"Mphasis Limited Q2FY22 Earnings Conference Call"

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Moderator: Good morning, ladies and gentlemen. Welcome to the Mphasis Limited Q2FY2022 Earnings Conference Call.

Please note the management would be showcasing a presentation that is available on the webcast link, shared in the invite as well as on the Mphasis website www.mphasis.com.

As a reminder, 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shiv Muttoo from CDR. Thank you and over to you sir.

Shiv Muttoo: Good morning, everyone. And thank you for joining us on Mphasis Q2FY22 Results Conference Call. We have with us today Mr. Nitin Rakesh – CEO, Mr. Manish Dugar – CFO, and Mr. Viju George – Head Investor Relations.

Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q2FY22 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.

Nitin Rakesh: Good morning, everyone. Thank you for joining the call this morning. As we close on the first half of the financial year in the face of an unprecedented pandemic and personal tragedy, I am thankful to our employees. They have demonstrated dedication and resilience. As a company Mphasis has met challenges head on and powered through a year like no other that made it uniquely challenging. We are witnessing accelerated recovery in contrast to the economic uncertainty that the world faced at this time last year. Mphasis has emerged as an even stronger company. In the next few slides, I will walk you through what we are seeing in the market and how Mphasis has performed.

As the tech landscape fast evolves in the post-COVID world, we see three engines driving sustainable growth for us.

I The first engine drives growth in global tech spending that has picked up compared to 2020 and is expected to stay at elevated levels vis-à-vis the pre-COVID era. Within that the overall offshore IT services growth is even higher and continues to drive expansion for the share of Indian IT services market, especially for the firms that are aligned to the digital transformation competencies. According to Gartner, worldwide IT spending is projected to grow at a rate of 8.6% in 2021. The IT services segment is forecast to grow at 9.8% in 2021.

II The second engine relates to capturing additional discretionary spending opportunities as enterprises migrate away from a CAPEX driven tech investment model, releasing more in the tech budgets, away from the past amortizations due to tech-debt reduction. This is spurring the

consumption of “as a service” trend encompassing all aspects of tech consumption, a theme that Mphasis bet on starting 2016-2017. In the ongoing dynamic of run versus change, the market for change is growing much faster as enterprises relentlessly rationalize run to fund change. In fact, we estimate that the addressable market for change would significantly expand over the next few years. Because we were able to recognize this trend early, we have aligned our offerings with the changed paradigm using our “Tribes and Squad” driven competency model, which we have discussed with you in the past.

III The third engine deals with the technology themes that are closely aligned with the business and play directly into the growth and transformation theme. Increasingly, the much larger sustainable opportunities are also now emerging within the other parts of the client organizations outside of the traditional IT orgs. The blurring of boundaries due to the changed dynamic that intersects both business and technology allows us to expand our total addressable market significantly faster than before.

Our recently announced acquisition of Blink is a case in point, we believe, of boosting our credentials in Digital Research, Strategy and Design. We will significantly expand our TAM in the faster growing upstream phases of digital transformation journey of enterprises, moving to the very front of our front to back strategy.

Our Direct business growth is accelerating on a larger revenue base. In 2nd Quarter FY22 our overall gross revenue was $385.2 million, which represents a growth of 6.1% quarter-over-quarter and 17.6% year-over-year in dollar terms and 6.6% QoQ and 17.2% YoY in constant currency terms. This is quarterly decade-high annual growth.

Direct business continues to power our growth, growing 9.9% sequentially and 31.5% YoY in constant currency terms. The trajectory of our Direct annual growth is consistently rising, with YoY growth topping 30% and about 10% sequentially for the second straight quarter. For first half, Direct growth stands at 32% year-over-year in constant currency terms.

In absolute terms, our sequential and annual incremental revenue added in our Direct business is the highest on record. The contribution of Direct at 92% continues to rise. We continue to prioritize our growth and investment in this business. A strong showing here has helped us manage the decline in the DXC business, the contribution of which now is reduced to 6% of revenues. DXC revenue declined 25.5% sequentially and 53.3% YoY in reported terms. This is in line with our commentary of DXC dropping to mid-single digit as a percentage of our revenue by the end of the year. Given the overwhelming contribution of Direct to our business, which now exceeds 90%, we expect that our overall revenue growth going forward will start to converge with growth in the Direct business.

Geography-wise, all our markets have fared well. In our core market of the US, we grew 27% year-over-year for Direct. In Europe, our Direct business has grown 44% year-over-year. Our

pipeline in Europe is strong, especially with new clients and we expect this region to continue to be a growth driver for FY22 and beyond as well.

From a service line perspective, application services, our largest service offering grew 39% year-over-year buoyed by the theme of digitization and cloud powered transformation of applications.

Specifically, I would like to call out a sustained growth performance in the Direct segment. Market share gains of the Top 10 clients and beyond have helped us drive growth here. Growth contribution from our key clients has been consistent, reflecting increasing depth in key relationships and share gains. While our Top 10 client segment has grown at over 20% in FY22 YTD, what's equally heartening is the consistent growth coming from beyond Top 10 customers, including new clients, a theme that we have highlighted in earlier calls, and we will double click on shortly. We believe that our broad-based success with clients positions us well for industry leading growth in Direct for FY22 on top of industry leading Direct growth in FY21, in line with our FY22 guidance articulated at the start of this year.

With our tech-led positioning, we are replicating our performance in our flagship vertical now renamed to Banking & Financial Services as well as other verticals. BFS has grown 20% YoY in constant currency for the quarter, representing the fifth straight quarter of 20% plus growth. Our Direct BFS grew 13.8% sequentially and 23.8% YoY in dollar terms. This growth is broad based across all segments of BFS. We continue to enjoy market share gains with our key BFS clients.

This quarter has also seen robust growth in the now renamed TMT vertical, and the Logistics & Transportation vertical within Direct, with TMT growing 10.8% sequentially, and 168% year-over-year, and Logistics & Transportation growing 39% year-over-year.

Our client-stats reflect the strengthening position with several top clients post vendor consolidation. We continue to believe that our wallet share gains emanate from our competency-driven positioning. As our top clients prioritize and execute their spending plans our Preferred Partner status places us well to capture additional market share, especially in new areas of tech spends as articulated in the earlier part of my remarks.

Notably, we continue to see stronger growth from the lower half of our Top 10 clients, as well as robust growth beyond our Top 10 clients. Our Top 5 and Top 10 clients have grown consistently registering 22% and 28% growth respectively in 2nd Quarter on a trailing 12-month basis. The average contribution of our Top 5 clients exceeds $120 million on a TTM basis. Our Top 4 clients are now $100 million plus clients on a trailing 12-month basis. And all our Top 5 clients are $75 million plus on a on a trailing 12-month basis as well and USD $100 million plus on a quarterly annualized basis which we believe is unique for a company of our size. Client 6 to 10 have grown at 49% trailing 12-months. This is much higher than the average TTM growth of Top-5 segment indicating strong growth diversification among our key clients. Our clients in 11 to 20 bucket have grown at 14% on TTM basis as well. Notably, all our seven $50 million

plus clients grew sequentially for the second straight quarter. In a nutshell, a strong client performance across the board supports our industry leading growth in the Direct business. Our new client revenue continues to grow rapidly as well, growing at 63% YoY in 2nd Quarter. We will expand on that segment in a few minutes.

We recorded TCV wins of $241 million in the 2nd Quarter. This marks the seventh straight quarter of $200 billion plus net new TCV that is not including renewal deals. Our TCV is up 21% year to date. Despite strong TCVs racked up over the last few quarters our pipeline is still up, suggesting that our pipeline generation engine is firing as well. We generate a high percentage of our TCV through productive deal pursuits where win rates are higher than in competitive RFP situations. As we report our TCV on a net new basis, i.e excluding renewals, we find the correlation between our Direct TCV and revenue growth to be high, exceeding 0.9**.**

Coming to our client metrics, our track record in migrating clients from one revenue bucket to the next continues to be healthy. Specifically, our conversion ratio of clients from one Tier to next Tier is solid and improving at well over 50%, representing one of the best rates in the industry. The count of $100 million and $50 million clients at 4 and 7 is stable on a sequential basis and is up by 2 and 3 respectively on a YoY basis. As I mentioned before, on a quarterly run rate basis, we have added one more client to the $100 million plus bucket this quarter.

We win one to two large deals on an average every quarter, marked by an increase in deal size. As this slide indicates, the average large deal size on a trailing 12-month basis at $80 million plus is 2.5x of what it was two years ago. Our large deals are increasingly multi-year, multi-tower, transformation-based and longer tenure. The growing size reflects this capability evolution.

Our margin philosophy affords us the flexibility to manage our profitability in an environment of rising cost of talent in a heated market. In this quarter, we were able to absorb higher cost of revenue and in fact, raised gross margins 50 bps sequentially. This allowed us to operate in the stated EBIT margin range. Our reported metric included the M&A related charges of Rs. 208 million that is 70 bps for the quarter. Adjusted for M&A related charges operating profit grew 6% sequentially, and 15.4% YoY to Rs. 4,528 million in Q2. Adjusted operating margin declined 10 bps QoQ and 30 bps YoY to 15.8% in Q2. This is in line with our stated operating margin band of 15.5% to 17%.

Our adjusted EPS for the quarter at 19.09 grew 19% year-over-year, and our EPS growth exceeds our Operating profit growth. Our cash generation stood at USD 54 million in Q2’22, a nine year high. Our operating cash flow generation as a percentage of EBITDA is 77%. Cash flow growth exceeds our profit growth.

I am pleased to report that we have signed 20 Fortune 500 firms since FY20 that are well distributed across verticals. Plus, we have added 10 more in the Fortune 500 category from our acquisition recently. This is not incidental as we have reinvigorated the program with dedicated

leadership. We have carved out five specifically selected verticals to focus on for NCAs, namely BFS&I in which our positioning and track record is already solid; this vertical is large enough for us to continue to provide growth run rate in the longer term; Logistics, TMT and Healthcare; each of these five verticals has its respective client acquisition strategies thereby dedicated sales, delivery and domain leadership.

We have an elaborate operating model in place to transition clients to a strategic status with client engagement structure and investments defined through the phases of the transition. As our clients move to transition phase and become strategic clients, we progressively bring full force of our secret sauce and dedicated client resources and GTM motions in engaging with such accounts.

Our continued strong growth in TMT over the past few quarters as a result of the NCA investment program is encouraging. Notably, our Direct TMT revenue at over 100 million on a TTM basis is more than double YoY. More importantly, our Tribes-led pipeline addressing the change imperatives of clients' tech programs is up 13% QoQ and 28% YoY despite pipeline to TCV conversion of $1.2 billion on trailing 12-month basis. Our pipeline is well distributed amongst 8 Tribes indicating our traction is spread out across various digital tech stacks.

In summary, I will leave you with three points.

I Our Direct strong growth is consistent for the second successive quarter. We have grown 10% sequentially and over 30% year-over-year in constant currency. Financial year to date Direct growth is at 32% in constant currency terms. Direct performance has helped us mitigate the declines in DXC, the contribution of which is now reduced to 6% revenue in Q2.

II Second, all our KPIs are moving in the right direction, namely, our growth is getting broad based with Europe, TMT, Logistics & Transportation aiding the growth in addition to our anchor verticals of BFS, and anchor geography of US. We continue to drive market share gains with our key clients. Investments in the design and build-out of NCA architecture, a critical leg of future growth, is bearing fruit with 20 Fortune 500 clients wins in the past few quarters. Thus, we are winning a good share of high potential clients for the future.

Our client mining metrics across revenue buckets continues to strengthen. As referenced, our average Top 5 client contribution tops $120 million. Our Top 6 to 10 clients are now growing well above our Direct revenue growth, with 49% growth in a trailing 12-month basis, while the Top 11 to 20 clients have also grown strong double-digit percentages. All our seven $50 million plus clients have grown sequentially for the second successive quarter.

Our cash flow generation as a percentage of EBITDA is nicely trending up. Operating cash flow at $54 million is at a nine-year high and represents 77% of our EBITDA.

III Third, investing for growth by using operating leverage and operating in a stated target operating margin band. And we believe our margin stand ensures margin stability in an

environment of supply headwinds. Thus, revenue growth translates into sustainable EPS and PAT growth and consistently rising free cash flow generation complimented by improving DSOs.

Our growth strategy envisages us making sustained investment in line with our Continuity and Acceleration theme along four vectors:

I. Geography expansion
II. Greater Leadership breadth and depth
III. Buildup of digital capabilities including M&A
IV. NCA scale up

Together with increasingly diversified nature of our client base and metrics, we believe this will help sustain the magnitude and drive consistency of our Direct growth. Our strong performance in the first half of the year reinforces our confidence in reiterating our guidance for industry leading growth in Direct in FY22, on top of industry leading performance in FY21. We also expect to see greater convergence of our overall revenue growth with the Direct growth.

On that note, I would request the operator to open up the line for questions please.

Moderator: Thank you. Ladies and gentlemen, we will now begin with a question-and-answer session. The first question from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Nitin I think as always, any commentary on how the interactions with DXC has taken place over the last month or two? Now that MRC is over, would you like to update us on exactly how the future relationship is going to be?

Nitin Rakesh: Are you referring to the DXC relationship, I couldn't hear you very clearly?

Mukul Garg: Yes. I was talking about, after the completion of the MRC, the relationship with DXC.

Nitin Rakesh: So, we have already updated you in the past that we already have three successive two-year terms built into the into the renewal construct. So, we have already kicked off into the first two-year term of renewal. MRC is a construct that was done for a five-year period. We have just finished the five years period on September 30th. And we are engaged with audit team to make sure that we are able to find a situation where both of us can continue to build on the partnership and make sure that we have a sustainable revenue line coming through. So, nothing more to call out on that at this point in time., You know this is a commercial discussion, we wouldn't want to talk anything more at this point in time. But when we have something that we need to share, we will definitely update the street.

Mukul Garg: And just to probe a bit more into this relationship, and I know there are definitely some sensitivities which are involved here, but your revenues from the DXC channel has come down by 2/3rd in last eight quarters, now down to $25 million.

A) Is this something where you think you can defend your business, given your relationship with clients who you are servicing via DXC? Or do you expect this to trend down further from here?

B) Is there some Direct win which is happening with those clients, which were earlier part of DXC channel, given that in some cases, like TMT your Direct growth is much better, and your DXC business, obviously, is declining at a very rapid pace. So, if you can just help us, are you able to convert some of those guys into Direct relationship?

Nitin Rakesh: Mukul, those are both items that obviously have a bearing on longer term relationship. So, the right thing to think about is that we are investing in building our Direct business growth. We have been growing our business, quite well on the Direct side, well, before the DXC decline started, all we have really done is taken the investment dollars that we could to feed the growth in Direct.

I think the guidance we gave was to, to think about the DXC business coming to the mid-single digit mark, we are inching towards that as we expected to. The reality is that the Direct business is really where the focus is and will continue to be. But we do expect a line of revenue that will continue to emerge from the DXC side of the house. I think that's probably the best guidance I can give you at this point in time, without getting into the details of, a channel conflict or a client confidentiality issue.

Moderator: Thank you. The next question is from the line of Karan Uppal from Phillip Capital. Please go ahead.

Karan Uppal: Nitin, two questions. One, On the offshore revenue, offshore revenue has not increased materially for Mphasis as compared to some of our peers. Is that a conscious strategy to chase more onsite business? And can it be a margin lever going ahead?

Two, On Europe, so you are investing in this geography aggressively in last couple of years, so any color on in terms of deal sizes and in which verticals, you are seeing traction?

Nitin Rakesh: Yes, offshore revenue has actually grown this quarter quite nicely, because we have a 1% swing between onshore and offshore revenue. So, we guided for the fact that growth will actually be in favor of offshore and that’s what it’s playing out right now. So, I don't think there is any change in stance or strategy from that perspective. Of course, the decline in DXC was a little bit more offshore centric this quarter so that definitely is showing up in the headcount as well. But primarily, I don't think we expect that our onshore offshore ratio will move materially, if anything, it'll actually be probably a little bit more skewed towards offshore growth. That's kind of the guidance I can give you.

On the Europe question, I think it's fair to assume that our tip of the spear for opening a new market, within Europe or a new geography, will always be leading with our strength and our strength comes from BFSI. And that's kind of the strategy we have deployed in UK in the last two years, and we are taking that across the continent over the last two quarters as well. So,

typically, the BFSI segment that is the tip of the spear, we have 5 out of the Top 10 European banks as our customers today, we will continue to expand on that footprint.

We have gone across from UK into the continent. We have a decent sized business in insurance in France. We have started doing business with banks in the Nordics. So, it's really, I think that's going to be the tip of the spear because that's where our ability to get references and our credibility is the highest.

In terms of deal sizes, I think we have seen some really healthy deals, we announced a large transaction last quarter as well. So, that's kind of the traction, and the deal closure is fairly strong in that region.

Moderator: Thank you. The next question is from the line of the Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Two questions from my side. The sharp dip that we have seen in the DXC business over the last few quarters, I am sure there is a lot of management and employee bandwidth and other resources that have gone behind the DXC revenue, or our DXC business. How much of that bandwidth or how much of those resources are sort of fungible and could be sort of used effectively to use for our growth in the Direct piece? I just wanted to understand that aspect. And then I have one more balance sheet related question.

Nitin Rakesh: So, definitely there is an element of rotation and fulfillment that comes in through the declines. Of course, I am not saying that we have stopped investing in that segment, because a customer is a customer and we will provide the best service and the capability to every customer, including that channel. However, when there is a decline, and we have ramped down, that definitely becomes a fuel for us to grow the Direct business.

Just to give you a sense, YTD basis in the last two quarters the Direct business billable headcount has been growing at 20%. And that number was about 38% for the last four quarters. But if you look at the net headcount add that will not add up to that, because we have had this internal rotation in play. So, it is very much part of the supply chain ecosystem for us to be able to rescale or redeploy folks that become available, including at a management level or fixed level as well. Again, we run the company as a portfolio of businesses and this rotation and migration of talent or deployment of talent across units is not uncommon for us. So, it is definitely very much part of the equation.

Vimal Gohil: I have one more question on the balance sheet, just a clarification, the sharp increase that we are seeing in the other financial liabilities in the balance sheet of Rs. 1400 crores odd that is related to our payables for the Blink acquisition, right?

Manish Dugar: No, that's actually the provision for the dividend payout, shareholder approval happened on the 29th of September. We needed to provide it in the books. The payout happened in the first week of October.

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

Nitin Padmanabhan: Two questions, actually, 1) On the G&A side, if you could explain how we should think of the increase in cost in G&A, maybe excluding the M&A sort of expenses there on a going forward basis?

And 2) Your thoughts on attrition and which part of the employee base it's sort of hitting and how are we sort of mitigating anything in terms of fresher hires for the year that you have done so far and how you are looking at it overall? Thanks.

Nitin Rakesh: Nitin, the issue on supply side stress is definitely an industry level issue. The lower down you go in the pyramid, the churn is a little bit higher, primarily because that's where the migration, mobility is the highest, especially in an environment where people are working remote the engagement is also the lowest. I think the effort is not just hiring or backfilling but also taking action for a higher engagement, higher value proposition and making sure that we are able to provide the same level of growth opportunity across the pyramid.

We have been very proactive in hiring across the pyramid. I think the issue isn't so much just hiring pressures, because that's one part of the equation. I think we have talked about additional supply chain levers in terms of new locations, we have talked about using 'Talent Next' to upskill, we have talked about rotation of people from one unit to the next. And we will obviously also continue to hire across the pyramid including freshers, but we don't disclose numbers, for obvious reasons. But I can assure you that a pretty significant effort continues to be made in strengthening and broadening the whole supply chain ecosystem. And of course, in making sure that we are able to retain and deploy the best talent we have.

But definitely, in a supply constrained market, demand far outstrips supply for the industry as a whole, not just in India, but globally. And we also think that that's an environment that we will have to sustain over the next few quarters. But all things being equal, I would rather take an environment with higher growth than supply, than the other way around. So, I think that's the perspective we are building with new skills and capability.

Manish Dugar: So, Nitin, the G&A expenses, if you see the trend for the last few quarters, has been in the range of 5.4% to 5.5%. Last quarter was actually an aberration when it went down to 4.7%. If you take the base of 5.4% and you look at the reported G&A expense for this quarter that's close to 0.7% increase. And almost all of that is because of the M&A expenses. As we have communicated the M&A expense is close to 0.7% of the revenue. So, if you look at from that perspective, 5.4%+0.7% is the 6.1% that we have reported this quarter.

Nitin Padmanabhan: From an industry perspective, are you seeing onsite attrition also seeing a meaningful pickup?

Nitin Rakesh: Yes, I think it's definitely elevated, it is higher than the historical trends. But I think the real, I would say, bigger uptick really is in offshore, just given the sudden surge in demand that the

industry is seeing in the last two quarters. So, I think, we do believe that the shortage will probably be more acute in certain key locations, because not only is the industry actually hiring more, but there are other ecosystems within the economy in India that are also very aggressively hiring from the tech markets. So, I think the demand supply situation is probably a little bit more acute than onsite.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities, please go ahead.

Sandeep Shah: Just wanted to understand Nitin about the Fortune 500 client addition slide, so that's very impressive. Just wanted to understand, is it broad based or is it more focused towards BFS as a whole? So, if you can give some color on this?

Nitin Rakesh: You know, maybe we can have that slide up on the webcast. I think the key thing to note on this slide is the fact that it's a pretty consistent addition between I would say the three to four Fortune 500 customers every quarter. It is very broad based; it is not just in BFS. And part of the reason for that is that in BFS we already have a pretty strong coverage. A lot of the recent additions, I would say, especially in the last four quarters have actually been in non-BFS. And they are also widespread across geographies, even though US actually constitutes the bulk of these additions. So, again very pleased with the fact that we have created a very strong foundation for the client pyramid for us to continue to mine these through in converting them from the $1 million to $5 million, $ to 5 million to $50 million, $75 million buckets.

Sandeep Shah: And here, are we replacing the existing incumbent or is it the addition of one more strategic vendor like you?

Nitin Rakesh: Yes, I think that's a great question. So, I think every time there is a pretty significant pivot or there is a pivot in tech consumption, the pattern of consumption, tech debt reduction, for example, data center services are declining 10% year-over-year, at an industry level. However, there are other things that incumbent providers do. So, we have also seen that the current environment, especially the last four to six quarters, I would say post March last year, the ability to actually open new logos, the willingness on the client side to actually give you an opportunity if you have the right value proposition or right referenceability, the right disruptive construct, the ability to actually get them to be more agile and nimble, get them to launch product quicker, cut costs while applying transformation. I think the ability to open logos is the right competency. This is a great opportunity, and a window would probably exist for a few quarters for us to be able to go in and expand on our customer base while taking the referenceability from other customers.

In many cases, we are definitely replacing somebody, in many cases they are adding a new partner because we bring something unique and, of course, over a period of time as we gain wallet share, we will definitely eat into somebody else's pie.

Sandeep Shah: And just last question in terms of clarification on target operating margin band of 15.5% to 17% is it also applicable for FY22 because I believe full quarter consolidation of Blink may keep your margin at the 15% plus or minus for the maybe second half as a whole. So, in that scenario for FY22 we may be close to 15% or 15.5% kind of margins?

Manish Dugar: So, Sandeep when we made the announcement of the acquisition, we talked about the fact that this transaction could have a potential impact of up to 1% for the first eight quarters. However, as the scale up happens and we are able to get the synergy benefits, some of that impact would get normalized. So, you would have seen that this quarter the impact is 0.7%. And we will work towards making sure that we anchor in synergies.

So, worst case scenario, you are right, that it will probably have an impact, but the range on operating basis excluding M&A continues to be 15.5% to 17% for the current year. When we get to the Quarter 1 of next year, we will talk about what we believe would be the range for the future years. Having said that, the principle and the philosophy that we have articulated earlier, that we will maintain margins in a narrow range with a northward bias, while investing for growth should continue and hence, on an operating basis, you should look at the EBIT margins to be northward biased.

Nitin Padmanabhan: So, Manish, so on a reported basis, this band is even applicable for FY22 as a whole?

Manish Dugar: Excluding M&A-related expenses, our guidance of 15.17% for the current year remains unchanged.

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

Apurva Prasad: Nitin, any early indications on tech budgets for FY22 and your comments on the large deal pipeline?

Nitin Rakesh: Apurva, I think it's a little bit early in the cycle. But we do believe that the year will finish with a flourish from a tech spend perspective, just as we have seen in the last two quarters. And we don't think that there are many choices for enterprises to actually cut back on tech spending. That's on the, I would say, the traditional way of thinking around discretionary budget versus non-discretionary budgets.

However, the key thing to notice, the two remarks I called out earlier I think as this dynamic of CAPEX versus OPEX gathers space as more applications move to the Cloud, as more data centers get retired, as more applications get rationalized, you will actually see some sort of a suction effect where in-yearr spending capability will be higher than what it used to be in the past years. So, that's kind of the, I would say in a way that will release a lot of tech spend capability for in-year spend much more than what it used to be.

Second trend, you have to keep in mind that I also called out earlier, was the fact that almost every part of the value chain in every enterprise's business is getting digitized from contact centre to customer service, to marketing, product development, almost everything is going through a very massive digitization, through buildup of software, or platforms or data. Those are areas of spend that traditionally were not seen in the tech budgets but have started to kind of creep up. And the marketing spend is now 70% digital marketing. And hence there is a pretty significant software effort that is being done there to actually make it smart, and so on.

So, I think those two trends will actually keep spending, and the target market for us is actually fairly elevated even if the traditional spending kind of tappers off after a big boost in 2021. That's on the budget, hopefully that gives you more clarity, we will get a better sense over the next couple of months as we get into the end of the year.

On the large deal pipeline, I think by definition large deals are lumpy, we called that out last quarter. But I think we are quite pleased with the fact that our pipeline for new-gen is up 28% year-over-year. And I think that's the chart that we have in the deck as well. And that should give you a little bit of a sense, on Slide #11 of the deck, the fact that it's fairly broad based, it's across multiple Tribes. It is not led by any one or two service lines. So, I think the ability to construct opportunities, be proactive, use the Tribe and Squad competency model to actually generate early engagement lead large deals is still very much in there. And the fact that despite having converted 1.8 billion in net new TCV in the last six quarters, we are still actually running a pipeline that is the 27% to 28% higher than this time last year.

Apurva Prasad: My other question was on increased revenue productivity, this is despite the bigger offshore shift, so is that actually mix change from DXC to Direct or perhaps higher growth in India, what is really driving this?

Nitin Rakesh: I think some of it is of course, when we do a large transformation deal, we call this out two quarters in a row that, the early part of the deal will probably have some element of lift and shift, then you will start optimizing it, then you start transforming it. So, that's kind of what shows up in some of these productivity-type deals. Of course, the levers that we have on the managerial side of the business, the ability to actually grow revenue faster than headcount. All of that is part of the mix. And of course, there is a pricing element to that as well.

Apurva Prasad: And just finally on Infra services which seems to be a bit volatile over the past two quarters. I mean again is that DXC mix or from going forward perspective do you see more integrated deals and therefore more steady state between Apps and Infra?

Nitin Rakesh: If you look at the headline Infra number, of course, that looks very muted. But if you strip out the DXC impact, I think the Infra business has actually grown very healthy, if you go back again to the deck of slides that we talked about. The ITO piece for our Direct Business has actually grown at 46% YoY. So, it's the impact of the volatility of the DXC in the book of business that is creating a headline volatility. But overall, the integrated deal piece is very much alive.

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

Dipesh Mehta: Couple of question, first about the seasonality. How do we expect, Nitin, seasonality to play out in Q3? Do you expect furloughs and holiday-related factors likely to have implication for Q3 or you believe underlying demand trend will be good enough to have sustained growth even continuing in Q3?

Second question is on Insurance. Now we are seeing weakness in Insurance revenue and margin both, so if you can provide some perspective, how you expect Insurance to play out for us over next few quarters.

Third question is about DXC, I think you indicated we will be closer to mid-single digit by year end, we are broadly there. So, do you expect now relatively stable performance in DXC?

Nitin Rakesh: The first was on the seasonality, the demand environment is pretty stable. But there will always be seasonality impact given the calendar fourth quarter, whether it's billable hours, number of holidays, and in some cases, there are certain client furloughs. Too early to call on the furloughs but the fact that we are still calling for significant growth in the second half of the year purely based on the trends, and the fact that we think our Direct business growth will be able to sustain market leading growth rate, should give you a sense that we do expect the growth, the demand environment to be tail winded.

On Insurance, there is obviously certain TCV to deal conversion activity that is causing a temporary dip in margin. We do believe that we have actually got a pretty decent order book right now, not just pipeline but order book in that business. And you should certainly see sequential growth continue to pick up. On a YoY basis, it's already performing well, given just the way we have built that pipeline and TCV closures in that business.

And thirdly on DXC, I think the question of DXC stabilizing around a certain percentage of revenue, is very much a reflection also of how much we continue to grow the Direct business and at what rate that grows. So, we are in the zip code, but the ability to continue to manage Direct is something that will have a bearing on what, you know where is stacks in the order rank, it's not in the Top five today, it was obviously the largest six quarters ago. So, that gives me confidence, as a matter of fact, that we have the ability to now start converging the growth rate between Direct and overall company. Of course, we do expect stability in that channel as well. But I think the question really is how much we can keep feeding the Direct growth.

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

Rahul Jain: Just one question which is like TCV signings have been robust on a TTM basis, but not so strong in the quarter, which is also been the case in many more peers. So, is there any specific reason that you could identify here, in terms of some small shift or spend towards physical side for

some client instead of spending more and more towards building digital channels as some kind of trend you are witnessing?

Nitin Rakesh: Again, if you look at Slide #11, we are actually pretty pleased with the fact that we have a pretty strong pipeline that continues to give us both sequentially, we have actually added 13% in the pipe, and YoY about 27% to 28% in the pipe. So, I don't think there is anything to call out; this is definitely the lumpiness of the large deal that is giving you that sense, but nothing on a sustained basis. We are well within the 225 to 250 range that we called out for now the seventh successive Quarter.

We haven't seen any other shift or trend in spend, what we definitely have seen though is the fact that there is a certain sense of urgency with many of our clients, where instead of waiting to construct a two year or a three year transformation deal, they are happy to construct a six months, nine months kind of a first sprint deal and add it out so they can get started versus taking that additional three month time to go through the process and negotiation and all of that.

So, I think the sense of urgency and the fact that they are looking for agility and the fact that they want needle movement to happen much faster, is definitely creating multiple smaller deals, but they are also giving more, there is also much more in-year revenue growth possibility with some of those deals. While of course we continue to see large deals with longer tenure as well. But that's definitely a trend that I have seen emerging in the last three months or so, where instead of doing the whole transformation bundle as an SOW, they are actually breaking it down into three or four different phases.

Rahul Jain: So, can we say that the same orders can now be consumed much faster? And also, just one remark that since we have this Direct business now more than 90% of revenue, do we see any specific need for looking at the business as three pieces, Direct, DXC and Others rather than just looking at the other two just as the client or deal, rather than looking them as a separate segment per se.

Nitin Rakesh: Sure, the answer to your first question is definitely there is faster TCV revenue conversion. So, in a way the ABR or the ACV uplift is very quick and that's why you have seen in the last two quarters the growth has stacked up to 30% plus. We expect that trend to continue at least for the remainder of this financial year. I think as we get into the next year, we get a little more clarity on the budgets, and of course the timelines, I think we will get a better sense of whether this trend will continue. But this is being borne out by many of our industry analysts, who we have spoken to as well, and I think this is very much something that you should think about as you construct your models, in terms of the conversion of TCV to immediate revenue.

Second, on the segment breakup, I think it's a secondary segment for us, which is not the primary segment, so at some point we may decide that it doesn't make sense for us to report it out separately, but for now, from a transparency standpoint and continuity of visibility standpoint,

we'll keep breaking it out. Our primary segments continue to be the vertical breakdown that we give you.

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

Mohit Jain: One was on Blink, have you guys already integrated it for 10 days in the quarter?

Nitin Rakesh: Actually, we announced the transaction only on the 21st of September. So, there wasn't much to integrate from an operating standpoint, of course, the financial reporting includes those nine days of reporting, if I am not mistaken. But from an overall business integration perspective, I think this is a well thought-through execution that we are undertaking right now.

We want to nurture the current business and the current client base and of course find ways to synergize, both for our customers, and more importantly to also take those logos that we have acquired through Blink and convert them to broader Mphasis competency areas as well. So, I think that integration will play out over the next two quarters, and we have a very strong focus and plan in execution right now. But from a financial perspective, it was only nine days. And for the current quarter, which is Q3, we would see full integration of financials.

Mohit Jain: How much was the financial contribution for 2QFY22?

Manish Dugar: So, the total Blink revenue that we got in the quarter is $900,000 and the cost has already been called out to the extent, they are M&A related. Otherwise, the P&L has got consolidated and the balance sheet has got consolidated in the quarter end.

Mohit Jain: So, the second question was related to the adjustment that you have shown in the release, when you say adjusted for M&A, are these one-time expenses, that 0.7% that you are referring to, is it one-time to 2QFY22 or is it because Blink got integrated so you got some cost in this? This gives you the true picture of margins of the consolidated entity.

Manish Dugar: No, like we discussed when we made the announcement for the transaction. There are charges that come in which are upfront for example the advisory cost, the cost that we incur for due diligence, etc. which are one-time. And those are not going to occur going forward. But at the same time, there is a certain portion of the goodwill that get classified as intangibles which get amortized every quarter. And then there are some costs which are linked to retention of employees. So, there is a retention bonus which gets paid out as an earn-out. A combination of those two, we called out may have an impact of up to 1% for eight quarters. And as the synergy benefits come in and as revenue scale up happens it will keep getting lower and lower. So, the nine-day equivalent of that would have come in the quarter, and the balance would be all one-time.

Mohit Jain: So, that 0.7%, we should consider it as one-time and then see how the overall number pans out for Q3, right.

Manish Dugar: So, there would be some impact of that, for the nine-day cost of retention and amortization which will come for the full quarter going forward. So, the other cost which were there in the 0.7% will go away, but this nine-day cost will extend to the whole 90 days for the quarter.

Mohit Jain: And the last thing on the outlook that you have given, 15.5% to 17%, that is on organic Mphasis basis and as per the previous con-call we should continue to assume that on consol you will operate at 14.5% to 16% kind of a margin range, right.

Manish Dugar: I would say we are considering the operating guidelines of 15.5% to 17% and the impact of M&A, we will keep working on it and keep reducing it. Till that point in time, we will give a separate disclosure on how much the cost is.

Mohit Jain: But in the second half we should assume that you will be in the target band of 15.5% to 17%.

Manish Dugar: Yes, from an operating perspective.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: So, Nitin just one question from my side on the overall margin correction that we are looking at. So, just wanted to get your perspective on, if I exclude all the exception items and all, what is the kind of margin trajectory that we are looking for the company either in the near or medium term? As last year we saw, many of our peers availed themselves of the benefit of lower travel expenses and marketing cost, we decided to basically use that for investment into our business growth, this year, again we have seen in this quarter, most of the companies reported very strong growth and that operating leverage helped them expand margins.

But none of that seems to be happening with us? Most of our mid-cap companies or comparable peers are now reporting EBIT margin, in the 17% to 18% kind of range. So, will we basically continue to stick to this 15.5% to 17% kind of range that we have called out, slightly more towards the lower end, in terms of growth or do you think there is an uptick at some point of time that could play out in the numbers as well?

Nitin Rakesh: I think philosophically we have actually been pretty consistent in maintaining the operating EBIT in the band that we have talked about. We have probably the most stable margins with the least volatility while the fastest growing Direct revenue line. Even in FY21, we actually grew the Direct business in mid double digits, when many of our peers actually barely grew in single digit. So, I think the focus on growth, the ability to actually prioritize growth above all else required us to take some of the operating leverage that we are generating and investing in that end of the business and that's what we have been doing.

I think there are many puts and takes as some of those expenses have come back, we have started to obviously balance out other investments and we will continue to do that. But I think at this point in time it's fair to assume that our guidance plan for the margins will be that we will keep

margins stable, while prioritizing growth. And hence we are very confidently focusing on the market leading growth of the Direct business.

Vibhor Singhal: The kind of strong growth that we reported in this quarter, almost 10% QoQ for the Direct business, shouldn't that have led to some operating levers coming to the numbers even taking into account the acquisition and M&A cost, even taking into account investments that we have put back into the businesses?

Nitin Rakesh: Yes, and that's why if you see the gross margins is actually up by about 50 bps this quarter. But we have taken a lot of the investment back into the business and I think, again that is the operating leverage that I was talking about. Actually, if you look at sequentially, gross margin has expanded which means we are able to actually generate efficiencies despite a very tight labor market.

I would personally like to see a little bit more stability on the supply side, before we can start thinking about expansion in the margin. We have said in the past that we have the ability, and we have the visibility to an upward bias in the operating margins, but at what point to take it into the P&L versus investing in for growth or making sure that we are able to feed the growth, so it doesn't start hurting, that is really the question, the debate that we have almost every day internally. And right now, I think our stance is what I articulated to you.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Principal India. Please go ahead.

Ashish Aggarwal: Just wanted to understand, so when you said there are lot of short cycle deals, and this is likely to continue for another two quarters at least. So, that should now support a growth in a seasonally weak quarters, am I right, that's what your commentary is suggesting?

Nitin Rakesh: Yes, and that's why we are still calling out for, I would say, pretty tail-winded growth environment for the next two quarters.

Moderator: Thank you. The next question is from the line of Ronak Vora from AUM Advisor. Please go ahead.

Ronak Vora: Can you please highlight the attrition number?

Nitin Rakesh: We don't disclose that number publicly and I think we are going to keep that stance.

Ronak Vora: So, if you can just give a sense on the whole supply chain and how are we seeing in terms of new hirings, in terms of freshers, just give a sense about it.

Nitin Rakesh: I think I addressed it earlier on, , we have been very proactive in creating new levers of supply chain including geography expansion. I think we talked about, two quarters ago we gave a full description of the fact that we now added some centers in Taiwan, Costa Rica, Mexico, we

announced something in Canada that we are now building out. We have talked about new addition of a center in UK as well as recently in Dusseldorf in Germany. So, that's one part of the expansion.

Second part of the expansion is the fact that we are hiring across the pyramid. Yes, we have a pretty robust trainee intake program, we also have a very robust reskilling program using 'Talent Next'. So, I think the ability to add talent, while it's still a constraint environment but I think the fact that we are able to showcase the growth rate that we are showcasing means that we have the ability to make sure, we are able to overcome the supply issues.

Of course, that also requires investment and that goes back to the point I was making on the previous question that in the current environment, the reason why we are still focused on prioritizing growth and holding the margins is because all of this work that we are doing on the supply side also requires investment.

Ronak Vora: And secondly on the demand front, so currently are we to assume that DXC will be maintained at the same level of revenues going ahead. And our Direct business should continue at the same pace of growth or much faster going ahead.

Nitin Rakesh: Yes, I think that's a difficult question for me to answer because you are asking for specific guidance for specific segment. I would just stay with the fact that the DXC business will continue to trend towards mid-single digit and Direct business will continue to grow as market trading growth rates.

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

Abhishek Shindadkar: Three quick questions if I may. First is, any color on the initial conversations on joint go-to market and cross-selling services with Blink? The second one is, how should we reconcile the 6% quarter-on-quarter declining TMT revenue and a 600-basis points improvement in gross margins? Any color would be helpful. And the third is, what is the target for utilization ex-trainee? And is that a lever for margins? Thank you for taking my questions.

Nitin Rakesh: I think it's too early to give you color on the Blink integration it's only been 30 days today. We will potentially give you more update in the next call. But fair to say that we are very carefully and thoughtfully, executing an integration plan that provides them a level of independence while giving us the ability to cross leverage. So, we will give you more color, very good progress in the early post 30 days as per plan.

On TMT, I think we have broken out TMT growth by Direct versus Consolidated. The decline that you have seen really is coming out of that issue. And I think the large deals that we have had in that segment in the Direct side are now starting to, of course, turn a corner and that's why you are seeing expansion in margin there as well.

Manish Dugar: Just to add to what Nitin said, Abhishek, the TMT decline, is also reflected in the reduction in rest of the world. And both of them are DXC revenue decline. And as we have talked about earlier, in addition to the offshore revenue improvement it gives us gross margin tailwinds which have led to the 0.5% expansion in gross margin. And we work towards the EBIT margins in the range of 15.5% to 17%, we don't work towards a targeted gross margin percentage.

Abhishek Shindadkar: The last question was on utilization, and I completely understand the decline in the TMT business is coming from DXC. But what I am trying to understand is, is that such significant contribution to gross margin. So, in the remaining 6% of DXC, is that another lever for margins?

Nitin Rakesh: I think the right way to think about it is that we have obviously always called out for the fact that the DXC business is actually margin dilutive, it's not the most optimal part of the business. So, it's a combination of the two dynamics. The fact that we are growing, if you look at the TMT business ex-DXC, I think it has grown, the TMT component has grown at a 100% plus percent and combined with the fact that we are actually declining because that is not profitable. So, I think it's a combination of both of those things.

On the utilization front I don't think we want to give a guidance on the band, but I think we feel quite comfortable with the current levels of utilization that gives us enough flexibility and room to maneuver for growth. And as we on-board, as we continue to work on the pyramid, we may have some movement up and down, but I don't think you should expect major shift in the utilization stance.

Moderator: Thank you. The next question is from the line of Manek from JM Financial. Please go ahead.

Manek Taneja: Nitin I wanted to get thoughts from the couple of things. 1) Thing is that we have seen the on-site, offshore mix wins in favor of offshore delivery in the last few quarters. But in your case, mix seems pretty healthy, much lesser than what we have seen for the peers. So, is that also being driven by the decline in the DXC business that's question #1.

And second thing is that given the sharp decline on the DXC side and given the restructuring or the key orientation from our delivery side that could entail, is that also impacting our margins over the last few quarters. Thank you.

Nitin Rakesh: So, Manek, there is tailwind towards offshore. We will see that mix shift continuously. I can't comment on peers, but I think for us this is a reflection of how those large deals get executed, how they get rationalized, how they get normalized. We will continue to have some movement up and down, but I think broadly the tailwind for offshore is definitely there in the business.

On supply chain, yes you picked up a good point. It is not always feasible to have a one-to-one match, especially when you have significant movement and people coming on the bench, and you need to reskill them so that's definitely something that is a headwind or has been a headwind for the last three or four quarters in our business. As we have tried to manage the decline in one

part of the business and redeployment on the other side of the business. So, both of them are actually puts and take that we have to balance on a quarterly basis.

Manek Taneja: Any sense on how much would that have been a drag from a margin standpoint over the last 18 to 24 months?

Nitin Rakesh: I don't know if I want to call it out. Manish do you think we have a delta number that we can give, or we just leave it at the overall level.

Manish Dugar: No, Nitin I think, it is like we have mentioned earlier these are puts and takes of business and we work with a range of margin to 15.5% to 17%. So, whatever upsides we have, we consume for managing this in this range. But the good news is, most of the supply constraints because of the DXC ramp down has been used for growth in the Direct side. Although it ends up becoming additional questions on why the headcount growth is not reflecting in the revenue growth, but we would not call that out separately in terms of the impact of that on the margin.

Moderator: Thank you. The next question is from the line of Sudheer Guntapalli from ICICI Securities. Please go ahead.

Sudheer: Just some industry perspective, I would like to take from you. So, most of the companies are essentially talking about demand that can last for several years to come by a precursor to that sort of a visibility should have been a higher share of large and mega deals which might be spanning over several years. But that has clearly not been the case. Over last several quarters if we see, we have not really seen very large deals or mega deals barring the cases of some captive takeovers so on and so forth.

So, how do we reconcile this paradox as to if we are talking about a multiyear demand visibility, and we are seeing a bigger share of small and medium size deals in the mix. What essentially is giving that sort of a longer tenure visibility?

Nitin Rakesh: So, I think what you are trying to do is you are trying to apply Horizon 1 business model thinking to the digital transformation wave underplay, that's not going to fit. Your paradox doesn't come from visibility, your paradox is coming from the ability to actually look at annuity revenue because that's what should give you revenue certainty. That is not going to happen in the current environment, because the whole dynamic of moving away from run-the-business, means that you are going to find harder and harder to construct 10-year deals, 7-year, 8-year deals that give you the ability to actually run those applications & infrastructure assets.

The fact that we are looking at short-cycle, quick burst projects is very much aligned to that fact that while there is a lot of spending that is happening in digital, dev, platform built, application transformation, Cloud adoption, by definition those cannot be constructed as five years projects, because that's a waterfall way of thinking.

So, I think it's a little bit of the apples and oranges comparison that you are trying to do from a modeling perspective. My recommendation would be to start thinking about how much of the spend expansion has happened or total addressable market expansion is happening, primarily based on the facts that there are large pockets of spends that are being opened up, given just the fact that there is more money to be spent, even if the budget doesn't change, only because, as you continue to apply this transformation towards other services, you don't have to be committed to amortization and spends that hit your balance sheet and the P&L at an operating level.

Secondly, I talked about the fact that there are new pockets of spend, those are traditionally functions that weren't seen as tech spend areas, but they are now being seen as tech spend areas, very clearly, especially in the post-COVID world. So, I think I would kind of ask you to think a little bit differently about why visibility of growth is happening and it's happening because every part of the value chain of every enterprise is getting digitized. And hence there is this tech investing super cycle that's playing out, in the medium term, could even be longer than three to five years, but right now the fact that we have visibility into the next two, three years is good enough for us.

Moderator: Thank you. The next question is from the line of Vaibhav Chechani from B&K Securities. Please go ahead.

Vaibhav Chechani: Just one or two questions, on our logistic and transportation, there is a dip in margins. So, any color on that why the margins have been depleting in those areas?

Nitin Rakesh: Vaibhav, we have actually talked about the margins quite extensively in the last few minutes, in the last 60 minutes. So, I think what you are looking at is the reported number. I think what I would ask you to look at is the adjusted number purely based on the transaction cost that we talked about, that's #1.

#2 I think the band that we have given, very tight band we probably will continue to operate in that band that is for the year as well. So, there is nothing to call on beyond that, of course this is a head winded environment from a supply constraint perspective and that obviously is going to continue to ask us, and it requires us to keep making investment on the supply chain side. And that's probably the reason why you are seeing pressure on that front. But having said that we also have, I think this is a good environment for pricing and we have been able to continue to improve our pricing metrics. So, that should mitigate some of the headwinds on the supply. And I think the puts and takes will continue to have to be managed pretty proactively, to stay in the band that we talked about.

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

Ashwin Mehta: So, Nitin I was talking about there is a 22% growth in India for us, in this quarter. So, what has been the driver for that? And how sustainable are the revenues here, because India typically is lumpier?

Nitin Rakesh: Yes, I think, nothing to call out specifically in that, I don't think that's a lumpy issue for us. I think we have a good share of customers that have been with us for many numbers of years and so basically applying the same notion that we apply to other customer or clients to that segment as well. So, I wouldn't make too much of that but it's definitely a growth business that we have continued to invest in and starting to kind of just give us some returns now.

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

Nitin Rakesh: Thank you guys. We have had a second straight strong quarter in FY22, operating and client metrics and KPIs are all at elevated levels than before explaining our performance. We do believe that we have the visibility and the tailwinds in the business to continue the performance to carry on for the remainder of the year. And we look forward to talking to you next quarter. Thank you all for your continued interest. Take care and stay safe.

Moderator: Thank you. Ladies and gentlemen, on behalf of Mphasis Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. If you have any further questions, please try to ask at investor.relations@mphasis.com. You can now disconnect your lines. Thank you.