

PUBLICATION: Mint (Bangalore, Mumbai & New Delhi)

DATE: November 26, 2009

MARK TO MARKET | MOBIS PHILIPOSE, RAVI ANANTHANARAYANAN & VATSALA KAMAT

Mphasis is treading a very different path

Mphasis Ltd has defied the slowdown in information technology spending thanks to its ownership by Hewlett-Packard Co. (HP). Mphasis has reported a 43% increase in revenues to Rs4,264 crore for the year ended 30 October. Top Indian IT firms have grown at an average rate of 15% during the same period.

Mphasis was originally acquired by software services firm EDS in mid-2006, which in turn was acquired by HP in 2008. Starting this year, Mphasis had changed its reporting period to align itself with that of HP's.

Now, HP and its software services arm EDS outsource work to Mphasis to cut costs and the proportion of this has been increasing. In the latest 12-month period, services rendered to the parent company accounted for 69% of total revenues. In the preceding 12 months, they accounted for about 56% of revenues. This translates into a growth of about 78% in services to companies affiliated to HP last year and a mere 1% growth in non-HP revenues.

Put simply, work outsourced by HP has been driving growth. And the trend

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is likely to continue. Work outsourced by HP accounted for about \$635 million (around Rs2,940 crore) for the year ended October, less than 2% of HP's total software services revenues of \$34.7 billion during the same period. What's more, most of the outsourced work comes from EDS and the HP source hasn't really been tapped yet.

Besides, growth has been led by infrastructure services and application-related services, which enjoy higher margins compared with the third segment the company operates in—business process outsourcing (BPO). While the

applications segment grew at the company average rate of 43%, infrastructure technology outsourcing grew by 84.5% and BPO grew by 15.4%.

Apart from this, Mphasis also benefited from a large improvement in employee utilization. The net result of this was that profit margins rose by about 7.5 percentage points and net profit jumped by 121% last year.

While the growth in revenues may continue to outpace the industry average, margins are likely to come under pressure this year due to various factors. For one, employee utilization is at its peak of about 80% and is likely to come down marginally. Besides, HP is likely to lower billing rates and analysts at Motilal Oswal are factoring in a pricing decline of about 4% this year because of this. Also, the rupee has been appreciating and even wages are expected to be higher year-on-year.

Keeping this in mind, Mphasis' current valuation of about 15.5 times past earnings more than captures its growth potential. Besides, the stock has risen by 364% from its 52-week lows and it seems time investors booked profits.

POSITIVE TREND

Mphasis' better performance has been rewarded by investors.



NAVYEN HUKAR, SANGH/MINT

MOVERS & SHAKERS

Mphasis ▼ 4%

Mphasis declined 4% after reporting results for the quarter ended October on Tuesday. Morgan Stanley says the information technology firm's growth rates have been eroding, from a high 15% quarter-on-quarter growth in October 2008 to 2% in October.