

August 29, 2022

Mphasis Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term Fund-based/ Non-fund Based – Others	1,600.00	1,600.00	[ICRA]AA+ (Stable)/ [ICRA]A1+; reaffirmed
Total	1,600.00	1,600.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in Mphasis Limited's (Mphasis/ the company) established position in the Information Technology (IT) and IT enabled services (ITeS) industry, strong execution track record and presence across diverse business segments. Established relationships with a strong customer base and a robust financial profile further underpin the ratings. Mphasis' financial profile continues to be healthy marked by healthy earnings, sizeable net worth, strong liquidity with large cash reserves, along with robust capital structure and coverage metrics. The company's revenues grew by 23.0% YoY during FY2022 supported by higher new deal wins and mining of existing clients. Direct business, which drives 92% of its revenues, grew by 35.7% YoY in FY2022, supporting its revenue growth. The company has secured deals worth \$1,430 million in FY2022 (net new TCV), which coupled with favourable demand outlook, especially for digital services, and a focused effort to scale up contribution from top-tier clients, provides revenue visibility in the medium term. Operating margins declined slightly in FY2022 primarily due to wage cost inflation on the back of supply side pressures with high attrition rates across the industry.

Margins are likely to witness some moderation in the near term owing to wage cost inflation and normalisation of operational overheads. However, attrition levels are likely to start tapering from the end of the current fiscal, as record net employee addition at the industry level in FY2022 is likely to address the demand–supply gap to a large extent. Coupled with better realisation and operational efficiencies, this is likely to support the profit margins over the medium term. Mphasis also benefits from potential business opportunities by virtue of its access to the investment portfolio of its Blackstone Group, which it has leveraged since its acquisition. With Abu Dhabi Investment Authority and University of California Investments recently picking up stake in Mphasis, the company is likely to gain access to the investment portfolio of these investors as well.

The ratings, however, remain constrained by Mphasis' relatively moderate scale of operations and concentration on the US market (79% of revenue in FY2022) compared to some large domestic IT services companies. ICRA also notes the competition faced by the company from other prominent players in the global IT services industry, which limits pricing flexibility to an extent. Moreover, the industry continues to face challenges in the form of foreign currency fluctuations, talent acquisition and retention. The demand for IT services remains exposed to macro-economic uncertainties in Mphasis' key operating markets of the US, Europe and India. Further, Mphasis has made steady pay-outs in the form of dividends or share buybacks to support repayments on debt raised by the erstwhile holding company (Marble Pte II Limited) in the past. In addition, the company has sizeable contingent liabilities, especially with respect to income tax-related matters. Any higher than anticipated dividend pay-out or materialisation of contingent liabilities, impacting the company's liquidity or credit profile on a sustained basis will remain a key monitorable.

The Stable outlook on the rating reflects ICRA's opinion that Mphasis will continue to benefit from its established business profile, healthy financial risk profile and favourable demand outlook of the industry.

Key rating drivers and their description

Credit strengths

Established operational track record and presence in the industry – Established in 2000, Mphasis is a mid-sized player catering to the IT/ ITeS/ BPO industry in various domains such as banking and capital markets, communication, insurance, etc. The company has strong domain expertise and offers wide range of services. Based on its expertise, the company continues to add new clients, which aided in healthy growth of its top line in recent years. Mphasis serves marquee customers across the globe including six top global banks, 11 out of 15 top mortgage lenders, and three top global insurance companies.

Improving momentum from direct business – Mphasis, which generated ~92% of its revenues from its direct business segment in FY2022, has witnessed robust YoY growth of 35.7% in FY2022 supported by mining existing clients and adding new clients across verticals based on its domain expertise and deals from the clientele of the Blackstone Group. Mphasis recorded average TCV wins of more than \$350 million on a quarterly basis in FY2022, considerably above the company's average deal wins every quarter. The company recorded TCV wins of ~\$1,430 million in FY2022, 28.5% higher than the previous fiscal, driven by accelerated demand for digital services. Healthy TCV position provides revenue visibility over the medium term.

Access to Blackstone's clientele – Given the Blackstone Group's parentage and Blackstone's fresh commitment of 7-10 years, Mphasis has access to its investment portfolio and the company has leveraged the same since its acquisition. With Blackstone expanding its assets under management across verticals and geographies, new opportunities for client wins shall continue for Mphasis. Further, Mphasis is the only IT services company in Blackstone's entire global portfolio, positioning it quite uniquely. With Abu Dhabi Investment Authority (ADIA) and University of California (UC) Investments recently picking up stake in Mphasis, the company is likely to gain access to investment portfolio of these investors as well.

Strong financial profile characterised by healthy cash position and robust debt coverage metrics – Mphasis' financial profile remains healthy, aided by steady revenue growth, healthy internal accrual generation, comfortable capital structure and robust debt protection metrics. In FY2022 company recorded revenue growth of 23.0%, to reach revenue levels of Rs. 11,961.4 crore, driven by growth across banking and capital markets, technology media, telecom and logistics and transportation verticals. Further, Mphasis' debt coverage metrics remained comfortable with a gearing of 0.2x, TD/OPBITDA of 0.6x and interest coverage of 28.5x as on March 31, 2022. Mphasis' financial profile is further supported by its healthy accruals coupled with cash and liquid investments of ~Rs. 3,100 crore as on June 30, 2022. Some moderation in growth rate and margins is likely in the current fiscal owing to the base effect, inflationary headwinds in key markets and continued wage cost inflation. However, the company's financial metrics are expected to remain healthy, backed by healthy internal accruals and comfortable capital structure.

Credit challenges

Geographical concentration risk and moderate customer concentration risk – Mphasis' geographical revenue trend is in line with the global IT services industry with the US being the largest contributor to its revenues. The company derived 79% of its revenues from the US market in FY2022. Thus, its revenues and earnings remain vulnerable to American macroeconomic, structural and region-specific challenges. Moreover, Mphasis derived about 57% of its revenues from its top 10 clients during FY2022 (excluding DXC Technology) signifying moderate customer concentration risk. However, its established and strategic association with its clients mitigates the concentration risks to an extent. Mphasis' engagement with a particular client spans across multiple projects, which provides further protection from concentration risks.

Moderate scale of operations – With revenues of Rs. 11,961.4 crore in FY2022, Mphasis' scale of operations is moderate, as is operating in the Indian IT and BPM industry, thereby restricting its pricing flexibility and margins. Also, inherent to the industry, Mphasis' profit margins are susceptible to pricing pressures, wage inflation, and challenges in employee retention. Further, the company's revenues and margins are exposed to forex related risks; however, the company's hedging mechanisms mitigate the forex risks to an extent.

Liquidity position: Strong

Mphasis' liquidity position is **strong**, supported by healthy internal accrual generation, significant cash and liquid investment of ~Rs. 3,100 crore along with buffer of Rs. 800-900 crore in undrawn working capital limits as on June 30, 2022. Despite the high dividend pay-outs and buybacks, the company's liquidity position has remained strong on the back of healthy operating cash flows. Overall, ICRA expects Mphasis to comfortably meet its near-term commitments (debt-servicing obligations and capex requirements) through internal sources.

Rating sensitivities

Positive factors – Improvement in the scale of operations coupled with sustained improvement in the earnings, while maintaining its credit metrics, would be a positive trigger.

Negative factors – Sharp deterioration in financial profile emanating from weak end-user demand and / or higher than expected dividend outflow or any strategic acquisition will be a trigger for a rating downgrade. Specific credit metrics that could lead to a rating downgrade include Total Debt/OPBITDA (debt including lease liability) exceeding 1.25 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for entities in Information Technology industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Mphasis.

About the company

Mphasis Limited is a mid-sized IT company primarily engaged in providing IT/ ITeS/ BPO services to clients in the banking and capital markets, emerging industries, IT, communication and entertainment, and insurance sectors. The company derives its revenues primarily from software services and projects, licensing arrangements and application services, as well as infrastructure outsourcing services. The company is present across North America, Europe, South Asia and Asia Pacific.

In June 2006, Electronic Data Systems Corporation acquired Mphasis, and later Electronic Data Systems Corporation (EDS) was acquired by Hewlett-Packard (HP), resulting in Mphasis becoming a 60.47% subsidiary of HP. However, in September 2016, global private equity major Blackstone acquired HP's stake through its SPV, Marble Pte II Limited. Blackstone Group entered into a definitive agreement on April 26, 2021 to transfer 55.31% shareholding in Mphasis from Marble II Pte. Ltd. to a Blackstone PE fund (BCP Topco IX Pte. Ltd. along with Blackstone Capital Partners Asia NQ L.P and Blackstone Capital Partners VIII AIV – F L.P.). As on June 30, 2022, BCP Topco IX Pte. Ltd. held about 55.72% stake in Mphasis.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	9,722.3	11,961.4
PAT (Rs. crore)	1,216.8	1,430.9
OPBDIT/OI (%)	18.5%	17.7%
PAT/OI (%)	12.5%	12.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.5
Total debt/OPBDIT (times)	0.7	0.6
Interest coverage (times)	28.4	28.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; amount Rs in crores, debt includes lease liability

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sl No.	Instrument	Type	Current Rating (FY2023)		Chronology of Rating History for the past 3 years					
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in Aug 29, 2022	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020
						Sep 30, 2021	Jun 17, 2021	Apr 7, 2020		
1	Non-fund based facilities	Long-term and short term	-	-	-	-	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	
2	Fund based/Non-fund based facilities	Long-term and short term	1,600.0	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-fund Based Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based/Non-fund based facilities	NA	NA	NA	1,600.0	[ICRA]AA+(Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Mphasis Ownership	Consolidation Approach
Mphasis Corporation	100.00%	Full Consolidation
Mphasis Deutschland GmbH	91.00%	Full Consolidation
Mphasis Australia Pty Limited	100.00%	Full Consolidation
Mphasis (Shanghai) Software & Services Company Limited	100.00%	Full Consolidation
Mphasis Consulting Limited	100.00%	Full Consolidation
Mphasis Ireland Limited	100.00%	Full Consolidation
Mphasis Belgium BV (formerly Mphasis Belgium BVBA)	100.00%	Full Consolidation
Mphasis Lanka (Private) Limited	100.00%	Full Consolidation
Mphasis Poland s.p.z.o.o.	100.00%	Full Consolidation
PT. Mphasis Indonesia	100.00%	Full Consolidation
Mphasis Europe BV	100.00%	Full Consolidation
Mphasis Infrastructure Services Inc.	100.00%	Full Consolidation
Mphasis Pte Limited	100.00%	Full Consolidation
Mphasis UK Limited	100.00%	Full Consolidation
Mphasis Software and Services (India) Private Limited	100.00%	Full Consolidation
Msource Mauritius Inc.	100.00%	Full Consolidation
Mphasis Wyde Inc.	100.00%	Full Consolidation
Mphasis Philippines Inc.	100.00%	Full Consolidation
Msource (India) Private Limited	100.00%	Full Consolidation
Wyde Corporation Inc.	100.00%	Full Consolidation
Mphasis Wyde SASU	100.00%	Full Consolidation
Wyde Solutions Canada Inc.	100.00%	Full Consolidation
Digital Risk, LLC	100.00%	Full Consolidation
Digital Risk Mortgage Services, LLC	100.00%	Full Consolidation
Investor Services, LLC	100.00%	Full Consolidation
Digital Risk Valuation Services, LLC	100.00%	Full Consolidation
Digital Risk Europe, OOD	100.00%	Full Consolidation
Mphasis Employees Benefit Trust	100.00%	Full Consolidation
Mphasis Employees Equity Reward Trust	100.00%	Full Consolidation
Stelligent Systems LLC	100.00%	Full Consolidation
Datalytx Limited	100.00%	Full Consolidation
Datalytx MSS Limited	100.00%	Full Consolidation
Dynamyx Limited	100.00%	Full Consolidation
Mphasis Digi Information Technology Services (Shanghai) Limited	100.00%	Full Consolidation
Blink Interactive, Inc	100.00%	Full Consolidation
Redshift Digital Inc	100.00%	Full Consolidation
Mrald Limited	51.00%	Full Consolidation

Company Name	Mphasis Ownership	Consolidation Approach
Mrald Services Limited	100.00%	Full Consolidation
Mphasis Solutions Services Corporation	100.00%	Full Consolidation

Source: Mphasis Limited Annual Report – FY2022

Note: ICRA has taken a consolidated view of the parent (Mphasis), its subsidiaries and associates while assigning the ratings.

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