

June 17, 2021

Mphasis Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term – Non-fund Based Working Capital	700.00	-	¹
Long Term/Short Term – Fund-based/Non-fund Based Working Capital	-	1,600.00	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Total	700.00	1,600.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view on Mphasis Limited (Mphasis), which includes its subsidiaries, step-down subsidiaries and associate companies, while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The ratings favourably factor in the established position of Mphasis in the information technology (IT) and IT enabled services (ITeS) industry, strong execution track record and presence across diverse business domains. Long-standing relationships with a strong customer base and a robust financial profile further underpin the ratings. Mphasis' financial profile continues to be healthy marked by strong earnings, sizeable net worth, strong liquidity with large cash reserves along with a robust capital structure and strong coverage metrics. The company's revenues grew by 9.9% YoY in FY2021 supported by higher order executions and new deal wins despite the challenging macro-environment. The Direct Business, which contributes 83% to revenues, grew by 22.5% YoY, thereby supporting the company's revenue growth. Mphasis secured deals worth \$1,112 million (51% YoY growth) in FY2021 (net new TCV), which lends visibility to revenues going forward.

ICRA also notes the stiff competition faced by the company from other prominent players in the global IT services industry, leading to margin pressure. The industry continues to face challenges in the form of wage inflation, foreign currency fluctuations, talent acquisition and retention. Further, Mphasis makes steady payouts in the form of dividends or share buybacks to support repayments on the bond programme raised by the holding company, Marble Pte II Limited. ICRA notes that the Blackstone Group entered into a definitive agreement on April 26, 2021 to transfer 55.31% of the shareholding in Mphasis to a Blackstone private equity (PE) fund (BCP Topco IX Pte. Ltd. along with Blackstone Capital Partners Asia NQ L.P and Blackstone Capital Partners (CYM) VIII AIV – F L.P.) from Marble Pte II Limited. The agreement will trigger a mandatory open offer and the same is expected to conclude by August 2021.

The Indian IT services industry continues to face geopolitical uncertainties such as proposed legislations on restricting outsourcing or immigration in its key markets, which may have an adverse impact on the current business model of the industry. The demand for IT services remains exposed to macro-economic uncertainties such as a growth slowdown in key markets in the US and Europe and Brexit-related issues, which may pose a challenge to the Indian IT services industry. While ICRA does not expect the second wave of the Covid-19 pandemic to have a significant impact on the performance of IT services companies, the situation is still evolving.

The Stable outlook on the rating reflects ICRA's opinion that Mphasis will continue to benefit from its long track record of operations, established clientele and healthy financial risk profile.

¹ ICRA previously had ratings outstanding of [ICRA]AA+ (Stable)/[ICRA]A1+ on the Rs. 700-crore non-fund based working capital facility of Mphasis; this has currently been revised to nil

Key rating drivers and their description

Credit strengths

Established position in the industry with long track record – Established in 2000, Mphasis is a mid-sized player catering to the IT/IT enabled services/business process outsourcing (BPO) industry in various domains such as banking and financial services, communication, insurance, etc. The company has strong domain expertise and offers a wide range of services. Based on its expertise, it continues to add new clients which aided in the healthy growth of its top line in recent years.

Access to Blackstone's clientele – Given the Blackstone Group's parentage, 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 picking up stakes in Mphasis, the company will gain access to the investment portfolio of these investors as well.

Improving momentum in Direct Business – The Direct Business, which contributed ~83% to the revenues in FY2021, has witnessed a steady YoY growth supported by the addition of new clients to its portfolio across verticals including deals from the clientele of the Blackstone Group. Mphasis recorded TCW wins of more than \$200 million in the last five quarters, significantly above its average deal wins per quarter. It also closed a landmark deal of \$250 million in Q1 FY2022 with a banking, financial services and insurance (BFSI) player in the United Kingdom (UK).

Strong financial profile characterised by healthy cash position and robust debt coverage metrics – Mphasis' financial profile is characterised by robust debt coverage metrics with a gearing of 0.2x, TD/OPBITDA of 0.7x and interest coverage of 28.4x as on March 31, 2021. The company's financial profile is further supported by its healthy accruals coupled with cash and liquid investments of Rs. 2,967.6 crore as on March 31, 2021. Going forward, the metrics are expected to be in line with past trends and remain healthy.

Credit challenges

Geographical concentration risk and moderate customer concentration – Mphasis' geographical revenue trend is in line with the global IT services industry with the US being the largest contributor to its revenues. With 77% of the revenues being derived from the US market in FY2021, Mphasis' revenues and earnings are exposed to the structural and region-specific challenges in the US. Mphasis derived about 53% of its revenues from its top 10 clients in FY2021 (excluding DXC Technology) signifying moderate customer concentration. However, its long-standing and strategic association with its clients mitigates the concentration risks to an extent.

Moderate scale of operations – With revenues of Rs. 9,722 crore in FY2021, Mphasis' scale of operations is moderate, operating in the ~\$194-billion Indian IT & BPM industry, thereby restricting its pricing flexibility and margins. Also, inherent to the industry, the company's profit margins are susceptible to wage inflation, challenges of retention and reskilling of the talent pool, and forex risks. Nevertheless, the hedging mechanisms employed by the company mitigate the forex risks to an extent.

Liquidity position: Strong

Mphasis' liquidity position is **Strong** with free cash and liquid investments of Rs. 2,967.6 crore as on March 31, 2021. Despite regular sizeable dividend payouts, the company's liquidity position has remained strong on the back of healthy operating cash flows, which are expected to continue in future as well. The company does not have any long-term debt on its books. Going forward, Mphasis is expected to incur capex for supporting its operations, which is likely to impact its cash reserves to some extent. Overall, ICRA expects Mphasis to be able to meet its near-term commitments (debt-servicing obligations and capex requirements) through internal sources and yet be left with a robust cash surplus.

Rating sensitivities

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

Negative factors – A sharp deterioration in the 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.

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	To arrive at the ratings, ICRA has considered the consolidated financials of Mphasis

About the company

Mphasis is a mid-sized IT company primarily providing IT/ITeS/BPO services to clients in the banking and capital markets, emerging industries, information technology, communication and entertainment and insurance segments. The company derives its revenues primarily from software services & projects, licensing arrangements & application services, and infrastructure outsourcing services. Headquartered in Bengaluru, Mphasis has a presence in the US, Europe, Australia, the Asia-Pacific region, Japan and India.

In June 2006, Electronic Data Systems Corporation (EDS) acquired Mphasis, and EDS was subsequently acquired by Hewlett-Packard (HP), thereby resulting in Mphasis becoming a 60.47% subsidiary of HP. However, in September 2016, global private equity (PE) major the Blackstone Group acquired HP's stake through its special purpose vehicle – Marble Pte II Limited. As of March 31, 2021, Marble Pte II had a 56.12% stake in Mphasis. The Blackstone Group entered into a definitive agreement on April 26, 2021 to transfer a 55.31% shareholding in Mphasis to a Blackstone PE fund (BCP Topco IX Pte. Ltd. along with Blackstone Capital Partners Asia NQ L.P and Blackstone Capital Partners (CYM) VIII AIV – F L.P.) from Marble Pte II Limited. The agreement will trigger a mandatory open offer and the same is expected to conclude by August 2021.

Key financial indicators (audited)

Consolidated	FY2020	FY2021*
Operating Income (Rs. crore)	8,843.5	9,722.3
PAT (Rs. crore)	1,184.8	1,216.8
OPBDIT/OI (%)	18.7%	18.5%
PAT/OI (%)	13.4%	12.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	0.8	0.7
Interest Coverage (times)	20.3	28.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Abridged financials; Debt includes lease liability

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Jun 17, 2021	Apr 7, 2020	-	Mar 29, 2019	
1	Non-fund based facilities	Long term and short term	-	-	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	[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+	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/ Short Term – Fund-based/Non-fund Based Working Capital	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-1: Instrument details

ISIN	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)/A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	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

Source: Mphasis Limited

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
srikumar.k@icraindia.com

Shivam Nagpal
+91 80 4332 6418
shivam.nagpal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



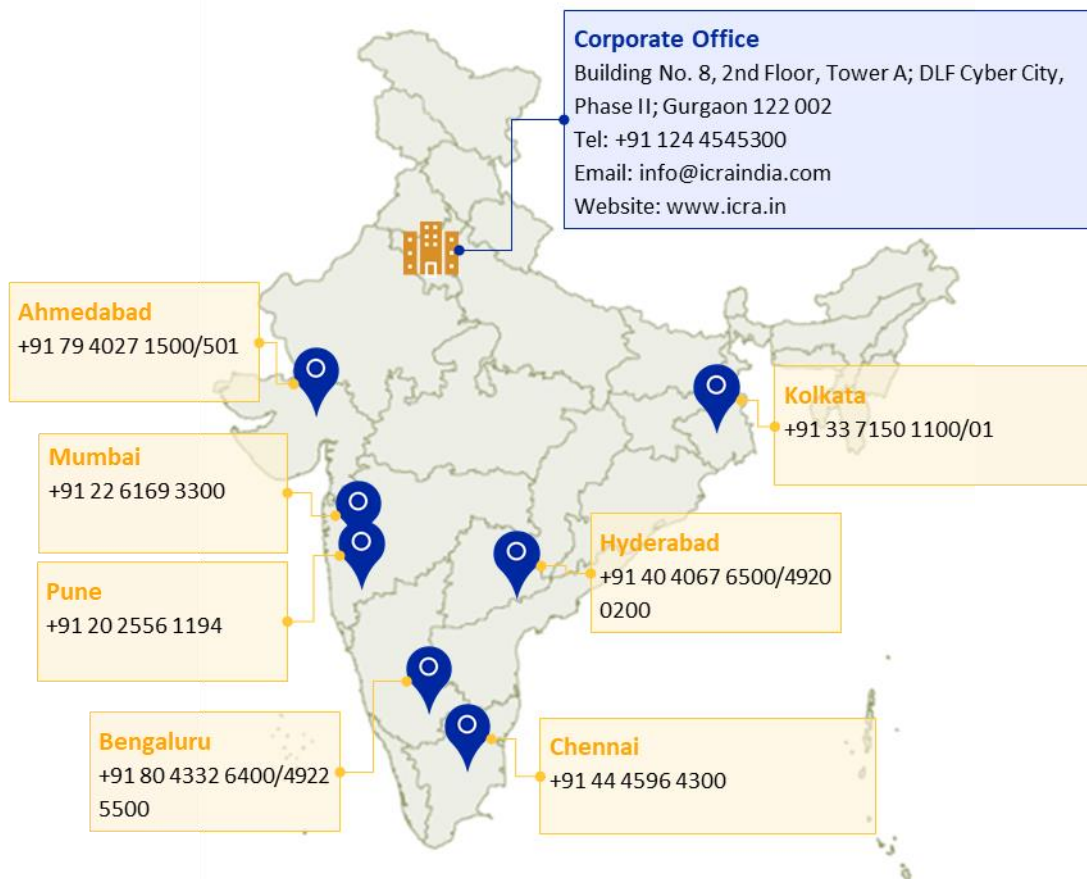
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.