

Mphasis

Mphasis acquires Wyde

Mphasis has entered into a definite agreement to acquire 100% stake in Wyde Corporation (Wyde), an international software vendor and creator of Wynsure – an insurance policy administration IP solution. The deal is an all-cash deal. Mphasis has not disclosed the consideration amount paid for the deal, but generally product companies are valued at 2.5x–4x sales. Thus, assuming 3.5x sales, in our view Mphasis will pay US\$105mn. As of April 2011, Mphasis had cash of US\$422mn in its books.

Wyde is headquartered in the US and its operational headquarters are at France. Wynsure is a multi-language, multi-currency and easily customisable software that offers policy administration, claims and billing solutions across life and annuities (L&A), disability, health and property and casualty (P&C). Wynsure platform can be deployed at an insurance company – either for one business line at a time or as a complete end-to-end solution.

Wyde is a debt free company. In CY2010, the company reported annual sales of US\$30mn (broad revenue break-up – 60% from L&A and 40% from P&C) with EBITDA margin of 18%. PAT margin of the company stood at 17–18%, as it was aided by other income generated from US\$10mn cash in its accounts. Wyde gets 27–30% of its revenue from license selling, 65–70% from services and another 6–7% from maintenance activities. Wyde has 25 clients globally (none of them is overlapping with Mphasis' clients from the direct channel) – 14 in the US, 9 in France and 2 in Canada. Wyde gets 50% of its revenue from its top five clients – 18% revenue from the top client, 12% from the top second client and 10% from the top third client. Wyde has an employee base of 200 people (sales team comprises eight employees), out of which 100 are based in France. This gives Mphasis a footprint in Continental Europe. Post the acquisition, these employees would operate in the product business of Mphasis. This will aid the non-linear revenue of Mphasis.

Outlook and valuation: Management highlighted that the insurance industry is globally growing at a 15% CAGR in terms of IT spending. We expect Wyde to grow at a 10% CAGR, which is lower than Mphasis' average rate, as insurance IT spending lags spending in other verticals. The company's acquisition of a 100% stake in Wyde is expected to push revenue CAGR to 16.2% from 15% (earlier) over FY2011–13E. Also, the company's incremental growth due to Wyde at a higher EBITDA margin of 18% is expected to be EBITDA accretive for the overall company. Thus, we revise our EBITDA margin estimates of 17.4% and 17.2% to 17.8% and 17.6% for FY2012E and FY2013E, respectively. The acquisition is expected to be marginally EPS accretive, as higher operational profits due to the same are expected to be nullified because of lower treasury gains post the acquisition, leading to cash outgo of ~₹467cr. Thus, we revise our EPS estimates marginally upwards by 1.1% and 1.7% to ₹39.4 and ₹45.2 for FY2012E and FY2013E (October ending), respectively. **We value the company at 45% discount to Infosys' target PE of 20x i.e. 11x ₹43.1 (FY2013 – March ending), which gives us a target price of ₹482 and recommend an Accumulate rating on the stock.**

ACCUMULATE

CMP	₹444
Target Price	₹482

Investment Period	12 Months
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Stock Info

Sector	IT
Market Cap (₹cr)	9,315
Beta	0.7
52 Week High / Low	712/355
Avg. Daily Volume	122240
Face Value (₹)	10
BSE Sensex	18,314
Nifty	5,517
Reuters Code	MBFL.BO
Bloomberg Code	MPLH@IN

Shareholding Pattern (%)

Promoters	60.5
MF / Banks / Indian Fls	6.3
FII / NRIs / OCBs	20.4
Indian Public / Others	12.8

Abs. (%)	3m	1yr	3yr
Sensex	(4.3)	1.3	25.0
Mphasis	(5.3)	(25.7)	103.9

Srishti Anand

+91 22 3935 7800 Ext: 6820
 srishti.anand@angelbroking.com

Ankita Somani

+91 22 3935 7800 Ext: 6819
 ankita.somani@angelbroking.com

Exhibit 1: Key assumptions

Particulars	FY2012	FY2013
Revenue growth-USD terms (%)	17.6	14.8
USD-INR rate	43.7	43.3
Revenue growth-INR terms (%)	15.2	13.6
EBITDA margin (%)	17.8	17.6
Tax rate (%)	24.0	25.0
EPS growth (%)	6.3	14.5

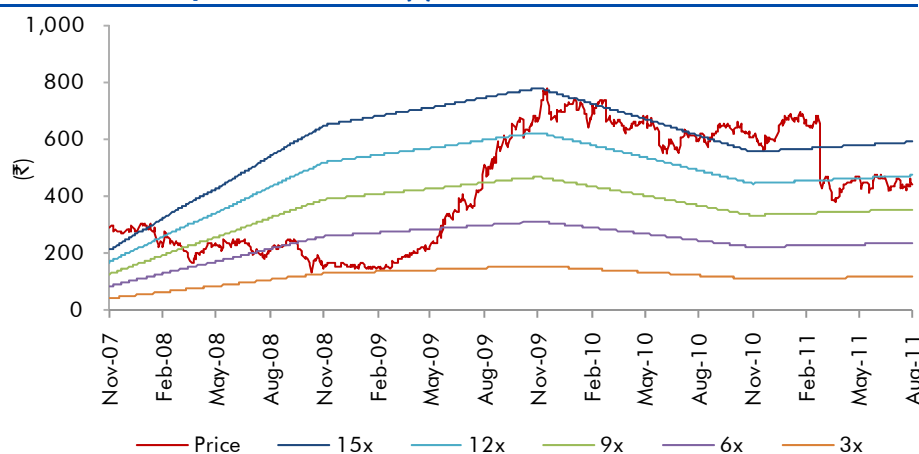
Source: Company, Angel Research

Exhibit 2: Change in estimates

Parameter (₹ cr)	FY2012E			FY2013E		
	Earlier Estimates	Revised Estimates	Variation (%)	Earlier Estimates	Revised Estimates	Variation (%)
Net revenue	5,771	5,916	2.5	6,560	6,722	2.5
EBITDA	1,007	1,055	4.8	1,127	1,186	5.2
Other income	171	139	(19.0)	236	203	(14.0)
PBT	1,076	1,088	1.1	1,241	1,262	1.7
Tax	258	261	1.1	310	316	1.7
PAT	818	827	1.1	931	947	1.7

Source: Company, Angel Research

Exhibit 3: One-year forward PE (x) chart



Source: Company, Angel Research

Exhibit 4: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside (%)	Target P/E (x)	FY2013 EBITDA (%)	FY2013E P/E (x)	FY2011-13E EPS CAGR (%)	FY2013E RoCE (%)	FY2013E RoE (%)
3iInfotech	Neutral	40	45	-	-	21.5	3.4	(4.3)	12.0	15.1
Educomp	Accumulate	329	415	26.2	8.0	46.7	6.3	17.7	16.4	17.0
Everonn	Neutral	566	-	-	-	33.5	13.4	27.7	15.5	16.7
HCL Tech	Buy	486	578	19.0	14.0	17.9	11.8	29.8	18.1	23.8
Hexaware	Neutral	92	-	-	11.5	15.1	12.0	63.4	16.8	17.8
Infosys	Accumulate	2,809	3,200	13.9	20.0	30.6	17.6	15.7	24.7	22.7
Infotech Enterprises	Accumulate	135	145	7.6	9.0	16.1	8.3	13.9	15.2	13.4
KPIT Cummins	Accumulate	188	206	9.6	12.0	16.1	11.2	21.8	20.6	17.7
MindTree	Accumulate	418	445	6.4	11.0	13.3	10.3	27.5	16.9	15.4
Mphasis	Accumulate	444	482	8.5	11.0	17.6	9.8	10.3	17.7	17.0
NIIT ^	Buy	55	69	26.3	10.0	13.8	7.9	11.2	12.4	16.6
Persistent	Buy	354	424	19.8	11.0	19.5	9.2	5.1	16.6	15.4
TCS	Buy	1,134	1,368	20.7	22.0	28.9	18.2	18.4	30.2	31.3
Tech Mahindra	Neutral	780	-	-	-	18.3	13.8	6.8	14.9	15.6
Wipro	Accumulate	392	419	6.8	16.0	18.7	15.0	9.9	13.8	19.8

Source: Company, Angel Research; Note: ^ Valued on SOTP basis

Profit and loss statement (Consolidated)

Y/E October (₹ cr)	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Net sales	4,271	5,036	5,137	5,916	6,722
Cost of revenue	2,690	3,352	3,792	4,382	5,047
% of net sales	63.0	66.6	73.8	74.1	75.1
Gross profit	1,581	1,684	1,346	1,534	1,675
% of net sales	37.0	33.4	26.2	25.9	24.9
Selling and mktg. expenses	179	220	248	274	285
% of net sales	4.2	4.4	4.8	4.6	4.2
General and admin. exp.	266	199	193	204	204
% of net sales	6.2	4.0	3.8	3.4	3.0
Provision for doubtful debts	1	-	-	-	-
EBITDA	1,135	1,265	905	1,055	1,186
% of net sales	26.6	25.1	17.6	17.8	17.6
Dep. and amortisation	202	164	146	166	192
EBIT	933	1,101	759	890	993
Interest income, net	3	1	1	-	-
Other income, net	16	50	106	139	203
Forex gain	29	58	57	59	66
Profit before tax	980	1,210	924	1,088	1,262
Provision for tax	64	119	174	261	316
% of PBT	6.5	9.8	18.9	24.0	25.0
PAT	916	1,091	749	827	947
EPS (₹)	43.4	52.0	37.1	39.4	45.2

Research Team Tel: 022 - 3935 7800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement	MphasiS
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	