"Mphasis Q2 FY2020 Earnings Conference Call"

November 15, 2019

MANAGEMENT: MR. NITIN RAKESH – CEO, MPHASIS
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Moderator: Good morning and thank you for joining the Mphasis Q2 FY20 Earnings Conference Call. I am Stanford, your moderator for the day. We have with us today Mr. Nitin Rakesh - CEO of Mphasis and Mr. Suryanarayanan V – CFO of Mphasis. As a reminder, there is a webcast link in the call invite mail that the Mphasis management team would be referring to today. The same presentation is also available on the Mphasis website, www.mphasis.com in the Investors Section under Filings as well as on both the BSE and NSE websites. I request you to please have the presentation handy. All participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. I now hand the conference over to Mr. Shiv Muttoo from CDR. Thank you, and over to you.

Shiv Muttoo: Thanks, Stanford. Good morning, everyone, and thank you for joining us on Mphasis Q2 FY'20 Results 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 discussions may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q2 FY20 results release that has been sent out to all of you earlier. I now invite Nitin to begin the proceedings of this call. Over to you.

Nitin Rakesh: Thank you, Shiv. Good morning, everybody. Thanks for joining our call early this morning. We appreciate your sustained interest in Mphasis. I trust you have had the opportunity to go through our Q2 FY20 results and other operational performance information in our MD&A.

I would like to start our discussion with showcasing what we are witnessing in the market and then proceed to showcasing our numbers from various vantage points, namely segments, channels as well as overall. This would hopefully help you understand us a little bit better.

Moving on to Slide 3. It is becoming apparent that there is an accelerated demand for agility as well as resilience by our clients. We have seen this trend being amplified and combined with the need for customer centricity, i.e. better services by end consumers who expect highly personalized products and services. There has never been a better time for companies with the right proposition to find a willing set of ready buyers in the enterprise world. The rapid explosion of Everything-as-a-Service tie in clearly with this trend of swift deployment, changing consumption pattern by enterprises from multiyear CAPEX cycles to on-demand implementation.

The changing consumption patterns for these segments are only accelerating with the adoption of cloud, which is nothing but compute on demand, as well as rapid advancement in cognitive technologies as by applying rapid automation; we are seeing the further acceleration of the development cycles with collapse in traditional development techniques. This process, now commonly known as DevOps, is a great example of how new opportunities are opening across the enterprise IT value chain.

Moving to the next slide. Any time there are such tectonic shifts in market buying patterns there are tremendous disruptions in the established order of suppliers. This presents the best opportunity for companies that can take advantage of these changes, align themselves to the right products and services and continue to win wallet share in the market. We have made rapid progress in a short time towards this extreme specialization and are already seeing strong momentum in areas like DevOps, App Dev, legacy modernization and similar other areas that we will talk about in a few minutes.

We also saw a swift expansion in our new client pursuits where such depth of technical competency combined with domain and design has enabled us to open multiple marquee new logos in the past 6 to 12 months. Many of these are Fortune 100 companies, banks, insurance players and others and the same names that were hitherto considered mature accounts by the industry.

Moving to Slide 5. Our numbers tell the story of consistency and transformation. In Q2 FY 20 specifically, consolidated gross revenue grew 4.1% Q-o-Q and 10.2% Y-o-Y. And in constant currency terms, a growth of 3.1% Q-o-Q and 11.6% Y-o-Y. Direct International grew 5.5% Q-o-Q and 12.2% Y-o-Y on a reported basis and 4.3% Q-o-Q and 13.4% Y-o-Y in constant currency terms.

Direct Core, which constitutes 83% of Direct International business, grew 4.3% Q-o-Q and 15.1% Y-o-Y on a reported basis. In constant currency terms, Direct Core revenue grew 3.1% Q-o-Q and 16.4% Y-o-Y, aided by consistent deal wins. I would like to highlight that this has been the fourth consecutive quarter of 16+% Y-o-Y constant currency growth for Direct Core, a testimony to the significant progress we have made in our sales and marketing efforts as well as our value propositions. Growth in Direct Core has been broad-based across strategic accounts, Blackstone portfolio and New Client segments. Blackstone portfolio and New Clients continue to witness strong growth momentum with year-over-year constant currency growth of over 50% and 80% respectively.

Digital Risk witnessed significant growth momentum this quarter with sequential growth of over 14% in constant currency terms. We witnessed strong deal wins and created a strong pipeline in this business which should provide consistent growth as noted in our previous calls. We are confident of growing this business and operating comfortably in the stated quarterly revenue band of $28 to $30 million in the near term.

Moving on to the next slide. We see continued strong growth momentum and positive outlook in our key focus vertical of banking and capital markets with a healthy Q-o-Q growth of 6.8%

and 9.7% Y-o-Y in reported terms. The growth was broad based across banking and capital markets. We are also pleased with the robust growth in Emerging Industries segment at 3.1% Q-o-Q and 15.1% of Y-o-Y on a reported basis. While the industry narrative may be bearish for the BFSI segment, it is becoming apparent that there is accelerated demand for agility by our clients, translating into initiatives across consumer experience and data as well as core application transformation, DevOps revolution and cyber security: all areas that we invested in over the last few quarters. This is enabling us to expand our wallet share in new spend areas while also staying clear of pricing pressures that exist in areas of legacy ADM or IMS. The number you see here is testimony that we are winning in multiple industry segments including BCM. What is interesting to note is that our micro verticals within banking and capital markets, such as consumer banking, wealth management, brokerage, corporate banking, investment banking etc. are all growing well. Majority of our BCM segments are less prone to cyclical trends as they are B2C focused and digital disruption prone, for example, payments, retail, wealth, and almost all of them are riding a secular investment cycle in transformation and digital technologies.

Emerging industries are growing at 18% CAGR over the past 8 quarters and logistics and transportation comprise 50% of our emerging portfolio. Y-o-Y growth for the logistics and transportation subvertical is about 40% with sequential growth of about 7%. This segment is also a healthy mix of longstanding strategic customers and new deals with potential for growth. In the past couple of years, we have been relentlessly focusing on identifying, investing and nurturing these newer growth drivers to make it sustainable channels of revenue. The quality of deals that we are winning in this segment too is noteworthy as these are high-impact transformational deals that are core to the success of our clients.

Moving on to the Direct Core business. It has consistently been delivering strong growth, which is reflected in our deal win momentum as we won deals TCV of $174 million net new deals in Direct International in the Q2 FY20. The deals have been broad-based across Direct Core and other portfolios including Digital Risk. This takes our YTD deal wins to $325 million, a sequential growth of 28%. Strong and consistent deal win momentum that we have been witnessing has laid a strong foundation for future growth as well. Approximately 79% of YTD deal wins are in New Gen focus areas. We saw broad-based growth across client segments within Direct Core as well with strategic accounts growing double digits and new client revenue growing over 80% Y-o-Y while our Blackstone accounts grew over 50% Y-o-Y.

In the recent few quarters, the quality of deals and logos we are winning is testimony to our clients' trust in our transformation capabilities and portfolio offerings. As an example, we won a multiyear contract from a digital native European payment company to provide next-gen customer experience and omnichannel services across their fast-expanding global client base. This shows our ability not just to sell into established enterprise organizations, but also into digital native unicorns who are looking to scale, expand footprint and are very amenable to partnerships with firms like ours.

Moving on to the next slide. Direct Core growth is powered by our 3 pillars. To start with, we are leading with Next Gen Services. To enable rapid development and constant renewal of our offerings, we identified a set of 8 services to focus on as part of bringing the T back into IT: DevOps, cloud-native App Dev, legacy modernization, enterprise automation, Next Gen data, application management, infra management and cyber security. We have reorganized our competency groups to become more agile and created workflow tribes around these services as cross-functional teams focused on developing, evolving and building Next Gen offerings.

Secondly, we are also proactively catching deals upstream. And most of the new deals are institutionalized with an early engagement sales process and a robust account planning in place. FY20 YTD, 82% of our new deals were proactive in nature. We also organized the GTM teams as squads on a need basis with each portfolio tribe having the squads come together to build, bid and deliver specific offerings or a cross-section of offerings in an agile manner. This is a strong indication of our continued focus on building capability along these services, complementing them with strong industry domain as well as our market-leading engagement methodologies using design thinking, architecture and engineering services to engage clients in solution design and problem identification, prioritization and deployment.

New clients have continued to fuel our growth in Direct Core as well. Traditionally, while we focus on expanding our share of wallet with strategic accounts, about 10 quarters ago, we established a robust new client acquisition strategy. And this is paying good dividends as there is significant increase in the number of new logos we are adding to our portfolio as well as the revenue contrition from these to the Direct Core business. As you see on this chart, the CAGR growth has been over 100% over the last 10 quarters in this segment.

Moving on to the DXC- Mphasis relationship: In the past, we've spoken about the 3 themes of our transformation as laid out at the beginning of this journey. We said we would move away from traditional outsourcing supplier to a strategic partner, expand geographically and become a growth partner by being in the path of revenue for DXC. Our strategic client engagement partnerships focusing on service transformation and the solutions-led approach to GTM, coupled with geography and industry vertical diversification focus, is helping us maintain our growth consistency here. This business has grown 1% sequentially and 7.4% Y-o-Y on a reported basis and 9.5% Y-o-Y and 0.1% Q-o-Q on constant currency terms.

We continue to invest in client engagement and strategic partnership with DXC and are focused on further bringing New Gen services to the core. This marks the 10th quarter of consecutive sequential growth for us in this segment. While DXC has witnessed a change of guard, we continue to have a strong working relationship and are enthused to be aligned to the renewed strategy.

Moving on to the earnings growth and the cash position. Operating margin improved 60 basis points Q-o-Q to 16.1%, primarily driven by operational efficiencies. If you look at our operating metrics, we've added people in applications, and our utilization metrics continue to remain soft, especially in the apps business as we continue to adjust the pyramid and in anticipation for additional capacity needed for growth. We hope to improve on these operating levers as we start converting some of our large deal wins and pipeline into revenue. With a strong focus on revenue growth coupled with cost optimization, we are confident to continue to operate in the guided band of 15.5% to 17.0% EBIT for FY20, even after absorbing the upcoming seasonality cycles and any additional headwinds that we may face from things like wage hike or the softness of the quarter, primarily from a furlough perspective. Our operating cash generation remains strong and total cash on the balance sheet as of 30th September stood at 18,022 million, approximately $254 million. During the quarter, we paid out 6,065 million including taxes as dividends. And adjusted for this outflow, cash and cash equivalents increased by Rs. 2,507 million or approximately $36 million during Q2.

Finally, getting to the core investments thesis for Q2 FY20. We spent a lot of time at the company leadership level to debate about the exact dynamics and the stark reality is that true differentiation comes from having a superior service offering and by aligning them to the larger challenges that enterprise clients are trying to solve for. The market opportunity can easily be robust. While we are focusing on growth, we are also operating within the stated band of 15.5% to 17.0% EBIT. In parallel, we continue to look for multiple levers for further expansion on our operating metrics, and we continue to execute against our plans for 2020 and beyond. Firstly, we continue to accelerate Direct Core, consistently outgrowing the market, witnessing strong growth of over 16% for 4 quarters in a row. New Clients and Blackstone have both been driving the growth in addition to our strategic clients. We talked about the strategic partnership that we continue to drive with DXC/HP channel and the fact that we have seen 10 consistent quarters of sequential growth with compound quarterly growth rate of about 4.5%. Further, 58% of our revenue is now from service transformation as of Q2 compared to primary sources of revenue in the past being outsourcing. We also continue to see momentum in our deal wins with New Gen Services at approximately 80% driving bulk of those wins. We have continued to make investments in talent, capability as well as constantly looking for inorganic opportunities. Our acquisition of Stelligent about a year ago has been core and central to our development of capability in cloud native areas.

Finally, we continue to have a strong cash flow generation and optimal cash strategy to maximize shareholder value, and we still have a fairly healthy cash balance of about $254 million.

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

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 Apoorva Prasad from HDFC Securities. Please go ahead.

Apoorva Prasad: My question is on the DXC channel. Ss there any change in strategy from DXC over a medium-term perspective to engage with Mphasis, especially in the light of recent changes that you mentioned and also some of the strategic decisions regarding a part of their portfolio as well as recent acquisition. So, over the medium term, how should we look at this portfolio since this has been a very strong growth driver for us over the past couple of years?

Nitin Rakesh: Apoorva, thanks for the question. I know you've been fairly anxious to know about that since the announcement came out. So firstly, the performance we are seeing is very much in line with the guidance that we gave and the expectation that we set a couple of quarters ago that we'll probably see a moderation in the growth momentum from this channel. And that is partly by design and partly a strategic choice that we made from the point of view of having the business mix and the metrics that we want to drive forward. So by definition, the Direct business is getting a fair share of investment dollars as well as a focus on strategic conscious choices, but at the same time, we haven't taken our growth mindset away from this channel either. The guidance was to continue to grow this at market, and that's exactly where we are as we speak. So, from that perspective, we do expect to continue to have that at least for the remainder of this financial year. In terms of the changes you talked about, as I mentioned in my remarks, the changes are across multiple levels. We are fairly closely engaged across multiple levels. So far, we think it is status quo. We have not seen any indications of any major shift. That doesn't mean that things cannot change over the next couple of quarters, but at least so far, we haven't seen any major shift. And also keep in mind that the change is fairly recent at their end as well. Only a couple of days ago that there was some clarity on where they will focus. So far, it looks like we are fairly well aligned to their areas of focus, and we haven't really seen any massive shift in how that may impact us negatively. So, my best guess answer right now is status quo. We will continue to be growth focused. We will continue to operate at market growth mindset, while we continue to see significantly above market growth in our Direct business.

Apoorva Prasad: Sure. And Nitin, the top 6 to 10 growth continue to remain soft. What's happening there? Anything which is dragging down, in particular?

Nitin Rakesh: Not really. Keep in mind, there is a fairly eclectic mix of clients in the top 10. Some of these are direct, some of these are not. The real metric to note is the fact that we have added significant number of clients in the above $1 million range that is all being fed through the hunting effort. And most of those have been added in the Direct Channel. So the focus should really be on how our metrics are improving, especially, in the Direct Channel and how we take these new accounts that we have opened and continue to move them up the chain when it comes to our wallet share within those accounts.

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

Hiral Shah: A couple of questions on DXC. Just wanted to know, if any of the changes which were announced by the new CEO hamper our expectations to gain in a vendor consolidation scenario? And also considering the weakness in DXC's own numbers, do we see any meaningful change in the trajectory of this account? And the last part is, does Mphasis have any exposure to the businesses which DXC has decided to hive off?

Nitin Rakesh: The first 2 questions are fairly standard and almost every quarter we address the same questions. So, from my perspective, the answer is, we don't see any meaningful change, not yet, as I mentioned in the previous question. It is still, as I said, early days. It has only been 8 or 9 weeks since the change. We continue to follow our strategy. We continue to engage across multiple levels. As and when things evolve and change, we will update you. So, the mindset continues to be able to find growth and make sure that this stays at least at market. On the other question about do we have any exposure to the areas they announced: if you break it down, we don't really do anything in the BPS business with DXC. So, the answer is "no exposure". The healthcare business is fairly onsite centric and is driven by an acquisition they made about 1.5 years ago. It is not a meaningful exposure for us. We have some exposure to the WPS business, but that has traditionally been the EDS-HP book of business. We saw significant erosion already in that business. And at this point in time, we don't think there's any material risk to the overall numbers. Of course, as things change, as they progress on their actions, we will get to know more. All of this is just 48 hours old. So from our perspective, as we say, at least for FY20, we have no change that we see.

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

Sandeep Shah: Nitin, as you said on DXC, that as of now, there are no changes. But what could be those changes, if it happens? Can you elaborate or give some color?

Nitin Rakesh: My friend, if I have a crystal ball and I could see future, I would. The fact of the matter is we have built a fairly strong foundation over the last 3 years. We have gone across multiple units, multiple verticals, multiple geographies, and multiple service lines. We have deep relationships with their end customers, we have driven deals jointly. So, my only request to all of you would be to focus on opportunity, focus on the work that has gone into transforming the relationship. And of course, there are uncertainties, but that is the nature of the business. There are uncertainties with every customer we deal with. So, from that perspective, there isn't anything more I can tell you that will give you any more comfort. You will have to form that comfort based on our performance, both the past 10 quarters as well as the next couple of quarters.

Sandeep Shah: Fair enough. On wage inflation for the whole year, can you give some color? This time it looks like there is a bit of distributed wage inflation. Can you give us some color how it has panned out in first half and what is the plan for the second half on wage hike because you highlighted that could be headwind in the coming quarter?

Nitin Rakesh: We talked about the fact that, instead of having one big chunk of inflation in one particular quarter, we took an approach that we linked it to our reskilling initiative and basically spread it across merit increases based on reskilling. Clearly, that's the strategy we are following, and that is the reason why you are seeing a little bit more smoothening of that. Having said that, the labor market, especially in the U.S. continues to be tight. And that does put pressure on not just hikes, but actually the inflation of wages as you try to hire laterally from the market. So, having said that, k we are still fairly pleased that we were able to optimize and expand the EBIT in Q2. And the reason we are confident of maintaining our EBIT band is because we know that we have initiatives underway to constantly improve using pyramid actions, rotations and, of course, the fact that we are operating in Next Gen services also gives us a little more pricing power.

Sandeep Shah: So, is it fair to say each quarter there would be some wage inflation which would be baked in?

Nitin Rakesh: I think it is fair to say that we spread it across the quarters. So, the guidance we are giving you is baking into that effect.

Sandeep Shah: And just 2 book-keeping questions. Surya, if you can help us in terms of tax rate, this quarter it has been down. And second, in terms of hedge rate with rupee approaching 72, how to look at Forex gain for the second half of this financial year?

V. Suryanarayanan: On the tax rate, we have provided guidance in the past. Basis the revenues and profits from various regions or countries across the globe it will fluctuate but will typically remain in the band of 24% to 26%. On the hedge rate, we have hedged on an average rate of around 71 for FY20. So, with the current outlook of exchange rates, we are well covered.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Nitin, sorry to again push back on DXC. You mentioned that you have exposure to the workplace business. Now workplace and mobility are almost 15% of their topline. Is it fair to assume that your ratio of DXC business from this segment would be similar? Or is it materially lower?

Nitin Rakesh: Materially lower.

Mukul Garg: So that should not be a very major delta for you on divestment from their end?

Nitin Rakesh: Materially lower is what I mentioned in my answer. So, the answer is yes. In the near term, no material impact. As things evolve and change, we will update you.

Mukul Garg: The other part is, DXC business is quite muted this quarter. And you have been delivering very strong growth in this channel for a while. Now we have seen quite poor results from DXC a few days back, which included commentary from their end that there have been execution missteps from their end on specific client deals. Now is that something which has percolated down to you as well? Or do you think that it is a big opportunity given that they are finding it difficult to optimize their deployment or delivery internally?

Nitin Rakesh: So Mukul, the same question was asked in different ways over the last few quarters where I think the worry was as they ramp up their offshore efforts, they will in source. The worry was why they need you if they already have a few thousands of people in India. And we've continued to be fairly consistent that the reason we win business from them is because we bring a certain complementary capability, whether it is on delivery or on solutions. So the mindset has not changed. From our perspective, there wasn't any significant or actually any project issues that we have been involved in. So that continues to position us very well when it comes to strong solutioning, strong go-to-market and strong delivery capability.

Mukul Garg: Got it. And the final question is on the banking space. Now that vertical grew quite well this quarter. Any outlook? I know you guys have been commenting on micro verticals which are doing well. But on an overall basis, this is trending out quite starkly against the rest of the industry, which is talking about issues; especially in the capital markets. So, any specific area where you think you are doing things a bit differently versus others, which is helping you win market share.

Nitin Rakesh: Yes, Mukul, I have talked about it in my remarks as well. The overall spend in banking: while there is a tailwind, a lot of that spend is not flowing through to third party providers. However, in that environment, where we have the opportunity is where we are able to actually go to a bank or a financial services company and provide a certain point of view or a certain solution that accelerates their transformation. So this is a very much differentiation story, very much a story that continues to work out well for us because we are investing in capabilities that the banks need to apply their transformation. And hence, we become a partner of choice and we start gaining wallet share from existing clients. We have also seen very good success in bringing new logos on board with the same mindset. So, the comment that I made was that these were traditionally seen as matured buyers with very high-competitive intensity and very difficult to break into. And we have seen that with the right set of offerings, the right differentiation, the right value proposition, the right opinion, the right point of view and the right ability to deploy the solution, virtually any account is actually feasible to break into. So that's the playbook we are applying, and we are very pleased that we have seen double-digit growth in banking, which is higher than what anybody else is seeing across the industry.

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

Madhu Babu: Sir, just a follow-up on the earlier question. So when we break into some of these accounts which we're saying difficult to break into even through solutioning, would we able to even capture the traditional business in that because there could be good incremental business there?

Nitin Rakesh: The entry point will never be the traditional business because that is where the competitive intensity is the highest and also that is where the pricing power is the least, if anything, there is price destruction going on there. So, the approach for us is to enter through transformation deals and find the right hooks to bundle transformation with run, and that is the progression that we talk about as we say that we will mine into these accounts over the next 4 to 6 quarters.

Madhu Babu: Yes. So that's what, when we enter through a transformational work, would we be able to even go and further get a traditional chunk at a later stage? Would that be a possibility because that is very price sensitive?

Nitin Rakesh: Absolutely. But you cannot win that business on price. You have to win that business on the ability to transform. So, an example of a deal is, we talked about it in our analyst event, where we were able to actually get fairly long term, actually, in that particular client case, a 5-year deal, which we didn't start by actually running those applications. We started by having a point of view on how to transform and modernize them. But to fund that modernization, the client chose to actually transition the run to us, so we could apply the transformation while squeezing the run cost. And in effect, it became a zero-cost transformation play, but it gave us a long-term annuity contract with a bundle of transformation and run the business. So that's the playbook that we're applying. We call it zero cost transformation. You can call it cost-neutral transformation. It depends on what environment, what industry you are in, but that really is the Holy Grail, and we have been able to demonstrate that across multiple clients. And that's the playbook we are applying across new clients as well.

Madhu Babu: And sir some of the companies have been saying that furloughs will be higher this year. So even earlier, we used to have a furlough impact in DXC. So how do we see the furlough impact on growth for next quarter?

Nitin Rakesh: Seasonal weakness is always there: lesser number of working days and client furloughs. But from our perspective, our trends have been fairly consistent over the last 2 or 3 years. And it's too early to say whether the furlough will be higher or lower. It is our job to manage as best as we can, working with the clients to minimize any impact and at the same time make sure that we don't impact any client work as well. So I am not calling anything out specifically. I believe we continue to find ways to manage through and gain wallet share.

Madhu Babu: And last one, sir, on the BPO, was there a pent-up hiring? Is it any single deal or something else?

Nitin Rakesh: No, we have consciously focused on that business over the last few quarters, and we won some new deals. So, what you are seeing is basically converting wins to revenue.

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

Dipesh Mehta: Congrats on the good execution. A couple of questions about, first on DR. If you can help us understand how one should look at Digital Risk and considering the mortgage-related pickup interest rate cycle and other. You indicated about $28 to $30 million range. Where are we, let's say, in Q2? And how do you expect next few quarters to grow? Second related question on banking and capital markets. If one adjusts for DR numbers into it, the rest of the BCM growth seems to be muted. If you can provide some color on that? And the third question is on major accounts. If we look our top 5 clients and particularly top clients, we are seeing significant traction over last few quarters. If you can help us understand, what is working for us? And if you can provide some more detail around it? Thank you.

Nitin Rakesh: Yes. So, I think I lost track of the 3 long questions. Let me answer the first one, which is the DR question. We talked about bringing DR back into the stated revenue guidance band back in May. I am very pleased that we finished this quarter at about $27 million. We are already guiding that in the short run we should be back in that band. So basically, you should see continued sequential growth in DR for the remainder of the year. Based on the cyclicality and the interest rate cycles, what was a headwind for us in calendar year 18 and first half of calendar year 19 is now clearly playing into our favor. Having said that, it is not just the volume recovery. We have actually also been selling into new clients and new deals because the capability and the differentiation we have is very strong. Secondly, this is not a 1 or 2 quarter phenomenon. We have visibility at least into the next calendar year, which tells us that there should be continued robustness in volumes. And of course, things can change with macro changing but as things stand today, at least for the medium term, there seems to be visibility into robust volumes in this business.

Your second question was the banking and capital markets growth ex DR. The DR number this time last year was actually higher than the number in Q2. So, on a Y-o-Y basis, BCM has grown at 14.4% constant currency excluding DR in Q2. So that actually makes that growth even more robust. And on a sequential basis 3.7%, which is also fairly strong. So the BCM story is not led by the DR alone. Of course, sequentially it is helping. But on a Y-o-Y basis, our overall BCM business has actually done very well.

Dipesh Mehta: Nitin, you indicated ex DR it is 3.7% quarter-on-quarter?

Nitin Rakesh: Yes. And 14.4% Y-o-Y.

Dipesh Mehta: So top clients, we are seeing significant traction over last few quarters, particularly top client and top 5 clients. So, what is working well for us? And how do you try to replicate that into the remaining top 20 and maybe top 50 clients?

Nitin Rakesh: Sure. The traction really is coming primarily from the fact that we are winning significant market shares because we are applying the same playbook of gaining through transformation, entering through transformation deals and then expanding into adjacencies and near-neighbor deals. The simple answer across all of our top clients is, it's the same playbook. We talked about the fact that we have seen good growth across the top end of the top clients. There is still a segment within our top 15 customers where we need more wallet share gain, we are starting to see some traction in those, as we speak. And then, of course, the same playbook of applying that differentiation-led transformation capability and then expanding into adjacencies is also starting to play out in new wins. So, it's the same motion. This isn't a client that is starting to spend more money and hence we are gaining. It's a client where we are starting to see more wallet share gains based on the fact that we have become a lot more strategic in their transformation programs.

Dipesh Mehta: And last question if I can squeeze in one. What would be the Blackstone portfolio revenue contribution, if you can share that number?

V. Suryanarayanan: It will be around 5.0% of our Direct Core.

Moderator: Thank you. The next question is from the line of Abhishek S from Elara Capital. Please go ahead.

Abhishek S: Nitin, you made an interesting comment about the spends not getting channelized to third-party vendors, especially on the BFS part. Can you elaborate what is happening on the ground?

Nitin Rakesh: It is not a comment that I made. It is the data borne out by all of the industry peers because they're calling for the fact that given multiple regulatory concerns, security concerns, control issues and, of course, the fact that money is getting diverted away from traditional areas into areas like cybersecurity and cloud, it is not a natural fit for flowing into the traditional partners who used to do traditional ADM and IMS and BPS. In that context, what the banks are looking for is a set of partners who are able to transition them into applying new tech with agility, speed, resilience and value. And that's really where we are gaining wallet share.

Moderator: Thank you. The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: I have 2 questions. One is on the hiring side. How do we see the hiring trend at Mphasis? And how would it be going forward? We just started one office at Hyderabad. Do we see more local hiring there? And second, on the export side, as you said that you would be focusing on exports, and as I see in the presentation also, the contribution from America has gone down where rest of the world is picking up. So, do we see the trend to continue?

Nitin Rakesh: Sorry, I am not clear about your second question, but I will answer the first one. The strategy to create local hiring is primarily to secure best talent in the best location for the best project. So, from that the perspective, clearly, 80% of our headcount continues to be in India. We have a pretty decent sizable presence in Bangalore, Pune and Chennai, and we added Hyderabad as the fourth location about 2 years ago. And we expanded there earlier this year based on just the fact that we have more growth and we probably will continue to find ways to tap into other pools of talent. So that is really a reflection of where we think we need to put efforts based on capability, competency, labor pool, effectiveness of price and value. On your other comment about exports, I mean bulk of our business really is originated in the Americas; around 80% of our revenues. We continue to see fairly robust growth. We have added headcount. If you look at just sequentially, we added about 800 people in the U.S. in Q2. And I don't see any change in the way we run that business. So U.S. will continue to be the driver of growth. Europe has grown. We expect it to grow faster, and that is the effort. But between U.S. and Europe, it is 90+% of our revenue. And of course, we have some small footprint in other parts of the world that represents the balance 10%. But I don't expect that contribution from overseas markets, which is the international markets, to change significantly. If anything, it will continue to grow.

Megha Hariramani: So, this quarter we had higher contribution from rest of the world market. Will that continue? Or that's going to be stabilizing going forward?

Nitin Rakesh: Actually, it has come down compared to last quarter. I don't know which metrics you're looking at, but if look at the MD&A, its 5% rest of the world versus 6% last quarter.

Megha Hariramani: There is one of the charts which show a higher percentage where America is 71% and the rest of the world has a 10% plus kind of contribution. Let me just check which slide is that. That's #10, geographical penetration that we show or maybe that's like higher Europe in that region.

Nitin Rakesh: I don't think there is any change, maybe there is a misinterpretation of some data. That is only in the DXC channel you are looking at, madam.

Moderator: Thank you. The next question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.

Princy Bhansali: Two questions from my side. Could you please tell me what will be the revenue contribution from your strategic clients?

Nitin Rakesh: Not a statistic that we give out publicly, so we cannot answer that question. But you should be able to derive some of that from the client concentration numbers.

Princy Bhansali: Any light you can throw on it?

Nitin Rakesh: Unfortunately, no.

Princy Bhansali: We see a lot of client addition data that you display in your presentation, but in terms of the higher bucket clients, say, $20 million plus, $50 million plus, the data seems to be weak. Like, any color on that if you could throw?

Nitin Rakesh: The bulk of the new client addition, there is a lag between client addition and ramp up. So, if you see, there is a pretty significant jump, almost 9 new clients added in the million plus category. And that's really how you will continue to see expansion up that pyramid. The other thing is there is an internal rotation between Direct and DXC clients, which basically means that as we get broader within DXC, our concentration there reduces. And as we get bigger within our Direct Clients, that number rotates within. So you may see the same number of clients at a headline number, but internally that rotation will happen. That's what happened in the 5 million and above category, if you look at over the last 2 or 3 quarters.

Princy Bhansali: So, like majorly, the client addition that is happening at your side is in the buckets of 1 million or lower, right, if I'm not wrong?

Nitin Rakesh: That is your interpretation. That is not what I said.

Moderator: Thank you. The next question is from the line of Nirav Dalal from Maybank. Please go ahead.

Nirav Dalal: I had a question on the EMEA region. We've seen the revenue performance flattened out in that region over the last 4 quarters. So wanted your comments on it, how should we look at it going forward?

Nitin Rakesh: I think the bulk of our business in EMEA is in UK. And that has not been the best place to generate revenue given all the uncertainties that you've seen. But at least in the current quarter that went by, we saw some robust deal wins, which is a lead indicator for the fact that things would probably start returning back to growth. And that's kind of what is baked into our expectation for the rest of the year and for FY21.

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

Nitin Rakesh: Thank you, everyone, for your time and your interest. As we continue to focus on delivering value to clients and push ourselves to learn and adopt these new technologies at scale and speed, my strong belief continues to be that our offerings are our true heroes. Every day we ask ourselves, how can cwe enable clients to be nimbler, how can we accelerate their product development cycles, increase the velocity of their sprints and above all, how can we help them reduce their technical debt that comes with the legacy. We continue to be focused on being disciplined, sustain growth efforts above all and invest in people, process and technologies. At the beginning of FY19, we emphasized our objective to deliver growth along the 4 key vectors: consistent, competitive, profitable and responsible. And we are happy with the execution along these vectors through the year. I thank you all for your support and interest, and I look forward to seeing you at the next call. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Mphasis, that concludes this conference. Thank you for joining us and you may now disconnect your lines.