

Strong growth expectation from H2FY23

CMP: INR 712

Outlook: Positive

Stock Info

BSE	532440
NSE	MPSLTD
Bloomberg	MPS.IN
Reuters	MACI.BO
Sector	Printing & Stationery
Face Value (INR)	10
Equity Capital (INR Cr)	17.1
Mkt Cap (INR Cr)	1,233
52w H/L (INR)	786/ 515
Avg Yearly Vol (in 000')	622

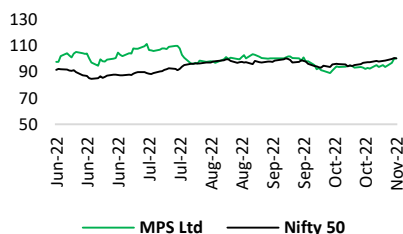
Shareholding Pattern %

(As on June, 2022)

Promoters	68.3
FII	4.73
DII	0.69
Public & Others	26.2

Stock Performance (%)	1m	3m	12m
MPS	14.5	5.2	-0.6
Nifty	6.9	3.8	1.25

MPS Vs Nifty



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MPS broad-based revenue growth: Consolidated revenue stood at INR 127 Cr, against Q2FY23 of INR 115 Cr in Q1FY23 registering a growth of 10.2% QoQ/14.8% YoY. The growth is driven by eLearning and content solutions. The eLearning solution grew by 66.4% YoY/28.14% QoQ, the content solution grew by 9.72% YoY/6.18% QoQ and the Platform solution. For FY22, content solutions accounted for 54% of MPS' revenues, platform solutions accounted for 27%, and eLearning accounted for 19%.

Strong growth across the segment and cost optimization led to all-time high profit: Consolidate PAT stood at INR 27 Cr, against INR 21 Cr in Q1FY23 registering a growth of 30.09% QoQ/23.96% YoY.

Margin expansion was driven by Content and eLearning solution: EBITDA stood at INR 40 Cr in Q2FY23, against Q1FY23 of INR 30 Cr, with registering a growth of 35.8%QoQ/ 31.2%YoY.

Investment Rationale:

Successful strategic M&A's led to business growth: The company has Completed 7 acquisitions over 8 years and all acquisitions of scope to enhance strategic competitive advantage Reduced revenue concentration from top 10 customers - 75% in FY14 to 53% in FY20. The company has diversified its business mix from 100% Content in FY14 to 60% Content, 28% Platform, and 12% eLearning in FY20 Expanded TAM from \$2 bn to \$365 bn. The company is working on the acquisition side and not looking <\$10 mn in revenue with a growing and profitable company.

Unlocking synergies: The company has robust growth in the education business through revamped and integrated global delivery model that combines diverse capabilities. Profitable transformation of the corporate eLearning business by leveraging wage arbitrage levers Expanded the platform business through the acquisition of HighWire.

Focus on organic and inorganic growth: MPS, redefines sales and marketing strategy to a market oriented approach to drive organic growth. Shift the focus of inorganic strategy to focus on acquiring growth assets. Explore opportunities for further consolidation to improve efficiencies and drive margin expansion.

Active for the new logos: The company leveraged its reputation to continue winning logos and building a diversified marquee customer base. Extend automated sales to optimize time-to-facility for customers and provide faster development.

Strong clientele: The company has entrenched relationships with 100+ Fortune 500 clients spread across North America, EU, UK, Middle East, Asia Pacific, and India.

Unique Content: MPS has developed 2mn+ hours of cutting-edge content and a reputation for pioneering innovative solutions.

Industry overview: The company has a large \$310bn+ total addressable market with significant runway for growth across research content outsourcing, digital education content, and corporate eLearning end-markets.

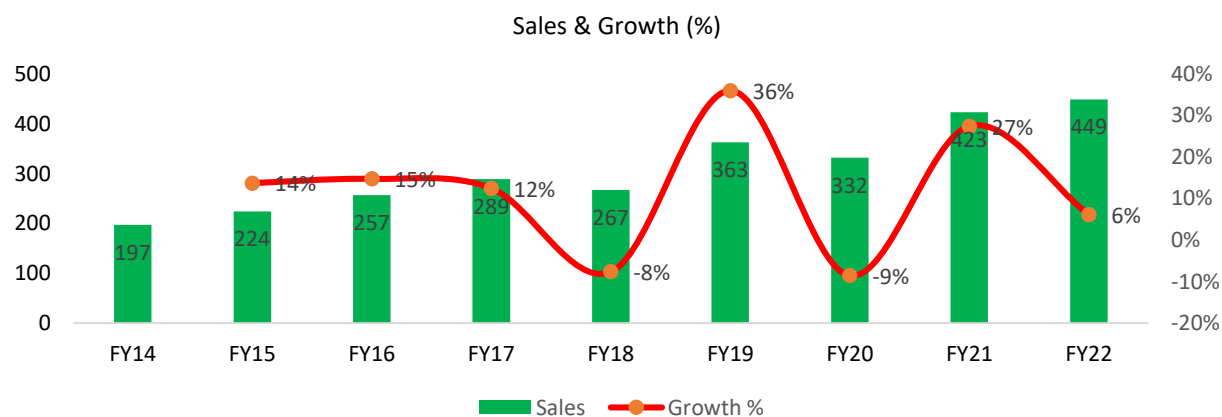
Valuation & View:

At a CMP of INR 712, MPS is trading at a PE of 17x (TTM basis). The post-pandemic recovery of the eLearning business was the highlight of FY22. Revenues from eLearning in FY22 grew by 15.2% on an FX-adjusted basis. The high degree of operating leverage in the eLearning business meant that recovery in profitability was even sharper. The company pipeline is robust across different types of work, different geography, and varied training strategies. The company is well on track to beat the guidance of INR 100 Cr PAT in FY23 despite a weak macroeconomic situation. Steady pick up in Q2FY23, performance will be even more impressive in H2FY23. We have a positive outlook on the stock.

Exhibit 1: Financial Performance

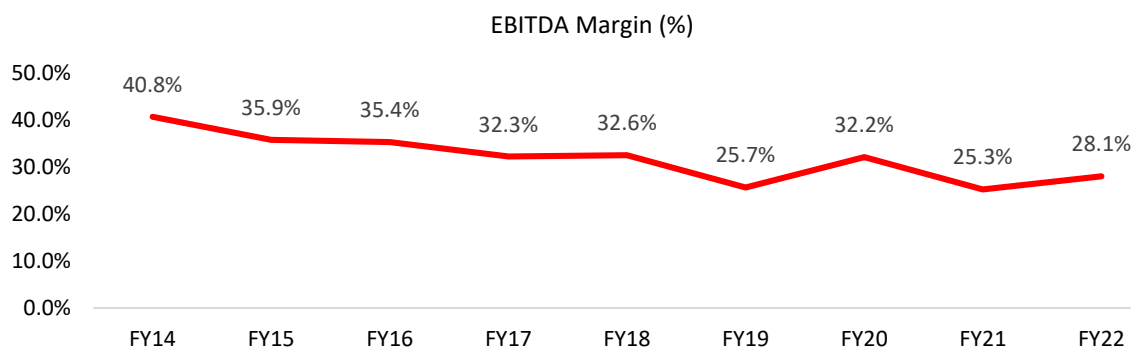
INR Cr (consolidated)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y	FY22	FY21	Y-o-Y
Net Revenue	127	115	110	10.2%	14.8%	449	423	6.23%
Employee cost	55	53	52	3.4%	4.8%	202	203	-0.40%
Other Expenses	32	32	27	-2.0%	15.7%	121	113	6.98%
EBITDA	40	30	31	35.8%	31.2%	126	107	18.01%
EBITDA margin %	31.7%	25.8%	27.8%	597bps	396bps	28.1%	25.3%	280bps
Other Income	2	3	4	-51.2%	-58.2%	14	10	42.72%
Depreciation	5	5	5	11.5%	-1.9%	21	21	-2.90%
EBIT	37	28	29	29.6%	25.2%	120	95	25.22%
EBIT Margin (%)	29.0%	24.7%	26.6%	433bps	241bps	26.6%	22.6%	404bps
Finance cost	0.27	0.27	0.35	-	-	2	2	-
Exceptional Item	-	-	-	-	-	-	-	-
PBT	36	28	29	29.84%	25.8%	118	93	26.3%
Tax Expense	10	7	7	29.17%	31.4%	31	35	-11.5%
Effective tax rate %	26.4%	26.5%	25.2%	-14bps	112bps	26.1%	37.3%	-29.9%
PAT	27	21	22	30.09%	23.9%	87	58.6	48.8%
Less: Tax expenses on discontinued operation	-	-	-	-	-	-	-	-
Consolidated PAT	27	21	22	30.09%	23.9%	87	59	48.8%
PAT margin %	21.2%	18.0%	19.7%	156bps	156bps	19.4%	13.9%	555bps
EPS (INR)	15.70	12.07	12.00	30.07%	30.8%	48.6	31.9	52.3%

Exhibit 2: Revenue spike in last 2 years



Source: Arianth Research, Company Filings

Exhibit 3: Margin expansion going forward



Source: Arianth Research, Company Filings

Q2 FY23 Conference Call Highlights

- The growth in the content business led by including generals and books. ELearning business standalone and EI design and stability in the platform business.
- Content solution business -Journal led the growth in the content business and given the highly profitable Nature of the business scale-up meant that the margin also improved as a whole. The growth from the stabilized as from the new customers.
- The other part of the content solution business books also did well in Q2FY23.
- The trend to watch Offshore continues in the education business which serves as a further hedge of the margin.

e-learning

- e-learning significantly grew due to the addition of AI design. Double-digit growth in MPS interactive and which is a German-based entity.
- The revenue grew from a consistent flow project from both star accounts and also new customers. The highlights growth at TOPSIM is primarily driven by product revenue enabled new TOPSIM cloud with a high-quality revenue from financial as well as a strategic lense.
- As the revenue grew, the company order Book also expanded by 20% as booked significant and sizable orders.
- The company Pipeline is robust across different types of work, different geography, and varied training strategies.
- The e-learning margin significantly expanded they have yet to reach their potential and strive to expand potential in Q3FY23E and the rest in FY23.

Content solution

- Muted Started in Q1FY23 but gained significant new momentum in Q2FY23. The company well on track to beat the guidance of INR 100 Cr PAT in FY23 despite a weak macroeconomic situation.
- Steady pick up in Q2FY23, performance will be even more impressive in the content business in H2FY23.

Platform Business

- The Third year of ownership, The platform business is finally stabilizing given the distracting nature of the High wire business giving impressive payback for the investment. The management believes true growth will unfold from the 4th and 5th years of ownership.
- Continue progress in the integrated design of the EI business into NCR. EI design operating model has allowed the MPS to significantly scale almost yearly business.
- During the month of October, the company launched a new app powered by MPS which represents mind EI learning business, and experience design service.
- **ESOP:** The company is in progress and close this year.
- **Acquisition:** The company is working on the strategy and looking at 10-15 opportunities out of 15 they are finding 4 hot once.
- Fx hedge adjusts revenue by 13.77% and reported by 14.87%.
- **eLearning:** The company goal is to get to the industry standard which is 25% level. The first milestone to 25% and till get to 30% will not be settled.

Organic

- **1st Phase:** The company has ~600 clients across the business. The company's first strategy goes deeper into each customer. The company has the concept of the STAR account especially a company that has identified potentially should become a large account for the MPS. The company identified 20 customers which already, which already began to scale 2 years ago. The company phase will ramp up to 3200 accounts. The company growth strategy out of the 600 customers out of that 100 will become start accounts over the next 2 years. Already executed 30 accounts and will ramp up the next 70.
- **2nd Phase:** The company is focusing on new capability development. The company is launching every year new capabilities and partnerships with the customer also every year developing new products either offshore existing business or combining different parts of the business.
- **3rd Phase:** The company is going actively on the new logo and is very thoughtful in terms of marketing offshoring and online marketing, Scale-up sales team

In-organic

- The company is working on the acquisition side and not looking <\$10 mn in revenue with a growing and profitable company.

Margin: Content solution business margin around 40% and eLearning targeting 30%.

- The company has the potential to grow organically and is able to deliver much higher growth.
- The company revenue from Europe and the UK client is 24% but 84% of billing comes in USD. The majority of the customer is global. Standard is US dollar in terms of price. The company is the most expensive in terms of pricing so don't have to negotiate.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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