

India

HOLD (no change)

Consensus ratings*: Buy 14 Hold 10 Sell 10

Current price: Rs3,080
 Target price: ▲ Rs3,294
 Previous target: Rs2,165
 Up/downside: 6.9%
 InCred Research / Consensus: 8.9%

Reuters: MBFL.NS
 Bloomberg: MPHL.IN
 Market cap: US\$6,933m
 Rs582,850m
 Average daily turnover: US\$33.5m
 Rs2815.7m
 Current shares o/s: 190.0m
 Free float: 44.0%

*Source: Bloomberg

Key changes in this note

- Expect 9% revenue CAGR over FY25F-27F.
- Expect 11% EBIT CAGR over FY25F-27F.
- Expect 14.5% PAT CAGR over FY25F-27F.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-------|------|------|
| Absolute (%) | (3.1) | 10.0 | 34.5 |
| Relative (%) | (0.7) | 10.5 | 9.3 |

| Major shareholders | % held |
|--------------------|--------|
| LIC | 6.6 |
| Kotak MUTUAL FUND | 6.4 |
| HDFC MUTUAL FUND | 3.0 |

Research Analyst(s)



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Mphasis

Adjusting estimates and target price

- Deal pipeline commentary was positive. Conversion remains monitorable.
- Set-up constructive but execution is key.
- Retain our HOLD rating. Shift to FY27F increases the target price to Rs3,294.

2QFY25 earnings summary

Mphasis reported 2QFY25 earnings that were generally in line. Positives include 1) strong pipeline commentary with growth in both BFS and non-BFS portfolios and reflecting the expanding AI adoption, 2) steady deal conversion, and 3) uptick in revenue conversion in 2Q & an expectation of the momentum continuing in 2HFY25F, while a) transition of one US\$150m customer to the US\$100m bucket, and b) softness in the logistics and transportation segment, and c) incremental margin headwinds, given the deal mix shift towards saving-led transformation opportunities, which generally involve upfronting of costs, are areas of concern.

Soft deal win is a key monitorable

Although, commentary of 1) broad-based wins across verticals, client pyramid, and strategic customers, 2) an improvement in the pace of conversion to revenue driven by the unconsumed book of deals won earlier, 3) a 23% yoy increase in the pipeline, and 4) short-duration deals allowing for quicker consumption was encouraging, direct business new deal wins declined by 35% qoq and 18% yoy to US\$207m while on an LTM basis, they were down 4.8%/43.5% vs. 1QFY25 and 2QFY24, respectively. Management highlighted that improvement in the decision cycle – elongated currently due to higher stakeholders involved and infusion of artificial intelligence or AI – could aid conversion in 2HFY25F but remains a key monitorable.

Margin to remain in a narrow band

The EBIT margin expansion of 40bp qoq (but down 19bp yoy) to 15.4% (20bp above estimate) was aided by the onsite utilization increase, uptick in digital risk, and also gains on cash flow hedges. Further, all segments except insurance and logistics saw a sequential improvement in gross margin. Finally, commentary of the business operating within the stated (14.6-16%) margin band remains consistent.

Retain HOLD rating; shift to FY27F increases target price to Rs3,294

We model 8.5% US\$ revenue CAGR led by a sharp recovery in digital risk and ~14.5% PAT (Rs) CAGR over FY25-27F. We also introduce and shift valuation to FY27F estimates to arrive at our target PE/G of 2.1x (1.5x) applying a 20% discount (same as earlier) to Tata Consultancy Services or TCS's multiple. Increase in benchmark target multiple of TCS raises target multiple for Mphasis. Strong cash conversion (avg. OCF/EBITDA at ~77% over FY19-24), net cash (~Rs105/share) and a ~57% avg. payout as a % of FCF over FY20-23 support our view. Continued moderation in deal closure, and slower-than-anticipated recovery in digital risk business are downside risks while a sharp recovery in the BFS space as well as faster deal conversion and ramp-up are upside risks.

| Financial Summary | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 137,985 | 132,785 | 142,542 | 158,318 | 175,968 |
| Operating EBITDA (Rsm) | 24,340 | 24,220 | 26,015 | 28,814 | 32,026 |
| Net Profit (Rsm) | 16,380 | 15,549 | 17,170 | 19,940 | 22,504 |
| Core EPS (Rs) | 86.3 | 81.9 | 90.2 | 104.5 | 118.0 |
| Core EPS Growth | 13.0% | (5.1%) | 10.1% | 15.9% | 12.9% |
| FD Core P/E (x) | 35.68 | 37.59 | 34.15 | 29.46 | 26.11 |
| DPS (Rs) | 50.0 | 55.0 | 65.0 | 73.2 | 82.6 |
| Dividend Yield | 1.62% | 1.79% | 2.11% | 2.38% | 2.68% |
| EV/EBITDA (x) | 23.37 | 23.64 | 21.82 | 19.48 | 17.30 |
| P/FCFE (x) | 50.80 | 27.30 | 32.25 | 30.85 | 28.95 |
| Net Gearing | (19.4%) | (13.5%) | (20.3%) | (26.4%) | (31.7%) |
| P/BV (x) | 7.36 | 6.65 | 6.34 | 5.95 | 5.57 |
| ROE | 22.0% | 18.6% | 19.0% | 20.8% | 22.0% |
| % Change In Core EPS Estimates | | | (5.05%) | (3.17%) | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

| Y/E Mar (Rs m) | 2QFY25 | 2QFY24 | YoY (%) | 1QFY24 | QoQ (%) | 2QFY25F | Var. (%) |
|---------------------|--------|--------|---------|--------|---------|----------|----------|
| Revenue (US\$ m) | 421.1 | 398.4 | 5.7 | 410.0 | 2.7 | 421.0 | 0.0 |
| Revenue (Rs m) | 35,361 | 32,765 | 7.9 | 34,225 | 3.3 | 35,268.0 | 0.3 |
| USD-INR realization | 84.0 | 82.2 | 2.1 | 83.5 | 0.6 | 83.8 | 0.2 |
| EBITDA | 6,479 | 5,956 | 8.8 | 6,185 | 4.8 | 6,405 | 1.2 |
| EBITDA margin (%) | 18.3 | 18.2 | 15 bp | 18.1 | 25 bp | 18.2 | 16 bp |
| EBIT | 5,444 | 5,066 | 7.5 | 5,135 | 6.0 | 5,350 | 1.8 |
| EBIT margin (%) | 15.4 | 15.5 | (7bp) | 15.0 | 39bp | 15.2 | 23bp |
| Depreciation | 1,036 | 890 | 16.4 | 1,050 | (1.4) | 1,055 | (1.8) |
| Net other income | 182 | 150 | 21.4 | 238 | (23.5) | 225 | (19.1) |
| PBT | 5,626 | 5,216 | 7.9 | 5,373 | 4.7 | 5,575 | 0.9 |
| Provision for tax | 1,392 | 1,297 | 7.3 | 1,328 | 4.8 | 1,378 | 1.0 |
| % tax rate | 24.7 | 24.9 | (12bp) | 24.7 | 3bp | 24.7 | 3bp |
| Net profit | 4,233 | 3,919 | 8.0 | 4,045 | 4.7 | 4,191 | 1.0 |
| EPS (Rs) | 22.2 | 20.6 | 7.6 | 21.3 | 4.4 | 22.0 | 1.0 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call highlights

- **Guidance:**
 - Mphasis expects to achieve above-industry average revenue growth in FY25F. Expects normal seasonality in 3QFY25F, with growth led by the BFS vertical and continued recovery in the mortgage business.
 - Expects to operate within the stated EBIT margin band of 14.6% to 16%.
- **Demand environment:** The demand environment is improving across multiple verticals, with cautious optimism on the back of monetary policy easing. Despite geopolitical tensions and the upcoming US presidential elections, client sentiment is improving, and enterprises are prioritizing strategic spending on AI adoption, driving industry transformation and focusing on cost efficiency and Rol.
- **Vertical commentary**
 - **BFS:**
 - Grew sequentially for the third consecutive quarter, driven by stability in consumer banking and the reopening of capital markets, especially in M&A and trading. Growth was led by the non-mortgage portfolio and was aided by the mortgage segment as well. Increased spending on regulatory compliance areas like regtech, KYC, AML, and FinCrime continues to drive spending. Management expects the trend to continue, despite the usual seasonality, in 3QFY25F.
 - The mortgage business saw an uptick in the diligence segment while the overall recovery could be gradual, given high interest rates. Customer conversations point to an uptick in the refinancing volume in 1QCY25F. However, material uptick is dependent on a further cut in the interest rates. Management foresees positive momentum as the real estate market gradually unlocks, dependent on interest rate changes.
 - **Insurance:** The segment has been a bottoms-up play for Mphasis. Deal activity is robust and indicates continued growth momentum.
 - **TMT:** grew for the third consecutive quarter driven by tech-led, account-focused strategy and investments in domain expertise like embedded engineering and software development. The approach has helped expand not just logos but also wallet share. Notable wins include a US\$80m consolidation deal with a customer.
- **Deal Pipeline:**
 - Up 23% yoy with a broad-based pick-up across sectors and geographies. 35% AI-driven, and opportunities in agile IT ops, next-gen ops, data engineering, and modernization.
 - Proactive pursuits driving deals. The pipeline covers data modernization, cybersecurity, agile operations, and platforms.

- Higher proportion of shorter-duration deals with quicker conversion (within the year) has increased the ACV to TCV ratio so far in CY24.
- Elongation of TCV to revenue conversion helping now.
- **AI Focus:**
 - AI projects are moving from the proof-of-concept stage to broader implementation, reflecting a significant shift towards AI adoption across industries.
 - The company is leveraging platforms like NeoZeta and NeoCrux, which utilize GenAI and agentic AI to enhance productivity and reduce manual efforts. For instance, NeoCrux has reduced manual effort by 50% for code quality and security vulnerability issues.
 - Mphasis is helping clients transition to AI-first businesses by re-architecting processes and adopting AI-augmented operating models. This transformation could change how enterprises operate and deliver value.
 - AI-led solutions are transforming business operations delivering significant improvements in agent productivity. For example, Mphasis has implemented AI-enabled platforms that improved agent productivity by 25% to 30%.
 - The company is focused on expanding AI adoption to enhance customer experience and operational efficiency. It is managing and supporting AI agents that handle tasks such as answering product queries and improving internal processes.

Figure 2: Operating metric trend

| Operating trends | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Gross Revenue (US\$ m) | 431.0 | 435.9 | 440.3 | 429.4 | 412.0 | 398.1 | 398.4 | 402.3 | 410.7 | 410.0 | 421.1 |
| Growth YoY (%) | 25.9 | 20.1 | 14.3 | 3.7 | -4.4 | -8.7 | -9.5 | -6.3 | -0.3 | 3.0 | 5.7 |
| Growth QoQ (%) | 4.1 | 1.1 | 1.0 | -2.5 | -4.1 | -3.4 | 0.1 | 1.0 | 2.1 | -0.2 | 2.7 |
| CC growth YoY (%) | 26.8 | 22.1 | 16.8 | 5.7 | -3.1 | -8.4 | -10.1 | -6.8 | -0.4 | 3.1 | 5.4 |
| CC growth QoQ (%) | 4.3 | 2.0 | 1.8 | -2.5 | -4.5 | -3.5 | 0.0 | 1.0 | 2.1 | -0.1 | 2.4 |
| Revenue (Rs. m) | 32,777 | 34,112 | 35,198 | 35,062 | 33,612 | 32,520 | 32,765 | 33,379 | 34,121 | 34,225 | 35,361 |
| Growth YoY (%) | 29.8 | 26.8 | 22.7 | 12.2 | 2.5 | -4.7 | -6.9 | -4.8 | 1.5 | 5.2 | 7.9 |
| Growth QoQ (%) | 4.9 | 4.1 | 3.2 | -0.4 | -4.1 | -3.2 | 0.8 | 1.9 | 2.2 | 0.3 | 3.3 |
| EBIT margin (%) | 15.2 | 15.3 | 15.3 | 15.3 | 15.3 | 15.4 | 15.5 | 14.9 | 14.9 | 15.0 | 15.4 |
| US\$-INR realized rate | 75.3 | 77.8 | 80.1 | 82.3 | 82.3 | 82.2 | 82.7 | 83.3 | 83.2 | 83.4 | 83.8 |
| Headcount | 36,534 | 36,899 | 36,876 | 35,450 | 34,042 | 33,961 | 33,771 | 33,992 | 32,664 | 31,645 | 31,601 |
| Onsite utilization - trainees (%) | 89 | 90 | 87 | 87 | 89 | 89 | 87 | 84 | 86 | 86 | 87 |
| Offshore utilization -trainees (%) | 68 | 70 | 68 | 70 | 75 | 75 | 72 | 69 | 71 | 75 | 74 |
| Offshore utilization ex-trainees (%) | 77 | 74 | 72 | 74 | 79 | 80 | 77 | 74 | 75 | 76 | 76 |
| Vertical (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| BFS | 53.6 | 52.8 | 54.2 | 53.6 | 52.2 | 49.3 | 47.1 | 46.8 | 47.1 | 47.7 | 47.9 |
| Insurance | 9.5 | 10.4 | 8.3 | 8.3 | 9.8 | 10.5 | 10.8 | 11.4 | 11.0 | 11.3 | 11.2 |
| Technology, media & telecom | 13.3 | 14.3 | 12.9 | 12.9 | 14.0 | 15.1 | 17.3 | 15.6 | 16.0 | 16.0 | 16.5 |
| Logistics & transportation | 12.8 | 13.2 | 12.7 | 13.0 | 13.8 | 14.2 | 13.4 | 13.7 | 13.7 | 13.7 | 13.1 |
| Others | 10.7 | 9.3 | 11.8 | 12.2 | 10.2 | 11.0 | 11.4 | 12.6 | 12.3 | 11.3 | 11.3 |
| Vertical (US\$ m) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| BFS | 231.0 | 230.1 | 238.7 | 230.4 | 215.0 | 196.1 | 187.9 | 188.3 | 193.3 | 195.4 | 201.6 |
| Insurance | 41.1 | 45.1 | 36.6 | 35.5 | 40.5 | 41.9 | 42.8 | 45.8 | 45.3 | 46.4 | 47.3 |
| Technology, media & telecom | 57.1 | 62.4 | 56.9 | 55.6 | 57.7 | 59.9 | 68.9 | 62.7 | 65.5 | 65.8 | 69.5 |
| Logistics & transportation | 55.2 | 57.8 | 55.9 | 55.6 | 56.8 | 56.3 | 53.3 | 55.0 | 56.1 | 56.1 | 55.3 |
| Others | 46.3 | 40.5 | 52.0 | 52.4 | 42.0 | 43.8 | 45.5 | 50.5 | 50.4 | 46.3 | 47.4 |
| Vertical YoY (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| BFS | 34.7 | 23.8 | 13.6 | 0.6 | -6.9 | -14.8 | -21.3 | -18.3 | -10.1 | -0.4 | 7.3 |
| Insurance | 19.3 | 36.0 | 8.2 | -2.6 | -1.5 | -7.2 | 16.9 | 29.0 | 12.0 | 10.8 | 10.4 |
| Technology, media & telecom | 14.7 | 21.0 | 18.1 | 1.9 | 1.1 | -3.9 | 21.0 | 12.7 | 13.6 | 9.8 | 0.8 |
| Logistics & transportation | 20.4 | 13.7 | 10.9 | 6.0 | 2.9 | -2.5 | -4.7 | -1.1 | -1.2 | -0.3 | 3.9 |
| Others | 14.1 | -2.2 | 22.5 | 25.7 | -9.3 | 8.1 | -12.4 | -3.5 | 20.0 | 5.7 | 4.1 |
| Vertical QoQ (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| BFS | 0.9 | -0.4 | 3.7 | -3.5 | -6.7 | -8.8 | -4.2 | 0.2 | 2.7 | 1.1 | 3.2 |
| Insurance | 12.8 | 9.8 | -18.8 | -3.2 | 14.1 | 3.4 | 2.3 | 6.9 | -1.0 | 2.4 | 1.9 |
| Technology, media & telecom | 4.6 | 9.3 | -8.7 | -2.4 | 3.7 | 3.9 | 15.0 | -9.1 | 4.6 | 0.4 | 5.5 |
| Logistics & transportation | 5.3 | 4.5 | -3.2 | -0.5 | 2.2 | -0.9 | -5.4 | 3.2 | 2.1 | 0.0 | -1.4 |
| Others | 11.1 | -12.5 | 28.5 | 0.7 | -19.8 | 4.3 | 4.1 | 11.0 | -0.4 | -8.1 | 2.4 |
| Incremental revenue (US\$ m) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| BFS | 2.1 | -0.9 | 8.6 | -8.4 | -15.3 | -18.9 | -8.3 | 0.5 | 5.0 | 2.1 | 6.2 |
| Insurance | 4.7 | 4.0 | -8.5 | -1.2 | 5.0 | 1.4 | 0.9 | 2.9 | -0.4 | 1.1 | 0.9 |
| Technology, media & telecom | 2.5 | 5.3 | -5.4 | -1.3 | 2.1 | 2.3 | 9.0 | -6.3 | 2.9 | 0.3 | 3.6 |
| Logistics & transportation | 2.8 | 2.5 | -1.9 | -0.3 | 1.2 | -0.5 | -3.1 | 1.7 | 1.1 | 0.0 | -0.8 |
| Others | 4.6 | -5.8 | 11.5 | 0.3 | -10.4 | 1.8 | 1.8 | 5.0 | -0.2 | -4.1 | 1.1 |
| Geography (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Americas | 81.5 | 82.3 | 82.2 | 81.8 | 80.8 | 81.1 | 79.2 | 80.2 | 81.0 | 80.9 | 80.7 |
| EMEA | 10.7 | 9.7 | 9.8 | 10.1 | 10.7 | 10.4 | 12.0 | 11.6 | 11.0 | 11.1 | 11.0 |
| India | 4.9 | 5.0 | 4.9 | 5.1 | 5.5 | 5.7 | 6.0 | 5.5 | 5.3 | 5.3 | 5.7 |
| ROW | 3.0 | 2.9 | 3.1 | 3.0 | 3.0 | 2.9 | 2.9 | 2.7 | 2.7 | 2.7 | 2.6 |

| Geography (US\$ m) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Americas | 351.1 | 358.9 | 361.7 | 351.3 | 332.8 | 322.7 | 315.6 | 322.7 | 332.6 | 331.7 | 339.9 |
| EMEA | 46.0 | 42.4 | 43.3 | 43.4 | 44.1 | 41.4 | 47.7 | 46.6 | 45.4 | 45.4 | 46.3 |
| India | 21.0 | 21.8 | 21.6 | 21.8 | 22.6 | 22.6 | 23.8 | 22.2 | 21.7 | 21.9 | 24.2 |
| ROW | 12.9 | 12.8 | 13.7 | 12.9 | 12.5 | 11.4 | 11.4 | 10.8 | 11.0 | 10.9 | 10.8 |
| Geography YoY (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Americas | 36.3 | 29.6 | 20.3 | 5.6 | -5.2 | -10.1 | -12.8 | -8.1 | -0.1 | 2.8 | 7.7 |
| EMEA | 0.4 | -3.6 | -6.8 | -7.3 | -4.3 | -2.4 | 10.0 | 7.3 | 3.0 | 9.7 | -2.9 |
| India | 23.4 | 28.1 | 4.3 | 4.3 | 7.7 | 3.6 | 10.3 | 1.9 | -3.9 | -3.0 | 1.6 |
| ROW | -40.9 | -48.9 | -21.6 | -5.5 | -3.1 | -10.8 | -16.7 | -16.1 | -12.3 | -3.9 | -5.3 |
| Geography QoQ (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Americas | 5.6 | 2.2 | 0.8 | -2.9 | -5.3 | -3.0 | -2.2 | 2.3 | 3.1 | -0.3 | 2.5 |
| EMEA | -1.7 | -7.9 | 2.2 | 0.1 | 1.5 | -6.0 | 15.2 | -2.3 | -2.6 | 0.1 | 1.9 |
| India | 0.3 | 3.9 | -1.2 | 1.2 | 3.7 | -0.1 | 5.3 | -6.5 | -2.3 | 0.9 | 10.2 |
| ROW | -5.4 | -1.2 | 7.2 | -5.7 | -2.9 | -9.1 | 0.1 | -5.1 | 1.5 | -0.3 | -1.4 |
| Incremental revenue (US\$ m) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Americas | 18 | 8 | 3 | -10 | -18 | -10 | -7 | 7 | 10 | -1 | 8 |
| EMEA | -0.8 | -3.6 | 0.9 | 0.1 | 0.7 | -2.7 | 6.3 | -1.1 | -1.2 | 0.1 | 0.9 |
| India | 0.1 | 0.8 | -0.3 | 0.3 | 0.8 | 0.0 | 1.2 | -1.5 | -0.5 | 0.2 | 2.2 |
| ROW | -1 | 0 | 1 | -1 | 0 | -1 | 0 | -1 | 0 | 0 | 0 |
| Segment (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Direct International | 93.1 | 93.6 | 93.7 | 93.6 | 94.6 | 94.9 | 95.1 | 95.4 | 95.4 | 95.8 | 95.8 |
| HP/DXC Business | 5.2 | 4.8 | 4.6 | 4.8 | 3.8 | 3.5 | 3.2 | 2.9 | 3.0 | 2.6 | 2.7 |
| Others | 1.7 | 1.7 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 | 1.6 | 1.5 |
| Segment (US\$ m) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Direct International | 401 | 408 | 413 | 402 | 390 | 378 | 379 | 384 | 392 | 393 | 404 |
| HP/DXC Business | 22 | 21 | 20 | 20 | 15 | 14 | 13 | 12 | 12 | 11 | 11 |
| Others | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 6 | 6 |
| Segment YoY (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Direct International | 36.8 | 26.3 | 16.7 | 4.6 | -2.9 | -7.4 | -8.2 | -4.4 | 0.5 | 4.0 | 6.5 |
| HP/DXC Business | -45.2 | -38.0 | -18.1 | -8.1 | -31.1 | -33.6 | -36.6 | -43.2 | -19.6 | -21.8 | -12.9 |
| Others | -7.9 | 13.1 | 7.3 | -4.0 | -3.5 | -10.0 | -8.6 | -5.7 | -4.7 | -2.6 | -3.6 |
| Segment QoQ (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Direct International | 4.5 | 1.6 | 1.2 | -2.7 | -3.0 | -3.1 | 0.3 | 1.3 | 2.0 | 0.3 | 2.7 |
| HP/DXC Business | 0.9 | -7.5 | -1.8 | 0.3 | -24.4 | -10.8 | -6.2 | -10.1 | 7.0 | -13.3 | 4.6 |
| Others | -4.6 | 3.1 | -2.2 | -0.2 | -4.1 | -3.8 | -0.7 | 3.0 | -3.2 | -1.6 | -1.7 |
| Incremental revenue (US\$ m) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Direct International | 17.1 | 6.4 | 4.9 | -11.0 | -12.1 | -12.0 | 1.2 | 5.0 | 7.8 | 1.1 | 10.7 |
| HP/DXC Business | 0.2 | -1.7 | -0.4 | 0.1 | -5.0 | -1.7 | -0.9 | -1.3 | 0.8 | -1.7 | 0.5 |
| Others | -0.3 | 0.2 | -0.2 | 0.0 | -0.3 | -0.3 | 0.0 | 0.2 | -0.2 | -0.1 | -0.1 |
| Deal wins (US\$ m) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| TCV | 347 | 302 | 302 | 401 | 309 | 707 | 255 | 241 | 177 | 319 | 207 |
| QoQ | 3.6 | -13.0 | 0.0 | 32.8 | -22.9 | 128.8 | -63.9 | -5.5 | -26.6 | 80.2 | -35.1 |
| YoY | 41.6 | -40.2 | 25.3 | 19.7 | -11.0 | 134.1 | -15.6 | -39.9 | -42.7 | -54.9 | -18.8 |
| TTM TCV | 1,428 | 1,225 | 1,286 | 1,352 | 1,314 | 1,719 | 1,672 | 1,512 | 1,380 | 992 | 944 |
| Per employee analysis | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
| Revenue (US\$ m) - TTM | 1607 | 1680 | 1731 | 1739 | 1712 | 1669 | 1626 | 1601 | 1603 | 1617 | 1643 |
| Employees (average TTM) | 33,800 | 35,161 | 36,306 | 36,440 | 35,817 | 35,082 | 34,306 | 33,942 | 33,597 | 33,018 | 32,476 |
| Revenue per employee (TTM) | 47,532 | 47,781 | 47,679 | 47,725 | 47,807 | 47,587 | 47,399 | 47,170 | 47,706 | 48,983 | 50,602 |

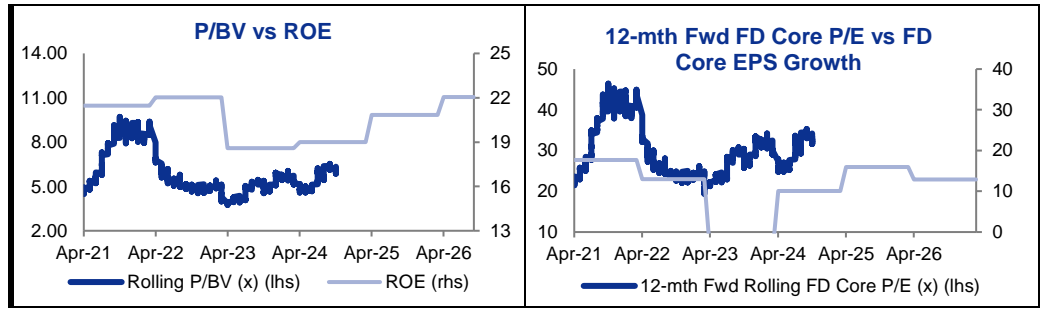
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimates

| Y/E Mar (Rs m) | FY25F | | | FY26F | | | FY27F |
|-----------------|----------|----------|----------|----------|----------|----------|----------|
| | New | Old | % change | New | Old | % change | New |
| US\$ revenue | 1,703 | 1,817 | -6.3 | 1,852 | 1,982 | -6.6 | 2,023 |
| Revenue | 1,42,542 | 1,52,601 | -6.6 | 1,58,318 | 1,70,475 | -7.1 | 1,75,968 |
| EBIT | 21,741 | 23,653 | -8.1 | 24,381 | 26,645 | -8.5 | 27,275 |
| EBIT margin (%) | 15.3 | 15.5 | (25)bp | 15.4 | 15.6 | (23)bp | 15.5 |
| Net PAT | 17,170 | 18,035 | -4.8 | 19,940 | 20,497 | -2.7 | 22,504 |
| EPS (Rs) | 90.0 | 95.0 | -4.8 | 104.5 | 108.0 | -2.7 | 118.0 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|-------------------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues | 137,985 | 132,785 | 142,542 | 158,318 | 175,968 |
| Gross Profit | 39,857 | 40,013 | 44,429 | 49,237 | 54,726 |
| Operating EBITDA | 24,340 | 24,220 | 26,015 | 28,814 | 32,026 |
| Depreciation And Amortisation | (3,252) | (4,105) | (4,274) | (4,433) | (4,751) |
| Operating EBIT | 21,088 | 20,115 | 21,741 | 24,381 | 27,275 |
| Financial Income/(Expense) | 643 | 569 | 1,145 | 2,205 | 2,810 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 21,731 | 20,685 | 22,886 | 26,586 | 30,086 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 21,731 | 20,685 | 22,886 | 26,586 | 30,086 |
| Taxation | (5,351) | (5,135) | (5,716) | (6,647) | (7,582) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 16,380 | 15,549 | 17,170 | 19,940 | 22,504 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 16,380 | 15,549 | 17,170 | 19,940 | 22,504 |
| Recurring Net Profit | 16,380 | 15,549 | 17,170 | 19,940 | 22,504 |
| Fully Diluted Recurring Net Profit | 16,380 | 15,549 | 17,170 | 19,940 | 22,504 |

Cash Flow

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|----------------------------------|----------|----------|----------|----------|----------|
| EBITDA | 24,340 | 24,220 | 26,015 | 28,814 | 32,026 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (5,779) | 4,028 | (1,118) | (1,925) | (2,153) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | | | | | |
| Tax Paid | (5,926) | (5,902) | (5,716) | (6,647) | (7,582) |
| Cashflow From Operations | 12,635 | 22,346 | 19,181 | 20,243 | 22,291 |
| Capex | (1,131) | (937) | (1,000) | (1,200) | (2,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 2,956 | (23,884) | 2,534 | 2,691 | 2,956 |
| Cash Flow From Investing | 1,825 | (24,821) | 1,534 | 1,491 | 956 |
| Debt Raised/(repaid) | | | | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (8,652) | (9,427) | (12,407) | (13,958) | (15,753) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (5,750) | 10,198 | (1,389) | (486) | (146) |
| Cash Flow From Financing | (14,402) | 771 | (13,796) | (14,444) | (15,899) |
| Total Cash Generated | 58 | (1,704) | 6,920 | 7,290 | 7,349 |
| Free Cashflow To Equity | 11,503 | 21,409 | 18,181 | 19,043 | 20,291 |
| Free Cashflow To Firm | 14,460 | (2,475) | 20,715 | 21,734 | 23,248 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Total Cash And Equivalents | 24,213 | 34,071 | 40,991 | 48,281 | 55,631 |
| Total Debtors | 25,206 | 24,256 | 25,943 | 28,814 | 32,026 |
| Inventories | | | | | |
| Total Other Current Assets | 10,111 | 7,997 | 7,997 | 7,997 | 7,997 |
| Total Current Assets | 59,530 | 66,324 | 74,931 | 85,093 | 95,654 |
| Fixed Assets | 9,773 | 9,352 | 6,078 | 2,845 | 94 |
| Total Investments | 5,899 | 8,454 | 8,454 | 8,454 | 8,454 |
| Intangible Assets | 31,149 | 46,588 | 46,588 | 46,588 | 46,588 |
| Total Other Non-Current Assets | 9,744 | 10,583 | 10,583 | 10,583 | 10,583 |
| Total Non-current Assets | 56,564 | 74,978 | 71,704 | 68,471 | 65,720 |
| Short-term Debt | 1,985 | 15,436 | 15,436 | 15,436 | 15,436 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 8,640 | 7,983 | 8,553 | 9,499 | 10,558 |
| Other Current Liabilities | 17,353 | 18,627 | 18,627 | 18,627 | 18,627 |
| Total Current Liabilities | 27,978 | 42,046 | 42,616 | 43,562 | 44,621 |
| Total Long-term Debt | | | | | |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 8,768 | 11,310 | 11,310 | 11,310 | 11,310 |
| Total Non-current Liabilities | 8,768 | 11,310 | 11,310 | 11,310 | 11,310 |
| Total Provisions | | | | | |
| Total Liabilities | 36,746 | 53,356 | 53,926 | 54,872 | 55,931 |
| Shareholders Equity | 79,348 | 87,946 | 92,709 | 98,691 | 105,443 |
| Minority Interests | | | | | |
| Total Equity | 79,348 | 87,946 | 92,709 | 98,691 | 105,443 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
| Revenue Growth | 15.4% | (3.8%) | 7.3% | 11.1% | 11.1% |
| Operating EBITDA Growth | 14.9% | (0.5%) | 7.4% | 10.8% | 11.1% |
| Operating EBITDA Margin | 17.6% | 18.2% | 18.3% | 18.2% | 18.2% |
| Net Cash Per Share (Rs) | 81.34 | 62.55 | 98.59 | 136.82 | 175.35 |
| BVPS (Rs) | 418.75 | 462.86 | 486.06 | 517.42 | 552.82 |
| Gross Interest Cover | 21.68 | 12.50 | 15.65 | 50.17 | 187.07 |
| Effective Tax Rate | 24.6% | 24.8% | 25.0% | 25.0% | 25.2% |
| Net Dividend Payout Ratio | 57.8% | 67.4% | 72.3% | 70.0% | 70.0% |
| Accounts Receivables Days | 62.79 | 67.98 | 64.27 | 63.12 | 63.10 |
| Inventory Days | | | | | |
| Accounts Payables Days | 31.87 | 32.70 | 30.76 | 30.20 | 30.19 |
| ROIC (%) | 28.8% | 25.2% | 22.6% | 26.1% | 29.7% |
| ROCE (%) | 18.8% | 15.3% | 14.5% | 15.5% | 16.4% |
| Return On Average Assets | 14.2% | 11.7% | 11.3% | 12.2% | 13.0% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.