"Mphasis Limited Q4 FY18 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Mphasis Q4 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shiv Muttoo. Thank you and over to you, sir.

Shiv Muttoo: Thanks. Good evening, everyone. Thank you for joining us on Mphasis' Q4 FY18 Earnings Conference Call. We have with us today Mr. Nitin Rakesh – CEO and Mr. V. Suryanarayanan – CFO of Mphasis.

Before we begin, I would like to state that some of the statements in today's discussion maybe forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q4 FY18 Results Announcement Release that has been sent to you earlier.

I now invite Mr. Nitin Rakesh to begin the proceedings of the call.

Nitin Rakesh: Thank you, Shiv. Good evening, everybody. And thanks for joining the call. I hope all of you have had the opportunity to go through our MD&A, which provides details of our operational and financial performance for the quarter and the year ended 31st March 2018.

FY2018 has been a breakout year for Mphasis with a return to growth trajectory backed by continued above market growth in Direct Core, addition of new growth engines through Blackstone portfolio companies and the elevated partnership engagement model with DXC/HP.

In the rapidly evolving technological environment and the resultant change in business models, we are helping our clients embrace consumer facing view of the world through a Front2Back transformation strategy, focused around cloud and cognitive. During the year we have firmly architected our Front2Back transformation strategy to empower our enterprise clients to re-imagine their digital future. This is helping us in our growth in Direct Core business where 83% of the deals that we won in FY18 are in digital and next gen services. The share of revenue from digital and next gen services and Direct Core is at 43% for Q4 FY18 compared to 33.5% a year ago and has grown at 8.3% QoQ and 51% YoY over Q4 2017 on a reported basis, which is higher than the overall Direct Core and Company growth rates.

With these, Direct International businesses witnessed significant growth momentum in FY18 with TCV wins of $551 million versus $366 million in the previous year, representing a 51% year-on-year growth. Around 83% of the deal wins for the year are in our focused areas of next gen services. $158 million worth of deal wins were recorded through the Blackstone portfolio opportunity in our first full year operation under the new majority shareholder. We believe this is a great testament to the strategic nature of our new ownership and we see a long-term opportunity in this segment.

The HP channel as well witnessed significant turnaround in FY18. Our increased sales efforts and other partnership initiatives helped improve the strategic framework of our client engagement and helped us build a solid partnership. During the year, we won significant large transformation deals with DXC/HP which helped us grow the revenues from this channel which I will discuss shortly.

Further, we are witnessing early signs of growth from Europe. In Q4 2018, revenue from Europe has seen a significant QoQ and YoY growth at 18% and 34% respectively on a reported basis. We continue to increase our sales investment and focus in Europe and expect this to be a key growth driver in FY19.

The revenue growth helped us bring in higher operating efficiencies and coupled with other optimization efforts helped us improve margins which enables us to reinvest a part of this growth through large transformation projects, a key enabler for growth this year.

I am happy to share that with all these momentum in FY18 our revenues have crossed $1 billion for FY18 at $1.15 billion and I want to take a moment to thank all our clients, my fellow Mphasians and various stakeholders in helping us to cross this milestone.

I will now move on the financial results of Q4 2018 and FY2018:

Consolidated revenue grew 5% QoQ on a reported basis and 4.4% in constant currency terms. The growth was broad based across Direct and DXC/HP business and was partly aided by one-time revenue from India government business to the tune of INR119 million (70 bps to revenue growth). For FY18, net revenue grew 7.7% on a reported basis and 11.1% adjusted for currency movements.

Direct international grew 3.1% QoQ on reported terms and 2.5% in constant currency. Direct Core which contributed 78% of direct revenue in Q4 2018 grew 2.9% QoQ on a reported basis and 2.1% in constant currency terms. Direct international in FY18 grew 3.2% YoY on a reported basis and 6.8% in constant currency terms.

Direct Core revenue which was 78% of direct international in FY18, grew 8% on a reported basis and 11.6% in constant currency terms. The growth has been driven by expansion of footprint in our existing key accounts, growth from Blackstone portfolio companies and new accounts. Revenue for next gen services grew 51% YoY to 43% of Direct Core revenues.

DXC/HP business saw another robust quarter of growth with 9.2% QoQ on reported terms and 8.3% on a constant currency basis. In FY18, the DXC/HP revenue grew 16.8% in reported terms and 20.6% in constant currency. As discussed earlier, we have added multiple vectors of growth within the channel and our enhanced partnership framework helped us achieve this growth.

Digital Risk business continues to remain stable and is operating in the band we discussed in the past, between $28 million - $30 million per quarter. We are building a strong pipeline in this business and are confident of operating in this band and possibly looking at growth further in FY19.

Moving on to margins:

The operating margins improved by 130 basis points QoQ and 220 basis points YoY to 16.8% in Q4. Operating margin for FY18 improved 50 basis points to 15.1%. Along with a strong revenue growth, certain key operating levers such as fixed price revenue, pyramid optimization, adoption of automation driven efficiencies and utilization has improved during the year and coupled with other efforts has helped improve the margins. The margin growth for the quarter was partly aided by revenue from GOI contract to the tune of 60 basis points. Given that we won some large transformational deals during FY18, we expect to continue to improve our operating efficiencies over the medium-term as these projects ramp-up and reach steady state.

Our cash generation continues to be strong at $24 million for Q4 FY18. Total cash on the balance sheet as on 31st March 2018 stood at Rs. 24,890 million which translates to US$383 million. In FY18, we completed a share buyback worth Rs. 11,030 million. I am happy to announce that in line with our philosophy of rewarding the shareholders, the board has recommended a dividend of Rs. 20 per share which would be paid subject to shareholders approval in the AGM for FY18.

Overall, we are pleased with our efforts in FY18 with strong TCV wins, broad based growth across all our business segments and strong margin growth. We are focused on driving wallet share gains in our strategic accounts by building solution relevant to our clients. We have systematic approach towards growing the Blackstone portfolio and we are strengthening our partnership with DXC/HP to position us as a value-added partner, helping them win in the market place.

We are exiting the year with good TCV wins, revenue growth and positive momentum and operating margins. While this growth was positive and great, the pace of technological shift in the market continues to accelerate and provides a dynamically changing business environment as well as its own set of challenges in balancing the priority between core and new gen services.

Before I conclude, I would like to share some initiatives as we enter FY19.

In FY19, we are going to continue to increase our GTM efforts as well as expand focus on creating synergies across our multiple units within Direct International. We have recently repurposed our client facing efforts into a simplified, integrated customer centric model with empowered senior leaders owning these named accounts, existing and new, with their approach to expand Mphasis wallet share through offering additional services across digital technologies, Front2Back, service transformation as well as offering bundled and build around our product capabilities in insurance and healthcare, i.e., build around Wynsure and Javelina. With this focus we are reorienting go-to-market towards one Mphasis approach and aim to deploy our proven strategic account mining template around solution lead sales approach.

We will also continue to focus on expanding our European footprint across our chosen market segments as this will continue to be a key engine for growth. As such, we believe we should be able to sustain above market growth for Direct Core in FY19 and with added focus on synergistic go-to-market, we are aiming to bring additional growth in other segments of Direct International and we will continue to update you as we progress over the next few quarters.

Within the DXC/HP channel we continue to see opportunities for further expansion. While FY18 growth was skewed towards new DXC/HP partnership, we continued to invest in other strategic areas such as digital, cloud and automation as well as application transformation. We are further expanding into other geographies within the partnership with a renewed focus on Europe, UK and Asia Pacific besides US. We believe with new vectors of growth we will be able to sustain at or above market growth in this segment for FY19. Additionally, we also believe we have a long-term opportunity in other listed entities, notably HPE and HP Inc. and Micro Focus and we will continue to make additional client facing investments as well as aligning with their respective strategic priorities.

On the FY19 margin outlook front, I believe we can sustain our efficiency efforts and as such we feel comfortable enough to operate within 15% to 17% EBIT range accounting for ongoing investments in large deal wins, capability build up including continued investments in IP assets as well as sales and marketing efforts.

Finally, I am pleased to announce the launch of a refreshed Mphasis brand identify, keeping in tune with our positioning of helping enterprises with our customer centric digital transformation as well as embracing new technologies to digitize and transform legacy system and processes. With this, we will be increasing our marketing efforts through this exercise by engaging in multiple communication channels, analysts, digital media, etc to increase our visibility.

On that note, I thank you once again for your interest and I will now request the moderator to open the lines for questions.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Nitin, my first question is on the HP/DXC performance. Can you throw more color on what is really driving that? And if you can probably be a bit more granular in terms of its outlook.

Nitin Rakesh: So, I do not think I need to be more granular in the outlook, but the vectors of growth that we talked about have been pretty steady for the last four quarters. Around this time last year, we announced a deal for cloud migration and application transformation, and that is kind of driving our positioning as well as our ability to lead through solutioning and get to the front end of deals. So it is primarily the big vector of change. In addition, we are also now starting to expand outside of the US with that partnership. And as I mentioned in my prepared remarks, we started with Europe, UK, as well as parts of Asia-Pacific and it is an issue raised for that. So we will continue to focus on, as I mentioned again, growing this segment and at or above market for FY19 as well.

Apurva Prasad: And would it be possible to breakdown digital and new gen component in this portion of the business?

Nitin Rakesh: No. That is a message that we have not provided because this continues to be, many different segments because there is the HPE business, there is DXC element to it and HPI element to it. So for now, we will continue to report it as one consolidated number. But clearly, we continue to use a lot of our IP assets as we drive transformation, especially on some large deals. I think at a future point, as we see more sustained metrics in this segment we can probably start breaking it down further. But for now, we will just report it as one number.

Moderator: Thank you. Our next question is from the line of Nitin Padmanabhan from Investec Capital. Please go ahead.

Nitin Padmanabhan: Two questions actually, one is, the insurance bit we have seen some sort of decline and I think that sort of hurt the direct channel growth. Just wanted to understand what your outlook is within insurance and do you see further weakness there or is it largely over with?

Nitin Rakesh: In insurance, we had a one-time positive impact last quarter which is showing up in the sequential decline. Also, there is nothing specifically to call out on. If anything, we have actually been starting to see increased pipeline activity. We also announced a deal with an insurance broker in the UK called Towergate recently. So, as a segment it is something that we are still very much focused on, we have decent healthy pipeline and as we progress to the next few quarters you will start to see that show up in numbers as well.

Nitin Padmanabhan: And the second thing with regards to Direct Core, we have a very solid set of wins right through the year, do you think that growth should accelerate next year versus what we have seen this year in Direct Core?

Nitin Rakesh: See, you have to keep in mind, Nitin, the Direct Core business is kind of directly comparable to third party IT services and there is still a very strong dynamic of balancing core services with new gen services. So, it is extremely important that we continue to sustain the win momentum and we continue to do it in new gen areas because that is where the growth is. But there are still challenges in the core IT because, at least we are not in the camp that believes that traditional IT spending is going to come back in a big way. So that dynamic of how you balance the two headwinds in core versus the growth opportunity in new gen will determine what the pace of growth in Direct Core is. The stick in the ground that we have put is we think that will grow above market in FY19.

Modertor: Thank you very much. Our next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: I just have two questions. First is, if I recollect from last quarter, you had said that the average deal tenure is three years. So, can we assume that out of the $550 million that you have won this year, roughly $170 million - $180 million would be incremental revenue for next year?

Nitin Rakesh: Some of that may be 5-year deals depending on how we bundle them, because if you look at fixed price deal number that has gone up to 26% this quarter which is significantly higher than where the number was last year. And in many of those cases there are some five-year deals in there. So it is probably a little risky to do a direct correlation and break numbers on one side and say flow into this year. We can probably look at giving some more breakup of that in our next quarter MD&A. But for now, it is probably somewhere between three and five years is what I would say average, depending on what type of deal it is. Some of the new gen deals, especially the digital projects, typically would not be three-year deals because they might actually have sprints that will get funded as we go through the process. But if it is managed services or service transformation deal that typically will be between three and five years. So it is kind of very hard to break it down and say one third of that is revenue flowing in this year. I know it makes modeling harder but that is the nature of the business now.

Abhishek Bhandari: Sure. So second question is, now if you look at the total deal wins for this year roughly one third has come from the Blackstone channel. Do you think there is still more headroom for growth from this $150 million - $160 million annualized deal wins what you have seen with Blackstone? Basically, where I am coming from, if I recollect, you had said that the initial target set for mining would be 20 clients, so if you can share some progress in the number of clients who have already been approached and what is left from the initial pool?

Nitin Rakesh: So, firstly, I want to clarify that the breakup we gave was on very specific consistent request to provide more color and clarity on how we are performing in that channel. And on that basis, as an exception we want to report that: $158 million is the number that happened in FY18 which is something I am very pleased with. Keep in mind that this is not a static pool of companies. This pool changes pretty much on a weekly basis because on an average they do a transaction every week, buying or selling a business. When they are selling a business, it is just immaterial but when they are buying the business it is actually quite material to us and we try to keep track of that very, very closely. If anything, we will continue to stay very close to that channel. We have also started to think about how we can start shifting left, as in get closer and closer to their deal cycles, so it gives us more visibility into incoming deals. We know that our initial set, we announced four deals in May of 2017. I would not give any more details beyond that, but we did decide to report this lumpsum number for FY18 because we wanted to give more clarity and visibility into the fact that we actually performed really well in this channel. We have also said that the addressable market is about $1.5 billion a year. Obviously not all of that is target market for us but that is addressable, that will change dynamically with companies being brought and sold. So, there are opportunities really long-term, it is up to us how well we can keep executing on it.

Abhishek Bhandari: My last question is on your EBIT margin guidance for FY19. You have lifted by almost 100 basis points from 14 to 16 to 15 to 17. Now what are the drivers behind your better outlook in terms of margin despite talking about continued investment in European salesforce and some of the other sales initiatives?

Nitin Rakesh: Three things are driving it. Firstly, we do continue to make investments in sales but also we are repurposing a lot of those investments by, as I mentioned, creating an integrated go-to-market around key accounts and other accounts. What that does is it gives us efficiency in terms of how we actually address the opportunity in each of these named accounts. Same thing for creating consolidated centralized structure such as marketing bid management, which also releases efficiency back into the system and we have repurposed lot of these investments. So that is on the S&M side. On direct optimization efforts, we called out four core initiatives. Firstly fixed price, if you look at the needle movement it has been pretty well, almost 6% to 7% in the last one year in terms of fixed price percentage. We are at about 26% of revenue now. This really changed in the last two quarters. That gives us a lot of opportunity to apply automation and get certain degree of non-linearity. So, looking at our total headcount movement between last year and this financial year ending March, our headcount movement is much less than 5%, actually about 250 odd heads, but our revenues are obviously up almost 11% with that headcount movement. So, what that means is our revenue growth will outpace out headcount growth. Now some of that may be because of onsite-offshore, but a large part of that is coming from the fixed price migration and that is a very considered strategic and deliberate act. We also talked about pyramid optimization. With growth, we get better opportunity to optimize the pyramid. Again, we are being very deliberate about which skills we are able to optimize, and which skills probably are not amenable to be optimized given the need for new gen skills, design, architecture and rapid application deployment. But there is still opportunity for us to continue to do that as we go through next four quarters. Having said that, we do recognize that we need to keep making investments. So even though at an operating level we are above 16% in Q4, we are still guiding to 15% to 17% because we want to be able to use the ability to invest depending on either large deals or a client requirement or a particular competency development or IP development. So we have to continue investing in building our platforms and that is why we are keeping a little more flexibility with us. Otherwise, if we extrapolate the Q4, we would have actually got a much higher number. So, I am deliberately keeping some cushion for us to be able to continue to invest. Obviously, pricing has been favorable as well, especially in New Gen services and that to some extent has given us a cushion against the headwinds in the core business. But these are the puts and takes and balancing all of these, giving ourselves some room to make investments, whether in large deals or in capability is the reason why we are running up between 15 and 17.

Moderator: Thank you. Our next question is from the line of Abhishek S from Equirus Securities. Please go ahead.

Abhishk S: Just have two questions, first one is, if I look at the growth in the DXC partnership, we would exhaust our five-year agreement probably in 3.5 years or closer to 4 years. So how should we look at this partnership and revenue commitment beyond the current engagement?

Nitin Rakesh: I think revenue commitment is a word that we do not often think of because the belief really is we have to go and win revenue every day. None of our other clients give us any commitment. So, the way we think about it is: as long as we are providing value through partnership, through transformation, through new gen services we will continue to gain revenue. I think the minimum revenue guarantee or commitment is really the back stop for us to not really focus on that number but find growth. So it is a number, it is a metric that we follow every quarter but it is not something that drives how we run the business. Also keep in mind that just because we will exhaust the 990 million does not mean that our agreement would not be alive because we actually have a 11-year agreement which will get renewed after five years automatically for two years each 3x over. So it is a long-term commitment from both parties. There is a lot of value that we are driving for each other and that is what is keeping us in business and giving us growth.

Abhishk S: So that is helpful. And the second question is, the guidance that you gave for margins, now is this a constant currency margin guidance or what is the rupee assumption that you are baking in the guidance?

V. Suryanarayanan: I am sure you are aware that we have disclosed the amount of hedge we have and the expected coverage for FY19. The margin guidance is at constant currency and after considering the expected hedge realization for FY19.

Nitin Rakesh: So, in a way we are already locked in to most of our 2019 rates and that is disclosed in the MD&A. So that gives us a little cushion against the currency movements during the year.

Moderator: Thank you. Our next question is from the line of Sumit Jain from Goldman Sachs. Please go ahead.

Sumit Jain: So, some of your competitors have said as these digital projects are scaling up, the offshoring element is quite high, almost 70% to 80%, and I guess that gives a lot of margin lever. Are you seeing those happening with you as the digital component in the Direct Core channel is going up quite a lot and I believe over time these can expand and you can offshore more work? As of now I cannot see in your numbers as the onsite mix has reached 56%, but are you seeing those trends in future?

Nitin Rakesh: Sumit, we at least saw stability in the onsite number, it has not gone up any more than it did last quarter despite the growth that we saw. So, it does look like there is some element of stability in that as we speak. However, the approach we have is we will do whatever is required to service those projects from whichever geographies needed. And at the same time, take benefit of IP and reusable components and frameworks. So it is not something that is worrisome per se because despite higher YoY onshore revenue our margins are still healthy and stable because of the multiple levers I talked about on the margin side. As some of these projects scale, especially if they have an element of service transformation that definitely gives us the opportunity to do further offshoring and again that is one of the reason why you are also seeing some of that play out in the margins. But I would not really call out and say that we have peaked on the onsite, because the answer is I do not know, it will all depend on what kind of projects we end up servicing.

Sumit Jain: That is great. And secondly on your guidance front, want to assess on how should one look at the hedge gain component. How from a book-keeping perspective one should forecast FY19, almost at a similar level of FY18 or one should look at it based on the currencies you have hedged?

Nitin Rakesh: So that is a great question, I am glad you asked. Firstly, we do declare our outstanding hedges in the MD&A, so if we go and look up the sections I am happy to point to that as well. You can actually model what is our locked in hedge rate for FY19. Because the rupee has depreciated in the recent few weeks, obviously our hedge gains will not be the same as FY18. So as you start looking at modeling that into your numbers you should be able to see the difference between gross and net revenue will actually start narrowing. And for that purpose and this is again something that some of you had also raised in the past, we have actually started to report the gross revenue line separately, so you do not have to do the backward calculation. If you see this in time MD&A we actually started to report that proactively.

Moderator: Thank you. Our next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Just one question, Nitin, in the earlier deals with HP, and this is before the HP/DXC combine, I think a lot of business was contracted in rupee instead of the dollar. So I just wanted to know in the current portfolio of revenues within this channel is that still the case, and if yes then how much would that be?

Nitin Rakesh: So, bulk of our revenues is actually contracted in either dollar, or in some cases if we do business in Europe it could be in Euro or Pounds. The rupee contracts that were renewed every year is probably a thing of the past. As we signed the MRC in 2016 September we actually moved to a five-year pricing contract. And right now, I would say about 90-odd percent will be in non-rupee currencies.

Moderator: Thank you very much. Our next question is from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Just for the full year the growth in the Direct Core business, is it in-line with the expectation or you anticipated some higher growth as you said that there are some surprises in terms of the traditional IT business which is being witnessed by most of the vendors?

Nitin Rakesh: We guided for an above market growth, we are 300 to 400 bps above market. So, we are not surprised negatively. And the reason we expected number in this range, I mean it has still grown fastest in the company because obviously there have been other units within Direct International like Digital Risk that have had challenge on a YoY basis. and This is quite in line with the low- to mid-teens growth that we have seen in Direct Core over the last three or four years on a constant currency basis. My comment about the balancing between the core IT and new IT is not a surprise to us. It is something that we are very proactively converting and migrating using our platform approach, especially on service transformation. But having said that I think there is a certain inertia and our client needs to be ready to do that as well. So the issue is not so much about us getting surprised, the issue is about the cycle time it takes to actually convert those and transform those contracts and bundle New Gen services around them. Applying something as simple as predictive maintenance to an application maintenance contract does require clients to actually embrace that concept as well. So, I think it is an industry phenomenon, we are glad that we are almost half our revenue converted to New Gen services, but that means we have another half to go.

Sandeep Shah: And in the Direct Core, is there any client specific issues you foresee because in some of your set of accounts there is a risk of in-sourcing indicated by one of your large peers? And also in one of the insurance accounts a lot of spend issues may come because of the losses, due to the weather issues in the USA. Any client specific issue you are foreseeing while entering FY19?

Nitin Rakesh: Again, individual clients we do not normally comment on, but all I can tell you is when you have a portfolio of clients (70 - 80 customers) in direct business you will always have puts and takes and some clients will grow much faster, some will actually have issues. So at a portfolio level our job is to manage that business to grow faster than market and that is the reason we are focusing on that.

Sandeep Shah: And second, if we look at this year almost 50% of the incremental growth has come through HP/DXC, and your commentary says that at or above the market rate., So you would believe that the growth uptick can be higher or bigger which you are actually budgeting for a Direct Core entering FY19 or how should we look at, because it looks like that most of the growth has been coming through the HPE in this year, though other businesses have also done very well.

Nitin Rakesh: I would say that HP grew faster and made up for some other drag we got from other units, but Direct Core still kept us in double-digits, well above 11%. So, as we enter FY19, on a pure run rate basis we are actually starting to see double-digit growth in HP, but again keep in mind we are still calling it at or above because a large part of this business is also susceptible to the same core disruption that I talked about. So we do expect HP to grow at or above. And our objective for FY18 was to bring it to at least at market, we are very glad we grew very healthy double-digits. But as we get through FY19 we have to still continue to balance the core with new and transformation deals. So that is why we still think it will actually contribute to growth, whether it grows faster than Direct Core or not is something that we will update you as the quarters go by. We are in a happy position that both the businesses are competing for growth right now.

Sandeep Shah: And just two bookkeeping questions, Surya, in this quarter there are some one-timers, both in the income as well as in the expense. Can you clarify? Even in the tax provision there are some one-timers. And for the full year if you look at your CAPEX it is half of your depreciation, so you believe that the CAPEX can go up going forward because this year's CAPEX is even half of the maintenance CAPEX, which is half of your depreciation. So how should we look at the CAPEX line going forward?

V. Suryanarayanan: Sure. So there are multiple questions, I will answer one by one. One, we did have one-time revenue from India Government which we called out and that naturally has flowed in to the margins. On the provision, this is an exceptional provision we have for the ATM business. Keep in mind that we had made a provision for the same way back in March 2016. Since it is a long-term contract, we re-evaluated based on the number of transactions and I think there is enough public information on that. We re-assessed the contract and made a provision. The third question was on the US tax. Just to give you a background, there was a new US Reforms Tax which came in end of December. There were multiple aspects to it. One, there was a rate reduction which naturally was positive. The other aspect was a one-time transition tax on the profits which were not repatriated by the downstream subsidiaries of the US company. We have made a provisional calculation for the same and that impact is close to 5.8 million. We also had certain benefits based on assessments completed which helped us to partially offset this one-time impact of the US transition tax. The third component of the US tax reform is the BEAT. We do have an impact to some extent, but to some extent will be offset by the ETR reduction from a US entities' perspective. So overall, we expect the ETR, and I am going a step ahead, to be in the range of 25% to 27% for overall group. On the CAPEX, there will be a marginal increase in CAPEX, but again it will be at the most about 1.5% of our revenues. And this is more on refresh of hardware and software spend.

Sandeep Shah: Can you just once again provide details about this exceptional provision, I did not get it. So this is more towards the ESOPs, right?

V. Suryanarayanan: So, we have the contract with the 26 public sector banks across six states for installing and servicing ATMs. This is a seven-year contract which expires in December 2020. And we get paid based on the number of transactions. Since the number of transactions have reduced substantially because of cash shortage which you are all aware, we had to make a provision keeping in mind the current projection or the transaction growth which will happen in the remaining tenure of the contract.

Sandeep Shah: And one-time India revenue, I think what Nitin has quantified in the initial remark was Rs. 119 million, right?

V. Suryanarayanan: Yes.

Nitin Rakesh: Rs. 119 million is approximately Rs. 12 crores. Also, we took a one-time provision for the business that Surya talked about in March 2016. This is just to top up that provision. This is the business that we bundled off our books to third party, but this is a proactive approach to make sure that we do not end up taking unforeseen hits through the year.

Moderator: Thank you very much. Our next question is from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: So, the billing rates have seen quite a substantial increase over last year, just wanted to know if this is because of the general increase in the pricing environment or is it because of the business mix change that you guys have been seeing overtime?

Nitin Rakesh: I think it is a combination of primarily the next gen services additional growth, especially as we have seen that number go up to almost 43% in Direct Core. And obviously the fixed price component; which is outside of these numbers. So this is purely based on the quality of work and the kind of skills.

Sagar Lele: So, does that also translate into it higher margins, in those business?

Nitin Rakesh: Somewhat, but keep in mind that these skills also have a higher cost. If we look at the efficiency, it does not come from just higher rates with lower costs, some of it does get offset with higher cost as well. But on balance and on a blended basis that does give us cushion against margin.

Moderator: Thank you. Our next question is from the line of Nitin Padmanabhan from Investec Capital. Please go ahead.

Nitin Padmanabhan: Surya, wanted your thoughts on what are the puts and takes for margins this quarter, because I think even last quarter we had a 40-bps one-time gain, this quarter there is 50 bps I think from

GOI one-time. So just wanted your thoughts on what are the puts and takes for margins this quarter?

Nitin Rakesh: You just answered it, so there is approximately 100-bps operational improvement between Q3 and Q4. What was net of exceptional item was 15.1% last quarter in EBIT terms is 16.2% in this quarter in EBIT terms.

Nitin Padmanabhan: Okay, so it is entirely operational. I am just trying to understand next quarter there will be a 50 bps drop, is it?

Nitin Rakesh: That I will tell you in August.

Moderator: Thank you. Our next question is from the line of Ashwin Mehta from Nomura Securities. Please go ahead.

Ashwin Mehta: Just one question on the HP/DXC revenues., So we are annualizing close to $280 million - $285 million in terms of these revenues. How should we think about pricing on this, is it a set of multiple contracts where you have different pricing arrangements, or it is more centralized in terms of pricing? Because in the past we have seen when HP was there, there were renegotiations in terms of pricing, so just want to get a sense in terms of that?

Nitin Rakesh: I think I addressed this when there was another question on the same topic. So, there was a five-year rate agreement done in September 2016 and obviously we end up using standard rate card when we use those rates to price services. But given that we have started to do a lot more work in transformation, especially applying automation or service transformation to traditional services; there is opportunity for us to bundle those also into fixed price contract. So firstly, there are hundreds of underlying contracts in this $270-$280 million of revenue. Secondly, there is an agreed rate construct which is used for if you are re-contracted on a T&M or managed T&M basis. And thirdly, we do have the ability to price them and bundle them in transformational contracts that may or may not be T&M.

Moderator: Thank you. As there are no further questions, I hand over the conference over to Mr. Nitin for closing comments. Over to you, sir.

Nitin Rakesh: Thank you all for your support. And I know it has been late in this evening for us to host this call aftermarket, so we appreciate you being on the call so late. And we look forward to speaking with you again after our Q1 numbers in a few weeks. Thank you so much.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Mphasis Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.