"Mphasis Limited Q2 FY19 Earnings Conference Call"

October 19, 2018

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Moderator: Ladies and gentlemen, good day and welcome to Mphasis Limited Q2 FY19 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Divadkar from CDR India. Thank you and over to you.

Varun Divadkar: Good morning everyone and thank you for joining us on Mphasis' Q2 FY19 Earnings Conference Call. We have with us today, Mr. Nitin Rakesh – the CEO and Mr. V. Suryanarayanan – the CFO.

Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q2 FY19 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, Varun. Good morning everyone and thanks for joining the call. I hope you had an opportunity to go through our Q2 FY19 Results and other operational performance information in our MD&A.

We began the year FY19 with the strategic focus on growth along 4 key vectors, i.e., consistent, competitive, profitable and responsible growth. We are happy with our execution on this strategy this quarter as we continue to grow our revenue and build a strong pipeline. Our renewed sales and marketing efforts and solution led sales approach is showing good traction and helping us win in the marketplace. We are very pleased to report our highest ever quarterly new deal wins at $210 million of TCV in the Direct International business which is broad based across portfolios as well as across strategic accounts and new clients. More importantly, around 77% of these deals are of New-Gen services which is our focus area. We have seen an increase in the average size of the deals we participate in and win. The "One Mphasis" approach is actually aiding our sales and account mining and is starting to show positive results in other key portfolios as well.

Our decade long experience of working with DXC/HP and the strategic client engagement framework that we launched last year has helped us build a strong partnership. We continue to build on this and had another quarter of solid revenue growth in Q2 FY19.

Digital risk business witnessed some volatility this quarter due to cyclical headwinds as we called out in our last earnings call. Despite these headwinds, we continue to operate in our stated revenue band of $28 to $30 million per quarter.

Moving on to financial results of Q2 FY19:

Consolidated gross revenue grew 6.9% Q-o-Q and 24.5% Y-o-Y on the reported basis. The growth was 3.0% Q-o-Q and 14.8% Y-o-Y in constant currency terms. The growth was driven by Direct Core and DXC/HP businesses.

Direct International grew 4.7% Q-o-Q and 20.4% Y-o-Y on a reported basis and 0.7% Q-o-Q and 10.3% Y-o-Y in constant currency terms. Direct Core which contributed 81% of the Direct International revenue in Q2 grew 8.0% Q-o-Q and 24.6% Y-o-Y on a reported basis and 3.9% Q-o-Q and 14.3% Y-o-Y in constant currency terms. Direct Core business continues to witness strong growth momentum which is broad based across strategic accounts, Blackstone companies and new accounts.

Despite the volatility in the Digital Risk business, our key verticals BCM which is banking & capital markets and insurance had healthy growths. BCM grew 4.6% sequentially and 18% year-over-year and insurance grew 7.2% sequentially and almost 9% year-over-year on a reported basis. With strong growth in emerging industry segment; which comprises of transportation, logistics and health care; at 12.1% sequentially and 31% year-over-year on a reported basis, we are pleased with our broad based and diversified growth across verticals.

DXC/HP business grew 10.5% sequentially and 34.7% year-over-year on a reported basis and 6.4% sequentially and 24.7% in constant currency terms on a Y-o-Y basis. We continue to invest in the strategic partnership and are focused on further bringing New-Gen services to the core.

Moving on to the margins, the operating margins improved 200 basis points year over year to 16.4%, primarily led by execution and operational efficiencies. As explained in our previous call given our fully hedged position on a rolling 4 quarter basis, for FY19 the benefits of rupee depreciation are not reflected in the current margins and we do not expect any material impact to FY19 profitability on account of any further movement in exchange rates. Operating margin declined 20 bps Q-o-Q primarily linked to initial transition phase expenses of certain large deals won during the quarter. The improvement in some of the key operating levers over the previous quarters have helped us improve margins Y-o-Y thereby creating headroom to reinvest in growth and making additional investments to build key competencies such as Talent Next and Next Labs. We are confident of operating within the guided band of 15 to 17% EBIT for FY19 after absorbing our upcoming wage increments that will be effective Q3 FY19.

Our cash generation remained strong and total cash on the balance sheet as of 30th September stood at Rs 25,185 million which translates to about $346 million. During the quarter, we paid out Rs.4,662 million including taxes as dividend and adjusted for this outflow, Cash and cash equivalents increased by Rs.2,476 million, approximately $35 million during the quarter.

Overall, we are pleased with the execution so far on our strategic priorities of growth this year with strong TCV wins and growth across major business segments. While normal seasonal quarterly factors will be in play, we are pleased with the health of our pipeline, the relative positioning of our service offerings and capabilities and continued strong execution across multiple vectors, especially in New-Gen services.

On that note, I thank you once again for your interest and request the operator to open the line for questions.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nitin Padmanabhan from Investec Capital. Please go ahead.

Nitin Padmanabhan: Deal wins are pretty solid, but in that context wanted to get your thoughts on the supply side of things. We see that a lot of growth is onsite. So in that context, how should we think about the supply side? Do you think the planned wage increase will be higher than historicals, and what could be the impact there? And the second part was your thoughts on the underlying demand environment? The current quarter has been very solid of course, but going forward how do you see that? Those are the two broad questions and then I will fall back in queue.

Nitin Rakesh: Sure, Nitin thanks for the two questions. Firstly the supply side is obviously the reason why we exist in business. So it is our core competence to be able to find the right people in the right geographies to support the right type of projects. So, naturally I wouldn't call out that as a constraint and I know some of our industry peers have called that out as a constraint. But from our perspective we have a supply chain model that is working well. We are agnostic to where the demand is in terms of locations and of course we have the ability to convert and transform projects as they mature. But given that a lot of the growth and the demand happens to be in New-Gen skills, clients are fairly clear that a lot of this has to be co-located. And that is not necessarily a bad thing because it gives us the ability to have the right pricing strategy. On the specific question on the visa, it has been a longstanding issue that we have to deal with in terms of making our supply chain agnostic to the issues and from that perspective we are fairly comfortably placed as well. Regarding the wage question that you asked us, I don't think there is anything unusual to call out because we will be in the normal stated band that you would expect. No different from previous years. Of course, there are pressures on the supply but as I mentioned the better way to do it is to actually continue to find growth for almost all of our employees by running them through better value-added work and that actually is helping us in retaining the talent well.

Nitin Padmanabhan: And the last one was on the demand and your thoughts on the pipeline there. Do you see that sort of continuing in the context of all the worries around trade wars and all that's out there?

Nitin Rakesh: Just to go back to the onsite offshore point, if you look the net headcount addition was actually higher in offshore in Q2 than it was onshore. So please keep that in perspective. Revenue is probably a little more skewed towards onshore because of the realization in the rates. But the good news is that we did add more headcount offshore on a net new basis. In terms of your demand question, so far at least in the near term we don't see any major impact on demand.

There are some macro headwinds that we are watching out specifically relating to the interest rate scenario and how that is impacting segments like mortgage. But not necessarily translating into any immediate negative impact on the pipeline of the demand. But it is important for us to be vigilant and we are watching some of those to be prepared for any eventuality.

Moderator: Thank you very much. Next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Nitin, congrats on good execution. You talked about the average deal size is moving up. If you could highlight what's the sweet spot for Mphasis? Has that changed in the last couple of quarters? Do you think that you are now well positioned to even participate for deals which could be as big as $50 million or $100 million kind of deals?

Nitin Rakesh: Gaurav, nothing much has changed in the last couple of quarters except that we are now fairly focused and amplifying our message to the market in terms of our positioning and our capabilities. But we have obviously moved the needle in terms of the segments we want to play in over the last 6 to 8 quarters. Our two primary motions continue to be service transformation led as well as the whole front to back transformation led. I think of these two as the primary motions. We are starting to see deal sizes go up primarily on two vectors: one we have a pretty good way of early engagement with clients in defining digital projects as well as helping them execute on deployment of new tech and machinery then continues to ramp up in next phases of the same program. So while common myth is that digital projects are small projects, the way to think about it is of digital programs are not small programs and that evolution of working with clients in this co-creation co-innovation model is paying rich dividends in terms of just continuing to increase the deal sizes. **S**econdly, the service transformation platform that we talked about over the last few quarters, we showcased some of that at the analyst day as well back in May. It has actually become a fairly strong differentiator in terms of deploying transformation to run IT or to legacy IT whether it happens to be in areas like support and maintenance, QA, application transformation, migration and increasingly around legacy modernization through the next step or the service transformation platform. Those two, primary motions are driving a lot of the deal discussions. The deal-sizes you mentioned are not unusual for us. Of course, our intention is to continue to get a seat at the table as we get more aspirations about the larger deals as well, but as we get through that and we have more wins hopefully, you will start seeing some of that reflected in the numbers as well.

Gaurav Rateria: Second question on the margins and digital risk specifically. While the revenues came off, has there been any impact on that part of the business on the margin front and has that impacted your overall margins and do you think that is a lever available for us if the growth comes back?

Nitin Rakesh: Gaurav absolutely, if you remember in the same call back after Q1 we did say that the DR business was still a little head winded because the origination volumes are declining and that scenario has not really changed. So while we are maintaining our guided revenue band this continues to be something that we have to work through and around. Some of that does have an impact on margin. But the bigger impact on margin really came from the fact that as we continue to convert deals through the quarter, our ability to staff and execute on those deals required us to actually invest little more aggressively in our supply chains. That is really what drove the margin this quarter and again keep in mind we did guide the same band of 15% to 17% EBIT for FY19 in the last call despite being on the upper end of the band. We maintained that band because we saw some of this playing out last quarter and we are still maintaining the band despite the wage increment impact that we will have over the next two quarters because we believe we will be able to fund some of that through our operational efficiencies and revenue growth.

Moderator: Thank you very much. Next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Nitin, couple of questions. One on digital risk. I remember we had talked about deal win from Citi on Digital Risk, any progress on that and can we see this $28 to $30 million per quarter run rate going up over the next 4 quarters or so?

Nitin Rakesh: Rishi, while it is not appropriate to discuss any specific client, projects or engagement, we continue to make progress on the transformational work that we started with this particular engagement we talked about. The entire effort and the reason why we have maintained our revenue band is because despite the fall in origination volumes we entered into some near neighbor areas that has definitely helped us in plugging some of the holes that came from decline of volumes. We have also been able to consolidate our position and get higher share of wallet from some of the clients; probably at the cost of competitors in some cases. And thirdly, we also started to focus on areas where we think that we have the skillset but we were necessarily not applying for a bigger role because that required a slightly different sales motion. And fourthly, the ability to take Mphasis services to these clients has also improved dramatically in the last 6 months. So, we are still growth oriented in the business. Net new growth is probably a function of a little more stability in the core but at this point in time, while this is a business that is head winded we worked around it in terms of making sure that it does not impact our overall revenue growth to a large extent.

Rishi Jhunjhunwala: Does this business provide any kind of cross selling or synergy to the rest of the business?

Nitin Rakesh: That was the point I was making. Our ability to take Mphasis services to these clients has improved dramatically because the whole point of launching the "One Mphasis model" was to be able to actually cross sell these services to the financial institutions that we service in this business. The client base is obviously of very high interest to us because these are mostly Tier 1 US banks and financial institutions that play in the mortgage industry. So that is one of the pieces that we are really playing out right now.

Rishi Jhunjhunwala: And the decline in help desk and knowledge processing revenue on the horizontal, both of them relate to this only or is there any other component?

Nitin Rakesh: Some of it is here. We did talk about the fact that we would continue to apply transformation to bundle these work into more platform driven businesses and that has some impact on revenue. But that is the kind of transformation we are driving consciously.

Rishi Jhunjhunwala: And lastly can you give some color in terms of the DXC/HP business which continues to grow pretty strongly? I think you have been fairly conservative in terms of suggesting where the growth rate could be on DXC/HP but it continues to grow at a pretty healthy rate, Q-o-Q and Y-o-Y. Some color on that will be helpful. We get some sense on the Direct channel from the deal wins but not much on DXC/HP otherwise.

Nitin Rakesh: It is a little tricky to kind of give you either deal wins or revenue guidance that strictly because it is a fairly concentrated book of business with 4 underlying clients. So, from that perspective, our guidance almost always is based on the fact that if we can grow this at or above market, then the rest of the company can easily be grown above-market given that Direct core is growing comfortably above market. So, we are fairly pleased by the fact that we continue to demonstrate 6 quarters of growth now in this business. This was a very head winded business through FY16 and part of FY17. While we are not apologetic about the growth, we are also fairly focused on making sure that we continue to provide value. So, from that perspective, this is obviously a slightly special segment of business given that it is a partnership led book of business. So think of this at least for the remainder of this year to have the tapering that you see and that itself translates into a healthy double-digit growth which is clearly one of our fastest growing segments and that does move the needle.

Moderator: Thank you very much. Next question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

Sandeep Shah: Nitin, just a question on the Direct International business. The way I look at is this business is more comparable to your peers as a whole. However, some of your peers in this industry are growing at a mid-teen or higher than the mid-teen and for you to grow at a mid-teen for a Direct International you may require 5 to 5.5% in the second half on a Q-o-Q basis. So, is it possible because for the last 2 to 3 years, this segment of the business has been growing at the rate of 8 to 13%, but looking at the deal wins, do you believe that we can also inch up to the other mid cap peers who are growing at mid-teen or higher than the mid-teen in this segment of the business?

Nitin Rakesh: Let me just point out two things. Firstly, let us differentiate Direct Core away from Direct International because Direct Core is really the most comparable part of our business as it relates to third party IT services. That business has consistently grown; I would say the 13 to 15% range on year over year constant currency basis. Even in Q2, it is actually 14.3% Y-o-Y CC growth and almost 4% Q-o-Q growth. So if the question is can we sustain the mid-teens growth for Direct Core, answer is yes because that is definitely a crown jewel in terms of giving us the ability to demonstrate the fact that we can actually win against some of the largest competitors that exist in our client base. I mean this is most competitive red ocean type business and if we are growing at 15 to 17% or above market there, which is market being defined by the 7%-9% growth guidance for the industry. We are very pleased with it and we will take it with both hands. Of course, with the deal wins that we have, we will continue to drive that kind of growth. We are also driving transformation in that business as I talked about by applying levers of automation. So the fact that we have now hit mid 40's in terms of percentage of share from New-Gen revenue, it is 46% in Q2 of the overall direct core business. That is also great news as well because that business is actually growing very fast at almost 40 plus percent rate for us. So, given that we are growing New-Gen rapidly, we are signing new deals which are primarily New-Gen and we are able to transform legacy IT into New-Gen, it gives us the long term sustainable basis for this business to continue to grow.

Sandeep Shah: The second question is in terms of margin what we have said I have just missed that initial remarks on the margins. So are we keeping the band of 15% to 18% with the wage inflation?

Nitin Rakesh: 15% to 17% EBIT margin band has been maintained. We started Q1 strong because we know we were at the upper end of the band at 16.5% plus. Despite being on the upper end at 16.6% in Q1, we maintained a band of 15% to 17% because we realized we will have to make some investment as we ramp up for new deal wins. We do know that we have some increment related impact in Q3 and Q4 but we are confident we will be able to fund that through our efficiency efforts and some of that will refunded through growth. So net-net, we are maintaining our guidance range for EBIT at 15% to 17% band. And the other thing I talked about the margin which I want to repeat because I want to make sure everyone does understand that very clearly is that there is no impact of currency depreciation on our margins in FY19 because we run a 4 - quarter rolling fully hedged book and for this year that hedge is at 67.5. So, whatever we actually loose in the hedge loss, we gain in the translation side, so net impact to EBIT is actually negligible. From that basis, please don't assume that there is going to be currency depreciation related impact that will positively impact us in FY19. As you look at the MD&A, you will actually get the overall average hedge positions. Those are obviously over the next rolling 4 to 6 quarters and hence you should be able to get some idea of how that hedge rate will ramp up based on just the forward rate that you can see over the next 6 quarters.

Sandeep Shah: My second question was looking at your hedge tenure and the hedge rates, is it fair to say that starting 1Q of next year there would a benefit or may be a loss coming down materially if rupee remains in a band of Rs.72 to Rs 73.

Nitin Rakesh: On a relative basis, yes. And compared to FY19, absolutely yes.

Sandeep Shah: And one last bookkeeping question. On the G&A side, there is absolute decline and there is a 60 basis point saving. So is it a new normal or there is some one time savings in this quarter?

V. Suryanarayanan: This is Surya here. It is more of one-time savings. If you look at manpower cost, there is not much of a change. It is the professional charges and other related expenses which are slightly lower this quarter.

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

Ashish Chopra: Nitin, I just had one question on the seasonality aspect. So, we have seen that the seasonality in the HP/DXC channel tended to be more pronounced than in the other segments. So just wanted to know with respect to the visibility that you have on the business, you think that you will be able to mitigate it? Also, how would you compare it in the direct business in the second half of the fiscal?

Nitin Rakesh: Ashish, the underlying nature of the seasonality is the same across channels. At least at this point in time there is nothing to call out specifically between Direct Core and HP/DXC. Again, it is a little early, some of the impacts are already known because of just the number of billing hours or billing dates is this quarter, but some of the other impact is almost always client specific. Very focused discussions are happening at multiple levels. But at this point in time, there is nothing to call out in terms of the two channels specifically.

Ashish Chopra: And secondly may be Surya can help me with this. In 3Q FY18, we changed the hedging policy to extend the maturity of hedges to up to 2 years, so could you help us know what percentage of the exposures from quarter 5 to quarter 8 would also be hedged for now?

V. Suryanarayanan: It is in the range between 30% to 60%: 60%, 50%, 40%, and 30%.

Nitin Rakesh: It is like a staggered hedge.

Moderator: Thank you. Next question is from the line of Ruchi Burde from Bank of Baroda. Please go ahead.

Ruchi Burde: Could you update us on our progress on initiatives in Europe business?

Nitin Rakesh: Again we are pleased that Europe is growing fairly well. Last 2 quarters it reported healthy growth. It is still a strategic area of focus for us. Pipeline continues to be strong. We have started to see benefits coming out of investment outside of the UK both in France as well as in the continent. So it continues to be work in progress, continues to be a good growth market and we see the opportunity to be fairly good in size there. So, it is still going to be an investment area for us and hopefully we will continue to grow that at least at or above our company growth rate.

Ruchi Burde: And secondly, we understand that you had mentioned you won't call out number for Blackstone deals on quarterly basis, but qualitatively could you talk about how the health of pipeline in that business at this point of time?

Nitin Rakesh: It is fairly strong because not only did we create a good strong foothold last year, a lot of those relationships are also continuing to give us good growth as well as reference ability. Despite that this is always a lumpy deal by deal business we are pretty happy with not only the pipeline but also the conversion that we have done on a quarterly basis.

Moderator: Thank you. Next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Could you give us some color on the emerging industries growth? That has contributed to roughly about half of the revenue addition in this quarter. Is this is all primarily from Blackstone portfolio companies or is there something more to it?

Nitin Rakesh: No Ravi, there is no correlation between Blackstone and Emerging. The Emerging industry as I called out in my remarks is transportation, logistics and health care and these are what we call the horizon 2 markets for us that we started investing for the growth. Again, off of a small base, the growth is pretty good given that some of our large client relationships are now sitting in this segment. We are also really happy with the fact that we have reference clients outside the BFSI and as I said, we will strategically invest in some of these at a sub-vertical level. Some Blackstone business may sit there but there is no direct correlation between Emerging and Blackstone.

Ravi Menon: Can we say that this should be one of the main growth drivers for the company even going forward?

Nitin Rakesh: Ravi, again if you look at the reason I broke out this in the MD&A and I actually mentioned this in my remarks is that there were some questions about Insurance growth last quarter. There was also some question about whether Banking is growing or not. From that perspective, we are very happy that almost all of our industry segments have grown. Of course, Banking being the largest we will have the base effect to it, but given that all four of them are actually growing well, our overall hypothesis is that we should continue to see broad based growth. By sheer nature of size and numbers, the growth may look skewed towards one segment versus the other.

Moderator: Thank you. Next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: Firstly, on the TCV basis, I mean how one has to read this because if we look at from a trailing basis, the data for the 4 quarter looks like 20% growth. So, if one has to relate it with the past order book how one can put analogy? Is it the tenure that is different or any construct that you could give there?

Nitin Rakesh: Sure Rahul, two factors to think about when you start to model the TCV win into revenue. Firstly, given that we are applying service transformation construct, some of these deals have started to be longer tenure which is great because it gives us the stability and the annuity of the revenue. So, it is now not unusual for us to see deals between 3 and 5 years, especially as we have applied transformation to those deals and that gives us the ability to apply transformation and optimize those operations. Second, we have talked about the fact that our New-Gen services have grown very fast and the fact that we have to continue to transform some of our traditional services. That does have a dilutive impact on the overall revenue growth. If you had an engagement that was primarily T&M or managed T&M and you are going to convert it into managed services by applying transformation, some of that will have an impact on the revenue run rate. But if you can bundle that into a longer-term contract, then you actually get much more stability and that is the strategy we have been following. That is why you have seen that our overall fixed price percentage has also gone up pretty nicely over the last 4 quarters.

Rahul Jain: From the DXC/HP perspective, it is adding more disproportionate share to the incremental revenue and we don't have much view in terms of the kind of growth one can anticipate. Is there anything that we could look at that could help us because if you look at historical data, I mean it used to be much larger engagement. I don't think if it is a right comparison to even look at that number. Or is that something can still happen or any other way you could give some input on this?

Nitin Rakesh: As I said earlier given that there are four underlying relationship, I don't think it is not comparable to the olden days that you are referencing to. Obviously, the trajectory of each of those four relationships is different. But given that we have already 300 million plus annual run rate in the business just based on Q2 number, the trajectory will obviously be driven by how much more pipeline we can keep driving and conversions are fairly immaterial because as I said the paradigm is slightly different. So even if you stay flat for the remainder of the year on a sequential basis, I am not saying we will, but even if you take the Q2 run rate, you know we are looking at a high-teen growth in the business. For this year at least that is the good thumb rule to follow. As we get into FY20, we will give you little more color may be over the next couple of quarters. But right now if you look at the high-teen kind of growth environment for this business for this year that will be a good thumb rule to follow.

Rahul Jain: Lastly on this "others" revenue, what is the mix right now and what we think is the right way to look into this number because this trend has been always a bit tricky?

Nitin Rakesh: Broadly, this is the business that has its own shelf life. It is mostly the legacy old business primarily focused on the local domestic market that we are not strategically investing or growing outside of our Direct Core customers. So, I mean there are certain segments that we are investing in, but that is our global client segment. So, think of this really as a line that we will at best stay flat at least for the foreseeable future and of course as things change, we will update you.

Rahul Jain: From an annual perspective one should look it as a stable number?

Nitin Rakesh: Yes.

Moderator: Thank you. Next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George: I am just trying to make sure that I understand this well in case it has not been discussed. Did we see a very significant decline in the DI business ex DC?

Nitin Rakesh: You are talking about rest of Direct business?

Viju George: Correct.

Nitin Rakesh: It depends on what you define as significant. Of course, the digital risk business has really contributed to some of the phenomena you are seeing in the direct international business. The band that we talked about is $28 to $30 million. Last quarter we went above that band given certain deals that we executed on and this quarter we are at the lower end of the band and that is what is driving that.

Viju George: Okay, because by my math, it appears that you are almost like close to mid-teen kind of decline sequentially so clearly above 10%.

Nitin Rakesh: I think you should base it on the overall. But effectively that is what happened in the DR business.

Viju George: Sure.

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

Ashwin Mehta: Just one question in terms of margins. What is the impact that you see going into the next quarter because of wage hikes and would it be a full impact next quarter or there is some staggering involved there?

Nitin Rakesh: Ashwin, the best guidance I can give you is that we will continue to operate in the 15% to 17% EBIT band. As I said, we created some headroom for ourselves in the first quarter because we knew we had to kind of reinvest some of that in Q2 and on that basis, it is fair to assume that we will have to continue to find ways to operationally stay in that band despite the wage impacts. So, at this point in time that is the best guideline I can give you. Lot of other moving parts to it especially as I mentioned deal wins conversions and the seasonality of Q3.

Ashwin Mehta: And the second thing is just a follow up in terms of the seasonality that you typically see in HP/DXC. Last year we did not see that kind of a pronounced seasonality in the HP/DXC business. Would you say given the fact that some of the business starting to be much more fixed split compared to earlier, the possibility of sharply lower revenues is lesser?

Nitin Rakesh: Again seasonality has an impact on existing run business run rate, not so much on overall revenue because it really depends on how much growth and how much deal wins you have in the quarter as well. It is fair to assume that we are definitely not guiding towards decline in revenue. We are basically saying seasonality might have an impact on moderation of the jump.

Ashwin Mehta: Just the last one in terms of what would be the duration of the deal flow because you seem to indicate there seems to be some increase in terms of that duration? Earlier we had highlighted it was more like the odd years. Has that materially changed in terms of what you have signed this quarter?

Nitin Rakesh: Again it is a mixed bag because of the $210 million TCV not every deal is a 3 or 5 year deal because our deals that require us to deliver within two quarters, there are deals that go on for 6 quarters. There are development projects or there are these what we call agile, scrum team-type engagements. If there is a run business, if we are bundling it into service transformation, then it is not unusual for it to be a 3-year deal, in some cases even a 5-year deal. But it’s really a mixed bag. It is good to assume the average duration to be in that 3-year band.

Moderator: Thank you. Next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Two questions: first is about the HP/DXC. Our service desk revenue used to get reflected in the traction which we used to see in HP/DXC. This time seems to be in different service lines. So, can you help us understand on nature of the business that is changing in HP/DXC and how one should look at expansion in relationship? if you can provide some details there and second is margin related. We have indicated some transition cost impact this quarter, is it possible to quantify it and whether it will continue in Q3 and this is now almost done kind of thing?

Nitin Rakesh: On the first one, again we signed the application transformation and cloud migration partnership last year so that started to reflect in the growth in terms of the kind of businesses we are starting to deliver. Of course, opportunity is much higher and we just started to see the impact of that. So, one can assume that we will continue to see more traction on that side compared to the traditional IMS or service desk type businesses. Even though when we get an opportunity to apply service transformation, on IMS or service desk type business we will not be shy in taking that opportunity as soon as we know we can actually apply the transformation and make it work for both parties. On the margin side, some of it was already washed through because as we continue to execute on the sold TCV, we will start converting that to revenue but some of it will as I said depend on how much deal wins we are able to generate in quarter. Given that we are running slightly high utilization levels, the margin for further tightening on utilization is limited. So we will have to make certain dynamic calls, I would say over the next month or two depending on how the wins are shaping up. So for now, it is fair to assume that we will be able to maintain the EBIT band between 15% and 17% for the remainder of the year.

Dipesh Mehta: Just on the first part, we have seen some weakness in service desk offering. So, what would be the tenure of such deals kind of thing? Just to get sense of the decline happened this quarter which seems to be a decent decline?

Nitin Rakesh: Some of the decline as I said is strategic because we are trying to bundle those into service transformation type deals and as I mentioned, there is an impact on the topline. Some of it also is that on an overall basis the decline may not seem large. On the percentage of revenue basis, it seems larger because the other businesses have grown much faster. So that phenomena was causing you to see that shrinkage from 8% to 6% but on an overall basis we are happy with the quality of revenue we are generating especially the fact that we have actually seen a nice bump in the applications business this quarter between application maintenance and development. We have basically seen a 4 to 5% jump in the share of revenue on a sequential basis.

Moderator: Thank you. Next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Nitin, on the TCV, can you give some more highlights in terms of geographies or verticals? You talked about the duration but anything on the other side?

Nitin Rakesh: Apurva; it is fair to assume that it is widespread across verticals. I won't say there is any one vertical or one deal that is driving the wins. From geography perspective also, keep in mind that 80% of our business is US, so that is clearly got the lion share of our deal wins. Some of these wins interestingly this time are also global in nature because we are supporting clients globally as well. So I am less worried about the geographical distribution. Overall, I am pleased by the fact that this is actually fairly broad based across verticals and that is what we are starting to also see in the cross vertical groups.

Apurva Prasad: And fair to assume the Direct Core proportion within that similar to earlier levels?

Nitin Rakesh: Well, 81% of revenues are Direct Core, bulk of the wins are led by Direct Core. Of course, we have wins in other segments as well, but it is not dissimilar to the revenue proportion.

V. Suryanarayanan: Apurva just to clarify as we have stated earlier, it does not include any deal wins from the DXC/HP channels.

Nitin Rakesh: And also does not include any renewals, so these are net new TCV wins.

Apurva Prasad: And just too also from what you said earlier, you expect Digital Risk to continue in the $28 to $30 million quarterly band going forward?

Nitin Rakesh: Right.

Apurva Prasad: And lastly on the fixed price trajectory that declined this quarter, you were expecting that to inch up gradually, so I mean how should that shape?

Nitin Rakesh: I would not take one data point. Overall our approach and strategic mindset is still to continue to grow that especially in the run business. Overall, if you look at it on the revenue basis, it has still grown. Of course, there are certain projects that will transition into fixed price as we actually continue to mature that. So, there is an element of transformation that will get applied there as well.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the management for closing comments. Over to you.

Nitin Rakesh: Thank you again. We appreciate you jumping on the call early in the morning given that we were operating from the US this quarter. We appreciate you taking the time day after the holiday and we look forward to see you as we go through the remainder of the quarter this year. Thank you so much and look forward talking to you soon.

Moderator: Thank you very much. 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.