

Mphasis Limited

December 22, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/ short term- non fund based facilities	700.0	700.00	[ICRA]AA+ (Stable)/[ICRA]A1+/ Reaffirmed
Total	700.0	700.00	

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus)¹ and short term rating of [ICRA]A1+ (pronounced as ICRA A one plus) for the Rs. 700.0 crore of non- fund based facilities of Mphasis Limited (Mphasis/ the company)². Long term and short term rating will be applicable depending upon the usage. The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation continues to factor in the steady operational and financial performance of the company supported by its established position in the Information Technology (IT) industry, experienced management and diversified revenue streams with healthy concentration across various services lines and domains. Mphasis benefits from access to its ultimate parent, Blackstone Group's portfolio of customers apart from the committed order book over five years enabled by the Master Service Agreement (MSA) entered with the HPE (Hewlett Packard Enterprise) in FY2017. Further, new deal wins in the Next Gen, cloud and cognitive segments is likely to aid stable revenues over the medium term. The ratings remain supported by the company's comfortable financial profile characterized by strong liquidity, healthy capital structure and sound coverage metrics.

However, ratings are constrained by the vulnerability of earnings to the increasing pricing pressure from competitors in both the domestic and overseas markets, foreign currency fluctuations, wage inflation and geo-political risks. Further, the company has to ensure steady payout to the promoter group in the form of dividends and share buybacks to support the holding company, Marble Pte II Limited, wherein the repayments on the bond programme raised by Marble Pte II Limited are solely depend on the outflows from Mphasis.

Outlook: Stable

ICRA believes Mphasis will continue to benefit from the extensive experience of its business segments and strong order book. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if any major inorganic investments, substantial decline in accruals or higher than anticipated cash up streaming to the parent, weakens the credit profile of the company.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Long track record and established presence in the IT / IT enabled Services: Mphasis has a long track record and established position in the Indian information technology (IT) and business process outsourcing (BPO) industry and caters to clients across domains such as banking and capital markets, information technology, communication, etc. The company enjoys longstanding relationships with an average relationship tenure of 12 years with its strategic customers providing significant repeat business.

Stake acquisition by Blackstone Group: Acquisition by Blackstone in FY2017 brings enhanced growth prospects with possible penetration into Blackstone's clientele given the similar geographical base. Mphasis won four new deals from clients of the parent group during Q4FY2017 and Q1FY2018.

Enhanced revenue visibility supported by MSA with HPE: Amidst the subdued growth in the HPE channel in recent years, Mphasis entered into a new MSA which provides for minimum revenue of \$990 million over the next five years, apart from including Mphasis in its Preferred Provider Program. The five years agreement has an additional three automatic renewals of two years each. Further, the company draws synergistic benefits from its promoter group Blackstone through access to other Blackstone investee companies.

Strong financial profile characterized by healthy margins, sound capital structure and comfortable liquidity profile: While the company's revenue growth remained modest, the profit margins have expanded by 110 bps to 15.9% in FY2017. Debt protection metrics remain comfortable, and the liquidity profile is supported by a strong cash balances and liquid investments of Rs. 2,108 crore as of September 30, 2017.

Credit challenges

Moderate scale of operations: Mphasis is a mid-sized IT services company in the USD 160 billion Indian IT industry. Mphasis derives ~40% of its revenues from its top five clients exposing it to client concentration risks, though this risk is partially mitigated by its long-standing relationship and growing wallet share of business with new clients. Profit margins are susceptible to pricing pressures, wage inflation, and forex risks, although hedging mechanisms employed partially mitigate the same.

High dependence on the North American market: With ~79% of revenues derived from North American market, Mphasis' revenues and earnings are exposed to macro environment uncertainties in the USA pertaining to IT budgets, which could result in demand compression, pricing pressure and increased credit risk from vulnerable clients.

Steady payout to support parent's debt obligations: In FY2017, Blackstone Group acquired stake in Mphasis through an investment holding entity, Marble II Pte Limited (rated Ba2 by Moodys), which raised 5.3% senior notes for \$500 million (due in June 2022). The bond indenture mandates the coupon and principal to be serviced through payouts from Mphasis, necessitating steady outflows from Mphasis.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for company in Information Technology industry](#)

About the company:

Mphasis is a mid-sized IT company primarily engaged in providing IT / ITeS / BPO services catering to clients in the banking and capital markets, emerging industries, information technology, communication and entertainment and insurance. The company derives its revenues primarily from software services & projects, licensing arrangements & application services, infrastructure outsourcing services. Headquartered in Bangalore, the company has presence across US, Europe, Australia, Asia Pacific, Japan and India. Mphasis acquired Fortify (RIMS provider) in FY2010, and also acquired Wyde Corporation in FY2011 to focus on non-HP channel business by leveraging BPO and applications. Mphasis also acquired Digital Risk (Florida, US-based risk, compliance and transaction management solutions for mortgage industry) in Dec 2012.

Mphasis was incorporated in August 1992, as BFL Software Limited. Its name was changed to Mphasis BFL Limited in July 2000 after the merger of the US-based IT consulting company Mphasis Corporation (founded in 1998) and the Indian IT services company BFL Software Limited which was founded in 1993. In June 2006, Electronic Data Systems Corporation (EDS) acquired Mphasis, and later EDS was acquired by Hewlett-Packard (HP, rated Baa2 by Moodys); thereby resulting in Mphasis becoming a 60.47% subsidiary of HP. However, during September 2016, global private equity major Blackstone Group acquired HP's stake for a consideration of Rs 7,071 crore, through a SPV – Marble Pte II Limited.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	6,080.8	6,076.4
PAT (Rs. crore)	631.5	791.6
OPBDIT/ OI (%)	14.8%	15.9%
RoCE (%)	14.9%	17.6%
Total Debt/ TNW (times)	0.1	0.0
Total Debt/ OPBDIT (times)	0.5	0.3
Interest coverage (times)	37.2	69.8
NWC/ OI (%)	20.2%	23.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Bank Guarantee	Long Term/Short Term	700.00		Dec 2017 [ICRA]AA+ (Stable)/ [ICRA]A1+;	Jun 2016 [ICRA]AA+ (Stable) /[ICRA]A1+;	Jun 2015 [ICRA]AA+ (Stable) /[ICRA]A1+;	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	NA	NA	-	700.00	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Mphasis Limited

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