.1	15.5
Tax	330.5	415.2	490.4	566.5
PAT before Excep Items	1,184.8	1,245.7	1,471.1	1,699.6
Exceptional items	-	-	-	-
<b>PAT</b>	<b>1,185</b>	<b>1,246</b>	<b>1,471</b>	<b>1,700</b>
Growth (%)	10.4	5.1	18.1	15.5
<b>Diluted EPS</b>	<b>63.1</b>	<b>66.3</b>	<b>78.3</b>	<b>90.5</b>
EPS (Growth %)	13.6	5.1	18.1	15.5

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Profit before Tax</b>	<b>1,515</b>	<b>1,661</b>	<b>1,961</b>	<b>2,266</b>
Depreciation	232	255	289	329
(inc)/dec in Current Assets	67	(456)	(520)	(584)
(inc)/dec in current Liabilities	(24)	239	346	403
Income Taxes Paid	(396)	(415)	(490)	(567)
Others	(72)	(39)	(54)	(75)
<b>CF from operations</b>	<b>1,321</b>	<b>1,244</b>	<b>1,533</b>	<b>1,773</b>
Other Investments	265	103	114	131
(Purchase)/Sale of Fixed Assets	(124)	(287)	(122)	(138)
<b>CF from investing Activities</b>	<b>141</b>	<b>(183)</b>	<b>(8)</b>	<b>(7)</b>
Inc / (Dec) in Equity Capital	15	-	-	-
Inc / (Dec) in sec.loan Funds	(22)	(31)	(30)	(30)
Dividend & Dividend tax	(607)	(685)	(956)	(1,105)
Interest Paid on Loans	(78)	(64)	(60)	(56)
<b>CF from Financial Activities</b>	<b>(692)</b>	<b>(780)</b>	<b>(1,046)</b>	<b>(1,191)</b>
Net change in cash	770	281	478	575
Opening cash	352	990	1,138	1,483
<b>Closing cash</b>	<b>990</b>	<b>1,138</b>	<b>1,483</b>	<b>1,926</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Equity	187	187	187	187
Reserves & Surplus	5,643	6,204	6,718	7,313
Networth	5,830	6,390	6,905	7,500
Total debt	571	540	510	480
Other liabilities	757	822	931	1,059
<b>Source of funds</b>	<b>7,158</b>	<b>7,752</b>	<b>8,346</b>	<b>9,039</b>
Net Block	794	935	972	996
CWIP	7	7	7	7
Intangible assets under developr	89	111	40	(42)
Long term Loans and advances	64	97	110	126
Other non current assets	1,246	1,338	1,470	1,624
Current Investments	978	978	978	978
Goodwill	2,140	2,140	2,140	2,140
Inventories	-	-	-	-
Debtors	1,770	1,949	2,210	2,513
Cash Balance	990	1,138	1,483	1,926
Bank Balance	136	136	136	136
Short term Loans and advances	141	155	176	200
Other current assets	399	536	630	716
Trade payables	667	748	848	964
Other Current liabilities	922	1,014	1,149	1,307
Provisions	7	9	10	11
<b>Application of funds</b>	<b>7,158</b>	<b>7,752</b>	<b>8,346</b>	<b>9,039</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Diluted EPS	63.1	66.3	78.3	90.5
BV	312.8	342.9	370.5	402.4
DPS	35.0	36.5	50.9	58.8
Cash Per Share	60.4	68.3	86.9	110.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.7	18.9	19.6	19.8
PAT Margin	13.4	12.8	13.3	13.5
Debtor days	73	73	73	73
Creditor days	28	28	28	28
<b>Return Ratios (%)</b>				
RoE	20.3	19.5	21.3	22.7
RoCE	22.3	22.3	24.2	25.7
RoIC	28.1	28.9	32.7	36.0
<b>Valuation Ratios (x)</b>				
P/E	27.7	26.3	22.3	19.3
EV / EBITDA	19.1	17.0	14.3	12.3
Market Cap / Sales	3.7	3.4	3.0	2.6
Price to Book Value	5.6	5.1	4.8	4.4
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.1	0.07	0.06
Debt / EBITDA	0.3	0.3	0.2	0.2
Quick Ratio	1.4	1.5	1.5	1.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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