High Conviction Report

KEYNOTE

MPS Limited

Dual engines to propel growth

17th May 2024

BUY

CMP Rs. 1,650

TARGET Rs. 2,650 (+60.6%)

Established in 1970, MPS Ltd. (MPSL) was a subsidiary of Macmillan (Holdings). During that time, the Company served Publishers by helping them publish books, journals, and research materials worldwide. This segment forms a major part of MPSL's business to date. Currently, the Company operates across three segments, namely, Content Solutions, Platform Solutions and eLearning. Geographically, MPSL generates most of its business from North America and Europe. Going forward, the Company aims to continue running the business on dual-growth engines of organic as well as inorganic growth and achieve the guided scale of Rs. 15 Bn by FY28.

Vision CY27

Since 2012, MPSL has significantly expanded its operations and achieved strong growth. Currently, MPSL is positioned for further expansion and is dedicated to continuous growth. Recent actions include shifting focus to acquiring companies exceeding $20 Mn in sales, with a goal to triple its topline to Rs. 15 Bn by FY28.

To achieve this, MPSL plans to use both organic and inorganic growth strategies. Organically, it targets a blended revenue growth of 14-15%, alongside a couple of strategic acquisitions annually.

In terms of funding, MPSL is well-equipped with strong cash generation, a debt-free status, and the ability to leverage its balance sheet if necessary.

The ideal acquirer, making the required strategic shifts

Since the ADI Group acquired MPSL, the Company has showcased its ability to make successful acquisitions. The Company has successfully completed 10 acquisitions at favourable valuations and not only revived these struggling entities but also seamlessly integrated them into MPSL's broader operations.

Up until 2022, MPSL primarily targeted distressed companies at discounted valuations. However, there has been a noticeable strategic shift. MPSL is now open to acquire well-managed companies, even if that involves giving a reasonable premium. This transition indicates a shift towards a hybrid acquisition strategy, which we anticipate the Company will maintain moving forward.

Sound capital allocation

In the past, MPSL has been highly disciplined in its capital allocation approach. The Company has not only acquired targets at fair prices but has also avoided excessive cash accumulation. This was achieved through dividend payouts and share buybacks. This prudent strategy is anticipated to persist in the future.

View and Valuation

We are confident that the combination of robust growth in the existing business and strategic inorganic expansions will lead to substantial value creation in the future. Furthermore, considering MPSL's strong fundamentals and growth projections, the current valuation of the Company does not appear excessively high. Therefore, we initiate coverage of MPSL with a BUY rating and a target price of Rs. 2,650 (25x FY26E EPS), resulting in ~61% upside from current levels.

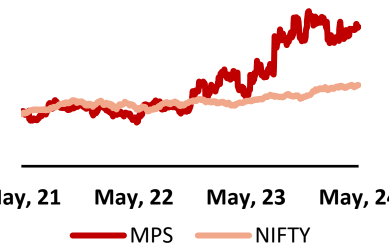
Company Data

Bloomberg Code	MPS IN
MCAP (Rs. Mn)	28,215
O/S Shares (Mn)	17
52w High/Low	1,884 / 809
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	26

Shareholding Pattern %

	Mar 24	Dec 23	Sep 23
Promoters	68.34	68.34	68.34
FIIs	3.70	3.71	3.80
DIIs	0.48	0.56	0.60
Non-Institutional	27.46	27.39	27.26

MPS vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24E	FY25E
Revenue	5,011	5,210	7,838
EBITDA	1,554	1,615	2,038
Net Profit	1,092	1,124	1,433
Total Assets	8,132	8,924	10,332
ROCE (%)	28%	25%	26%
ROE (%)	28%	24%	26%

Source: Company, Keynote Capitals Ltd.

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Global Education Publishing Industry

As of 2022, the Global Education Publishing market was valued at ~$16 Bn and is expected to grow at a mid to high-single-digit CAGR. Historically, the industry has heavily relied on printed curriculum materials like textbooks, workbooks, test papers, and storybooks. However, this traditional method of educational content delivery began facing challenges several years ago as students increasingly embraced online courses and digital materials.

The pace of this technological shift accelerated notably after the COVID-19 pandemic, with disruptive technologies such as e-books, video streaming, gaming, and cloud computing gaining widespread acceptance. Owing to this, the global Digital Education Publishing market is expected to grow at ~16-17% CAGR.

Notable Industry Trends

Proliferation of Digital Content Creators

The pandemic has accelerated the shift to digital content. As digitalization continues to advance swiftly, publishers are increasingly turning to course creation tools. These tools allow them to incorporate multimedia elements into educational materials, significantly enhancing interactivity compared to traditional methods.

Furthermore, the use of these authoring software solutions proves to be highly cost-effective, streamlining both time and labour resources.

Interactive Study Material is the Need of the Hour

Learners' evolving preferences are reshaping the delivery of education. Interactive learning is gaining greater importance, especially as attention spans decrease. The interactive book market is projected to grow at a CAGR of 16.5%, reaching a value of $2.3 Bn by 2027.

Rental E-Books

These days, renting e-books has become widely accepted. This trend is poised to dominate the sector, with an expected CAGR of 22% from 2020 to 2024, reaching a value of $295 Mn.

The ongoing digital transformation extends beyond the pandemic, compelling publishers to streamline their operations through digital platforms. These platforms play a crucial role in helping publishers maintain relevance in today's rapidly changing landscape.

Vendor Consolidation

There's a notable trend toward vendor consolidation, with publishers showing a growing preference for established players having a strong track record in servicing customers globally in mature outsourcing sectors.

The appeal lies in these players' comprehensive capabilities, which provide support across every stage of content creation. This shift contrasts with past practices, where publishers often outsourced individual operations to various players throughout the publishing process.

There's an anticipation of frequent announcements of new outsourcing programs driven by publishers' limited in-house capacity to meet customer demands promptly.

Preference of working with partners owning IP

Technology will become even more crucial in the content publishing sector in the future. Given the rapid pace of technological progress, publishers are focused on collaborating with vendors who own technology IP. This is essential for enhancing efficiency and meeting customer needs more effectively.

Employment of AI/ML and Automation

Looking ahead, automation and artificial intelligence will play an increasingly significant role in publishing content. Publishers must embrace AI/ML throughout the content publishing process. Implementing these advanced automation technologies becomes particularly beneficial for streamlining mature and repetitive tasks.

Major Publishers Globally

Penguin Random House

HarperCollins

SCHOLASTIC

WILEY

Pearson

Mc Graw Hill Education

SPRINGER NATURE

macmillan

Cengage

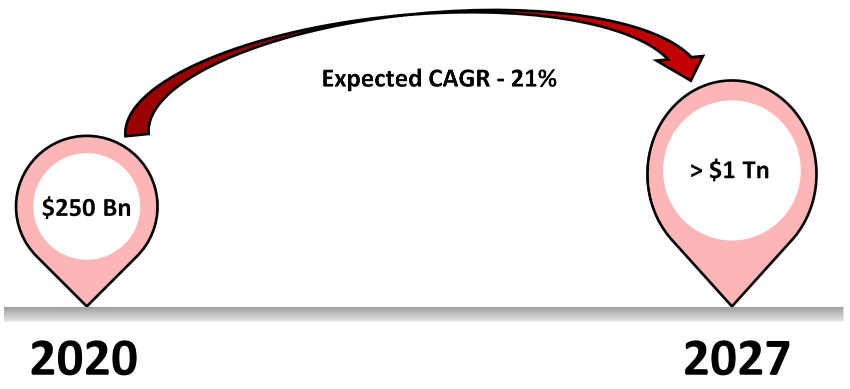
Source: Industry, Keynote Capitals Ltd.

Global E-Learning Industry

In 2020, the global e-learning industry was valued at $250 Bn and was projected to grow at a CAGR of ~21% until 2027, surpassing the $1 Tn mark in opportunity. The COVID pandemic resulted in a paradigm shift, and the industry saw drastic digitalization of operating models, which also included training and development programs.

Advanced technologies like AI, VR, and cloud-based Learning Management Systems (LMS) are driving growth in the e-learning sector. The rise of AI-enabled e-learning solutions is enabling the creation of intelligent content, digital study aids, and live interactive assessments.

Both schools and businesses are embracing interactive tools to boost student engagement and enhance the overall learning journey. As a result, Edtech providers are expanding their offerings to meet this growing demand for innovative educational products and services.



Key Expectations

a. **Expansion in the number of content service providers**
b. **Mobile learning will witness rapid growth**

Source: Company, Keynote Capitals Ltd.

Notable Industry Trends

Proliferation of the Mobile Learning Trend

Smartphone usage is becoming more prevalent worldwide. This trend is expected to continue, leading to a substantial increase in mobile learning among various groups such as students, corporate professionals, and institutions. The growing popularity of the 'On the Go' learning culture will coincide with the projected rise in smartphone users, who are anticipated to surge from ~4 Bn in 2023 to ~6 Bn by 2029.

Proliferation of the Video Based Learning

In recent years, video-based learning has emerged as a highly popular and effective educational approach. This method stands out for its ability to captivate learners by utilizing visual elements to enrich the learning process. Key features such as multisensory engagement, flexibility, accessibility, interactivity, broader accessibility, and personalized learning experiences have significantly contributed to the widespread adoption of video-based learning. To illustrate its impact; statistics indicate that > 1 Mn minutes of video content is streamed or downloaded every second, highlighting the immense traction this learning format has gained.

Content becoming more Interactive

Engagement is going to be the cornerstone of e-Learning with a surging trend. Learners, as well as educators, are getting used to personalised and interactive content across their learning journey. Future belongs to technology-enabled companies that will be able to help their client leverage their capabilities, making their learners' learning journey more personalized and interactive.

Collective learning is being increasingly adopted

E-learning platforms have embraced new features like forums, chatrooms, and file sharing, fostering a novel mode of interaction post-COVID. This trend has significantly enhanced learner-instructor engagement, creating a cohesive community of individuals with shared interests, regardless of their geographical locations.

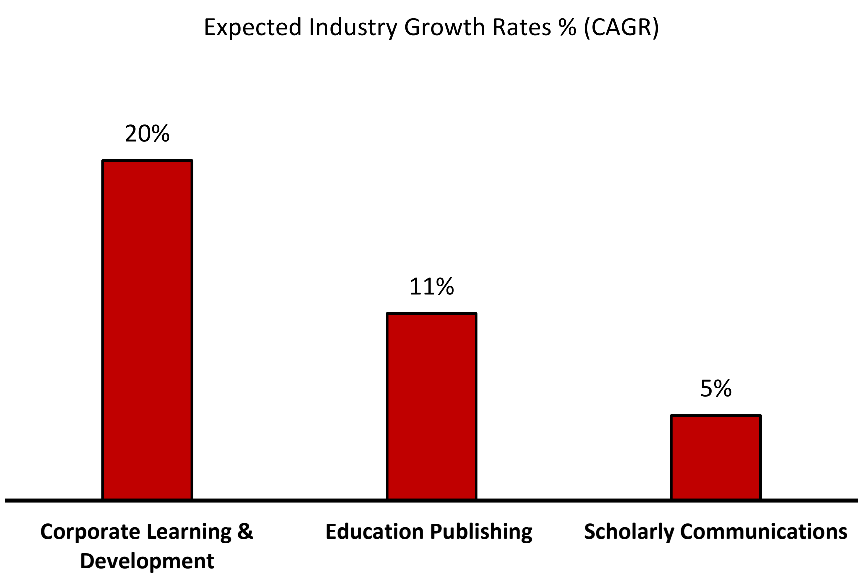
What are customers expecting?

a. Demand for trusted providers

b. Service providers must possess advanced digital learning capabilities

c. Vendors should be able to fulfil the demand for immersive and experiential

Expected growth rate across various Publishing and eLearning subsegments



Source: Company, Keynote Capitals Ltd.

About MPS Ltd.

Established in 1970, MPSL was a subsidiary of Macmillan (Holdings). The Company served its customers (Publishers) produce books, journals, and research materials worldwide.

In 2012, ADI BPO Services acquired MPSL from HM Publishers Holding. This included 10 Mn shares, representing a ~61.5% stake in MPS. The acquisition was done with a growth mindset and kicked off the Company's growth journey. Soon after completing the acquisition, the new management acquired two more companies with a dual motive: a) to grow and b) to move up the value chain. By the end of 2015, MPSL possessed end-to-end content capabilities, from authoring to delivery.

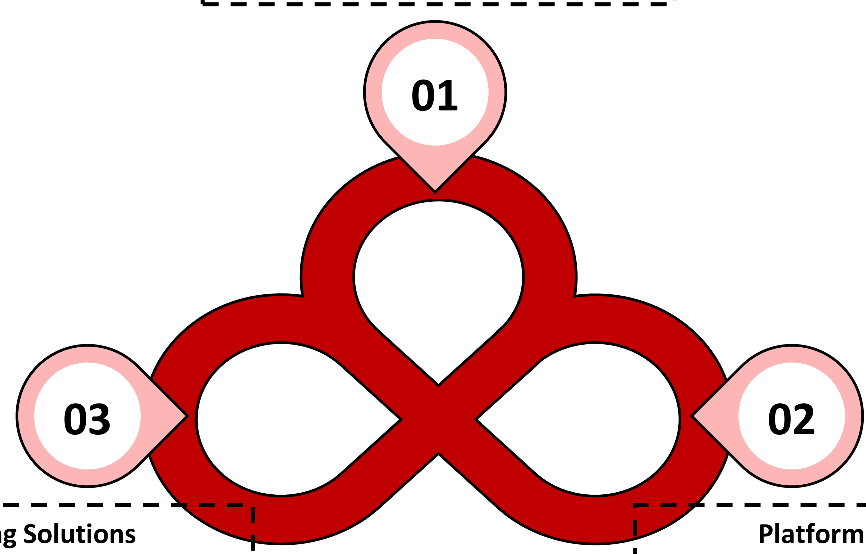
Additionally, in 2015, MPSL ventured into the platform solutions business by launching the DigiCore platform. Later, in 2018, the Company forayed into eLearning by acquiring TIS from TATA Group.

Presently, MPS operates as a distinguished provider of B2B content and e-learning solutions, facilitating enhanced engagement for educators, researchers, and corporations with their learners. The Company possesses complementary business segments characterized by a notable degree of synergistic alignment, thereby consolidating into a comprehensive hub for content and e-learning solutions.

Business Segments

Content Solutions

Revenue Contribution (FY23) – 52%
Strength – Operational Excellence



eLearning Solutions

Revenue Contribution (FY23) – 25%
Strength – Product Leadership

Platform Solutions

Revenue Contribution (FY23) – 23%
Strength – Product Leadership

Source: Company, Keynote Capitals Ltd.

Content Solutions

Introduction

MPS offers complete content creation and distribution solutions across various media platforms. With a team comprising over 1,900 domain specialists, the Company serves clients in education, scientific, and scholarly segments.

List of Solutions

- Content authoring, development and creativity
- Content editing, translating, proofreading and indexing
- Transforming traditional content to digital
- Making client's content more accessible
- Content marketing and client support services

Platform Solutions

Introduction

MPS provides a variety of SaaS platforms throughout the content lifecycle. In this segment, 90% of MPS's revenue comes from licensing fees, primarily from clients in education, scientific, corporate, and scholarly fields.

List of Solutions

- Content workflow and production platform
- Content management, hosting and delivery
- Usage analytics platform

eLearning Solutions

Introduction

MPS delivers effective learning and performance support beneficial to both learners and organizations. With a team of over 450 versatile experts, it serves more than 200 Fortune 500 companies.

List of Solutions

- eLearning solutions
- Designing learning experience centers
- Designing experiential learning solutions
- eLearning consultancy services
- Ready to implement learning platforms

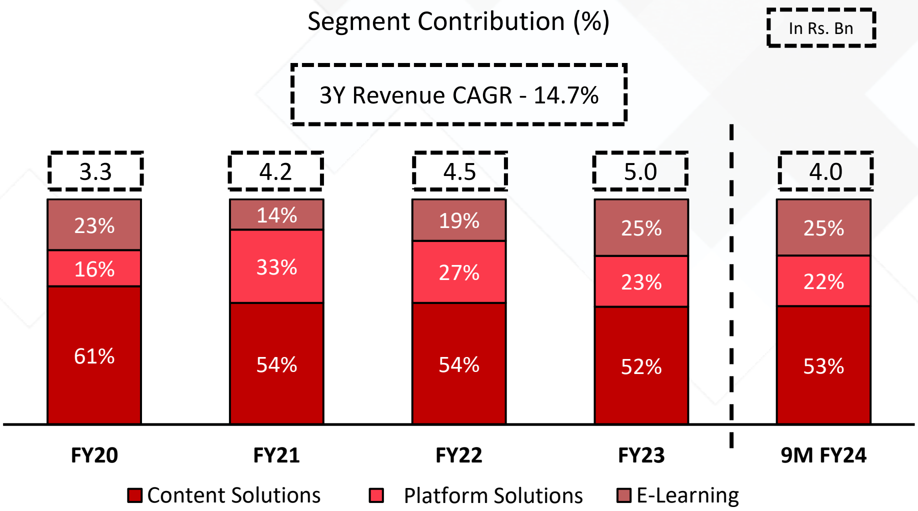
Source: Company, Keynote Capitals Ltd.

By the year 2020, MPSL had transitioned from being entirely focused on content solutions to achieving a well-rounded diversification strategy, with a notable revenue contribution coming from the Platform and eLearning Solutions.

This strategic diversification was primarily facilitated through a series of acquisitions executed by the Company spanning the years 2012 to 2020. Consequently, the Total Addressable Market (TAM) for MPSL expanded significantly from $2 Bn to $365 Bn. Furthermore, there was a notable decline in revenue concentration, with the proportion of revenue derived from the top 10 customers decreasing from 78% in FY15 to 52% in FY23.

KEYNOTE

Evolution of Business Segments

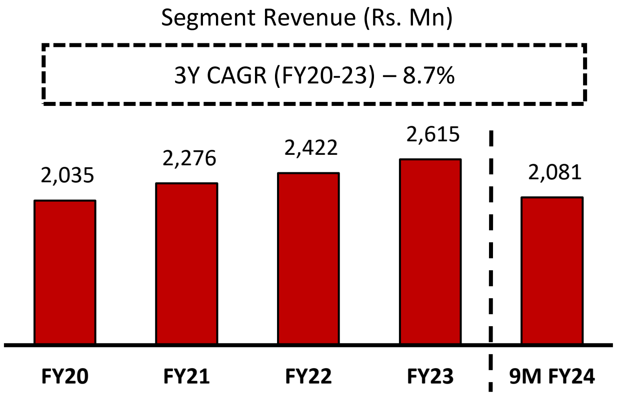


Source: Company, Keynote Capitals Ltd.

Content Solutions

MPSL primarily operated as a provider of content solutions, serving publishers on a global scale. Over time, the Company expanded its capabilities to encompass end-to-end content services. Up until 2015, content solutions remained the sole focus of MPSL's business operations and continued to contribute substantially to its revenue.

Though the content solution segment's overall contribution has come down significantly, it still forms a material part of the Company’s overall revenue, contributing to the tune of 53% of MPSL’s overall revenue for 9M FY24.



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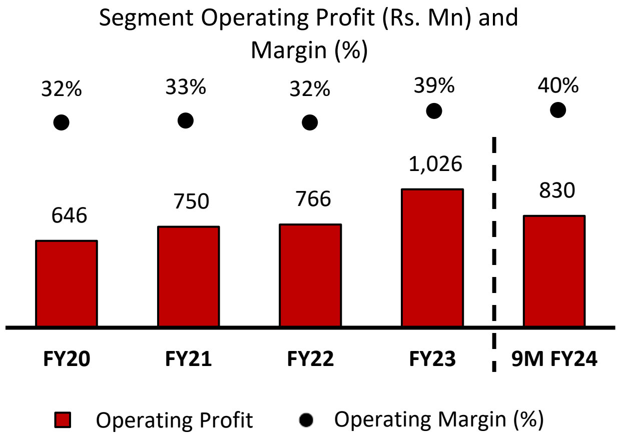
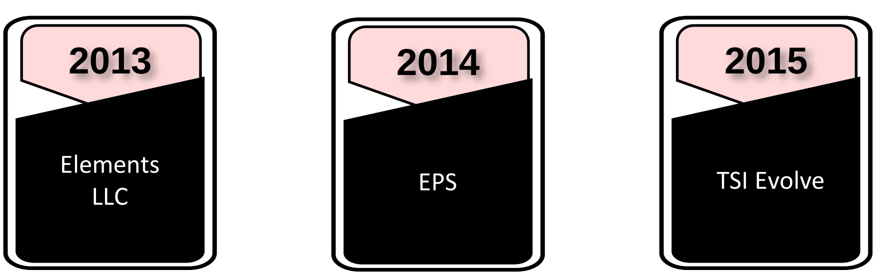


Key Acquisitions in the Content Solutions segment



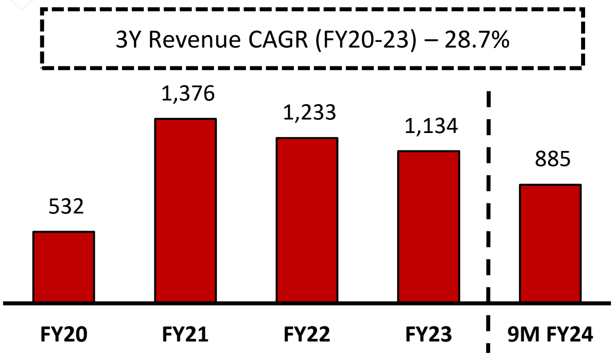
Source: Company, Keynote Capitals Ltd.

Platform Solutions

MPSL forayed into the platform solutions business in 2015. This segment enjoys the highest operating leverage and has shown acquisition-led growth. Over the years, the Company has taken strides to strengthen its platform solutions business by adding new features that can help users navigate through their content creation journey quicker and more efficiently.

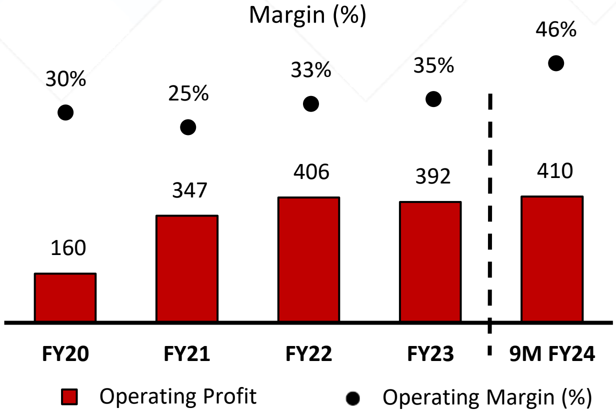
The platform solution segment's overall contribution has moved up significantly. The segment contribution has moved up from 16% in FY20 to 22% of MPSL's overall revenue for 9M FY24.

Segment Revenue (Rs. Mn)



Source: Company, Keynote Capitals Ltd.

Segment Operating Profit (Rs. Mn) and Margin (%)



Key Acquisitions in the Platform Solutions segment

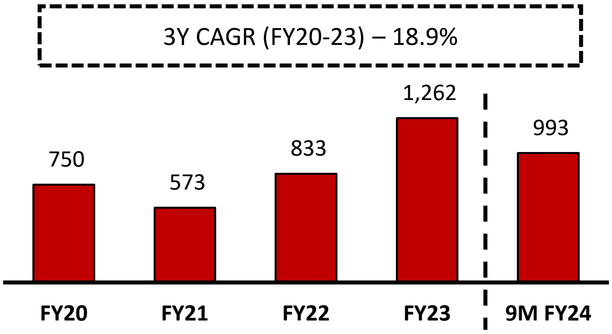
Source: Company, Keynote Capitals Ltd.

eLearning Solutions

This segment is the latest addition to MPSL's business. The Company forayed into the eLearning business in the year 2018 and since then the segment has shown remarkable progress both in terms of growth and profitability.

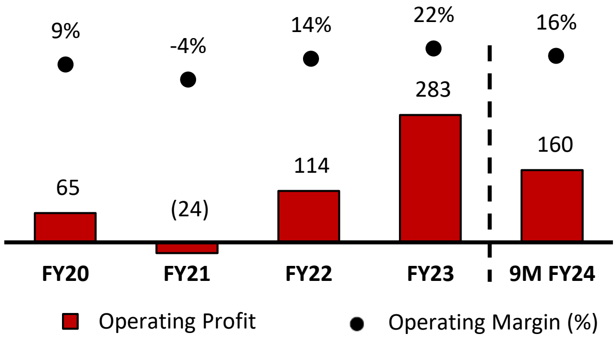
Currently, the eLearning solution segment contributes materially, to the tune of 25% of MPSL's overall revenue for 9M FY24.

Segment Revenue (Rs. Mn)

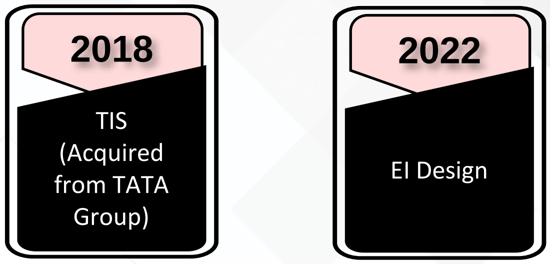


Source: Company, Keynote Capitals Ltd.

Segment Operating Profit (Rs. Mn) and Margin (%)



Key Acquisitions in the eLearning Solutions segment



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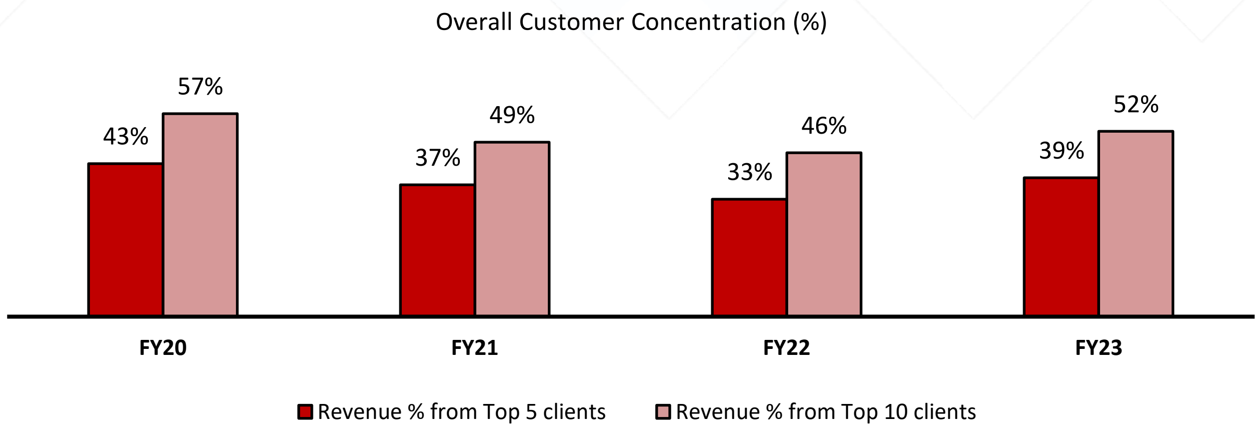
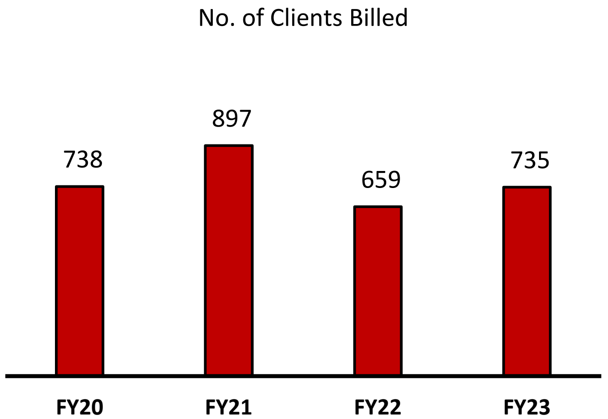
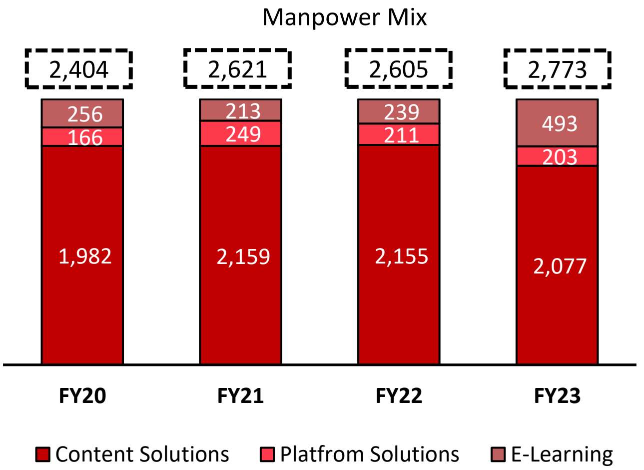
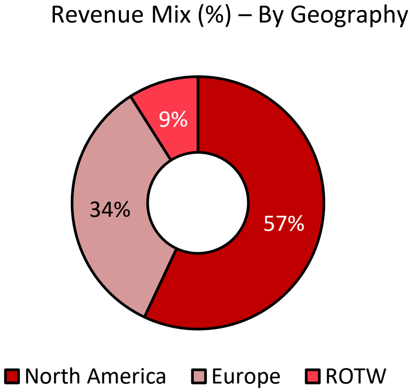
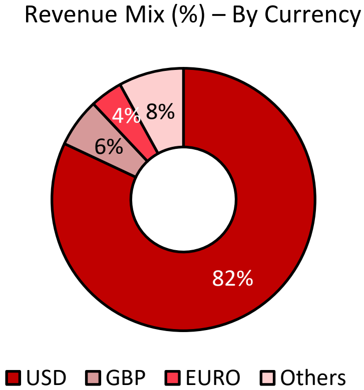










Source: Company, Keynote Capitals Ltd.

History of making successful acquisitions

2013

Content Solutions

ELEMENT LLC, USA

Expertise - Editorial, design and production services to the educational publishing market.

Advantage - Strengthened MPS's position in the USA and helped it tap the K-12 market.

Consideration – Rs. 100 Mn

2014

Content Solutions

EPS, USA

Expertise - Editorial, content creation, design, research, permission, etc. services to higher education and professional publishing markets.

Advantage - Strengthened MPS's position in North America.

2015

Content Solutions

TSI Evolve, USA

Expertise – Full-service editorial, content development, design, etc., to educational publishing markets.

Advantage - Strengthened MPS's position in North America.

Consideration – ~Rs 66 Mn (0.33x CY14 Sales)

2016

Platform Solutions

MAG+, Sweden

Expertise – Ecosystem for creating and distributing content on apps.

Advantage - Strengthened MPS's platform capabilities for touch screen devices.

Consideration – ~Rs. 173 Mn

2017

Platform Solutions

THINK Subscription, USA

Expertise - Editorial, design and production services to the educational publishing market.

Advantage - Strengthened MPS's position in the USA and helped it tap the K-12 market.

Consideration – ~Rs. 43 Mn

2018

eLearning

TATA Interactive Systems

Expertise – eLearning products and services to Corporates, Publishers and Education Institutes.

Advantage – Adds a global sales and marketing engine to MPS.

Consideration – ~Rs. 600 Mn (0.43x FY17 Sales)

2020

eLearning

Highwire, Ireland and UK

Expertise – Independent tech provider to academics, associations and publishers

Advantage – Product suite across the publishing cycle helps MPS strengthen its platform business

Consideration – ~Rs. 595 Mn (0.37x CY19 Sales)

2022

eLearning

E.I. Design, India

Expertise – Learning and performance support provider to mid and large enterprises.

Advantage – Synergies of EI Design's technologies and MPS's global presence.

Consideration – ~Rs. 400 Mn (1.27x FY21 Sales)

Source: Company, Keynote Capitals Ltd.

Recent Acquisitions

In FY24, MPSL executed a partial acquisition of Liberate Group in August 2023, followed by a full acquisition of Research Square AJE LLC in February 2024. Details in the following table.

E-Learning

Content Solutions

Particulars	Liberate Group, Australia	Research Square AJE LLC, USA
Business Overview	A well-known learning provider in Australia, it offers a host of services across the learning spectrum. The Group caters to its diverse blue-chip customer base through a consultative approach.	AJE is a transactional B2C-dominated business that is powered by automation and strong AI/ML capabilities in the editing process.
Customer Overview	The Group provides digital & blended learning and training solutions to its customers, including B2B and B2G customers.	Customers are divided in three categories including, B2C (Researchers), B2B (Universities, Publishers, etc.) and B2B2C (Researchers within institutes mentioned above)
Service Offerings	Preparation of training modules, conducting training sessions, developing eLearning modules and course material, short videos and providing personnel for learning programs.	Delivers a wide range of digital language editing services under brands like American Journal Experts and Springer Nature Author Services. The Company also provides academic translation, scientific editing, formatting and custom illustration services.
Objective/Benefit to MPS	Expansion of eLearning business into the untapped APAC market	Strengthening AI capabilities, entry into the B2C market, entry into China, value chain enhancement
Industry	eLearning	Author Solutions, AI NLP and Platforms
Stake Acquired (%)	65% (Rest 35% will be acquired in tranches)	100%
Purchase Consideration (Rs. Mn)	~500	~700
Revenue	FY22 – AUD 8.3 Mn	CY22 – USD 33.7 Mn
EBITDA Margin %	40.4%	Low Teens (13-14%)

Source: Company, Keynote Capitals Ltd.

Change in acquisition strategy of MPSL

Until 2021, it was all about putting in the right blocks to build a diversified business and combating pandemic-related challenges. From 2022 onwards, the Company shifted its focus back to business growth.

To attain this goal, MPSL believes that it will have to make some significant changes in its acquisition strategy and expectations from the target companies. Below is a comparison indicating the key changes in the Company's acquisition strategy.

Particulars	THEN (Phase I – Till 2020)	NOW (Phase II – 2022 onwards)
Objective	The objective was to attain meaningful diversification by making the right acquisitions.	The objective is to focus on growth, strengthen the competitive edge and gain access to new markets.
Financial Position of Targets and Valuation	Acquiring distressed assets at distressed prices	Acquiring growing assets at competitive prices
Turnaround Timelines	Historically, acquisitions have taken 4-5 years to turnaround (reach target margin).	Going forward, acquisitions are expected to turn around in the 2nd year itself.
Payback Timelines	Payback timelines use to be elongated given the higher time required to turn the businesses around.	Payback timelines are expected to be quite short going forward given the expectation of a much quicker turnaround.

Source: Company, Keynote Capitals Ltd.

The STAR Account Strategy

STAR accounts are the customers who provide significant business to the Company. These accounts are identified based on their growth potential, scale and strategic positioning. Initially, MPSL implemented this strategy in its content solutions business, which yielded extremely positive results.

In FY23, the Company focused on 30 STAR accounts and broadened the number to 60 accounts in FY24. Going forward, MPSL plans to scale the STAR strategy to all the business segments and achieve a significant scale by FY28.

<u>What is a STAR account?</u>

A STAR account is a customer who qualifies for two out of three following conditions:

- Current business is above a certain size
- Potential business can be above a certain size
- The business has some strategic element that improves the total business for MPS

Forging better relationships

MPSL has identified STAR accounts across all three business segments and has started to deepen ties with customers. The Company makes sure that a STAR account has the following:

- Dedicated delivery team
- Dedicated account manager
- Executive sponsor from the senior management team of MPSL who corresponds with the executive sponsor from the client's senior management team

The Company, along with its customers, work on figuring out ways to unlock the value of the partnership.

Expected outcome

As a result of the implementation of the STAR strategy, the Company expects to have 7-8 lines of business with each of its STAR customers which is 4-5 currently. Additionally, as the strategy is now being implemented across business segments, it is expected to contribute even more as MPSL scales its business going forward.

MPSL's Capital Allocation Strategy

It becomes crucial to evaluate the capital allocation strategy of companies that generate strong cash flows. MPSL generated ~Rs. 7.8 Bn worth of cash flow from its operations (CFO) in the last 11.5 years.

Out of this, ~20% of the cash was utilized for business expansion (Organic + Inorganic), and ~60% of the cash was given back to shareholders either in the form of dividends or buybacks.

Going forward, the Company plans to continue with this capital allocation strategy. Management indicated that the next phase of the acquisition will target a significant expansion of scale, which will enable the Company to approach its Vision CY27.

Additionally, the Company also highlighted that based on the current management bandwidth, MPSL will optimally only be able to execute 1-2 acquisitions per year.

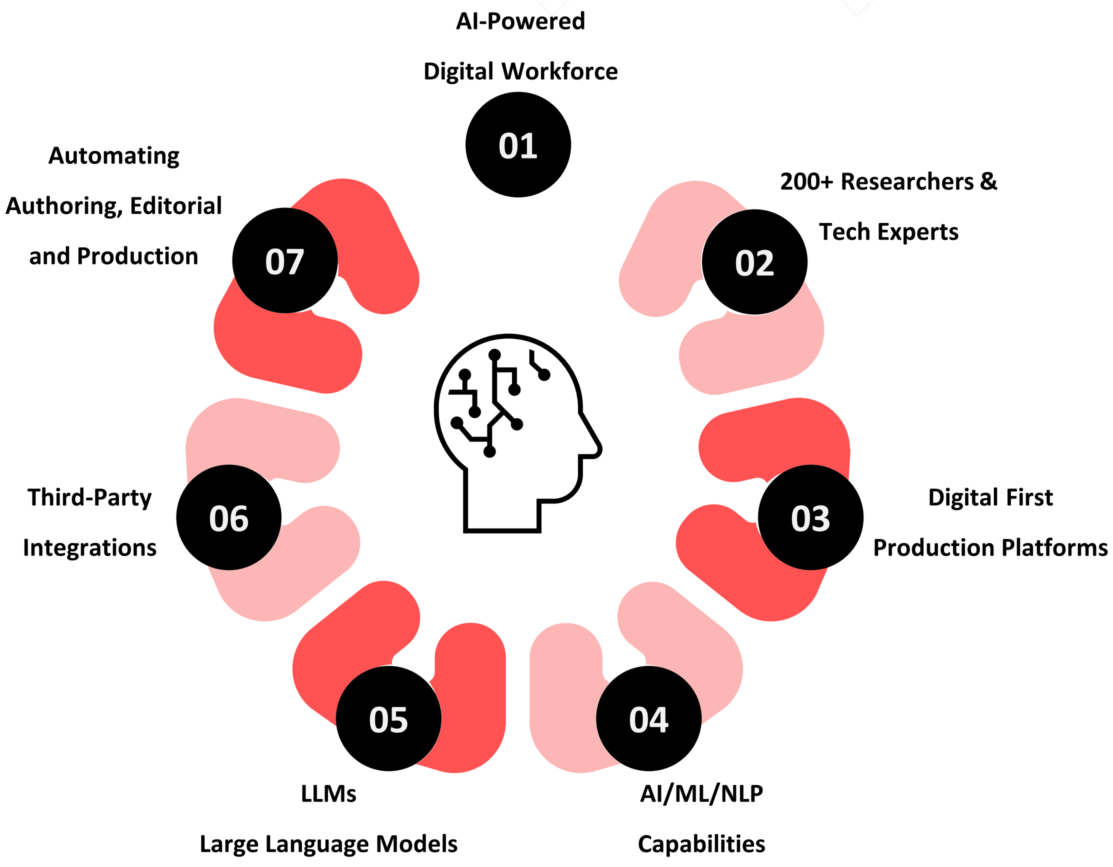
Given MPSL's strong cash generation ability, there will be instances where the Company will be sitting on surplus cash which it might not require in the coming 6-12 months. In such instances, the management finds it apt to distribute such funds in the form of dividends rather than sitting on excess cash. According to the management, this is a sign of good corporate governance, and they would want to continue doing the same.

MPSL's AI/ML Initiative - MPS Labs

MPSL does not see AI/ML as a threat but as an opportunity to differentiate itself in the fragmented market. To carry out this transformation, the Company launched a new initiative, headquartered in Bengaluru, called MPS Labs. MPS Labs is an R&D center that uses cutting-edge technology around AI/ML/NLP and cloud for a scalable architecture.

Under this initiative, the Company is investing heavily in incubating new products and innovations that can help MPSL with future-proofing by staying ahead of competition in a market that is enjoying secular tailwinds.

Following are the key features of MPS Labs.



Source: Company, Keynote Capitals Ltd.

Management Analysis

Key Managerial Personnel

Name	Designation	Promoter/Professional	Experience with MPSL (Years)
Rahul Arora	Chairman & CEO	Promoter	13+
Sunit Malhotra	CFO	Professional	11+
Raman Sapra	CS	Professional	2+

Source: Company, Keynote Capitals Ltd.

Management Compensation

Particulars	FY21	FY22	FY23	FY24
% Promoter Holding	68.0%	68.3%	68.3%	68.3%
Senior Management Salary (Rs Mn)	32	38	48	NA
Promoter + Senior Management Salary as a % of PAT	5.4%	4.3%	4.4%	

Source: Company, Keynote Capitals Ltd.

Acquisitions have played and are likely to play an important role in MPSL's growth story. In this situation, the role and stability of the management becomes extremely crucial. The current management team has been instrumental in making previous acquisitions and integrating acquired entities into MPSL.

The significance of the management's role in a) identifying the right entities, b) acquiring them at the right valuation and c) integrating them is only going to increase In the future. Therefore, any change (if at all that happens) at the helm of MPSL must be carefully evaluated.

Promoter and senior-level management salaries have been within the prescribed ceiling, and thus, it is not a matter of concern.

Top Shareholders with more than 1% stake (%)

Particulars	FY20	FY21	FY22	FY23	FY24
Government of Singapore	2.1	2.1	2.0	-	-
ICICI Lombard Gen. Insurance Co.	2.5	2.2	-	-	-
Mukul Mahavir Agrawal	2.0	2.8	4.5	4.5	4.5
Pinebridge Global Funds	1.9	1.8	1.6	1.6	1.6

Source: Company, Keynote Capitals Ltd.

Opportunities

Robust Business Outlook - Vision CY27

Since 2012, MPSL has dedicated substantial efforts to diversify its operations and achieve a significant scale across various business segments. Having consolidated these efforts, the Company is now positioned to reap the benefits of its decade-long hard work. Looking ahead, MPSL is committed to further expanding its operations and driving growth.

Recent actions indicate that MPSL is ready to seize growth opportunities. This includes a shift in its acquisition strategy to focus on companies with a scale exceeding $20 Mn. This strategic adjustment reflects MPSL's confidence in its capabilities and its determination to achieve sustained growth and success.

With these strategies in place, MPSL has set ambitious targets to triple its topline over the next four years, from ~Rs. 5 Bn to ~Rs. 15 Bn by FY28. The Company expects this growth to come from both organic and inorganic avenues.

<u>Organic Growth Outlook:</u>

MPSL anticipates to grow organically at a CAGR of 14-15%, aiming to reach a scale of around Rs. 9 Bn by FY28. Within different segments, MPSL projects growth rates of 10% for Content Solutions, 10-15% for Platform Solutions, and 15-20% for eLearning. This optimism is grounded in the Company's enhanced product offerings and strategic positioning within the industry.

<u>Inorganic Growth Strategy:</u>

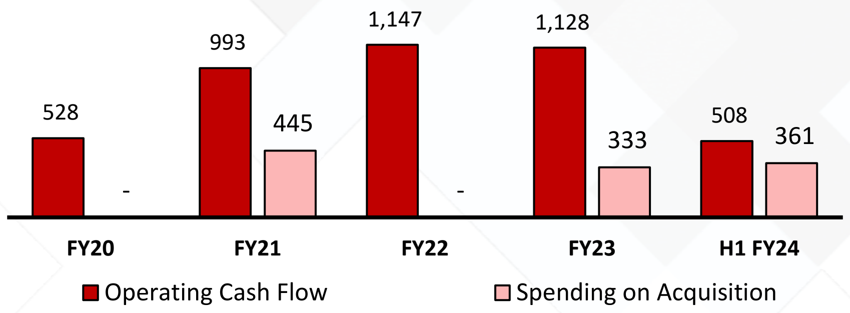
To achieve the journey from Rs. 9 Bn to Rs. 15 Bn, MPSL is focusing on inorganic growth. Aligning with its revamped acquisition approach, MPSL has already acquired AJE LLC, operating at a revenue scale of Rs. 2.0-2.5 Bn, where there's room for margin improvement. Additionally, MPSL aims to finalize another acquisition of similar scale in FY25, followed by a couple more acquisitions annually going forward to fulfill its Vision CY27.

<u>Well covered in terms of funding:</u>

Access to sufficient capital is essential for pursuing growth initiatives. With MPSL's current cash generation capabilities and the ability to identify attractive acquisition opportunities at favourable valuations, fulfilling its inorganic growth targets of making a couple of acquisitions per year should not pose significant challenge.

Moreover, MPSL's debt-free balance sheet provides ample room for taking on debt, if necessary. The management has demonstrated a willingness to leverage debt when needed, further enhancing the Company's capacity to finance inorganic growth opportunities.

Yearly CFO and Spending on Acquisition (in Rs. Mn)



Source: Company, Keynote Capitals Ltd.

The ideal acquirer, making the required strategic shifts

Since the ADI Group took over MPSL, the Company has demonstrated remarkable acquisition capabilities. It has successfully completed 10 acquisitions at attractive valuations and has not only turned around these struggling companies but also integrated them effectively into MPSL's larger framework.

Until 2022, MPSL focused on acquiring distressed companies at low valuations and then revitalizing them. However, there has been a noticeable shift in strategy recently. MPSL is now open to acquiring well-managed companies even at a reasonable premium compared to before. This signifies a move towards a hybrid acquisition strategy, which we expect the Company to continue in the future. A prime example of this hybrid approach is evident in MPSL's latest acquisitions of Liberate Group and AJE LLC.

<u>Liberate Group – Profitable Company Acquired at Fair Valuations:</u>

MPSL acquired a 65% stake in Liberate Group in August 2023 for ~Rs. 500 Mn, valuing the entire entity at ~Rs. 770 Mn. Liberate Group reported revenue of ~Rs. 450 Mn in FY22 with an EBITDA margin exceeding 40%. MPSL paid ~2 times Liberate Group's FY22 revenue for this acquisition, indicating a reasonable valuation.

<u>AJE LLC – Distressed Company Acquired at Low Valuations:</u>

In February 2024, MPSL acquired a 100% stake in AJE LLC from Springer Nature for ~Rs. 700 Mn. AJE LLC reported revenue in the range of Rs. 2.0-2.5 Bn in CY22 with an EBITDA margin of ~13%, considerably lower than MPSL's existing overall EBITDA margins. This acquisition falls into MPSL's traditional value category, which focuses on acquiring distressed companies at attractive valuations.

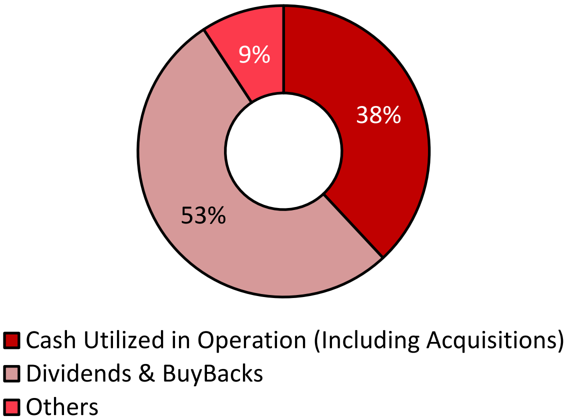
MPSL plans to improve AJE LLC's EBITDA margins and bring them closer to its own levels of 28-30%. Unlike in the past, MPSL aims to complete these turnarounds within a couple of years rather than the longer time frames seen historically. This reflects the Company's shift towards a hybrid acquisition strategy where the turned around is expected to be attained relatively quickly compared to history.

Sound Capital Allocation and Cost Management

The current capital allocation strategy of MPSL gets impetus from its strong cash generating capabilities and a debt free balance sheet. The Company has been maintaining a debt free balance sheet since 2015 despite making multiple acquisitions during that period. Indicating sufficiency of MPSL's internal accruals to make acquisitions.

If we observe the long-term capital allocation strategy of the Company, we find that it has sourced almost all the growth capital from internal accruals and has deployed most of it either behind making acquisitions and other operational purposes or has chosen to pay it back to its shareholders in the form of dividends and buybacks, indicating a quality of not hoarding cash which is unlike many other cash rich companies.

Utilization of Cumulative CFO Since 2013



Source: Company, Keynote Capitals Ltd.

Historically, out of the total CFO worth ~Rs. 7.8 Bn generated in last 11.5 year, 91% of the CFO generated by MPSL was either utilized behind operations or has been paid back to shareholders. The Company has returned more than half of the cash it generated since 2013 back to its shareholders.

Going forward also, the Company is looking to maintain a clear rule of thumb whereby it will return all the surplus cash that it doesn't require in the next 6-12 months. Historically, MPSL has maintained a clear stance of not hoarding cash and will continue doing so in absence of lucrative allocation opportunities.

In terms of cost management also, the Company has demonstrated a prudent approach right from the beginning when ADI Group initially acquired MPSL. During that time, new promoters strongly focused on reducing redundancy and outsourced non-value-added items. The Company's facilities were also relocated from Bengaluru and Chennai to expand its presence in Tier II towns for cost optimization. Till date, MPSL has most of its employee base in Dehradun and the Company continues to enjoy cost benefits of the same.

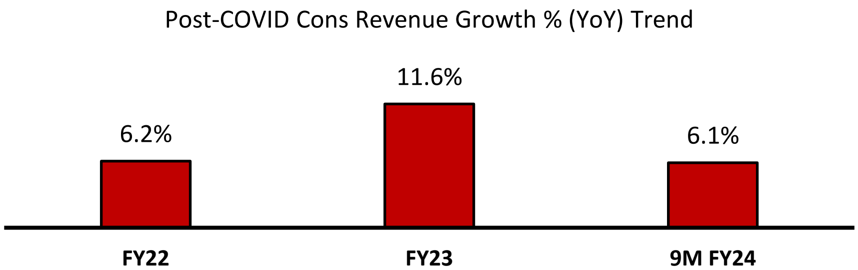
Challenges

Organic Growth Challenge – Execution will be the key

After the COVID-19 pandemic, MPSL has faced challenges in achieving the desired growth rates. In FY22 and FY23, MPSL experienced a ~6% and ~12% revenue growth, respectively. Despite implementing significant changes to its products and strategies post-pandemic, the Company has not achieved the targeted growth of ~14-15%, as desired for the future.

Furthermore, in FY24, MPSL is expected to not achieve double-digit revenue growth. This is due to the loss of a major "Experience Center“ project, which was anticipated to generate Rs. 400 Mn in revenue for MPSL. These recent trends suggest that MPSL has struggled to deliver the robust growth that the Company aims to achieve moving forward.

The Company's future growth prospects hinge entirely on MPSL's operational capabilities on the ground. Successful execution will be pivotal in driving organic growth and realizing the Company's Vision CY27.



Source: Company, Keynote Capitals Ltd.

Overpaying or Inability to integrate a large acquisition

Acquisitions have been instrumental in driving MPSL’s progress. They have not only contributed significantly to the Company's growth in the past but will continue to play a crucial role in its future development. One key strength of MPSL lies in its ability to execute acquisitions at attractive valuations and successfully integrate them into its operations. This track record underscores the Company's strategic acumen and operational excellence.

However, the success of acquisitions hinges on two critical factors that MPSL has managed well thus far but can go wrong with in the future.

Firstly, the Company must avoid overpaying for growth. While acquisitions are often pursued to fuel expansion and diversify revenue streams, paying an excessive premium can erode value and dilute returns for shareholders. MPSL's disciplined approach of ensuring that each acquisition adds tangible value and aligns with the Company's long-term objectives must stay intact.

Secondly, the ability to seamlessly integrate the acquired entity is paramount. Cultural alignment, operational synergies, and effective post-acquisition management are essential to realizing an acquisition’s full potential.

Now that MPSL has refined its acquisition strategy to focus on relatively larger-sized acquisitions of growing companies. MPSL has to be cognizant of these risks continuing to not play out in the future. Any mistake, such as overpaying for an acquisition or failing to integrate a large acquisition effectively, could have significant repercussions, hindering MPSL's progress towards its Vision CY27.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**4,489**	**5,011**	**5,210**	**7,838**	**8,693**
Growth %		12%	4%	50%	11%
Employee Expenses	2,017	2,128	2,188	3,527	3,781
Other Expenses	1,212	1,328	1,407	2,273	2,347
EBITDA	**1,260**	**1,554**	**1,615**	**2,038**	**2,564**
Margin%	28%	31%	31%	26%	30%
Depreciation	209	195	221	219	224
EBIT	**1,051**	**1,359**	**1,395**	**1,819**	**2,341**
Interest Paid	15	11	11	20	30
Other Income & exceptional	144	121	130	130	130
PBT	**1,180**	**1,469**	**1,513**	**1,928**	**2,440**
Tax	308	377	389	496	627
PAT	**871**	**1,092**	**1,124**	**1,433**	**1,813**
Growth %		25%	3%	27%	27%
Shares (Mn)	17.1	17.1	17.1	17.1	17.1
EPS	**50.93**	**63.83**	**65.73**	**83.76**	**106.00**

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY25E
Cash, Cash equivalents & Bank	1,328	1,575	2,412	3,485	4,789
Current Investments	58	278	278	278	278
Debtors	857	866	990	1,489	1,652
Short Term Loans & Advances	784	943	943	943	943
Other Current Assets	209	152	152	152	152
Total Current Assets	3,237	3,814	4,775	6,347	7,814
Net Block & CWIP	1,436	1,726	1,558	1,393	1,230
Long Term Investments	0	0	0	0	0
Other Non-current Assets	2,648	2,592	2,592	2,592	2,592
Total Assets	**7,321**	**8,132**	**8,924**	**10,332**	**11,636**
Creditors	181	203	208	314	348
Provision	306	285	285	285	285
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	882	826	826	826	826
Total Current Liabilities	1,369	1,314	1,319	1,424	1,458
Long Term Debt	0	0	0	300	300
Deferred Tax Liabilities	125	162	162	162	162
Other Long Term Liabilities	2,158	2,420	2,420	2,420	2,420
Total Non Current Liabilities	2,284	2,582	2,582	2,882	2,882
Paid-up Capital	171	171	171	171	171
Reserves & Surplus	3,498	4,066	4,853	5,856	7,125
Shareholders' Equity	3,669	4,237	5,024	6,027	7,296
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	**7,321**	**8,132**	**8,924**	**10,332**	**11,636**

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	1,180	1,469	1,513	1,928	2,440
Adjustments	168	177	102	109	124
Change in Working Capital	146	-164	-119	-394	-128
Total Tax Paid	-345	-354	-389	-496	-627
Cash flow from operating Activities	**1,149**	**1,128**	**1,107**	**1,148**	**1,809**
Net Capital Expenditure	-42	-42	-52	-55	-61
Change in investments	126	-644	0	0	0
Other investing activities	70	38	130	130	130
Cash flow from investing activities	**154**	**-647**	**78**	**75**	**69**
Equity raised / (repaid)	-850	0	0	0	0
Debt raised / (repaid)	0	0	0	300	0
Dividend (incl. tax)	0	-513	-337	-430	-544
Other financing activities	-305	-188	-11	-20	-30
Cash flow from financing activities	**-1,155**	**-701**	**-348**	**-150**	**-574**
Net Change in cash	147	-220	836	1,073	1,304

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY25E
Per Share Data					
EPS	51	64	66	84	106
Growth %		25%	3%	27%	27%
Book Value Per Share	214	248	294	352	427
Return Ratios					
Return on Assets (%)	12%	14%	13%	15%	17%
Return on Equity (%)	23%	28%	24%	26%	27%
Return on Capital Employed (%)	23%	28%	25%	26%	26%
Turnover Ratios					
Asset Turnover (x)	0.6	0.6	0.6	0.8	0.8
Sales / Gross Block (x)	2.0	2.0	1.9	2.8	3.0
Working Capital / Sales (x)	40%	44%	57%	53%	65%
Receivable Days	72	63	65	58	66
Payable Days	16	14	14	12	14
Working Capital Days	55	49	51	46	52
Liquidity Ratios					
Current Ratio (x)	2.4	2.9	3.6	4.5	5.4
Interest Coverage Ratio (x)	78.0	133.6	137.6	97.4	82.3
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.4	-0.4	-0.5	-0.5	-0.6
Valuation					
PE (x)	11.6	9.2	24.5	19.2	15.2
Earnings Yield (%)	9%	11%	4%	5%	7%
Price to Sales (x)	2.2	2.0	5.3	3.5	3.2
Price to Book (x)	2.8	4.3	5.5	4.6	3.8
EV/EBITDA (x)	7.0	10.7	16.2	12.9	10.2
EV/Sales (x)	2.0	3.3	5.0	3.3	3.0

Source: Company, Keynote Capitals Ltd. estimates

Valuations

Particulars	FY26E
Revenue (in Rs. Mn)	8,693
PAT (in Rs. Mn)	1,813
EPS (Rs.)	106
P/E (x)	25
Target Price (Rs.)	2,650
CMP (Rs.)	~1,650
% Upside/(Downside)	60.6%

Source: Company, Keynote Capitals Ltd. estimates

Following the ADI Group's acquisition of MPSL, the new management has successfully revitalized the existing operations and excelled in enhancing capabilities and diversifying into adjacent businesses, primarily through inorganic growth strategies. These initiatives have substantially improved the Company's profit margins.

Presently, MPSL is well poised to foster organic growth in each of its business segments effectively. Moreover, the Company possesses the necessary financial resources and operational capabilities to undertake acquisitions larger than those made in the past without significantly pressurizing its balance sheet.

Going forward, MPSL's management has outlined a strategy to attain an organic growth rate of 14-15% annually. Additionally, the Company plans to execute several acquisitions, each with a revenue scale of approximately ~Rs. 20 Mn or more, over the next 2-3 years.

We are confident that the combination of robust growth in the existing business and strategic inorganic expansions will lead to substantial value creation in the future. Furthermore, considering MPSL's strong fundamentals and growth projections, the current market valuation of the Company does not appear excessively high.

Therefore, we initiate coverage of MPSL with a BUY rating and a target price of Rs. 2,650 (25x FY26E EPS), resulting in ~61% upside from current levels.

KARAN KAMLESH GALAIYA

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SELL	Expected to fall by >10% over 1-year horizon
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