

Mphasis: BFS driving growth, above-industry growth guided for FY26; retaining a Buy

Rating: **Buy**

Target price (12-mth): Rs.3,008

Share price: Rs.2,524

- Mphasis demonstrated strong financial performance, with 2.9% q/q, 5.4% y/y revenue growth in CC, driven by significant contribution from the BFS sector (50% of revenue) and a sharp rebound in the Technology, Media & Telecommunications segment (18% of revenue).
- The company has a robust deal momentum, with healthy TCV of \$390m, the highest in the past seven quarters, with the total at \$1.27bn in FY25, indicating strong revenue potential.
- Its focus on AI-led transformation and modernization led to substantial pipeline growth, with 65% of the pipeline being AI-led and significant traction in large deals.
- **Valuation.** We project 8.3%/14.2% USD revenue/EPS CAGRs over FY25-27, with the EBIT margin expanding to 16.2% by FY27 (vs. 15.2% in FY25). The stock trades at a FY26e/27e P/E of 25.8x/21.7x, respectively. No material change in estimates. A key risk to our valuation is deterioration of the macro-environment, resulting in a slowdown/ recession in the US.

Financials

Key financials (YE Mar)	FY23	FY24	FY25	FY26e	FY27e
Sales (Rsm)	1,38,431	1,33,340	1,42,234	1,53,469	1,70,331
Net profit (Rsm)	16,380	15,549	17,022	18,657	22,217
EPS (Rs)	86.5	81.7	89.2	97.8	116.5
PE (x)	29.2	30.9	28.3	25.8	21.7
EVEBITDA (x)	18.3	18.3	17.1	15.6	13.7
PBV (x)	6.1	5.5	5.0	4.7	4.4
RoE (%)	22.0	18.6	18.5	18.8	20.9
RoCE (%)	18.4	15.2	14.1	14.7	16.4
Dividend yield (%)	2.0	2.2	2.3	2.6	3.0
Net debt/equity (x)	-0.3	-0.3	-0.3	-0.3	-0.4

Key data	MPHL IN / MBFL.BO
52-week high / low	Rs.3,240 / 2,025
Sensex / Nifty	80,218 / 24,329
Market cap	Rs.482bn
Shares outstanding	190m

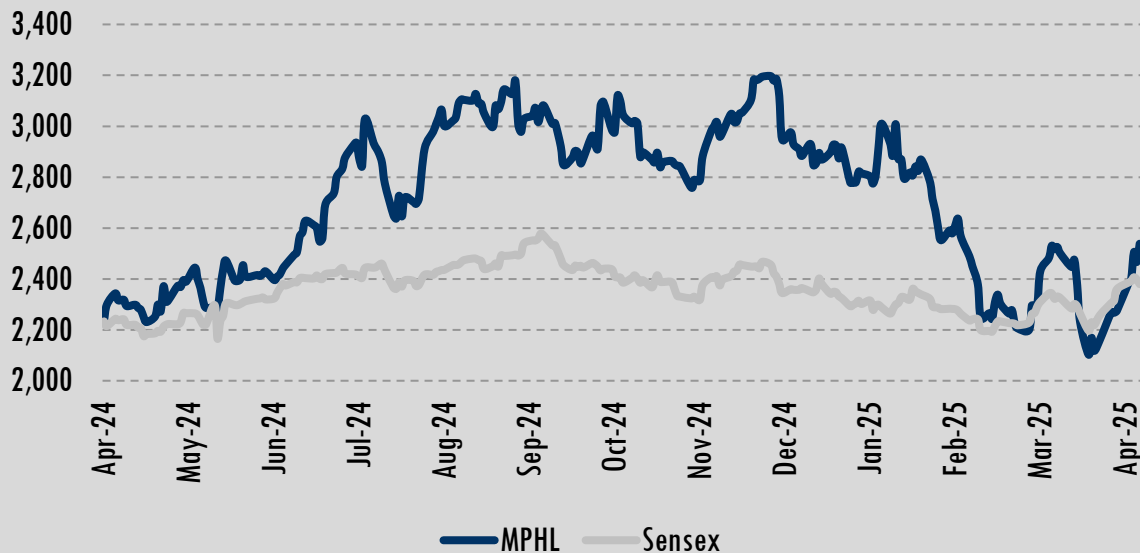
Shareholding (%)	Mar'25	Dec'24	Sep'24
Promoters	40.1	40.23	40.3
<i>- of which Pledged</i>			
Free float	59.8	59.7	59.6
- Foreign Institutions	20.6	20.7	18.2
- Domestic Institutions	34.9	34.6	36.9
- Public	4.3	4.4	4.5

Sushovon Nayak
Research Analyst

Mphasis: BFS back to growth, above-industry growth guided for FY26

- **Mphasis reported revenue of \$430m in Q4 FY25, marking 2.9% q/q, 5.4% y/y growth in constant currency terms.**
- **The company's direct business, which constitutes 97% of overall revenue, grew 3.8% q/q and 6.8% y/y.**
- **It maintained a stable EBIT margin of 15.3% in Q4 FY25, demonstrating strong cost management despite macroeconomic uncertainties.**
- **Strong Q4; the trend is likely to continue.** In Q4, the company bounced back in terms of growth. BFS (Banking and Financial Services) and TMT (Technology, Media, and Telecommunications) verticals showed strong growth, driven by wallet-share gains and account wins. The insurance vertical is also poised for strong growth in FY26. The company achieved \$390m in TCV wins in Q4, the highest in the past seven quarters, with the total at \$1.27bn for FY25.
- **EBIT margin remains range-bound.** The EBIT margin remained stable at 15.3%. EPS for the quarter was Rs23.4, the highest ever, up 4.5% q/q, 13.4% y/y.
- **Business outlook.** Management expects FY26 revenue growth to outpace industry growth, led by a higher conversion of TCV: revenue. The EBIT margin guidance is in the range of 14.75-15.75%, most likely at the upper-end of the band.

Relative-price performance



Price movement



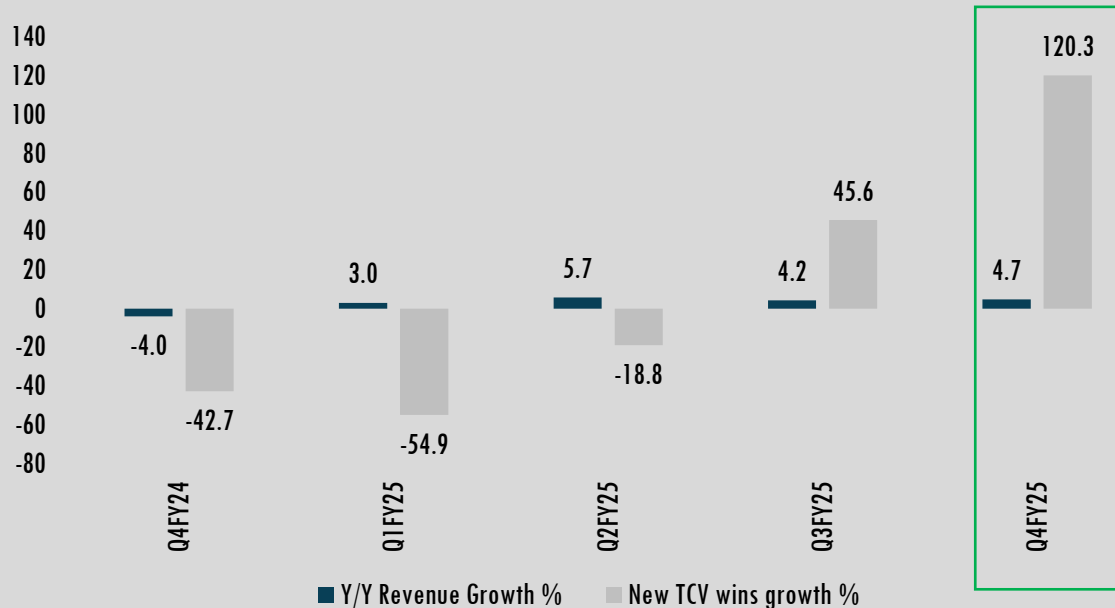
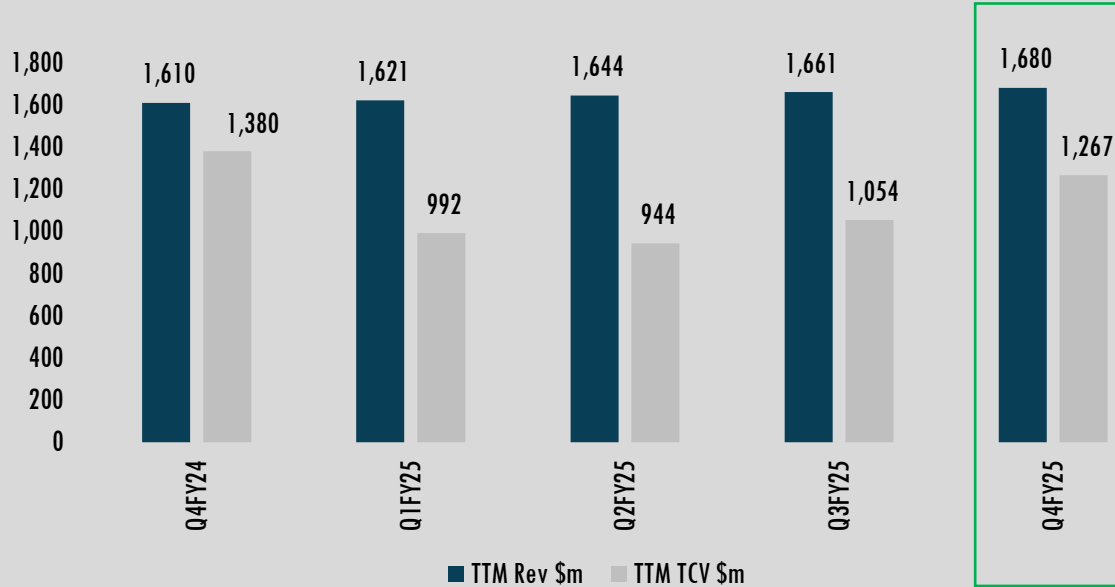
Q4 results snapshot

Mphasis	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q/Q %	Y/Y %
Revenue (\$ m)	398	398	402	411	410	421	419	430	2.6%	4.7%
Growth Y/Y %	-9%	-10%	-10%	-4%	3%	6%	4%	5%		
Revenue (Rs m)	32,719	32,964	33,507	34,150	34,208	35,286	35,565	37,175	4.5%	8.9%
Effec. exchange rate	82.2	82.7	83.3	83.2	83.4	83.8	84.8	86.5	1.9%	4.0%
New TCV wins (\$ m)	707.0	255.0	241.0	177.0	319.0	207.0	351.0	390.0	11.1%	120.3%
TCV (LTM)	1,719.0	1,672.0	1,512.0	1,380.0	992.0	944.0	1,054.0	1,267.0	20.2%	-8.2%
Y/Y %	134%	-16%	-40%	-43%	-55%	-19%	46%	120%		
TCV:Rev.	1.8	0.6	0.6	0.4	0.8	0.5	0.8	0.9		
Employees (EoP)	33,961	33,771	33,992	32,664	31,645	31,601	31,194	31,442	0.8%	-3.7%
Rev. prod. (\$ '000/employee)	11.7	11.8	11.9	12.3	12.8	13.3	13.4	13.7	2.8%	11.4%
Utilisation % (IT Services)	77.9%	75.2%	72.2%	74.3%	77.5%	77.0%	76.9%	80.6%	375 bps	631 bps
CoR (excl. D&A)	(24,238)	(24,465)	(24,401)	(24,879)	(25,122)	(25,817)	(25,802)	(26,876)	4.2%	8.0%
As % of revenue	-74%	-74%	-73%	-73%	-73%	-73%	-73%	-72%	25 bps	56 bps
SG&A	(2,413)	(2,344)	(2,972)	(2,853)	(2,918)	(3,065)	(3,030)	(3,199)	5.6%	12.1%
As % of revenue.	-7%	-7%	-9%	-8%	-9%	-9%	-9%	-9%	-9 bps	-25 bps
EBITDA	6,068	6,155	6,134	6,418	6,168	6,404	6,733	7,100	5.5%	10.6%
EBITDA margins %	18.5%	18.7%	18.3%	18.8%	18.0%	18.1%	18.9%	19.1%	17 bps	31 bps
EBIT	5,194	5,266	5,099	5,110	5,118	5,368	5,409	5,672	4.9%	11.0%
EBIT margins %	15.9%	16.0%	15.2%	15.0%	15.0%	15.2%	15.2%	15.3%	5 bps	29 bps
Other income (excl. forex)	454	443	514	636	708	574	615	633	2.9%	-0.5%
Non-recurring / Forex	(149)	(152)	(99)	(24)	45	89	60	(33)	-155.0%	37.5%
Interest expenses	(241)	(340)	(528)	(499)	(498)	(405)	(392)	(361)	-7.9%	-27.7%
PBT	5,258	5,217	4,986	5,223	5,373	5,626	5,692	5,911	3.8%	13.2%
PBT margins %	16.1%	15.8%	14.9%	15.3%	15.7%	15.9%	16.0%	15.9%	-10 bps	61 bps
Taxes	(1,297)	(1,297)	(1,250)	(1,291)	(1,328)	(1,393)	(1,413)	(1,446)	2.3%	12.0%
ETR %	-25%	-25%	-25%	-25%	-25%	-25%	-25%	-24%	36 bps	25 bps
Associates / Minority										
Net income	3,961	3,920	3,736	3,932	4,045	4,233	4,279	4,465	4.3%	13.6%
Net margins %	12.1%	11.9%	11.1%	11.5%	11.8%	12.0%	12.0%	12.0%	-2 bps	50 bps
EPS (Rs)	20.9	20.6	19.6	20.7	21.3	22.2	22.4	23.4	4.5%	13.4%

Management commentary

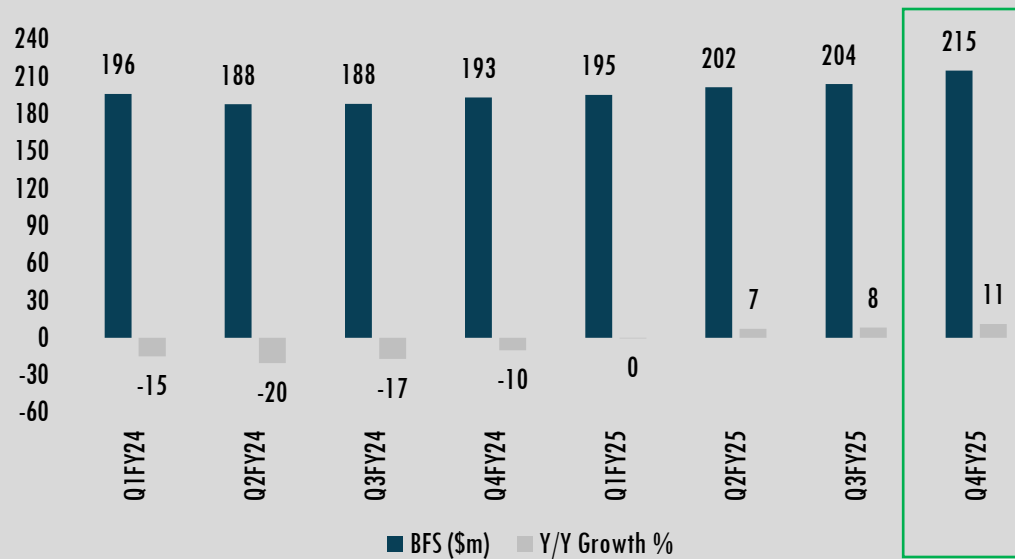
- The turnaround in Direct and DXC businesses was led by better deal conversions. The mortgage business was stable in Q4.
- During the quarter, the client pyramid continued to improve across the board; the company added one client in the 75m+ category, one in the 20m+ category.
- Its focus on investing in growth initiatives continue to strengthen; it aims to expand AI-led offerings and propositions in FY26.
- Utilization improved in Q4, owing to better supply management.
- BFS and TMT verticals continue their growth momentum.
- The EBIT margin was stable at 15.3%, despite macro uncertainties.

TCV wins, the highest in the past seven quarters; revenue conversion improves

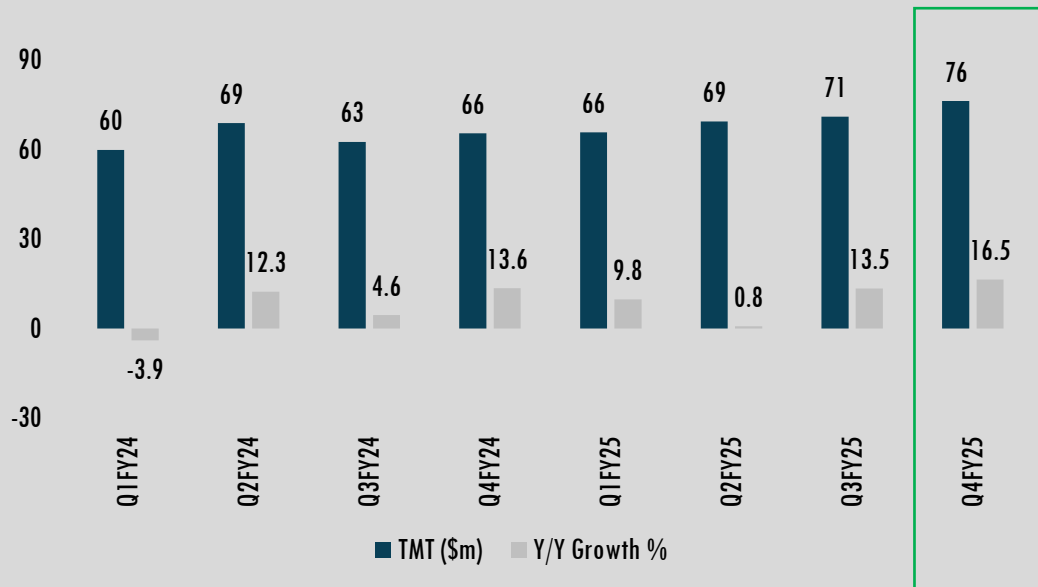


- TCV for the quarter was \$390m, the highest in the past seven quarters. Total TCV wins were \$1.27bn in FY25. Management is seeing a healthy momentum in pipeline-to-TCV conversion and expects it to sustain. Mphasis reported net new TCV.
- The top 10 accounts grew 5.8% q/q; 11 to 30 grew 5.7% sequentially. On LTM basis, the top 10 accounts grew 4.1% y/y and the next 20, 5.1% y/y, signaling continued stickiness.
- 65% of the TCV won was AI-led.
- Management expects the TCV momentum to sustain into FY26, barring major macro disruption.
- The company won two large deals in Q4, bringing the total to 13 deals for the full year, with 85% won in Q4 in NewGen Services.

Verticals: BFS and TMT turned positive sequentially

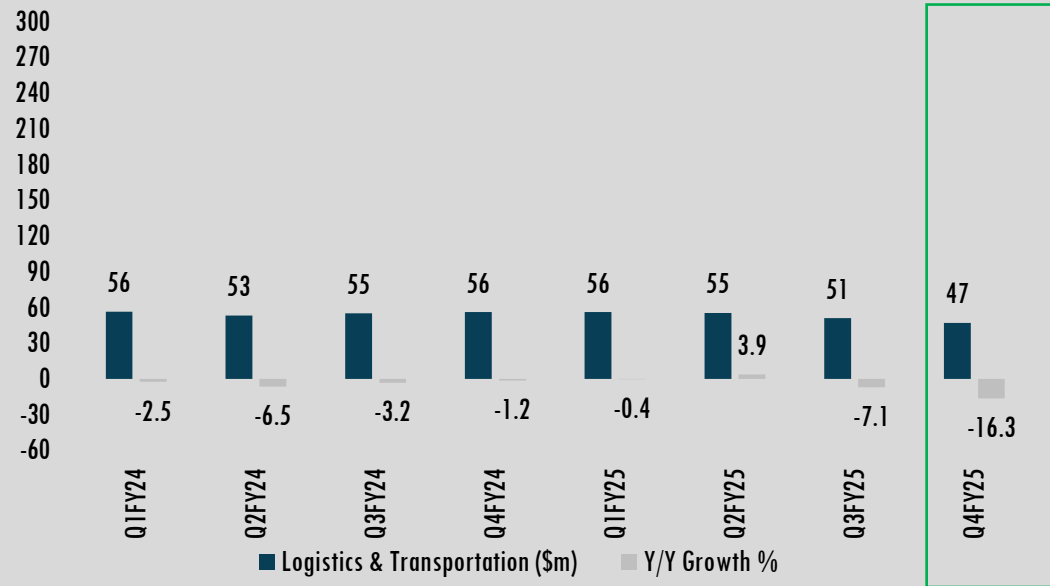


- BFS, the largest vertical (50% of revenue), turned positive, with 5.4% q/q growth in USD terms.
- In Q4, many companies spoke of recovery in BFS and some, supporting this thesis, grew during the quarter itself.
- The company also saw an upturn during the quarter and hopes to sustain the momentum ahead. Management expects strong BFS momentum into FY26.

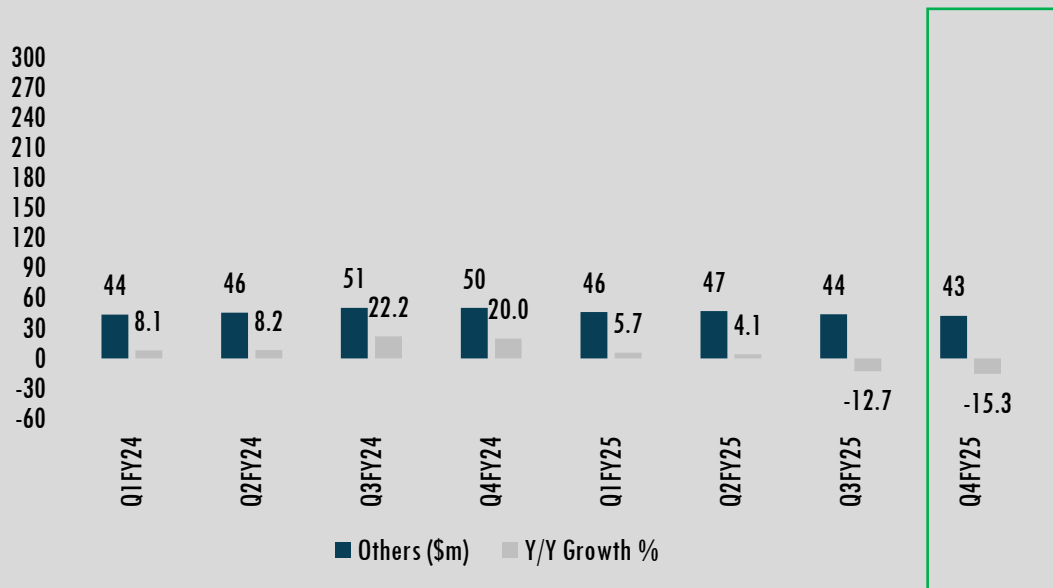


- **TMT improves.** The TMT (18% of revenue) vertical grew 7.4% q/q in \$ terms, driven by continued deal wins and conversion from the recent large deal wins to revenue.
- The two high-contributing segments have bounced back strongly, suggesting a brighter growth outlook.

Verticals: Logistics, Others declining, but deal wins give confidence

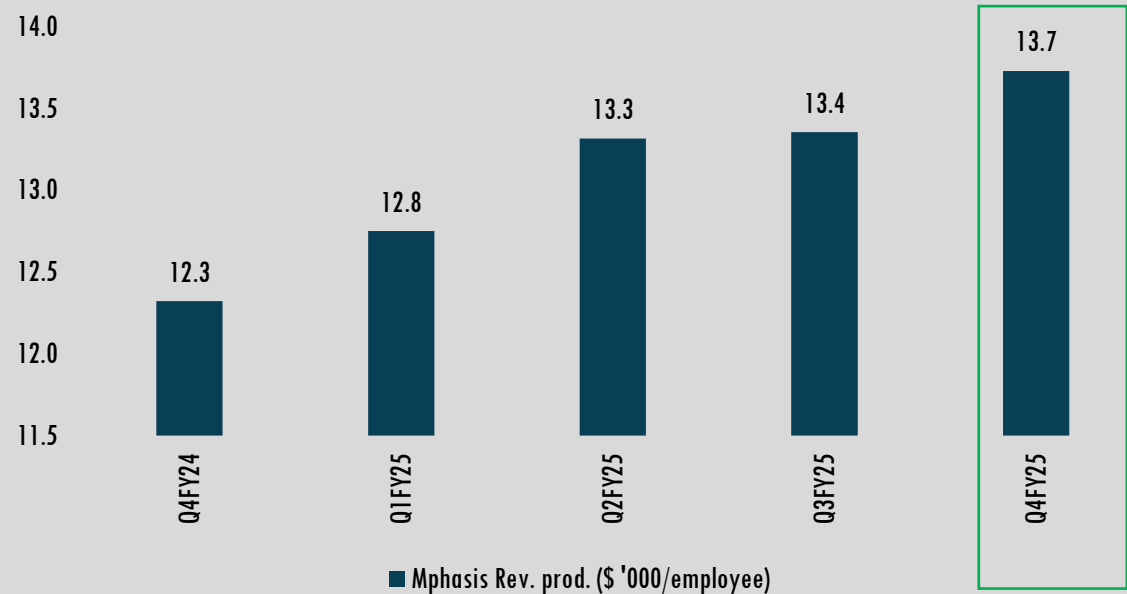
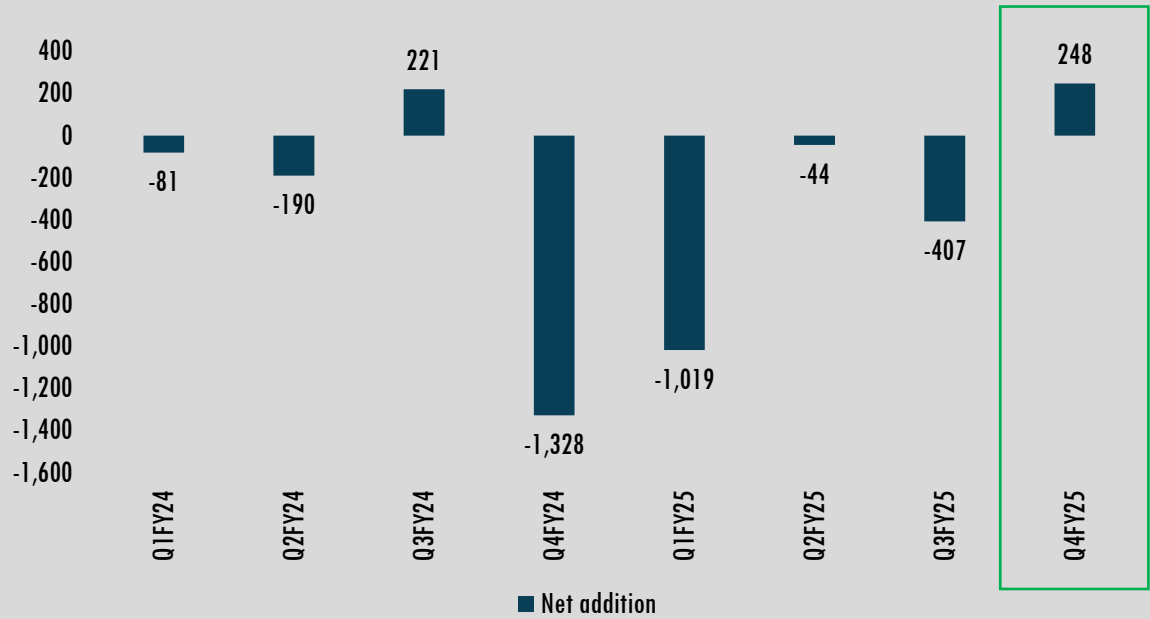


- **Logistics and Transportation (11% of revenue) declined.**
- The revenue decline is attributable to global trade disruptions and macro uncertainty. The impact was broad-based across multiple clients and not isolated to one account.
- The company won a large deal in Logistics in North America, signalling opportunities in the vertical.



- ‘Others’ primarily consist of Healthcare, accounting for 10% of revenue; it was flat sequentially in Q4, driven by continued client caution in discretionary spending.
- Management sees significant opportunities in the pipeline for Logistics & Transportation and Healthcare.

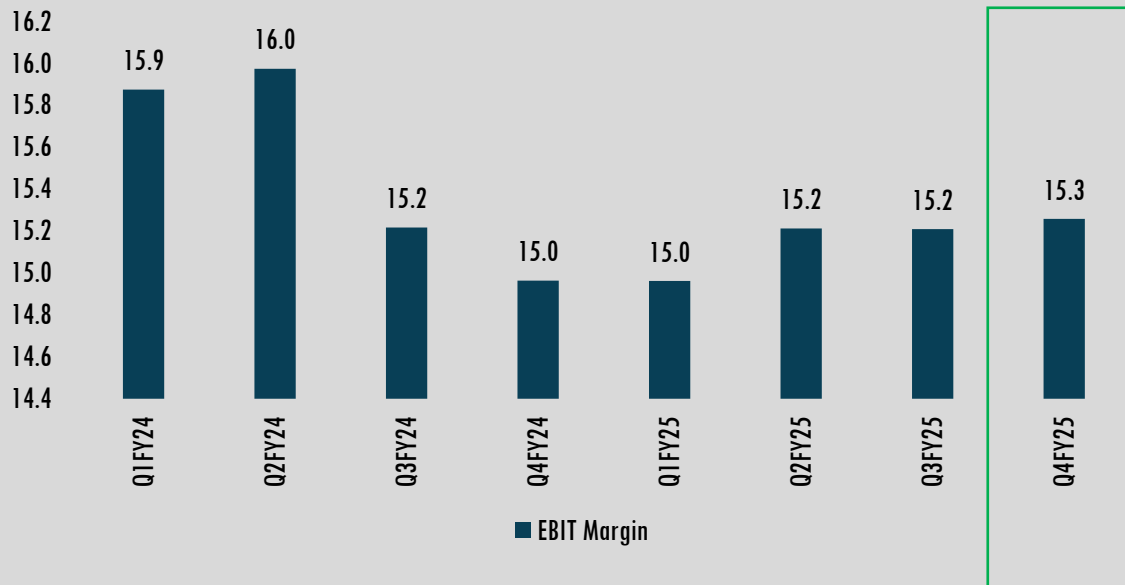
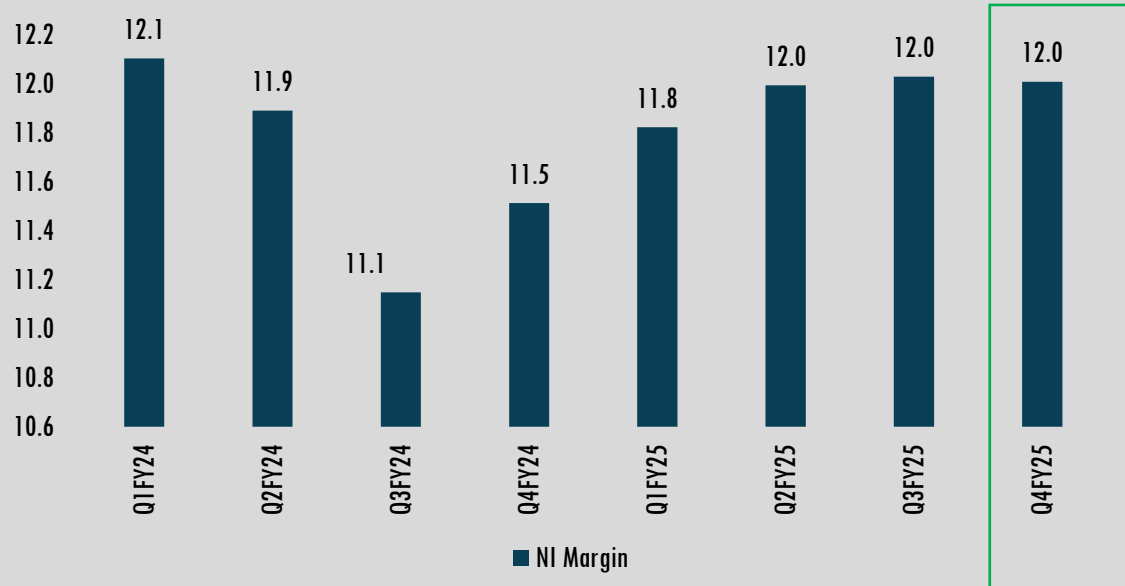
Net headcount, revenue productivity improve



- Net addition for the year was 248, making the headcount 31,442, down 4% y/y.
- The company reported an increase in its offshore headcount, reflecting its strategy to manage the supply chain dynamically and optimize costs.

- **Revenue productivity improves.** From an employee-productivity perspective, the company includes sub-contractors while reporting employee figures.

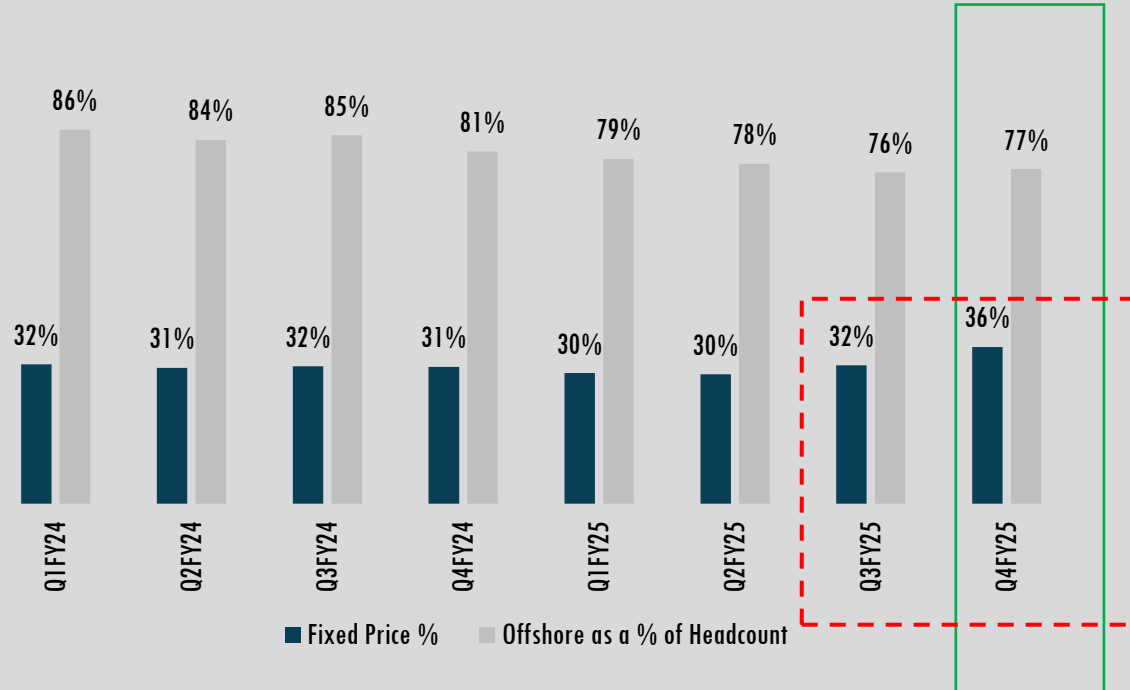
Steady margins boost confidence



- **NI margin improved** though NI was flat sequentially.
- Management is firm regarding its execution rigor, which continued to deliver stable margins.
- We see tailwinds ahead as growth returns. Management also believes that margins in FY26 can be towards the upper-end of the guidance.

- **Steady EBIT margin.** The EBIT margin at 15.3% was flattish sequentially. The stable margins reflect effective cost management, despite macroeconomic uncertainties.
- Further, management guided for 14.75-15.75% EBIT margin in FY26, largely driven by heightened productivity and operational efficiency.

Gaining competitive edge through increasing fixed-priced projects, lower labour costs



- The rising % of fixed-priced contracts (400bps q/q and ~500bps y/y) provide a predictable revenue stream, and can help maintain profit margins.
- Similarly, offshore teams often operate at lower labour costs, which can significantly reduce overall operational expenses.
- This places Mphasis in a favorable position, banking on flexibility and cost efficiency, thereby helping to maintain steady margins.

Conference call highlights Q4 FY25

- Management remains confident about deal conversions, new-gen demand and margin stability into FY26; its focus remains on scaling up platform-led growth via AI, cloud transformation and data engineering.
- BFS (50% of revenue) grew 5.4% in \$ terms q/q, aided by early recovery signs in banking and ramping up of recent wins.
- Management also mentioned that Insurance is a growth engine, poised for strong growth in FY26 on the back of strong TCV and pipeline.
- TMT segment grew 7.4% q/q in \$ terms, recovering sharply with support from recent acquisitions (e.g., Sonnick) and strong project flow.
- Logistics & Transportation and Others were impacted by macro uncertainties—Significant opportunities in the pipeline for the former and Healthcare.
- The overall pipeline experienced significant growth, increasing 86% y/y and 26% q/q by the end of the fourth quarter.
- This robust expansion was driven by a 70% y/y increase in the BFS pipeline and a remarkable 99% y/y surge in the non-BFS pipeline.
- The TCV-to-revenue conversion pace remains steady, with continued investments in the right areas where demand is expected.

Business outlook

- The company expects growth to surpass industry growth, thanks to strong TCV wins and steady conversion of TCV to revenue across the portfolio.
- Operating margin guidance is 14.75-15.75%, likely at the upper-end of the band.

Factsheet

Rev-split, by industry (%)

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Banking and Capital Market	49	47	47	47	48	48	49	50
Insurance	11	11	11	11	11	11	12	11
IT, Comm & Entertainment	15	17	16	16	16	16	17	18
Logistics & Transportation	14	13	14	14	14	13	12	11
Others (Life, Mfg, & Retail)	11	11	13	12	11	11	11	10
Total	100	100	100	100	100	100	100	100

Rev-split by Service Line (%)

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Application Services	71	71	71	71	71	71	72	72
Business Process Services	16	17	17	17	16	16	16	15
Infrastructure Services	13	13	13	12	12	12	12	13
Total	100	100	100	100	100	100	100	100

Rev-split, by Region (%)

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
North America	81	79	80	81	81	81	82	82
Continental Europe	10	12	12	11	11	11	10	10
India	6	6	6	5	5	6	6	5
RoW	3	3	3	3	3	3	2	3
Total	100	100	100	100	100	100	100	100

Rev-split, by delivery and billing (%)

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
On-site	52.1	52.1	53.2	56.0	57.1	57.3	59.0	59.9
Offshore	47.9	47.9	46.8	44.0	42.9	42.7	41.0	40.1
Total	100	100	100	100	100	100	100	100
T&M %	57.7	58.5	58.3	58.5	59.6	60.0	57.6	55.4
FP %	32.0	31.2	31.6	31.4	30.0	29.7	31.8	36.0
Transaction Based%	10.2	10.3	10.1	10.1	10.4	10.3	10.6	8.6
Total	100	100	100	100	100	100	100	100

Client profiles (LTM)

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Client concentration %								
Top 1	17.0	16.0	15.0	14.0	14.0	15.0	15.0	14.0
Top 5	47.0	47.0	46.0	44.0	44.0	43.0	43.0	42.0
Top 10	59.0	58.0	55.0	54.0	53.0	53.0	53.0	54.0
Total \$1m+ clients	113	115	134	258	259	264	264	266

Client profiles (TTM, ">")

\$1m+	113	115	134	135	135	140	140	139
\$5m+	47	46	46	47	48	51	47	50
\$10m+	27	26	29	29	30	27	29	29
\$20m+	13	11	10	10	9	9	11	11
\$50m+	7	6	5	5	5	5	5	5
\$75m+	5	4	4	4	4	4	5	5
\$100m+	3	3	3	3	3	3	2	2
Total	100	100	100	100	100	100	100	100

Rev-split-Market Segment (%)

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
DXC	3%	3%	3%	3%	3%	3%	3%	3%
Non DXC	97%	97%	97%	97%	97%	97%	97%	97%

Employee Data

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Number of employees	33,961	33,771	33,992	32,664	31,645	31,601	31,194	31,442
Utilisation % (cum trainees)	77.9	75.2	72.2	74.3	77.5	77.0	76.9	80.6

Mphasis: Valuation considerations

Valuation:

- We assume a 100bp EBIT margin expansion over FY25-27 (15.2% to 16.2%), with FY25-27e EPS CAGR of 14.2%.
- The stock currently trades at FY26e/27e P/E of 25.8x/21.7x, respectively.
- Our TP is Rs3,008 (a 19% upside from the CMP of Rs2,524 as on 25th Apr'25).

S.No	Valuation methodology	Assumptions	Intrinsic Value (Rs)	Target Price (Rs)
(1)	1 yr. forward Multiple Method	Applying 25.5x P/E multiple (last 5-year average of the 1-year fwd) to FY27e EPS of Rs116.5	Rs2,970	
(2)	DCF (base case)	<ul style="list-style-type: none">15-year DCF, with terminal growth rate of 4.5%FY25-30 revenue CAGR (base case): 10.8%WACC: 10.8%	Rs3,046	
	Overall	50% weight to (1) & (2) each, to arrive at TP		Rs3,008

DCF assumptions	Unit	
Valuation Date		31-Mar-25
WACC	%	10.8%
TGR (Terminal Growth)	%	4.5%
Risk free rate	%	6.4%
ERP (Eq. Risk Premium)	%	5.6%
Beta		0.9
Capital structure	Unit	
Eq. (% of total capital)	%	89.6%
Debt (% of total capital)	%	10.4%
Cost of equity	%	11.2%
Cost of debt	%	9.8%

Implied share price sensitivity (base case)						
		Terminal growth rate (%)				
		4.0%	4.3%	4.5%	4.8%	5.0%
WACC (%)	10.3%	3,193	3,260	3,332	3,411	3,497
	10.6%	3,059	3,119	3,183	3,253	3,329
	10.8%	2,935	2,989	3,046	3,109	3,177
	11.1%	2,821	2,869	2,920	2,976	3,037
	11.3%	2,714	2,757	2,804	2,854	2,908

Quick glance- Financials and valuations

Key financials

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Revenues (US\$m)	1,718	1,610	1,680	1,777	1,972
Growth (%)	7.8	-6.3	4.4	5.7	11.0
Net revenues (Rs m)	1,38,431	1,33,340	1,42,234	1,53,469	1,70,331
Employee & Direct Costs	1,03,089	97,984	1,03,617	1,10,898	1,22,910
Gross Profit	35,342	35,356	38,617	42,571	47,420
Gross Margin %	25.53	26.52	27.15	27.74	27.84
SG&A	10,556	10,581	12,212	13,618	14,420
EBITDA	24,786	24,775	26,405	28,953	33,000
EBITDA margins (%)	17.9	18.6	18.6	18.9	19.4
- Depreciation	3,253	4,106	4,838	5,513	5,349
Other income	1,171	1,623	2,691	2,403	2,619
Interest Exp	973	1,608	1,656	1,069	769
PBT	21,731	20,684	22,602	24,774	29,500
Effective tax rate (%)	25	25	25	25	25
+ Associates/(Minorities)	-	-	-	-	-
Net Income	16,380	15,549	17,022	18,657	22,217
WANS	189	190	191	191	191
FDEPS (Rs/share)	86.5	81.7	89.2	97.8	116.5

Fig 3 – Cash Flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
PBT	21,731	20,684	22,602	24,774	29,500
+ Non-cash items	4,592	2,987	5,902	4,303	3,612
Operating profit before WC	26,323	23,671	28,504	29,077	33,112
- Incr./decr.) in WC	5,779	-4,028	2,341	754	1,697
Others including taxes	-5,926	-5,902	-7,111	-6,099	-7,267
Operating cash-flow	14,618	21,797	19,052	22,224	24,149
- Capex (tangible + Intangible)	1,131	937	618	1,204	1,933
Free cash-flow	13,486	20,860	18,434	21,019	22,216
Acquisitions	-	-12,333	-2,800	-2,591	-
- Dividend (including buyback & taxes)	8,652	9,427	10,401	12,502	14,378
+ Equity raised	271	301	575	-	-
+ Debt raised	-3,557	12,965	-4,455	-1,116	-1,004
- Fin Investments	-2,936	11,572	-3,839	-	-
- Misc. Items (CFI + CFF)	3,420	3,208	3,378	-2,145	-2,765
Net cash-flow	1,064	-2,414	1,814	6,955	9,599

Source: Company, Anand Rath Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Share capital	1,884	1,890	1,901	1,901	1,901
Net worth	79,348	87,946	96,284	1,02,439	1,10,277
Total debt (incl. Pref)	1,985	15,436	11,159	10,043	9,039
Minority interest	-	-	-	-	-
DTL/(Asset)	-1,392	-7,977	-9,590	-9,428	-9,249
Capital employed	79,941	95,405	97,853	1,03,054	1,10,067
Net tangible assets	11,012	9,216	8,218	3,936	1,589
Net Intangible assets	0	4,795	7,806	9,295	8,225
Goodwill	29,586	41,793	41,793	41,793	41,793
CWIP (tang. & intang.)	324	137	-	-	-
Long-term Assets (Liabilities)	-8,543	-7,739	-5,970	-6,760	-7,627
Investments (Financial)	17,526	30,899	22,082	22,082	22,082
Current Assets (ex Cash)	43,390	36,332	40,077	42,475	46,290
Cash	10,558	8,144	16,126	16,912	26,512
Current Liabilities	23,912	28,172	32,277	33,922	36,040
Working capital	19,478	8,160	7,799	8,553	10,250
Capital deployed	79,941	95,405	97,853	95,811	1,02,824
Contingent Liabilities	18,973	25,342	-	-	-
	-	-	0.0		

Fig 4 – Ratio analysis

Year end Mar	FY23	FY24	FY25	FY26e	FY27e
P/E (x)	29.2	30.9	28.3	25.8	21.7
EV/EBITDA (x)	18.3	18.3	17.1	15.6	13.7
EV/sales (x)	3.2	3.4	3.1	2.9	2.5
P/B (x)	6.1	5.5	5.0	4.7	4.4
RoE (%)	22.0	18.6	18.5	18.8	20.9
RoCE (%) - After tax	18.4	15.2	14.1	14.7	16.4
RoIC (%) - After tax	27.0	22.7	21.3	21.7	25.1
DPS (Rs per share)	50.0	55.0	57.0	65.6	75.4
Dividend yield (%)	2.0	2.2	2.3	2.6	3.0
Dividend payout (%) - Inc. DDT	57.8	67.4	63.9	67.0	64.7
Net debt/equity (x)	-0.3	-0.3	-0.3	-0.3	-0.4
Receivables (days)	72	74	81	81	81
Inventory (days)					
Payables (days)	28	27	31	30	29
CFO:PAT%	89	140	112	119	109
FCF:PAT% - includ M&A payout	82	55	92	99	100

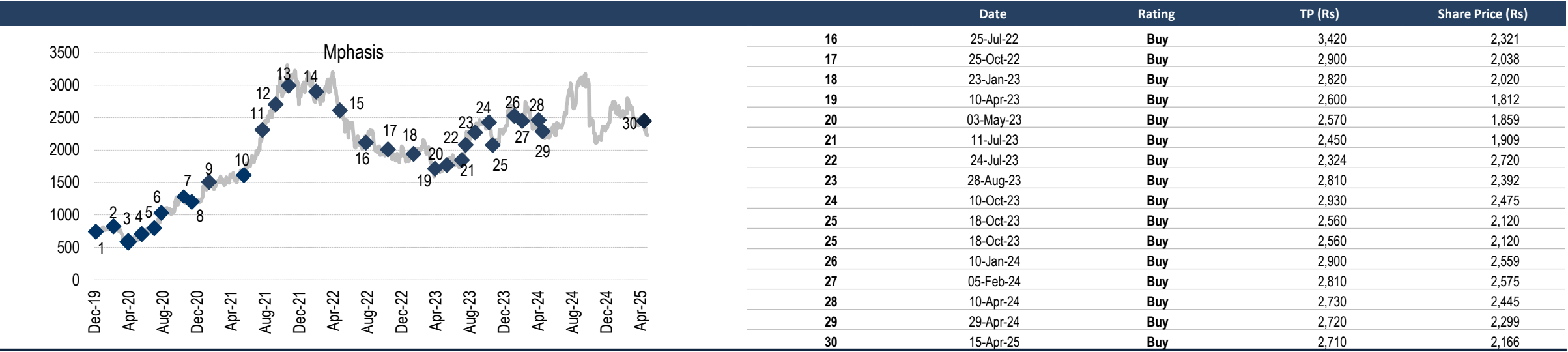
Source: Company, Anand Rath Research

Appendix

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