"Mphasis Limited Q4 & Full Year FY'2020 Earnings Conference Call"

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Moderator: Good morning and thanks for joining the Mphasis Q4 & Full Year FY'2020 Earnings Conference Call. My name is Zaid, your moderator for the day. We have with us today Mr. Nitin Rakesh -- CEO of Mphasis; Mr. Suryanarayanan V -- CFO and Mr. Manish Dugar -- the upcoming CFO. Please click on the webcast link in the 'Call Invite' mail that Mphasis management team would be referring to today. The same presentation is also available on the Mphasis website, that is www.mphasis.com in the 'Investor' section under 'Financial & Filing' as well as on both the BSE and NSE websites. Request you to please have the presentation handy. Please note that this conference is being recorded. I now hand the call over to Shiv Muttoo from CDR India. Thank you and over to you.

Shiv Muttoo: Thank you, Zaid. Good morning everyone and thank you for joining us on Mphasis Q4 FY'20 Results Conference Call. We have with us today, Mr. Nitin Rakesh – CEO; Mr. Suryanarayanan V -- CFO of the company and Mr. Manish Dugar -- who takes over as CFO starting tomorrow.

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 detail statement in this regard is available on the Q4 FY'20 results release that has been sent to all of you earlier. I now invite Nitin to take the proceedings of this call forward. Over to you.

Nitin Rakesh: Thank you, Shiv. Good morning, everybody. First and foremost, I hope that you and your family are safe as the COVID-19 situation continues to evolve. All of us are going through some extraordinary times. I want to thank all of you for your interest in Mphasis and for joining the call today. We truly appreciate it.

I would like to start by mentioning that the Mphasis employee family has stayed strong and healthy through this crisis and we are thankful for their support to our clients and to the company. Trust you all have the opportunity to go through our 'Q4 FY'20 Results and other operational performance information in our MD&A.

Let me begin with Revenue. We have been consistently transforming our business profile and Q4'20 is the 12th straight quarter of sequential revenue growth. We continued the growth momentum in FY'20 and registered another year of double-digit growth.

Q4 FY20 highlights

- Q4'20 gross revenue grew 3.4% QoQ and 14.7% YoY on a reported basis and 1.5% QoQ and 11.1% YoY in constant currency terms
- Direct International revenue grew 19.7% YoY and 5.2% QoQ on a reported basis. In CC terms growth was 15.2% YoY and 2.7% QoQ.
- Direct Core revenue grew 5% QoQ and 18% YoY in Q4 on a reported basis and 2.6% QoQ and 13.6% YoY in constant currency terms.

- DXP/HP revenue declined 0.1% sequentially and grew 3.8% YoY in Q4 on a reported basis and declined 1% sequentially and grew 2.1% YoY in constant currency terms.
- We had $201 million of TCV wins in Direct International business, of which 79% are in New Gen Services.
- Q4'20 EPS grew 32.4% YoY to Rs.18.9. Q4'20 EPS includes one-time tax benefit of Rs.2.3.

FY'20 highlights

- FY'20 gross revenue grew 12.8% YoY on a reported basis and 11.7% in constant currency.
- Direct International revenue grew 15.4% on reported basis and 13.8% in constant currency.
- Direct Core revenue grew 16.9% on a reported basis and 15.4% in CC terms growing well above industry.
- DXC/HP revenue grew 7.7% on a reported basis and 7.5% in constant currency in line with the industry growth as guided at the start of FY'20.
- FY'20 EPS grew 13.4% to Rs.63.6.

Despite a challenging market environment, we continued to see strong growth momentum and positive outlook in our key focus vertical of banking and capital markets with a strong USD revenue growth of 11% in FY'20. We believe this is best-in-class growth in that industry segment and was broad-based across segments like BCM as well as Digital Risk (DR). Excluding DR, the BCM growth was even stronger at 12% year-over-year demonstrating the strength of Mphasis as a preferred service provider in banking and financial services industry. Insurance segment has also reported growth of 9% YoY in FY'20 aided by some strong deal wins and continued improvement in our competitive positioning in that segment.

We are also pleased with the consistent growth in emerging industry segment. Growth has been led by logistics and transportation sub-vertical which has grown over 30% this year and comprises about 53% of emerging portfolio in Q4'20. Given our limited exposure to the airline industry at less than 1% of our overall revenue and no exposure to hospitality, there has been no material impact on our business due to the global shutdown of travel, triggered by the current crisis.

As mentioned in our previous calls. Europe region is a focus area for us and we are pleased with the fact that our increased sales efforts and investments in this region are yielding good results. Europe region revenue has grown approximately 14% in FY'20 in constant currency terms. We are seeing good traction here and expect this region to continue to be a growth driver for FY'21.

Direct International revenue growth accelerated 13.8% in constant currency terms for FY'20. Direct Core constituted 82% of Direct International revenue in Q4'20 and has continued to

deliver above market growth. Direct Core revenue grew 15.4% year-over-year in CC in FY'20, second consecutive year of 15% plus growth. Growth in Direct Core has been broad-based across strategic accounts, Blackstone portfolio and new clients.

New client revenue grew 73% year-over-year in FY'20. Our deal win momentum continues to be strong and we won TCV of $201million of net new deals in the Direct International segment in Q4'20, highest deal wins in the last six quarters and the second time Mphasis has crossed the $200 million deal win mark. For the full year, we have closed record deals worth $715 million in net new TCV, a YoY increase of 16%. The deal wins have been broad-based across all client segments.

New Gen Services continue to be our focus area; over 80% of the deal wins in FY'20 came from New Gen area, registering a YoY growth of 20%. And for FY'20 New Gen Services revenue grew 35.2% on a reported basis to 53.1% on Direct Core revenue.

The financial year also saw 50% increase in proportion of revenues from large deals defined as $25 million or more of TCV. We also continue to see a strong pipeline of large deals, especially driven by a surge in interest in digital transformation deals post the COVID crisis. We expect to continue to drive robust deal signing and accelerate the transformation roadmap of many of our clients.

Next, I would like to talk about our improving client metric especially in our Direct business. We have been continuously improving the client pyramid and increasing the number of clients across key buckets. The chart that you see here is primarily focused on our Direct International client segment and does not include DXC clients. In FY'20, we added one client in the greater than 100 million bucket and two clients in the greater than 75 million bucket. Please also note that these are our marquee clients with long tenor relationship; some over 15 to 20-years with us. Further, to strengthen the future growth by creating new drivers, we added six clients in the greater than 5 million bucket and 15 clients in the greater than 1 million bucket. Many of these clients are new additions to our portfolio. We are confident that we would be able to continue to move more accounts into higher buckets through our proven account mining strategy.

We also made further progress in increasing the fixed bid composition of our revenue to 28% in Q4'20; our highest ever. This is a significant margin lever for us and also adds to the annuity portion of our portfolio, improving the predictability of our revenues. Even in the remainder 72% of the business which is broadly classified as T&M, we have been driving a fixed capacity bucket which stands at 15% of revenues as of FY'20, further providing us with predictability of revenue and additional runway to convert the fixed price and managed services.

Moving on to "DXC Relationship": Our focus on services of transformation and solution-led approach to GTM coupled with geographical diversification and industry vertical market focus is helping us maintain our consistency. We are engaged with DXC and their clients through this

current crisis and the collaboration has been fantastic. We also continue to stay close to our DXC client managers to enable any immediate areas of opportunity. We still use it as a strategic relationship, and I would like to update the following key items:

Firstly, based on the annual thresholds we talked about earlier, there is still pending MRC of approximately 300 million, that is yet to be consumed between Q1 FY'21 and Q2 FY'22, that is until September 2021.

Secondly, this MRC does not apply to HP business and is applicable only to DXC revenue. At DXC, while the 300 million constitutes as a remainder of the MRC, we expect to consume more than 300 million with the current run rate and our growth history. Our portfolio of services continues to be complemented to DXC enterprise technology stack. We are focused on unlocking further value with the strong go-to-market foundation that we have established.

Moving on to the "Earnings Growth and the Cash Position": Operating margin for FY'20 has remained stable. We have achieved this despite a challenging market environment and client-related uncertainties at the end of FY'20. Our quarterly margin profile also showed a consistently improving profile through the year. Overall, we have been able to meet our guidance of 15.5% - 17% EBIT for FY'20. While we believe we should be able to maintain our margin profile despite the challenges due to the current crisis, we will provide a more updated FY'21 visibility on margin in our next call.

Our operating cash generation remain strong and generated net operating cash of $40 million in Q4 FY'20, highest in the past 14-quarters. We generated 150 million net operating cash in FY'20, ending the year with a strong cash position of about Rs.24,741 million, i.e $327 million. Consistent with our policy of healthy cash returns to shareholders, I am happy to announce that the board of directors have recommended a dividend of Rs.35 per share for FY'20 subject to shareholder approval.

From our operations perspective, in the past few quarters we worked relentlessly on supply chain optimization with increased focus on the right pyramid structure, fresher hiring, fixed price/ managed services expansion, automation and offshore leverage, thus strengthening our operating metrics. We expect to continue to leverage these for the short-term management of our business and as we speak, we are working on balancing the very near-term with a renewed focus on digital employee engagement as well as continued focus on reskilling using our Digital Talent Next platform. I would also like to highlight that the Direct Core business which is the driver of revenue growth is also currently the driver for operating profit being the highest EBIT business in our portfolio. While we have not seen broad-based signs of major demand dislocations especially in our focus verticals, there are elements of reprioritization of budget around discretionary spends.

Looking at our core investment thesis and the execution update, we continue to execute against our plan for FY'21 and beyond. We witnessed strong revenue growth of 15.4% YoY in constant currency for Direct core and new client acquisitions grew 73% YoY. Continued momentum and deal wins; growth of 16% YoY to USD 715 million and higher proportion of New Gen services of 81% with a YoY growth of 20%, continue to give us solid foundation for the years ahead. We continued to make progress in implementing our IP-based platforms, delivery transformation, NEXT Labs and Talent Next programs as well as maintained a strong cash flow generation and an optimal cash strategy to maximize shareholder value.

Let me address the current environment and its impact on our business before we end:

The pandemic brought the world to a grinding halt and has plunged us all into a global health crisis and a global economic downturn. As it continues to affect every single country, what sets COVID apart from any other global crisis is the sheer explosion of innovations that have come to the fore. The pandemic has struck the DNA of every traditional business model and given birth to a new way of collaboration and innovation. The post-COVID world will have a new political, economic and social regime. The shifts will happen on many fronts. In this new world, where the pandemic has changed the course of businesses forcing every bank to transform into a virtual bank and transactions happening on every digital platform, the challenge that technology organizations face is how to rapidly innovate, adapt and look ahead. We have been working with our clients through the current business uncertainty to accelerate this transition. It has demanded new approaches to managing people, clients and technology. We are focused on strengthening our position through this period of uncertainty by staying close to our clients and enabling them to accelerate the digital transformation journey for the changed times.

What this means for the IT services industry is that while the pandemic has resulted in high volatility in financial markets globally and slowness in cash flow, clients are now restructuring their business operations and budgets while prioritizing their IT spend. Enterprises have begun deferring discretionary spends amid the pandemic with a focus on IT projects that make their operations cost-effective and flexible. IT services companies that can enable clients in making their supply chain agile, decentralized, resilient and reduced total cost of ownership while accelerating the digital pivot will drive revenue for the industry. Optimized work from home set ups through digital collaboration tools is likely to drive the demand for IT infrastructure to support the shift including transition of applications to the cloud and using cognitive and every aspect of the business which would be a good opportunity for our industry. Broadly, our growing large deal pipeline is reflective of this wagon as well and we have a large portion of that pipeline in such large transformation deals.

Talking about the voice of the customer, our clients have been very appreciative of our efforts so far. And this is a good opportunity to strengthen the relationship and further step up the value pyramid. There are new areas of engagement that are emerging broadly into four categories:

- Firstly, acceleration of digital transaction capability. For example, digital contracts, remote onboarding of clients, remote management of application uploads, digital contactless customer experience, re-design and strong leverage of data strategies.
- Second, cost take-out approaches to reset OPEX consideration, in some cases requiring strategic asset restructuring or deploying our proven zero cost transformation approach.
- Thirdly, business models shift with supply chains/ omni-channel strategies have led to reprioritization of programs requiring architectural and design led engagements.
- And fourth, sourcing strategic considerations where we have stepped in to either provide replacement capacity or additional burst in selected areas. We expect the long-term decisions around strategic sourcing to have significant impact and would expect to make this a tailwind as clients reassess vendor landscape, away from pure play niche and tail vendors to consolidate strategies.

We made a bold decision two years ago to adopt an agile org design. The change for us will not be as dramatic as we look at responding to the current crisis. We believe we need to hyperscale digital delivery and use technology to amp up every part of our business management process. Further, since we started the business continuity planning process well ahead of the crisis, we managed to get 95% coverage to our overall global operations by March-end. Our clients have by and large been very supportive, and we have seen some unprecedented levels of collaboration in all fronts. Through our new offerings launched through the crisis such as virtual desktop as a service and cybersecurity offerings, we were able to rapidly enable our clients to go virtual as well. We also quickly pivoted towards growth orientation across the board to generate additional opportunities. As we mentioned we are seeing a robust pipeline across multiple short-term and long-term transformation deals.

Finally, while the fundamentals of the business do not change, the pandemic has reemphasized that every business is a digital business. At Mphasis we made several choices over the past three years to build a cloud-native cognitive first business model with investments in areas like platforms, IP assets, setting up next labs, introducing Talent Next program for reskilling as well as adopting a client-centric org design. I continue to be confident that we are poised to emerge stronger from the current situation.

Secondly, we continue to put our clients at the heart of our business. We also see the current disruption as an opportunity to strengthen our client relationships and identify new areas of engagement emerging in the evolving scenario. Over the coming days we will continue to demonstrate the customer centricity we are known for to help rebuild our clients' businesses both through the crisis and beyond. Towards this end, Blackstone's continued investment in Mphasis only proves our potential as a credible service provider with the strong financial position.

In summary: A good Q4 and FY'20 order book, strong execution on ensuring business continuity and continuing to work with our clients to help them through the transformation and cost issues are all reflection of our extreme focus on the voice of the customer. While the current environment and uncertainty create challenges in the very short run, some of which will be mitigated by execution of our order book, this also sets us up very well for the long run. This is reflected in the deal wins continuing in April and strategic engagement on the pipeline we are having with our clients now.

Finally, I am extremely grateful to our aligned and committed board and our shareholders, especially our employees as well. We stay focused on continuing to create value for all our stakeholders. Operator, I request you to open the line for questions please.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The First question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Nitin, you highlighted the near-term challenges which is quite visible to everyone. Is it possible to either qualitatively or quantitatively kind of walk us through the impact on business you are seeing over next one to two quarters during Q1 and Q2? Do you see a meaningful impact? Are you confident that deal wins should help you realize the business even in these uncertain times?

Nitin Rakesh: On the very near-term, we mentioned that we got 95% coverage at the end of last quarter. And given that majority of our business continues to be in sensitive areas like banking, financial services and insurance, there were some constraints on privacy related issues that did not enable us to go 100% mostly driven by client-side concerns. While some of that has started to improve as of last week once we started seeing some return to office in our offshore locations, there is still some work to be done to kind of get over the finish line there. In addition, April was a tough month for ramp up because onboarding projects with the new employees or with repurposing employees required a little bit of logistical issues from our client side. So, we did lose some momentum from a ramp up perspective even though the order book stays healthy. Once we get through these logistical issues in the next three to four weeks, we should have a better idea of how the remainder of the quarter and of course the next three quarters will ramp up. So, The near-term continues to be a little challenging purely based on logistical challenges more so than demand or any other issue. And while we have seen some reprioritization in budgets and some short-term discretionary impact I would say more as immediate response to the crisis. We have not really seen any broad-based disruption in demand per se in our vertical. So as we get through the short-term disruption probably as we enter into the next quarter we should start getting back on the sequential growth path. That is the current visibility.

Mukul Garg: Also the commentary on DXC, the remaining value which is $300 million which you highlighted. Now if we look at very simplistic rough math over last quarters you guys have done about $900 plus millions of business there, out of which $690 million would be part of the

committed value. Can you just help us understand exactly how if the committed as well as additional business has been coming your way because if I split out the $300 million over next six quarters, the incremental business to stay where you are right now, would be almost $30 million per quarter which seems a bit high compared to the last 12-quarters and last two to three quarters have been more of a flattish to declining trend. So, if you can just walk us exactly how it has been in past and what is your visibility of incremental business?

Nitin Rakesh: Mukul, it will be difficult for me to give you the exact breakup of what we expect to happen over the next six quarters. The reason I broke out the 300 million number and we decided to give more transparency is because there was a growing concern and narrative that given that we have already seen 900 plus million of revenue from DXC, we are running out of the MRC runway. That is the only reason we provided the clarity. About three or four quarters ago, we talked about the annual thresholds. So based on those annual threshold metrics, 300 million is the minimum balance left to consume. But what will be a good idea is to kind of use certain thumb rules that we have displayed through our performance over the last 14-quarters of the MRC kicking in and used that to actually kind of create a little bit of extrapolation because difficult for us to give forward-looking guidance on quarter-by-quarter basis.

Mukul Garg: Sorry, just to clarify, I think recent three to four quarters, you are running comfortably above MRC requirement, you think you should not have too much of issue with the HP business?

Nitin Rakesh: Mukul, again, as I said, we are running above the MRC requirement because we continue to provide value to the clients. As I said in the very short-term there will be some disruption given what we are seeing in the environment. But as we revert back to whatever form of normalcy, I expect us to stay above the MRC.

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

Nitin Padmanabhan: First, on the top clients appear to have fallen this quarter, just wanted your thoughts there and how do you see things evolving? The second was on the DXC piece, assuming that DXC's own clients get impacted and if there is let us say potentially sharp drop in the near-term, do you think there would be sort of a catch up as we go post that to meet the MRC? And the second part of that was, you had explained about how we are helping with additional capacity. Some clarity there, also if you could just elaborate a bit there would also be helpful?

Nitin Rakesh: Sure, Nitin. Three questions primarily. First one is on top client. What we see as top client right now is basically the bunched-up contracts that we provide to DXC. So that is very closely related to the DXC business. The top client is actually DXC because that is the bunching up of a number of transformation contracts, that is not a direct client. If you look at our client metrics slide that we published today in the investor presentation, that is slide #6, we have given Direct client metrics as separate metrics. We will probably be publishing those going forward to kind of keep

it consistent to not cause any more confusing between DXC, their clients and direct clients. So we are not seeing any such drop in our direct top clients, for whatever reason is related to the DXC. Secondly, I think you are right, there is mechanism for catch up/catch down of MRC. If you do see challenges in the near-term there will be ability to catch up in the remainder of the MRC duration. And thirdly, when I talked about additional capacity, that actually applies to not just DXC client, but to a direct client as well because there have been opportunities that have been created through this last six-eight weeks of crisis where our clients have required immediate assistance in actually setting up especially in the whole lending space for additional capacity, transformation of the whole, digital interaction model, enabling their customer care centers to operate remotely. So, that is the comment around the additional capacity that was required. So, we created some immediate short-term opportunities that came out of that.

Nitin Padmanabhan: So the bunching up is specific to this quarter or this has been the case?

Nitin Rakesh: No, It is not specific to this quarter. Since we do not give names of clients, there is probably some confusion in that front, which is why we decided we will take out, as I said, DXC client metrics going forward and report that separately as a channel.

Nitin Padmanabhan: When you think about things going forward, we had very solid deal wins and that possibly allows for decent Q2 or some sort of a good tail wind for Q2 in terms of they come on-stream. But when you think about how the conversion of the pipeline is today and whether that could potentially have impact for Q3 or going forward, how would you think about it? because this seems to be a trend we are seeing across the industry wherein the last quarter deal wins were very solid, people have a view of Q2, but how do you see scenario going beyond that?

Nitin Rakesh: Nitin, again, a little bit early to comment on that. We probably be in a better place to give that commentary in the July call. I think very near-term focus continues to be making sure that we are able to help clients get back in their businesses and their operations. And secondly, wherever we have seen any disruption in discretionary spends or budgetary prioritization, how do we use that opportunity to strengthen our position and win more wallet share. So that is the immediate focus right now. Good news is as I said two things – one, we had healthy deal wins especially Q4 deal wins were strong. We closed traditional deal business in April. We continue to have a fairly decent pipeline and our large deal pipeline have actually expanded. If we can continue to convert, then effectively it will start showing up in our revenue line at some point over the next 12-months. That is the way to think about it for now. We will give you more color in July as we have a little bit more clarity on how things are stabilizing or any additional disruption that comes up.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Nitin, just wanted to check in terms of the Blackstone portfolio where did we end up in terms of revenues in FY'20 and if you can comment on the outlook there, whether this will be more immune from a demand perspective or what exactly are you seeing there? My second question was on what is the HP portion of the DXC portfolio which is not part of the MRC? And is the service and technical help desk or customer service business decline largely linked to supply-led disruptions or there are demand impacts?

Nitin Rakesh: Overall the growth across Direct core has been broad-based. We continue to report good growth across all segments. We did not see impact in the new clients. At this point we will continue to include Blackstone business in Direct Core and we would not be bringing it out specifically because that create multiple soft segments that are hard to continue to hold on. Having said that the growth has been very healthy. We have been reporting growth in the range of 40% to 50%. We see that tail off as the base effect might come into play. But the pipeline and the momentum continue to be strong. Your second question was about healthcare and large businesses. It is a combination of both, but not so much a supply issue. It is again linked to the drop that we see in the DXC book of business where we had some contracts on the IMS front that rolled off. But nothing specific to call out on the Direct side.

Ashwin Mehta: Just the last one in terms of the HP portion of the DXC portfolio, how much would that be?

Nitin Rakesh: It is 88% of overall HP/DXC revenue is DXC.

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

Sandeep Shah: One clarification. In terms of the DXC, you are saying $300 million or upwards of that to be executed over six quarters and if I look at the Q4 run rate of just the DXC channel ex of HP channel, it works out to be close to $288 million. So, is it fair to say that the growth avenues would be limited entering into FY'21 where at best it would be a flattish or it is too much to think about?

Nitin Rakesh: Yeah, I think you are reading too much into it. I am providing additional color because there was a concern that we have already consumed everything. Just read the additional MRC in that context.

Sandeep Shah: Just on the margins, as of now you believe the FY'20 margins at EBIT level likely to sustain and FY'21 but more color would be given in the month of July, right?

Nitin Rakesh: As of now we believe we have enough operating leverage built into our supply chain. We have put some actions towards the end of the quarter where you can see in our utilization numbers, so that give us some confidence that we have the ability to manage a very short-term disruption. Keep in mind that we still want to be able to continue to have a growth orientation. To that effect,

while balancing out the short-term challenges, we make sure that we have enough headroom for growth as we come back to normal.

Sandeep Shah: Last question in terms of the cash allocation. So, if you look at the net cash as of March end was close to Rs.1,900 crores versus almost similar at FY'18 end of 2,100 crores. But FY'18, FY'19, we have seen a handsome payout cash allocation as a whole versus FY'20-21 the cash distribution seems lower though it is still better but not in line with FY'18, FY'19. So, any color in terms of cash allocation, why despite generating cash the payout ratios are going down?

Nitin Rakesh: Actually, you are confusing the dividend payout ratio with total cash payout ratio. What we have announced today is the dividend which is the recommended dividend by the board. That has been fairly consistent in 55%, 57% range and so is the case even this year. Keeping in mind that this year the gross payout will be also the net payout in the hands of an investor because of the distribution tax change. So, the right metric is to look at dividend as payout ratio, not the overall cash payout ratio because whatever else was cash return was a special return of cash through the buyback. Also, keep in mind this is a very unusual situation where it is prudent to have enough liquidity in the balance sheet to maintain a strong financial position because not only it is important to run the business operations, it is also important from our clients perspective to be able to see a strong partner with a strong cash results position. And also, it is important to keep some gunpowder dry as some opportunities will grow up over the next few months that we want to be able to take advantage also. Keeping all of those factors in mind, we think that the current recommended dividend is a fairly healthy payout.

Sandeep Shah: Just a follow up, is it fair to say that even we are open for a buyback or as of now we would like to conserve the cash?

Nitin Rakesh: I am not commenting anything on that because that is a board and shareholders decision. As of now, we took a decision on annual dividend.

Moderator: Thank you very much. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: On the logistics and transport, so there we have a large client, so which is in the top-5. So, what is the outlook in that account? And are there any pricing cuts within our larger accounts in the banking which will have an impact on the first half?

Nitin Rakesh: Madhu, I will refrain from giving client-specific guidance. All I can tell you is that our position in all our top clients is fairly strong both from a competitive standpoint as well as being seen as a value partner. So, we see nothing but opportunities to expand our wallet share and our footprint especially in our top accounts through this cycle, that is the mindset we are going with there. On the pricing front, I mentioned in my commentary as well that at least in our chosen verticals especially banking and insurance we have not seen a mass disruption on demand or pricing. We

have seen some reprioritization for dealing with the very short run, but pricing continues to be fairly stable at least for us.

Madhu Babu: Second one on the BPO practice where there were some issues on work from home and all. So how is it currently for us and any potential impact or any leakage there on the BPO front?

Nitin Rakesh: Again, we have not broken it down by segment when we had the call at the end of March that was made public later. We talked about onsite coverage at 99.5% and overall coverage at 95% from an operation sort of perspective and that included BPO. So yes, while apps probably has the highest coverage, given the recent return to office initiatives that we started across our offshore locations in the last few weeks, we are starting to inch up for the whole coverage across the business including BPO.

Madhu Babu: Just one more on this work from home, I mean, a lot of companies are saying that can be a new normal, sizable portion of work can continue to work from home in the future. So how that can impact in terms of pricing or any disruption in the sector, your views on that?

Nitin Rakesh: Madhu, again, all I can tell you is that lot would change post the crisis. At this point in time it is premature and perhaps a little risky to predict how much of that could be. All I can tell you is we are very agile and nimble in our approaches and we will take whatever action is needed to protect our position with our clients and that includes not just pricing but wallet share as well as value. Given that we already took a lot of actions in the last few years in making this towards cloud, cognitive as well as the whole agile workforce that we created actually bodes very well for this remote workforce. We are well positioned, and we will continue to take whatever action is needed but we are going to go client-by-client with all predictions for the future.

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

Dipesh Mehta: Two questions: First, about the Blackstone portfolio. If you can share number how it has performed this quarter? Second question is on BPS vertical. How are the sub-segments performing? When I look at your corporate banking seems to be showing weakness for last two quarters.

Nitin Rakesh: Again I said, we will report Blackstone as part of our Direct Core business and the growth continues to be fairly healthy and from a continuity perspective, yes, we expect Blackstone to continue to be a strong driver for growth going forward as well. On subsegment of BPS, a lot of the subsegments are basically a legacy of the past. I think what is important is that in our core transaction processing vertical especially linked to the DR business we continue to see good traction and good progress. We added to that with our lending base offerings in the last few weeks as well. So, the best way to look at it is that as a segment BPS will continue to show decent growth and we believe that we can continue to leverage on our position because a number

of our deals are coming across in a processing and operations. So that is kind of what is driving the overall BPS segment. As I mentioned as we go forward we will actually continue to provide a refreshed version, new view of our segments, so maybe then back end of July earnings call, we will give refreshed view of how to look at revenue across service segments.

Dipesh Mehta: Whether any COVID-19 related implication you saw possibly on BCM vertical outside of Q1, Q1 might have some implications. But from Q2 onwards, do you expect BCM and Insurance also likely to have some implications?

Nitin Rakesh: I think calling everything immune is a little bit overstating it. But I do not think we have seen the level of disruption that you are referring to from a supply side perspective in the BCM. So, we are fairly confident that given the trajectory of operations getting back to steady state, we do not see any long-term impact on BCM per se.

Moderator: Thank you. The next question is from the line of Ruchi Burde from BOB Capital. Please go ahead.

Ruchi Burde: Many of your industry peers have decided not to go for wage hike this fiscal. If I recall correctly last year Mphasis has undertaken a revision to its wage hike. How do you see wage hike for this fiscal year?

Nitin Rakesh: Over the last two or three quarters we talked about the fact that our wage cycles have been moved away from being one annual increment, to something that is linked to more towards Talent Next related individual employee-based progression. So, we do not expect that will change anytime soon. But as we said, we will continue to focus on maintaining growth mindset and making sure that we reward performance.

Ruchi Burde: Just a small clarification here. So would that mean would you tinker in some form the quantum of wage hike which would have otherwise been given, given the current scenario or the last year skill as aligned wage revision procedure would run as it was implemented last year?

Nitin Rakesh: Ruchi, we are not making any retroactive changes. Anything we do will really be keeping in mind the current environment and on a go forward basis because as I said we have to continue to have growth orientation and make sure that we retain key talent as well.

Ruchi Burde: So, this would be a source of margin tailwind partially for this fiscal, is that fair to assume?

Nitin Rakesh: No, I do not think that is what I said. Anyways we moved from one big wage hike in the fiscal year and whatever action we are taking actually to employees linked to the talent next pipeline and we will continue to follow that. We have adequate margin levers identified through all the actions that I talked about in the call. So at this point in time we have enough confidence that we do not need to take any specific actions on employee or wage front that go beyond as usual.

Moderator: Thank you very much. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Nitin, this question is essentially with regards to your comment saying that we are seeing a significant improvement with regards to a large deal pipeline. If you could essentially provide some commentary as to if there are any geography wise trends there? And second thing is with regards to the improving traction that we continue to see in Europe over the last few quarters, if you could highlight what exactly is driving this?

Nitin Rakesh: So, one, the large deal pipeline is fairly broad-based and it is fair to assume that 80% of the business is US-centric, so we cannot have a large deal pipeline that does not involve the US geography and similarly, We cannot have a large deal pipeline that does not involve our key verticals and positions in those verticals. So, It is fair to assume those two things. Europe has been on a good growth trajectory especially last two quarters because we made a lot of investments in our teams there and at the same time we have also been able to convert some large deals and transfer that to revenue. So, we do have a fairly decent pipeline in Europe. Europe pipeline is mostly centric towards banking and insurance given the nature of the market and the proportion of their GDP tied into these two segments. But as we speak, we have also started to focus on non-UK European markets that we talked about, but that is a little bit lagging in terms of the buildup. But it is fair to assume that it is clearly aligned to our overall position and our strength in the core verticals.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: A couple of questions. First, Nitin, can you talk a bit about Digital Risk? So, it has seen solid growth in the past couple of quarters even though full year it might still be a drag on Financial Services. But looking beyond Q1, if you really look at from a full year perspective considering where the interest rate environment is, especially in US, how does that impact your business from a revenues perspective?

Nitin Rakesh: The DR business has actually been I would say a tailwind in the last two quarters to the overall growth while on YoY basis, because of the start of the year issue, it is still not growing faster than the company. But as we speak the interest rate environment is fairly fertile for the refinance market and that is the primary driver. We have also used that opportunity, as I mentioned many times before, to expand our position with existing clients as well as add new clients in that business. As we see additional opportunities come up through the curb due to the current issues, for example, the whole mortgage forbearance issues, lending that are aligned to the same set of customers, PDP initiatives. We manage to use our position with the DR customers fairly favorably. Even if I do not account for those cross-sell opportunities, on a stand-alone basis we still think DR will be a growth business this year on a YoY basis.

Rishi Jhunjhunwala: Secondly, if we really look at your ITO business, there is a very sharp decline in onsite head count by almost like more than 30% QoQ. Just wanted to understand what is the reason here?

Nitin Rakesh: It is linked to the top client comment that I made earlier. There were some IMS contracts that rolled off on the DXC side that we have not backfilled because does not make sense from a business perspective to actually be in those contracts. So that is the rationalization that we have seen from onsite ITO head count.

Rishi Jhunjhunwala: How much of our ITO business is actually coming from DXC versus Direct?

Nitin Rakesh: I do not have that breakup off hand, Rishi, but it is fair to say that in the past bulk of the ITO business used to be linked to HP. I do not think it is that big now, but maybe we can update that in the next call.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: What is the kind of work that we do in Digital Risk and how is it getting impacted by the low interest rate environment that is there currently in the US and worldwide?

Nitin Rakesh: It is a little hard for me to give a primer on the entire Digital Risk portfolio, but it is fair to say that it is primarily in the mortgage origination, refinance and home equity loan processing space. The interest rate environment is tail-winded right now because as interest rates fall, the mortgage volume and the refinance volume will actually go up. That is the reason we have been seeing some tailwind in that business over the last two quarters.

Nirmal Bari: So, it is largely related to the mortgage finance industry. Would that be fair to say?

Nitin Rakesh: Yes.

Nirmal Bari: What was the MRC in the current financial year?

Nitin Rakesh: I cannot disclose year-by-year or quarter-by-quarter MRC numbers. What we have done is we have given you the remaining MRC to be consumed between now and the end of the MRC period. The rest you have to make some assumptions

Nirmal Bari: On the same thing, basically, we have given a breakup of the different kind of work that we are doing for DXC's customers basically. Of that, the work that we are doing for DXC's customers, that is outside of MRC, would that be a higher value add work and a higher margin work as compared to MRC?

Nitin Rakesh: Actually, I don't understand your question. If you are asking me the margin profile of MRC vs Non-MRC business that is not something which I can disclose

Nirmal Bari: Not just the margin profile, I am also interested in knowing how sticky that work is. Once 1.5-years down the line when the MRC gets over, how sticky will this work continue to be for us with the DXC customers?

Nitin Rakesh: Not sure, Nirmal, I can help you with that answer. But just keep in mind that we have been with these clients since the 2006 EDS days. So that should give you an idea of the tenure we have with this delivery, especially in some of the large relationships and the stickiness comes from the knowledge and the deep understanding of those clients. And of course, we must be adding value. Otherwise, there is no reason for us to be where we are with those clients especially.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: Just wanted to check, is there any outside chance that the DXC deal can come under force majeure and they may be wanting to reduce the commitment they have given for annual billing because of present pandemic crisis.

Nitin Rakesh: We don't see that situation.

Dipan Mehta: Have you been in discussion with them, has it come up, I mean, any color that you can give us on current pandemic and how it is affecting?

Nitin Rakesh: I cannot give you any more color on the fact that we do not see that situation playing out.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead

Rahul Jain: My question is, since we do not see meaningful challenges on the demand side as of now, have we taken any cost-saving measures in terms of our hiring plan or any curb on the S&M side or you can say that whatever is your comment on the positive/negative factor, do we see on our OPM in FY'21?

Nitin Rakesh: It is fair to say that we have taken cost actions where we deem necessary especially if there are discretionary cost items. Of course, there is a natural tailwind on cost with shutdown and travel and allied areas as well. We have been fairly prudent and cautious with every spend item. As I mentioned, we definitely pressed some levers to ensure that we are managing the workforce in a way that we minimize any additional bench, but at the same time we are also keeping an eye on open demand, deal ramp ups and of course making sure that we keep a growth mindset. We actually have net positions to fill as we speak. So for us the balancing factor is to optimize cost without impacting our ability to grow the business.

Rahul Jain: In general, any more flavor you could give on the banking spends perspective, any read that you could take out from your interaction, how they tend to behave in terms of changing any investment buckets or any cut or gain they see in their spend behavior?

Nitin Rakesh: At this point, it is fair to say that everyone is in a mode to reprioritize and reset their expectations for current year; I am talking about our clients. As I said, I have not seen any mass demand disruption unlike in some other verticals that are hugely impacted because of current travel shutdown. So, things will probably be more stable in the banking and insurance side than in other verticals. But that definitely does also warrant a relook at all discretionary spend and reprioritization of projects with the caveat that digital transformation budgets will probably get accelerated and where they can find the money even areas where we are very actively engaged in ensuring that we play in that bucket as well.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Rakesh for closing remarks. Over to you, sir.

Nitin Rakesh: Thank you. Before I close the call, I would like to take this opportunity to thank Surya for his relentless support and leadership in setting new benchmark in finance, strategy and governance. He has played a pivotal role in partnering with the business and will continue to support us till his superannuation in October 2020.

Manish Dugar will take over as CFO effective tomorrow May 15, 2020. As we drive our business forward, I am highly confident that Manish's broad industry expertise and extensive global experience will serve all our stakeholders well. We welcome Manish to be part of the Mphasis leadership team. Thank you, again, to all of you who joined us on the call early this morning. Take care and stay safe.

Moderator: Thank you very much, sir. Participants, if you have any further questions, please write to investor.relations@mphasis.com. On behalf of Mphasis Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.