December 31, 2024

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 of Mphasis Limited (Mphasis) factors in its established position in the information technology (IT) and IT-enabled services (ITeS) industry, its presence across diverse business verticals, providing wide range of services and a strong order pipeline, providing revenue visibility over the medium term. The company also has a strong execution track record along with well established relationships with a strong customer base consisting of top 15 banks in the United States (US). The ratings continue to favourably factor in the healthy financial risk profile of the company, marked by negative net debt position and a strong liquidity profile as on September 30, 2024.

In FY2024, Mphasis reported a modest revenue decline of 3.8% on a YoY basis in INR terms to Rs. 13,278 crore, due to lower discretionary technological spending by clients amid persistent macro-economic headwinds in the key markets of the US and Europe. Besides, the company's mortgage segment moderated during the year due to higher interest rates. Despite the same, the company maintained a heathy operating margin of 18.2% in FY2024, supported by easing out of wage cost inflation and cost optimisation initiatives undertaken. The company's attrition rate during the year moderated and remained in line with the industry average. The company's revenue in H1 FY2025 rose by 6.6% on a YoY basis, driven by growth in the banking and insurance segment. It also reported total contract value (TCV) win of $526 million in H1 FY2025. While revenue in FY2025 is expected to remain subdued, the company's existing order book, one-third of which is driven by Artificial Intelligence (AI), and its continued efforts to enhance its product offering by carrying out acquisitions focused on new technologies, provide revenue visibility over the medium term. Mphasis launched two of its AI products, NeoCrux and NeoZeta, during the year.

The ratings, however, remain tempered by Mphasis' relatively moderate scale of operations and concentration on the US market (accounted for 81% of revenues in FY2024) 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 is susceptible to challenges in the form of foreign currency fluctuations, talent acquisition and retention. Also, the demand for IT services remains exposed to macro-economic uncertainties in Mphasis' key operating markets of the US, Europe and India. Further, in the past, Mphasis made steady payouts in the form of dividends or share buybacks to support repayments on debt raised by the erstwhile holding company (Marble Pte II Limited). In addition, the company has sizeable contingent liabilities, especially with respect to income tax related matters. Any higher-than-anticipated dividend payout 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 long-term rating reflects ICRA's opinion that despite some moderation in growth momentum in the near term, Mphasis's credit profile will continue to remain strong, supported by its established position in the industry, a strong customer base, healthy cash flow generation from operations and a strong liquidity position.

Key rating drivers and their description

Credit strengths

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

Improving momentum from direct business – Over the years, the company's share of direct business has increased considerably, supported by mining of existing clients, acquisition of new clients across verticals based on domain expertise, and deals from the clientele of the Blackstone Group. The direct business accounted for ~96% of revenue in H1 FY2025. Further, the company reported record TCV wins of $526 million in H1 FY2025, which enhance future revenue visibility. Moreover, its recent strategic initiatives such as acquisition of Sonnick Partners LLC (Silverline) are likely to support future growth.

Access to Blackstone's clientele – Given the Blackstone Group's parentage, Mphasis has access to its investment portfolio, which it has leveraged since its acquisition. With Blackstone expanding its assets under management across verticals and geographies, new opportunities for client wins will continue for Mphasis. Also, with Abu Dhabi Investment Authority (ADIA) and University of California (UC) Investments picking up stake in Mphasis in April 2021, the company will continue to gain access to the investment portfolios of these investors as well.

Strong financial profile characterised by healthy earnings and net debt-free status — The company's financial profile remains strong, as reflected by its healthy OPM, strong debt protection metrics and liquidity position. The company's short-term debt increased to Rs. 1,543.6 crore as on March 31, 2024 from Rs. 198.5 crore as on March 31, 2023 owing to the acquisition of Silverline in FY2024. However, this debt moderated to Rs. 980 crore and the company continued to maintain a net debt negative position as on September 30, 2024. The leverage levels and coverage indicators remain healthy, with Total Debt/OPBITDA of 0.7 times and interest coverage of 14 times in H1 FY2025. Going forward, Mphasis' debt protection metrics are expected to remain strong, supported by healthy cash flows, stable margins and comfortable capital structure. However, impact of any major debt-funded acquisition on the company's credit profile and the overall liquidity will be evaluated on a case-to-case basis.

Credit challenges

Relatively moderate scale of operations and geographical concentration risk compared to large IT services companies — Though Mphasis' revenue witnessed a CAGR of 8.5% over the past 5 years to Rs. 13,278.5 crore in FY2024, its scale of operations continued to remain relatively moderate compared to some large domestic IT services companies, restricting its pricing flexibility and margins to some extent. Moreover, in line with global industry trends, Mphasis derives a significant share (80-82%) of its revenues from the US market, which exposes it to the macro-economic uncertainties and any adverse regulatory/legislative changes in these markets, impacting its revenue and profitability.

Exposure to industry specific challenges like macroeconomic development and policies in key operating markets, employee attrition etc.— Mphasis' profit margins remain susceptible to the pricing pressure and wage inflation because it operates in the intensely competitive IT services industry. Moreover, its revenues and margins are exposed to forex risks as revenues are derived from the international market. Nonetheless, its hedging mechanisms mitigate this risk to some extent. As the company operates in a highly labour-intensive business, availability and retention of a skilled workforce continues to remain a key challenge. Moreover, Mphasis derived 50-55% of its revenues from its top 10 clients in FY2024 and Q2 FY2025, signifying moderate customer concentration risk. However, its established and strategic association with its clients mitigates the concentration risks to an extent. Also, the company's engagement with its clients spans across multiple projects, which provides further protection from concentration risks.

Liquidity position: Strong

Mphasis' liquidity position is strong, supported by healthy internal accrual generation, sizeable cash and liquid investment of ~Rs. 2,982.6 crore, as on September 30, 2024. Moreover, the company has significant buffer in the form of undrawn working capital limits. Despite the high dividend payouts and share buybacks, the company's liquidity position has remained strong on the back of healthy operating cash flows.

Environmental and social risks

Environmental considerations – Given its service-oriented business, Mphasis' direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social considerations – Like other Indian IT services companies, Mphasis faces the risk of data breaches and cyber-attacks that could affect large volumes of customer data that it manages. Any material lapse on this front could result in substantial liabilities, fines, or penalties and reputational impact. Also, the company remains exposed to the risk of changes in immigration laws in the key developed markets, where it provides its services. While such changes would be influenced by social and political considerations of those nations, they could increase competition among IT players for skilled workforce, leading to higher attrition rates and may have an adverse impact on the profitability. Managing various facets of human capital, including skills, compensation, and training, are key differentiating factors among IT companies.

Rating sensitivities

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

Negative factors – A sharp deterioration in its 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 metric 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
Analytical Approach	Corporate Credit Rating Methodology IT – Software & Services
Applicable rating methodologies	Not Applicable
Parent/Group support	ICRA has considered the consolidated financials of Mphasis for arriving at the ratings.

About the company

Mphasis is a mid-sized IT company, primarily engaged in providing IT/ ITeS/ BPO services to clients in the banking and capital markets, emerging industries, information technology, technology, media and telecom, logistics, entertainment, and insurance sectors. The company derives its revenues primarily from software services and projects, licensing arrangements and application services, infrastructure outsourcing services, as well as from BPO operations. Headquartered in Bangalore, the company has presence across the US, Europe, India, Australia, Asia Pacific and Japan.

The company was incorporated in August 1992 as BFL Software Limited. It was renamed as Mphasis BFL Limited in July 2000, after the merger of the US-based IT consulting company, Mphasis Corporation (founded in 1998), and BFL Software Limited. In June 2006, Electronic Data Systems Corporation (EDS) acquired Mphasis, and later when EDS was acquired by Hewlett-Packard (HP), Mphasis became a 60.47% subsidiary of HP. However, in September 2016, global private equity major, the

Blackstone Group, acquired HP's stake through an SPV—Marble Pte II Limited. In Q1 FY2018, Blackstone reduced its stake to 52.3% before increasing it to 56.12% in Q4 FY2020. In FY2022, Marble Pte II Limited's stake was acquired by another entity of the Blackstone Group, BCP Topco IX Pte. Ltd. The Blackstone Group, in June 2024, reduced its stake to 40.35% from 55.45% as on March 31, 2024. As of September 30, 2024, the Blackstone Group held a 40.32% stake in Mphasis through the same entity.

Key financial indicators (audited)

Mphasis – consolidated	FY2023	FY2024	H1 FY2025
Operating income	13,798.5	13,278.5	6,958.6
PAT	1,637.9	1,554.8	827.8
OPBDIT/OI	17.6%	18.2%	18.2%
PAT/OI	11.9%	11.7%	11.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.6	0.5
Total debt/OPBDIT (times)	0.4	1.0	0.7
Interest coverage (times)	25.0	15.1	14.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current rating (FY2025)			Chronology of rating history for the past 3 years							
					FY2024		FY2023		FY2022			
	Instrument	Type	Amount Rated (Rs. crore)	Dec 31, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
1	**Fund based/Non-fund based facilities**	Long term and short term	1600.0	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	Oct 06, 2023	[ICRA]AA+ (Stable)/ [ICRA]A1+	Aug 29, 2022	[ICRA]AA+ (Stable)/ [ICRA]A1+	Sept 30, 2021	[ICRA]AA+ (Stable)/ [ICRA]A1+	Jun 17, 2021	[ICRA]AA+ (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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%	Full Consolidation
Mphasis Deutschland GmbH	91%	Full Consolidation
Mphasis Australia Pty. Ltd	100%	Full Consolidation
Mphasis (Shanghai) Software & Services Company Ltd	100%	Full Consolidation
Mphasis Consulting Limited	100%	Full Consolidation
Mphasis Belgium BV	100%	Full Consolidation
Mphasis Europe BV	100%	Full Consolidation
Mphasis Pte Limited	100%	Full Consolidation
Mphasis UK Limited	100%	Full Consolidation
Mphasis Software and Services (India) Private Limited	100%	Full Consolidation
Msource Mauritius Inc	100%	Full Consolidation
Msource (India) Private Limited	100%	Full Consolidation
Mphasis Ireland Limited	100%	Full Consolidation
Mphasis Lanka (Private) Limited	100%	Full Consolidation
Mphasis Infrastructure Services Inc	100%	Full Consolidation
Mphasis Poland s.p.z.o.o.	100%	Full Consolidation
PT. Mphasis Indonesia	100%	Full Consolidation
Mphasis Wyde Inc.	100%	Full Consolidation
Wyde Corporation Inc.	100%	Full Consolidation
Mphasis Wyde SASU	100%	Full Consolidation
Wyde Solutions Canada Inc.	100%	Full Consolidation
Mphasis Philippines Inc	100%	Full Consolidation
Digital Risk LLC.	100%	Full Consolidation
Digital Risk Mortgage Services LLC	100%	Full Consolidation
Investor Services, LLC	100%	Full Consolidation
Digital Risk Services, LLC (formerly known as Digital Risk Valuation Services, LLC)	100%	Full Consolidation
Stelligent Systems, LLC	100%	Full Consolidation
Datalytyx Limited	100%	Full Consolidation
Datalytyx MSS Limited	100%	Full Consolidation
Dynamyx Limited	100%	Full Consolidation
Blink Interactive, Inc	100%	Full Consolidation
Mphasis Solutions Services Corporation	100%	Full Consolidation
Mrald Limited	51%	Full Consolidation
Mrald Services Limited	100%	Full Consolidation

Company Name	Mphasis Ownership	Consolidation Approach
Mrald Services Private Limited	100%	Full Consolidation
Mphasis Digi Information Technology Services (Shanghai) Limited	100%	Full Consolidation
eBecs Limited	100%	Full Consolidation
eBecs Business Solutions (Ireland) Limited	100%	Full Consolidation
Sonnick Partners LLC	100%	Full Consolidation
Shift US Holdings LLC	100%	Full Consolidation
Silverline Canada Holdings Inc	100%	Full Consolidation
Sonnick CRM Solutions LLC	100%	Full Consolidation
Mphasis Arabia Limited	100%	Full Consolidation

Source: Company results

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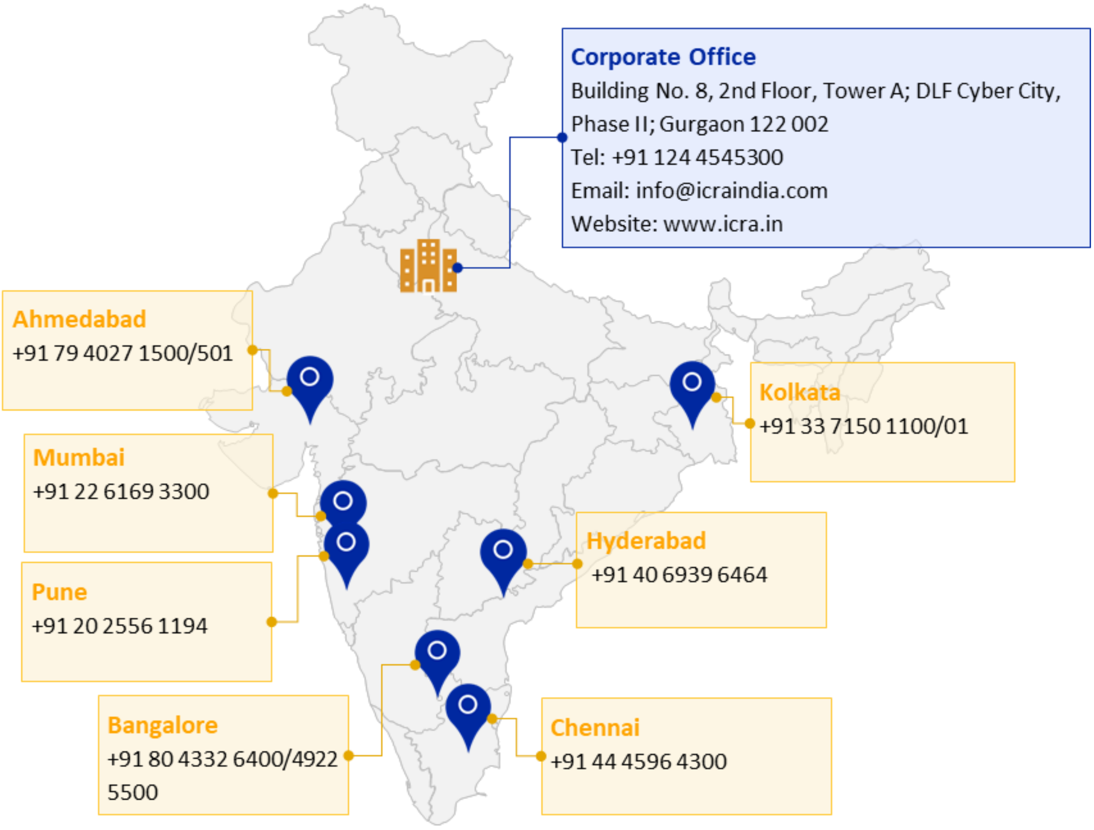

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