"Mphasis Limited
Q1 FY 2024 Earnings Conference Call"
July 21, 2023

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Moderator: Good morning, ladies and gentlemen, and thanks for joining the Mphasis Q1 FY 2024 Earnings Conference Call. I am Aman, your moderator for the day. We have with us today Mr. Nitin Rakesh, CEO of Mphasis; and Mr. Manish Dugar, CFO.

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 financial and filing, as well as both on the BSE and NSE websites. Request you to have the presentation handy.

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 star then zero on a touchtone phone. Please note that this conference is being recorded.

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q4 results release that has been sent out to all of you earlier.

I now hand over the floor to Mr. Nitin to begin the proceedings of this call. Thank you, and over to you, Nitin.

Nitin Rakesh: Thank you, Aman, and good morning, everyone. Thank you for joining us today. Hopefully, we will all get an opportunity soon to meet in person. I trust you had the opportunity to review our earnings release documents. I would like to take time today to share with you our perspective on recent developments, markets, technology, people as well as highlight our quarterly performance and how this is setting the base for FY '24.

Let me begin by showcasing the highlights of the quarter, especially as it relates to the various initiatives that we have been executing towards. One, we have set a strong pace of the deal closures with record TCV wins of USD707 million this quarter, providing a visibility of growth for future quarters. We would be double clicking on this in the slides ahead.

Two, our vertical cohort strategy is showing encouraging results. Our vertically aligned, yet account-centric GTM units have aligned well since we announced the re- org design earlier this year, to create growth diversification by expanding growth to accounts beyond Top 5 and Top 10, to newer verticals as well as to new clients acquired within the BFS limit.

Three, I'm glad to report that we are leaning in on AI with 1/3rd of TCV originating from AI-centric deals in this quarter. We have key AI partnerships in place that have enabled us to open up a solid book of business within a short time span.

Four, a significant percentage of our TCV and pipeline now emanates from beyond the Top 10 accounts, including newer accounts. Our diversification strategy is showing results, particularly as our Top 30 clients outside the Top 10 accounts and outside BFS in our new vertically aligned GTM structure are scoring well on leading indicators of revenues.

Five, while recent quarters have been challenging for us in view of the pressures in the mortgage market and selectively in the BFS segment due to discretionary spend cuts, we believe that the business is bottoming out. Incremental stability in mortgage together with early signs of pickup of decision-making at top banking clients and visibility from record-breaking TCV in this quarter will help us return to growth through the remainder of FY '24. We will elaborate more on this in the summary outlook.

As mentioned, our TCV in Q1 '24 at USD707 million reached an all-time high. There are a few things that I would like to highlight. TCV wins in this quarter are more than twice our quarterly average on an LTM basis. Nearly 1/3rd of this is from AI deals, including a USD100 million+ deal. As you are aware, we launched Mphasis.ai, a first of its kind business unit that seamlessly integrates AI capabilities into existing technology landscape of our clients, as well as powers all of our Technology Tribes, since they were designed to be Cloud First and Cognitive Native. This is starting to pay off well as we will discuss shortly.

We have won seven large deals in this quarter, of which five are in the non-BFS verticals, which shows that our vertical cohort strategy is working across the board, including within new BFS clients as 2 of these deals are in BFS, with one over USD100 million in TCV. 4 of the 7 deals are over USD100 million each. Notably, significant TCV wins in this quarter are from non-BFS segments as well as from beyond our Top 10 accounts and over 70% are in the application service line.

Specifically, I would also like to cite our significantly increased traction in Canada, where we signed a USD40 million+ deal and several more are in the pipeline. Our pipeline in Canada has grown 500% year-over-year, and revenue has doubled sequentially in this geography.

Almost all our pipeline continues to be Tribe-driven, archetype-led and is up 6% sequentially and 23% year-over-year despite record conversion from pipeline to new sold TCV in the last 4 quarters. Our pipeline is also well distributed across verticals. While BFS continues to generate the higher share of pipeline at just over 40% of the pipeline, other verticals have a disproportionate share of pipeline compared to their revenue contribution, suggesting that our investment in generating pipeline aimed at aggressive growth diversification is working.

Our pipeline generation in some of the smaller verticals such as healthcare has been particularly robust with pipeline in this vertical up 63% year-over-year. Our accelerated GTM motion in AI builds on the AI TCV in this quarter and helps build a strong inflow deal engine for future quarters. 2/3rd of our pipeline is application-centric, further reflecting the strength of our Application Transformation and Modernization Engineering practices. Our pipeline is also well distributed across key themes such as data, modernization, cyber security, Agile Ops and platforms. Expertise in these themes is resident in our tribes as we have discussed with you in the past.

We have mentioned in prior calls that we were seeing a lengthening of the sales cycle in converting pipeline into TCV and TCV into revenue due to greater scrutiny of the tech spends. While the TCV to revenue conversion cycle is still elongated, we are seeing early signs of some normalization of the pace of decision-making as reflected in the deal closures this quarter. We expect further improvement during the course of FY '24.

I'm personally thrilled with the opportunity of Artificial Intelligence to maximize business outcomes. At Mphasis, cloud and cognitive-led solutions have been central to our unique Front2Back approach to transformation. The Mphasis.ai business unit delivers various benefits to enterprise clients that include offerings that drive business outcomes, starting with an AI Advisory unit to help assess and identify key AI interventions to complete archetypes such as contact center transformation, customer experience transformation, etc; Access to an array of Mphasis patented AI assets with over 250 ready-to-use models available on Hyperscaler marketplaces and frameworks created at Mphasis Next Labs, an in-house research and innovation lab, that can be seamlessly integrated into existing systems and processes; Access to state-of-the-art conversational AI platforms powered by generative AI technology and large language models to transform customer experience management, employee engagement, as well as to drive operational efficiency and increased NPS scores; Access to Mphasis Sparkle Innovation Ecosystem, which has enrolled over 50 domain specific startups, including ones that are AI focused, that can also accelerate the co-creation of robust go-to-market solutions for enterprises.

Examples from the business unit suite of intelligent service offerings have now been created as additional Deal Archetypes in true Mphasis fashion. Examples include Generative AI Advisory Engagement Model, which is an offering that is targeted to help enterprises to assess where AI can have the biggest impact in chosen areas. The output of this engagement can help drive the AI strategy and for plans to leverage Mphasis.ai to execute this strategy. Contact Center and Customer Experience Transformation is a solution that helps enterprises deliver great customer, agent and employee experiences, reducing digital leakage and delivering operational efficiencies by introducing AI-based interventions into the ecosystem.

We have partnered with several Hyperscaler as well as specialized market-leading AI platforms and solutions companies such as Kore.ai, Work Fusion, and Databricks, as well as all the cloud providers. We do expect additional deal archetypes to continue to get robust as we expand on these offerings.

We continue to push for revenue growth, which is anchored in our strong client mining model and tech-led offerings. Our Q1 FY24 revenue came in at USD398 million, impacted primarily by softness in banking. On an LTM basis, we grew the Direct ex-DR business at 11.2% in Q1 FY24.With growth becoming more diversified and uptick in mortgage volumes, we see stability in performance going forward.

Our core service line enterprise apps constituting over 70% of revenue was flat year-over-year in Direct, impacted by the tightness in discretionary spending in some of our clients and weakness in select BFS pockets. The BPO segment. Which has suffered from the downturn in the mortgage segment over the last 4 quarters, declined 33% with Y-o-Y decline in this segment increasing for the past 3 quarters. Our anchor geography, the U.S., was flat ex-DR on Y-o-Y basis. Direct at USD378 million declined 3.2% quarter-over-quarter in constant currency terms and 7.2% year-over-year in Q1FY24. Direct ex mortgage was nearly flat year-over-year, reflecting tightness in discretionary spends in some of our banking clients, as well as some regional bank pressures.

Our Direct business accounted for 95% of our overall revenue in Q1 FY 24. DXC's contribution to our revenue is 3.5% as of Q1 '24. The mortgage business declined further sequentially in this quarter, though to a lesser extent compared to that in the prior two quarters. The contribution of Digital Risk, our mortgage BPO subsidiary now stands at 6.3% of overall revenue in Q1 '24 versus 12.7% a year ago in Q1 '23. As mentioned, we see incremental stability in this segment with visible uptick in volumes in some service lines and are starting to see capacity build up requests from clients in advance of recovery in other segments of the mortgage business.

Moving quickly to vertical performance, our mainstay vertical, BFS in Direct ex-DR had a negative 1% growth year-over-year. It was down 14% on overall basis weighed down by mortgage. Our smaller verticals in Direct such as healthcare are growing quite well as reflected in ~13% revenue growth in Q1 '24 in the others segment. The TMT vertical within Direct also grew well with a 6-plus percent sequential growth in Q1, reversing some recent weaknesses. While growth rate in insurance has lagged, impacted by client specific issues, sequential growth, TCV wins and pipeline in this vertical look healthy, and we expect to continue to the trend on a sequential basis.

As mentioned, to ensure scalability and facilitate the next phase of growth, a realigned verticalized GTM structure has been implemented with the following principles in mind: Align the GTM organization to derive better sales synergies, especially as we focus our energies on deepening our wallet share and market share with our named account strategy for existing and new clients. Enable scalability and repeatability with a vertical focus powered by Deal Archetypes providing a set of win themes and propositions.

Reorient account cohorts to seed new growth opportunities and retain our hi-touch service delivery model with clients. With a vertical based GTM cohort model, we're able to bring vertical and industry points of view to bear, consolidate capabilities and learnings within a vertical across accounts and cross-pollinate more effectively.

Our Top 5 clients declined 2% year-over-year (on LTM basis), going down by mortgage business pressures in the past 3 quarters and tightness in discretionary spend. Notably, our Top 11 to 20 client segment grew 12.7% year-over-year, indicating the increasingly broad-based nature of the growth. Clients 21 to 30 grew a healthy 18.5% in Q1 on a Y-o-Y basis.

Our New Client Acquisition revenue continues to grow well, sustaining its double-digit growth trajectory in the first quarter as well. Client mining stats remain steady Q-o-Q and Y-o-Y, movement on 1 client in the 75 million and 100 million plus categories is purely due to mortgage softness playing through for the fourth quarter in a row. We expect this to come back as mortgage spends resume their up cycles. Even as some of our key clients have tightened discretionary spends, which has impacted us, we continue to strengthen our wallet share with all of them.

Coming to our financial metrics. Our margin philosophy affords us the flexibility to manage our profitability in the face of revenue headwinds. In this quarter, our EBIT margin stood at 15.4%, within the stated margin guidance band of 15.25% to 16.25%. An operating profit decline of 4% Y-o-Y on a reported basis is due to revenue headwinds. Losses in cash flow hedges impacted margins in Q1 FY '24 by 50 basis points. Our EPS of Rs 21 for this quarter is a marginal decline of 2% sequentially. Cash flow generation at USD54 million, adjusting for the one-offs, stayed solid at 90-plus percent of PAT average.

In summary, I'll leave you with 5 points. One, we are seeing signs of bottoming out of recent revenue trends, thanks to stability in mortgage, visibility of growth given the highest ever TCV of USD700-plus million and some return in pace of decision-making by clients, especially in discretionary spending projects. We have seen a record seven large deals in this quarter with four of them being over USD100 million each.

Two, the majority of our TCV and pipeline originate from newly created verticals as well as from beyond Top 10 clients, underscoring the early success of our vertical cohort strategy. Three, our AI centric deal propositions are paying off with nearly a third of our Q1 TCV from AI-led deals. We are focused on establishing a path of AI acceleration with our full-fledged Mphasis.ai business unit. Further, we have key GTM and solutioning AI partnerships in place to make the most of these opportunities. Four, despite some tightness in discretionary spends with some of our key clients, we continue to strengthen our wallet share with them. And five, despite the challenging revenue situation of late, our EBIT margins of 15.4% stayed steady and in line with the stated target operating margin band. Tighter focus on utilization, pyramid optimization and some increases in offshore leverage helped maintain margin performance. Our operating cash flow adjusted for one-timers, stood at 100% of the net profit for the quarter.

Coming to our FY24 outlook. We enter FY24 on the back of an expanded pipeline, albeit marked by lengthening sales cycles and slower contract conversions. Cloud, digital transformation, cost optimization and consolidation type opportunities characterize the pipeline. As noted on our last call, we expected to have a soft start to FY24 as we work to deal with some slowdown in BFS and delayed contract conversion in this segment. We expect strong sequential growth going forward with an expectation of acceleration through the remainder of the year.

The good news in the mortgage segment is that we have seen green shoots of activity with an uptick in volumes across select segments, as well as pickup in client requests for capacity addition besides an increasing pipeline and new deal constructs. As this plays out for FY24, we believe the mortgage segment is likely bottoming out in Q1, and we expect this segment to be incrementally sequentially growth accretive through much of FY'24.

As also noted on our previous call, we now have visibility to stability in the DXC segment and expect that headwind to abate on a sequential basis. On margins, we retain our message of margin stability, expecting to hold the EBIT margins in the 15.25% to 16.25% range in every quarter of FY24, with a continued focus on operational rigor, giving us increased confidence on the trajectory of our performance and hence an upward bias in margins through the remainder of FY24. On that note, moderator, let's open it up for questions, please.

Moderator: Thank you very much. The first question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question was on how are you classifying the AI deals? You talked about 1/3rd of the TCV are in the AI deals. So suppose if we classify into 3 segments, preparatory work for building AI models or consulting and development of AI models or testing of those models. How would you be classifying your AI deals? And where are you seeing the most part of the demand coming from?

Nitin Rakesh: Kumar, I think there is more to AI than just GenAI. That's the first point. I think a lot of the deal making and the activity that we are undertaking right now is in essentially helping clients implement orchestration platforms and third-party products that actually enable them to roll out these models across the enterprise. Of course, they are going to continue to use the publicly available LLMs, open source LLMs. But at the same time, those LLMs need to be trained. They need to be configured. They need to be set up with the right security protocols, as well as integrated with their existing application stack. So I think that's kind of the first big area of opportunity that we tapped into.

Second, as you start thinking about areas that these solutions will impact in short order before enterprises really fully integrate, for example, a Copilot or a CodeWhisperer, I think the immediate opportunity actually starts showing up in areas where there is digital leakage, whether it is experience, automation, whether it is creating a highly digitized engagement model for internal employees or partners or end customers. So, combining Conversational AI with GenAI, I think, is where the immediate opportunity has been for us.

And the third area is, we have also started to see significant embedment of AI in operations optimization and transformation, which is much more than what RPA was. I think this is a massively more powerful ecosystem of platforms that are being deployed in helping truly transform the way you run business operations, ongoing processes, document management and more importantly, things that require significant training of models to detect things like fraud, anti-money laundering, sanction screening. So I think there's a significant opportunity in the whole governance, risk, compliance and documentation phase. So those are, I would say, the early wins that we've seen in the last 2-3 months.

Kumar Rakesh: Quite helpful. My second question was on the deal win side. So there's quite a phenomenal increase that we have seen. Can you give some color on, are some of these deals already part of the DXC channel or all of this is entirely incremental deal that we are seeing? And how is the pipeline looking like post the deal closure that we have seen?

Nitin Rakesh: So Kumar, we don't really include any DXC deals in this TCV disclosure. This is all direct TCV. This is a business that will continue to have an impact on our direct revenues. So as such, those two are completely separate and always have been. The uptick really is, if you go back the last 2 or 3 quarters, we've had an expanding pipeline. But obviously, the pace of decision-making was a little bit slower. We've seen some unclogging of that in the last 3 months.

We've also seen some opportunities where we were fairly nimble and jumped right in to actually construct deals where we thought client had urgent needs. Some of them are in the nature of transformation we talked about. Some of them are in the nature of accelerating the adoption of both cloud and cognitive because it is a time bound, for example, a data center retirement strategy and they need to get certain goals by certain time periods, especially in this constrained environment they cannot afford cost overrun. So I think those have created significant opportunities around legacy modernization, application transformation using cloud and cognitive. And of course, we've given a breakout of where the pipeline sits today in terms of our tribes.

The health of the pipeline is actually still pretty healthy because we've grown at 6% sequentially despite this level of conversion and it's up more than 20% on a Y-o-Y basis almost across all our segments except BPO.

Moderator: The next question is from the line of Ankur Rudra from JPMorgan.

Ankur Rudra: Just maybe to start with, Nitin, could you maybe elaborate on this TCV that you've been able to achieve this quarter. Clearly, it's been very healthy and very strong. From what I can see, the net TCV announced is more than the revenues in the last 12 months and of course, we've seen some challenges in terms of conversion there. So, could you maybe highlight if there's any change in your confidence of the conversion going forward, which is driving your confidence on growth returning? And if it's possible to sort of also break out the moving parts within DXC, DR and the rest as it translates to the contracts you've won?

Nitin Rakesh: So, Ankur, there are 2 things to think about. I think you mentioned that our TCV closure in the last 4 or 5 quarters has been almost one to one because it's Direct TCV. The way to think about it is while that has a definite impact in providing revenue visibility, the leakage of discretionary cuts, the leakage coming out of mortgage units as well as on a Y-o-Y basis, of course, we've declined the DXC business- all those three obviously have been headwinds to revenue on a run rate basis.

The fourth thing that I want you to think about is that in the current environment, not only are we seeing tightness in spend, but there was a pretty significant pressure any time you had a project closure or you delivered a program, it got harder and harder to find shorter-term organic growth programs to fill that bucket. So I think that will definitely revert back to mean once discretionary spend gets a little bit more normal. It's not quite there yet.

The conversion of sold TCV to revenue has also been slow as you probably heard from the rest of the industry participants as well. The early signs are actually fairly encouraging. Of the TCV, we've closed in Q1, we have seen already impact in quarter -- obviously, towards the later part of the quarter. So, it will play out in the run rate through Q2, and which is what gives us the confidence of the fact that we seem to have formed a base and a bottom in Q1.

Ankur Rudra: In terms of growth, I just wanted to clarify that...

Nitin Rakesh: I am sorry. Manish wants to add something.

Manish Dugar: To your question, Ankur, on the color regarding DXC, DR. Like Nitin mentioned, we are not only seeing contract closures, we are also seeing conversations from customers on volume increase as well as starting to build for capacity, and that gives confidence that mortgage is certainly bottoming out. And in DXC, based on our conversations and the various negotiations that we are having, we believe that we will be able to hold the current run rate on a stable basis.

Ankur Rudra: The follow-up was on organic growth this quarter. What were the revenues recognized from this Kore.ai's professional business that has been acquired?

Nitin Rakesh: Ankur, I think it's not fair to talk specific clients. We basically signed a fairly large partnership on professional services, product engineering and solutions development. I think there is an element of that in the numbers, but we are not going to break out individual client numbers.

Ankur Rudra: Fair. And the question was more in terms of organic growth because there was an acquisition that was mentioned in the notes to accounts.

Nitin Rakesh: I think acquisition is more from a capability acquisition. There wasn't an M&A transaction here.

Ankur Rudra: But there seem to be -- you will have be paying USD60 million on a next 3-year basis for this professional services business has been taken over by Mphasis?

Nitin Rakesh: Yes. I think what we have done is we basically created a construct where we are embedding their solution in our deal archetypes and there is an arrangement that we've constructed with them that will create an ability for us to actually get bulk licenses for us to be able to rebundle those solutions. So think of this as a solution construct with a build-by-partner is our approach. There are things we build, there are clients we partner with. I mean, it's not unusual for us to go do the same thing with multiple other partners including hyperscalers. So I think it's a fairly comprehensive 360 partnership across both firms. We have a platinum tier status with them, and we've made certain joint commitments into the partnership on both sides.

Ankur Rudra: Okay. Then the last one, I think, is more around the AI announcements you've made. I mean, it sounds very exciting that you've won USD250 million worth of AI deal. Just help us put this in context. The biggest company in the industry, Accenture, has announced that the total AI revenues they have at the moment or GenAI revenue is about USD100 million. How do we make sense of your number, which is 2.5 times that? Is this a very different definition that you are using versus what they were using,?

And also, maybe you can clarify how much of this is generative AI versus analytics, which you had anyway from before. And sort of in terms of the large deals, normally, large deals take time to win, to construct, as you know. Has there been any sort of retagging here because AI has become more relevant to the clients now and hence it's important for them to call this AI?

Nitin Rakesh: Not really, Ankur. This is why I said it's not AI powered, it's actually pure AI, basically, implementation of things that I explained to Kumar earlier on in the question, there is no element of existing revenue being reclassified as AI in this case.

Ankur Rudra: Okay. And I mean, just as a follow-up to that one. You mentioned the industry has had this leaky bucket problem, and everybody else has in the last 6 months. Do you think generative AI can accelerate that or make it tougher, especially on the BPO side of the business, some of the more legacy applications, maintenance side of the business?

Nitin Rakesh: I think , every new tech platform is an opportunity and a threat. We've seen the same thing play out in infrastructure services over the last 10 years. While it's been a headwind for people who manage those infrastructure assets and data center services, it's been a huge tailwind for players like us who are always asset-light and focused more on the application as well as transformation side. So similarly, whether this is a threat or an opportunity is a reflection of what your current portfolio of services is and how you can actually construct transformation deals without necessarily focusing on immediate impact on these services because there may be an element of transforming what you deliver to the customer because if you don't, somebody else will disrupt it anyway.

So I think we are very forward leaning on creating propositions and being very proactive with clients in applying those services and technology assets in our current book of business. And we've won great amount of wallet share in the last 5 years using that strategy. So for us, it's definitely a tailwind. We are, as I mentioned, being very proactive in constructing almost every tribe led deal archetype or powering it with AI, whether it is app dev, whether it is modernization, I think there are some really interesting use cases in modernization, there are some really interesting use cases in cloud led transformation.

We talked about, IT assist, customer experience support and of course, business process operations. But I think given that in many of these areas, we have a fairly forward-looking view. And in some of these areas, we don't have a large share of wallet, we can definitely expand our share of wallet using these capabilities. So this is an interesting way to wedge open opportunities that we were hitherto not really playing in.

Moderator: The next question is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: So I had a couple of questions. So I think first is, on the Digital Risk side, you mentioned a request for increase in capacity. So I'm just surprised that it has happened so early because the rates still seem so high. So contextually what's really happening here that it's sort of picking up earlier than one would imagine? So I think that's the first question.

Nitin Rakesh: You have to think about not just the new originations. I think the rate-sensitive part of the business is first mortgage and refinance. There are four other lines of business that are not so rate sensitive. One is the whole home equity line of credit. We talked about that in the last 12 months. There, given that housing prices have remained fairly stable, there is an opportunity that consumers are tapping into to take out second loans or home equity loans. So that uptick is the first uptick that became visible over the last few weeks or the later part of the quarter, and has carried into the current quarter as well. Second, there is a pickup in diligence activity because loan books have started getting traded. I think we are already, we had actually called for that towards late spring, early summer. So that doesn't surprise us. Go back to the call, I would say, 6 months ago, and we actually did say that the market will not stay locked forever. So that trading activity leads to diligence services. We do expect that to continue to tick up as well.

And third, as the interest rate cycle enters its late phase, banks are also gearing up for loan restructurings, as well as servicing those loans both on an inbound basis as well as proactively reaching out to consumers because, in the end, banks want to deploy the capital they have, they want to extend those loan tenures and so on and so forth. So I think that's what's driving the current uptick in volumes. There are still ways to go before we see any major uptick in refinance for sure.. mortgage probably will recover before that because the housing market has actually stayed fairly robust. The issue is more on the commercial real estate side in the U.S., the residential real estate, the rents, all of that has been fairly robust.

Nitin Padmanabhan: Perfect. That's very helpful. Second was on the ramp-up, right? So one is the earlier deals, maybe Q3 and so forth. Have they started ramping up? Or do you think that begins to ramp up? And second, the deals that you have won today, do you think they sort of ramp up on time? And by when do you see them sort of ramp up? So that's on the ramp-up side and...

Nitin Rakesh: Yes. Go ahead, go ahead.

Nitin Padmanabhan: Yes. The second part was on the existing book of business. So excluding mortgage, within BFS, do you continue to see sort of headwinds on revenue as we saw this quarter, continuing for some more time and sort of tempering down growth despite the accretion from new deals. Yes, those are the 2 questions.

Nitin Rakesh: I think on the first one, as I mentioned, as Manish calls them the 3 phases, origination, closure and conversion. Origination actually was fairly robust over the last 12 months. That's the reason pipeline has grown this robustly on a Y-o-Y basis as well. Closure, I think, was a little bit muted. That's why our TCV was trending in the 300 to 400 range for four quarters in a row.

But that seems to have definitely picked up because I think there is a point at which the execs have to make some decisions and move on because there is a finite amount of time with which they need to implement certain programs. And of course, our ability to blend their needs with a proposition is something that's come in very handy with the proactive nature of our pipeline. So I think the closure has definitely picked up, and that's the first sign that we are seeing that decision-making is starting to revert a little bit out of that frozen zone. And the conversion, while it is not where we expect it to be, we still have a proportion of deals that are taking fairly long time to convert.

It depends on client situation, the business cycle that a customer is in, as well as the ramp-up schedule that they originally agreed to versus what they want to re-baseline it to, so there is a lengthening that has happened there. But given just the experience in the last 3 months through the quarter, it progressively seems to get a little bit better. So we do have early signs that not only is origination and closure are getting better, the conversion is starting to get a little bit better. So we are cautiously optimistic, too early to tell, but early signs are encouraging.

Nitin Padmanabhan: Sure. And on the banking financial services, existing book of business, do you continue to see headwinds there on a going-forward basis ex mortgage?

Nitin Rakesh: Yes, I think this was probably the crescendo quarter when it came to bubbling up of all the issues that came up in the banking sector starting in March and probably culminating in the crisis getting resolved at least for now through, I would say, middle of the quarter. So right now, I think it is status quo, it seems to be stable, we haven't seen any major ramp-down requests in the recent few weeks. But I think –in another 2 or 3 months, the 2024 budgeting cycles will start.

So we will see some pent-up demand or unspent budget kind of starting to open up between the Labor Day to Thanksgiving season.

But at the same time, it's a little bit too early to call whether it's across the board activity because there are segments of banking that are still fairly stressed, especially on the CIB side. On the consumer side, things have been fairly stable and continue to be stable. Wealth and asset have been fairly stable because that's been a bright spot actually across the domain, and we just talked about mortgage as well. So I think increasingly, as we see resolution of cyclical issues, we will see opening up of spends on the discretionary side in the very short run. That actually will give us some short burst revenue and clearly are important for consistent growth.

Moderator: The next question is from Mohit Jain from Anand Rathi.

Mohit Jain: Sir, I have 2, 3 questions. One, if you could talk a little bit about the tenure of the TCV that gets closed at 700. So say, for comparison sake, Q1 '23 versus Q1 '24, how we should see the tenure thing? And second is related to the split of BFSI decline that we saw in 1Q. So what target mortgage and how should we see between regional bank, mortgage and core business?

Nitin Rakesh: So on the first question, there is no major change to call out in terms of the tenure of large deals. However, there is a little bit of drying up of shorter duration small deals, and that's tied to the discretionary spend pattern that we talked about. I think, as such, the seven large deals, the duration, the multi-tower nature, the transformation-type deals, all of that is fairly consistent and has felt fairly steady over the last 4 quarters. The only change to call out, as I mentioned, is the small organic growth type deals. For example, when you roll out a project or if you lose 2 or 3 people, backfills get stopped. So I think that's probably the only thing to call out for in the – break up of the TCV.

On the second question around Direct ex-DR versus Direct BFS. I think that, that data has been published in the deck. I think Direct ex-DR was almost flat on a Y-o-Y basis. Of course, on a sequential basis, I think it (Direct BFS) had a decline, approximately 8%. The DR business also declinedin this quarter, not to the extent that it had in the last 2 quarters, but it's definitely still little bit head-winded. I think it's not fair to break out the impact from segments of banking. So I'm not going to answer what impact was from regional versus non-regional because then we're starting to get very client specific. But all puts and takes together...

Mohit Jain: So regional banks, are we done with the cuts, etc, that you were anticipating? Or do you think some of that will flow through into 2Q as well?

Nitin Rakesh: I think on a consolidated basis, bulk of it is behind us, and that's the reason we mentioned that we are cautiously optimistic, but it's hard to call exactly the bottom in a segment that is so exposed to macro. So at this point, I think all I'm going to tell you is bulk of the cuts are behind us. Mortgage definitely seems to have bottomed. And that's kind of what was one of the biggest headwinds to our BFS business in the last 4 quarters. And I think we will look forward to additional data points through Q2 to see if we can truly call a bottom in the entire banking.

Mohit Jain: Okay. And one last, again on Q2. During the quarter we announced a DXC subsidiary transfer. So I assume that will be consolidated in Q2. So how should we specifically look at Q2 growth outlook given that some of the tailwinds are also coming through?

Nitin Rakesh: I think it is hard to give you specific Q2 guidance. We are, as we mentioned, we think we had a base formation and a bottoming out in Q1. At this point in time, it looks like that we will see sequential growth, but it probably will accelerate as we get into Q3 and Q4.

Mohit Jain: So when you say sequential growth, sequential growth plus whatever the subsidiary adds up, right? That's the...

Nitin Rakesh: Over the Q1. Over Q1.

Mohit Jain: So sequential growth plus something from DXC subsidiary which will flow through?

Nitin Rakesh: You are asking me to answer something that I'm not willing to disclose at this point in time only because, as I mentioned in the past, I would not like to discuss specific contractual arrangements with the outside world. It's something that we have to kind of guard against. All of this is baked into the guidance I just gave you.

Moderator: The next question is from Dipesh Mehta from Emkay Global.

Dipesh Mehta: A couple of questions. First, about the deal intake. I just want to understand the nature of competition, which we faced. For 100 million plus deal and I think another large deal, which you indicated, 40-odd million in Canada. So if you can provide some sense about nature of competition, and you indicated non-BFS. But if you can provide some sense about the type of work which we do, and if possible some of the industries where we are trying to provide offerings and whether it is part of Non-top 3 kind of focus areas in terms of some of the emerging verticals, which we indicated.

Second question is, you indicated some one-timer in cash, so can you provide some more detail about one-timer you are referring to? And last question is about DXC subsidiary-related transaction. So how one look at it? If I look last few years of that subsidiary performance, remains very inconsistent, both on revenue and margin performance. So first about the capability, how we see synergy with Mphasis offering? Second thing is what are your growth plan? And last is, what is the current revenue around that entity running at?

Nitin Rakesh: Manish, why don't you take the last 2 questions, and then I'll talk about the pipeline outside and the wins and the competitive intensity.

Manish Dugar: Dipesh, Manish here. Taking the question on the cash first, the onetime is essentially three things. You would have seen in our balance sheet, our classification of non-current assets. That's a structured contract and the finance cost of delayed collection is baked into the commercials. But it does come up in the DSO and the receivables. And then there is a collection that was erroneously sent from the client of an amount close to USD25 million (SWIFT code error), and then that got reinitiated and it hit the Nostro Account after the third of July. And then because the weekend happened and it was a long weekend for 4th July, some of the collections came in late. If we were to normalize for these, we are talking about almost 13 days impact on the DSO. So without these, we would be at 64- 65 days of DSO. So that's what we have called out as one-timers. All of this money,(except for the deferral) came in by the 7th of July, but we have not included that in our cash flow for the quarter ended 30th June.

Second question on the DXC transaction. It's a capability acquisition, primarily helps us in building our relationship with Microsoft and capability that we can take to clients in implementing Dynamics. We looked at the asset from the perspective of synergy benefits and expansion of TAM that we can have in our client base, and we feel very good about the fact that it comes along with logos and revenues that also gives us a boost in our Europe business. So at an overall level, wouldn't like to comment on what happened with that business within DXC. But we do believe that once we acquire, we will be able to create a lot of value out of the transaction.

Nitin Rakesh: Going back to your other question on the competitive intensity, especially on the large deals, I think it's not a surprise that almost every deal is hot pot. And while we may have had an element of helping shape the deal proactively, given the size of the deals and the governance mechanism at most large enterprises, banks included, there is a competitive process that everybody follows. So I think the usual players that you can think of from our larger peers in India to the global SIs to specialist consulting regional firms, almost all of them are present in many cases, many more than one are present as we go through the competitive process.

To give you an example, there was a large deal in the banking segment where there was 7 people that were invited to the bid. And many of them were incumbents. We were not. And in that case, over a period of 3 months, we managed to run through the process. And at the back of our tribe-lead deal archetype, we actually differentiated really well and came through the process to win the business. So I think almost every deal is very similar in nature when it comes to the competitive intensity. Yes, of course, some of them, we very proactively work to identify the opportunity, and that gives us a higher win rate in the proactive deals. So that's kind of typically the nature.

There are, especially in times where demand is stressed, the competitive intensity actually does get higher. And couple that with slower decision-making, it is definitely a lot of hard work that goes into making these deals come to closure.

Manish Dugar: Dipesh, to your first question on the industry and type of work in the TCV, majority of the growth in TCV over the last quarter actually came from outside of BFS. The good thing is that the work has got a lot of broad basing from a demand perspective. Geography-wise, as we talked about, the fact that it is a significant TCV from Canada given its proportion to the size of Canada business. From a service perspective, a large part of it is application centric. From a vertical perspective, it is actually reflective of investments made in building some of the other verticals. From an account perspective, a lot of this is from beyond the Top 10 customers, which is, again, reflective of the investments we made in NCA and our efforts to diversify. So if you think about it, it is actually helping us diversify across all dimensions- the clients, the verticals, the geography, and from a capability perspective, not to forget significant contribution from the AI-led transactions.

Dipesh Mehta: Understood. The only follow-up question, which is, I think unanswered was on the DXC subsidiary I'm referring to, what is the revenue run rate?

Manish Dugar: So we would not like to disclose that, Dipesh. It's like Nitin mentioned earlier...

Nitin Rakesh: I think the right way to think about it is Microsoft business applications is the reason we actually took over that book of business. It is part of strategy that we've been following up, building a string of pearlscapability. It is something that had been in the works for many months in terms of really identifying pockets where we could get to a business arrangement that works for both parties. And it is not material in terms of the overall size of our business. But at the same time, from a capability standpoint, it is definitely something that will, and it's already creating synergies because we actually integrated that pretty much on day 1.

Moderator: The next question is from Sandeep Shah from Equirus Securities.

Sandeep Shah: Just 1 question. Nitin, is there any large client-specific issues still worrying you in any of your industry segments?

Nitin Rakesh: As I mentioned before, the metric that we are mainly focused on is wallet share within a customer and expansion of TAM in every large customer. So these are two things that we continuously focus on as we drive the account plans. If I focus on these 2 metrics, I don't see significant areas of concern that give us a pause saying, we need to double down or we are not really well-placed in any of our top accounts. Of course, it also depends on the environment that those accounts are going through.

And in some cases, we've had certain client-specific issues that have kind of lingered on for a little bit longer. But I think on an overall basis, it is driven more by what's going on outside our control versus the micro focus that we've been bringing to the table pretty consistently over the last 5 years. So I think we'll continue to execute the strategy. We'll continue to expand that cohort account planning based model to accounts outside the Top 5, Top 10, which is why I broke out the performance coming out of accounts in 11 to 20 and 21 to 30 as well as outside of BFS.

So I think the 3 vectors of diversification, we will continue to expand. And of course, given that we are so focused on TAM expansion and wallet share expansion inside of our existing top customers, I think we will actually disproportionately benefit either through consolidation, which also has continued to show good promise or through return of spends.

Sandeep Shah: Okay. So my question was on that -- the path which you alluded. The issues in the large clients, which are outside your control, led by macro issues, those issues largely bottoming out, or you believe still it's early to call out that?

Nitin Rakesh: I think it's too early to call it out at a group level. I think they are, as I mentioned, right, it all depends on the segment that we are operating in. Some of those clients, while we've actually grown the share of wallet in tech services, we've obviously lost revenue on the mortgage side because that just was so headwinded, it's the same customer. So I think it's more nuanced by LOB or by segment that you are operating in. Even within our very large customers, some of them have been more exposed to the slowness in deal making on Wall Street, which has an impact on their spends in CIB versus their spends in consumer or payment or asset and wealth.

So I think it's a little bit more nuanced right now, which is why I gave you guys an outlook by LOB or business segment within banking. I think that's the right way to think about it. Obviously, we are more comfortable today in many of those segments than we were 3 months ago. But I think it's too early to say that across the board, the demand has come back or there is a big bang change.

Moderator: Next question is from Ashwin Mehta: from AMBIT Capital.

Ashwin Mehta: Just wanted to get a sense in terms of the USD700 million plus of deal flow. Any duration changes that you have seen versus earlier given that there were four 100 million-plus deals here? And the second question was in terms of our margin outlook as we go through the year, given that we have significant scope in terms of utilization, growth is also expected to improve. And the third one is on our Top 10 client cohorts because we've seen sharp declines there. So as a cohort, do you see that stabilize as you go forward and see a similar sequential growth that we're guiding for the overall company? How should we see that?

Nitin Rakesh: Ashwin, on the first question around duration, I think I just answered it a few minutes ago. Nothing to call out. The contract duration, multi-tower nature and transformation, all of that has been fairly consistent on the large deal side. So there isn't any significant change in any of those, that's the point number one. But I think a corollary to that was that we've definitely seen a downtick over the last couple of quarters in the smaller deals that typically do add up to in-quarter revenue and ACV. So I think that is tied directly to the cuts and discretionary spends and the lack of opportunity to backfill or project rollovers that don't get refunded. So that's the first point. Second, maybe on margin, Manish, you can take the second one.

Manish Dugar: So Ashwin, we talked about our philosophy of maintaining margin in a narrow bandwidth, with investing for growth. And we talked about the fact that there will be an expansion in the margin as we go forward. We did expand the margin, although a very small number, 15.4% from 15.3%. But when you think about it, this came despite the sharp decline in revenue and the pressure we had continuing from the prior quarters on a variety of metrics. Operating metric, as you rightly mentioned, continues to give tailwinds, whether it is utilization, whether it is pyramid, whether it is the value driven sales leading to better pricing environment.

And we feel confident about the margin as we go forward, leading to us guiding that we would be reporting expanded margin as we go forward. I know that the environment is very different when we look at the peer group, but we feel reasonably confident that we will deliver the expanded margin, and we have done our bit in terms of making sure that that happens despite the investments that we want to make in the business as we go forward.

Nitin Rakesh: I think your third question was around the Top 10 cohort and when do we see recovery. I think as I mentioned, I just gave a nuance on lines of business. I think as we've seen an uptick on the mortgage side that will definitely feed back into the Top 10 cohort because there are multiple clients where we do service them on the mortgage side as well as on the tech side.

Second, I think some of the large deal inflow will definitely feed in at an overall company level, but the large deal closures, the pipeline is fairly strong in BFS, as I mentioned, but I think the closures have to pick up a little bit more for us to start seeing that uptick. My sense is, there's probably a little bit of a lag between, especially in some of those banking heavy top clients, but the confidence on second half acceleration really comes from an uptick in the Top 10 cohort as well.

Moderator: The next question is from Manik Taneja from Axis Capital. It seems that we have lost line from Manik. We'll move to the next question that is from the line of Abhishek Shindadkar from InCred Capital.

Abhishek Shindadkar: Congrats on the strong bookings. Just 1 question on the bookings. So I wanted to understand, if you can give a color whether these are wallet share wins? Or did we displace any competition? And second is, was there any change that you noticed in the closure timelines of these deals from the initial conversations to closure? What I'm trying to understand is, was there a bunching of closures or these were actually closed way before than you anticipated?

Nitin Rakesh: I think on the first question around displacement of competitors, I think I answered that in the context of competitive intensity. Given that majority of these were outside of Top 10, you can actually easily say that many of them are wallet share gain deals because we've constructed propositions and effectively eaten into somebody else's share of wallet because we've, in many cases, bundled change and run our transformation in these deals. There are deals, for example, the likes of Canada that are pure greenfield, new client acquisition deals where we were able to really construct a proposition and create an opportunity. I think that's kind of, I mean, whether we call it wallet share or new customer acquisition, and I'll leave it to you to decide.

There is obviously an element of, as I mentioned, a fairly high degree of complexity that is involved in getting a deal from origination to conversion, not just closure but conversion. And I think while there has been some uptick in that, it is very specific to certain segments that I think we would like to see that spread across other segments as well. Given that there is a significant portion of these deals that are also outside of BFS, I think some of that did play in.

And we've called out deals in healthcare. We've called out deals in hi-tech. I think all of those continue to really help the overall strategy of diversification, as well as creating new engines of growth, both from a deal standpoint, and of course, subsequently on a revenue standpoint. Did I miss anything from your question?

Moderator: Abhishek, does this answer your question? Sir, we have one last question that we received over the webcast. That is from the line of Haresh Alamchandani from Smart Money Financials. The question is, sir, I trust your leadership, vision and enterprise. However, can you please plan to deliver 15% growth in net margin by increasing revenue and cutting on opex?

Manish Dugar: Haresh, thanks for the confidence. We have stated the philosophy of maintaining margin in a narrow band and investing for growth. We believe that, that delivers a better return to our shareholders, given the growth multiplied by EBIT eventually is the EPS. We will continue to look at the avenues for investing while making sure that the margin remains in a narrow band.

Having said that, as the scale happens and as we grow, we believe operating leverage gives us a northward bias to the margins, and that's what's reflected in the expanded reported margin this quarter and the confidence of reporting an expanded margin as we go forward.

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

Nitin Rakesh: Thank you all for your interest in Mphasis and your questions this morning. While the macro environment continues to remain uncertain, we are very pleased with the record breaking TCV as well as the large deal wins this quarter. And we continue to be cautiously optimistic. And at the same time, we'll continue to update you through the remainder of the year and look forward to seeing you all on the next calls.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Mphasis Limited, that concludes this conference. If you have any further questions, please reach out to the Mphasis Investor Relations at investor.relations@mphasis.com. Thank you for joining us, and you may now disconnect your lines.