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5 May 2023

The Manager, Listing BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	The Manager, Listing National Stock Exchange of India Ltd Exchange Plaza, Plot No. c/1, G-Block, Bandra-Kurla Complex, MUMBAI – 400 051

Dear Sir/Madam,

Sub: Transcript of the Investor(s)/Analyst(s) call

Further to our intimation dated 28 April 2023, please find enclosed the transcript of the Investor(s)/Analyst(s) call which is hosted on the website of the Company at https://www.mphasis.com/content/dam/mphasis-com/global/en/investors/financial-results/2023/transcript-of-earnings-call-q4-2023.pdf

We request you to kindly take the above on record as required under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking you,

Yours faithfully,

For Mphasis Limited

Subramanian Narayan
Senior Vice President and Company Secretary

Encl: As above

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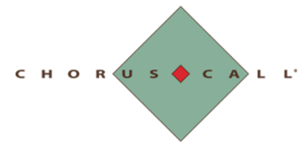
"Mphasis Limited
Q4 Full Year FY 2023 Earnings Conference Call"
April 28, 2023



MANAGEMENT: **MR. NITIN RAKESH – CHIEF EXECUTIVE OFFICER – MPHASIS LIMITED**
MR. MANISH DUGAR – CHIEF FINANCIAL OFFICER – MPHASIS LIMITED

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Moderator: Good morning, ladies and gentlemen, and thanks for joining the Mphasis Q4 Full Year FY 2023 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 Filings as well as on both 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 your 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 thanks everyone for joining us today. I know it's a busy day with multiple earnings calls and we appreciate your interest in Mphasis. I trust everybody has had a chance to review our earnings release documents. As the global economic climate continues to remain uncertain, volatility and business resilience will coexist. While enterprise digital transformation remains a core strategic priority for 2023, cost takeout and optimization requirements are also in great demand, given the macro environment.

Strategic tech spends have slowed down, however, haven't been paused. There is sustained investment in cloud and digital transformation. Cost transformation projects that will free up working capital for cloud, digital and consolidation are a priority as clients optimize through increased productivity, automation and other software-driven transformation initiatives. In a recent survey conducted by McKinsey, 75% of the CIOs said that they intend to increase their organization’s spends in cloud, data and digital.

Given the digital transformation journey underway post-pandemic, there is a rising percentage of CIOs increasingly focused on variabilization of cost structures, unsurprisingly so, given the current environment. There is a greater scrutiny of spends leading to elongated sales and contract conversion cycles and tightening of discretionary spends. Buying preferences are likely to continue to favor transformation partners for digital-led change with the vendor consolidation emerging as a theme in cost take-outs. We have proven frameworks to play in both these buckets. Our zero-cost transformation framework where we fund the digital transformation agenda by providing guaranteed cost savings outcomes to clients, is finding good traction in this environment.

Over a six-year period from FY '17 to '23, our revenue journey is marked by several aspects attesting to the firm's scalability. The contribution of the DXC revenue as a percentage has

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declined to 4.5% in FY '23. Despite the decline, we sustained double digit revenue CAGR trajectory over this period. Our revenue CAGR for Direct over this period is 15.6% in constant currency terms. The quality of revenue is improving as it moves towards Direct business on the back of scaling up multiple marquee logos. We've also set up multiple new engines of growth with newer verticals such as TMT/High-Tech, Healthcare, Logistics and Travel. These have become meaningful to overall revenue share complementing our historically strong presence in the BFSI segment. We will detail that further in our subsequent sections. We've also more than doubled the number of $10 million and $20 million customers in the same period. Our quarterly average net new deal signings have moved up 3 to 4 times from that in FY '17. Our FY '23 EBIT is nearly 2.5 times what it was in FY '17 as well.

Our Q4 FY '23 revenue of $412 million represents a decline of 3.1% year-over-year in constant currency impacted by DXC and the mortgage business. Direct revenue at $390 million declined 3.4% sequentially and 1.8% in constant currency terms Y-o-Y in Q4. Direct ex DR declined 1% Q-o-Q and grew 7% Y-o-Y reflecting the head-winded environment related to historically elevated inflation and interest rates. This has particularly been acute in the mortgage segment. On a full year basis, our Direct business grew 12% year-over-year in constant currency, dragged down by the mortgage business.

Direct ex mortgage grew 19.6% in FY '23. Direct business accounted for 94% of our overall revenue in FY '23 and 94.6% for fourth quarter FY '23. DXC's contribution to our revenue is 3.8% as of fourth quarter FY '23. The mortgage business has continued to experience a perfect storm in Q4 FY '23 as well, hammered by the trifecta of trajectory of rates, consumer price inflation and sluggish home sales, even as leading banks prepare for recession in 2023. While mortgage rates have started to decline, the market remains hyper-sensitive to interest rate movements with purchase demand experiencing large swings relative to minor changes in rates, leading to a freeze-up in activity in residential real estate markets.

Contribution of Digital Risk, our mortgage BPS subsidiary, now stands at 6.8% of Q4 FY '23 revenue, down from 8.8% in Q3 FY '23 in reported INR terms. We've also seen the softening of house prices in the recent quarter, limiting our ability to drive home equity line of business, which is usually countercyclical to the overall origination service line. Our core service line, enterprise applications constituting more than 70% of revenue grew 23.6% in FY '23 in constant currency terms for Direct business. The BPS segment which suffered from a downturn in the mortgage segment declined 16% with the Y-o-Y decline in this segment increasing through FY '23 as we felt the brunt of the mortgage decline in the last two quarters of the financial year.

Our anchor geography, US grew 12.6% constant currency year-over-year in FY '23. Excluding mortgages, the US business grew 22.4% for the year. Rest of the world segment, primarily India business, grew 14.3% in FY '23 Y-o-Y albeit off a small base. Direct applications growth stood at 7% year-over-year in the fourth quarter FY '23. We saw tightening discretionary spends and lower contract conversions. Rest of the world grew 18% year-over-year in this quarter in Direct while the Y-o-Y decline in BPO widened to 32% due to mortgages. Most of our focus segments continued to grow, driven by wallet share and market share growth.

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Moving to vertical performance, our mainstay vertical BFS in Direct continues to fare well growing 24.1% ex-mortgages in FY '23, though 9% on overall basis, weighed down with the mortgage declines. Our smaller and newer verticals such as healthcare are growing quite well reflected in the 31% revenue growth in FY '23 in the Others segment. The TMT vertical also grew strong double digit in FY '23 at 17.4% with sequential impact primarily from the DXC revenue decline in Q4 over Q3.

While growth rate in insurance has lagged, impacted by client specific issues, TCV wins and pipeline in this vertical look healthy and we remain focused on expanding our portfolio of new clients as well as wallet share with existing relationships. To ensure scalability and facilitate the next phase of growth, a realigned verticalized go-to-market structure has been implemented for FY '24 with the following principles in mind: Aligning the GTM organization along verticals to drive better sales synergy, especially as we focus our energies on deepening our wallet share and market share with our named account strategy for existing and new clients, as well as to enable scalability and repeatability with a vertical focus to overlay the tribes and squads-led competency model so that we can create repeatable deal and delivery templates to accelerate deal cycles as well as to expand leverage available within account cohorts mindset. This is already enabling us to see new growth opportunities and retain our hi-touch service delivery model with clients.

With the vertical-based go-to-market model, we can bring vertical and industry points of view to bear, consolidate capabilities and learnings within a vertical across accounts and cross-pollinate more effectively as we seek to further expand our proven account mining template to the NCA accounts. Our Top 10 clients grew 8.6% in FY '23, weighed down with the mortgage business pressures in the past two quarters. On a consistent basis over the past three years, top clients have grown well with a 20% plus three-year revenue CAGR. Notably, our Top 11 to 20 clients grew 19% for the year, indicating a strong positive impact that our account mining and the new engines of growth are having on broad basing of our growth.

Our new client revenue continues to grow rapidly, growing at 39% year-over-year in FY '23. The NCA segment contributed 22% of FY '23 revenue. We recorded TCV of $309 million of net new deals won in the fourth quarter of FY '23. Included in this is a $150 million large deal from a new client. In FY '22, we had a mega deal of $250 million that contributed to the total TCV of $1.4 billion. Our FY '23 net new TCV is at $1.3 billion and we continue to consistently maintain a run rate of $300 million plus TCV wins per quarter.

Our large deal wins continue to increasingly come from newer verticals and new clients. Despite strong TCV over the last few quarters, our pipeline is up, suggesting that our pipeline generation engine is also firing well. We will cover that shortly. We generated a reasonably high percentage of our TCV through proactive deal pursuits where win rates are materially higher than in competitive RFP situations. 95% of our deal wins were proactive in fourth quarter of '23 and we closed 10 large deals in FY '23. As we report our TCV on a net new basis excluding renewals, we find the correlation between Direct TCV and revenue growth at 0.8. It's reasonably good but has declined recently due to the DR ramp-downs and some slower ramp-up deals impacting TCV to revenue conversions.

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Coming to our client metrics, our track record in migrating clients from one revenue bucket to the next continues to be steady. We had additions to the count of clients in $5 million, $10 million and $20 million plus categories on a year-over-year basis. On a Y-o-Y basis, we added one client each to $150 million plus and $200 million plus categories as well. As we mentioned, we won 10 large deals in FY '23, two of which were over $100 million TCV each. Our average large deal size in FY '23 is $61 million, double from where it stood three years back.

Almost all of our pipeline is Tribe-driven and is up 9% quarter-over-quarter and 35% year-over-year despite conversion from pipeline to new sold TCV in the last four quarters. Pipeline is also well distributed across verticals. While BFSI continues to generate the highest share of the pipeline at 36%, it is still reasonably lower than the BFSI revenue contribution. The non-BFSI pipeline is disproportionate to its revenue contribution suggesting that our investments in generating pipeline aimed at aggressive growth diversification beyond our anchor BFSI clients is working. Our non-BFSI pipeline has increased by 52% year-over-year. Our pipeline is also well distributed across key themes such as data, modernization, cyber security, Agile ops and platforms.

Expertise in these themes is evident in our tribes as we've discussed with you in the past. That being said, as mentioned, we are seeing lengthening of sales cycles in converting pipeline into TCVs due to greater scrutiny of tech spends, though our win rates are holding steady. This translates into a potentially strong position with deal wins, as these deals move to fruition over FY '24. Coming to our financial metrics: Our margin philosophy affords us the flexibility to manage our profitability in the phase of revenue headwinds. We're extremely pleased by the resilience of our profitability metrics.

In this quarter and for the full year FY '23, our EBIT margin stood steady at 15.3% within the stated band. This has resulted in operating profit growth in line with revenue growth. Operating profit growth for FY '23 stood at 15.4% in INR terms while for the quarter, it was 3.6% in Q4 FY '23 over Q4 FY '22. Losses in cash flow hedges impacted margins in Q4 FY '23 by approximately 80 bps. Our EPS for the full year at INR 87.1 represents a 14% year-over-year increase while our fourth quarter EPS at INR 21.5 grew 3% Y-o-Y. Cash flow generation for FY '23 at slightly above $ 200 million, adjusted for one-offs, stays solid at almost 100% of PAT.

In summary, we rounded off FY '23 marked by a duality of performance- above industry performance in Direct ex-DR at 19.6% constant currency, while the mortgage business declined over 32% in FY '23 resulting in an overall direct growth of 12% in CC terms in FY '23. We sustained our wallet share gains in BFS. BFS ex-DR, grew 22.6% in FY '23. We have reasonably strong deal wins of $1.3 billion in FY '23 and some of our smaller newer verticals such as healthcare have scaled up and are approaching the $100 million mark on an annualized basis.

Despite the accelerated decline in the mortgage business, our EBIT margins at 15.3% stood steady through the year and within the stated band, resulting in EBIT growing at 15.4% in INR terms in line with revenue growth. Tighter focus on utilization, fresher deployment and some increase in offshore leverage helped margin performance. Our operating cash flow adjusted for one timers stood at nearly 100% of net profit.

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Coming to FY '24 outlook, we enter year on the back of an expanded pipeline. Cloud, digital transformation, cost optimization and consolidation type opportunities characterize the pipeline. While we expect to have a soft start to FY '24 as we deal with some slowdown in BFS, including a client-specific issue, and delayed contract conversions in this environment, we expect Q1 to be characterized by stability across segments with strong sequential growth starting second quarter onwards, which will result in a rising Y-o-Y growth through FY '24. For the full year, we expect to register at least industry average growth in Direct ex mortgage.

Good news in the mortgage segment is that we have started building up a pipeline and crafting new deal constructs. We have seen green shoots of activity with some deal closures in the recent weeks. As this plays out through FY '24, the mortgage segment, we believe, is close to bottoming out and we expect this segment to be incrementally stable through much of FY '24. There is potential for volumes to increase in the second half of FY '24 based on macro impact softening, as well as due to the nature of this segment in late stage of an economic downturn, where the possibility of rising delinquencies create opportunities for trading of loan books, leading to higher servicing and diligence volumes. We are also driving greater offshore leverage in the business in this segment of mortgages compared to before ensuring that we are able to tap into newer segments of work with the same clients, as well as expanding our wallet share.

We also have visibility to the DXC segment and are jointly aligned on a continued relationship with an expectation that this segment of our business will stabilize while we look for additional synergy opportunities. We will update you further as we progress this engagement over the next few weeks. On margins, we retain our message of margin stability expecting to hold EBIT margins in the 15.25% to 16.25% range in each quarter of FY '24.

We'll open the call for questions. And operator, if you can line up the questions please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Yes. Hi, good morning. Nitin, I probably missed this but excluding DR, is it still a decline on a sequential basis. And second thing is, I think one of the calls we had yesterday I think suggested a freeze on spending by a few customers and that could sort of come away from post the end of Q1. Are you seeing a similar trend? And finally from a Q1 perspective, do you think what you're seeing on a run rate basis, can Q1 also be a decline? And finally, if you could just based on your experience, I think if you compare with COVID and now, we have seen a much sharper sort of two quarters of decline versus COVID. So, contextually, what are you seeing different in terms of client behavior. If you just give some sense on all these. Thank you so much.

Nitin Rakesh: So Nitin, in terms of Direct, was the question, Direct ex mortgage, is there a sequential decline, is that the question?

Nitin Padmanabhan: Correct.

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Nitin Rakesh: There is approximately 1% sequential decline in Direct ex mortgage, predominantly driven by some of the issues that we saw crop-up in March and some ramp downs that led out of that issue. Your second question around is there a spending freeze. I think it depends, the answer is more nuanced. If you look at banks that are more Wall Street oriented, there is definitely reprioritization of spends because the activities haven't picked up, especially on the investment bank and the trading side or more on the corporate side. On the commercial retail, asset and wealth, I think their environment is much more BAU and stable and we are still continuing to see demand there, as such, we haven't really seen so to speak, freezes but of course, depending on what the situation with each customer is, there's definitely some element of reprioritization.

Of course on the regional banks where there are impacts, we've definitely seen significant issues crop-up and ramp downs that obviously are baked into some of the numbers you see and some of the guidance you see. In terms of your question around Q1, as I mentioned, I think in our minds, the quarter is really a stabilization quarter, bulk of the decline in mortgage seems to be behind us. We'll just have to kind of make sure that the volumes hold up. And probably Q1 is going to be a bottom quarter from that perspective. In Direct ex mortgage, we definitely expect certain uptick in Q1, but again, I think the environment is a little bit hazy, so we are expecting at least from Q2 onwards, the strong sequential growth in Direct ex mortgages.

I don't know if I missed anything from your question list, but that's kind of the environment right now.

Nitin Padmanabhan: Yes. The last one was on some contextualization, on the COVID period versus now, because you're seeing two quarters of decline, in terms of client behavior and what do you actually think?

Nitin Rakesh: Yes, I think COVID impact was a little bit different sectorally. There were sectors like airlines and hospitality that really got impacted for a long period of time whereas e-commerce and financial services actually had a pretty strong pick-up very quickly given the excess infusion of cash that came through multiple initiatives, especially in the US. So, I think it's a little bit apples-to-oranges. I think the common theme though is that the tech investing super cycle that started in favor of cloud, data and application transformation, legacy exit, tech debt reduction, and now AI, I think that cycle has continued to keep pace. Of course given the tightening of budgets, I think clients are looking for ideas to re-prioritize cost takeout into change programs.

So I think overall budgets being flattish, they're really looking for ideas to re-prioritize internal spends. And that's where a lot of this deal making that we've talked about is happening. To give you an example, the greater than $150 million deal that we signed with a new customer is in BFS and is in the nature of the zero-cost transformation type deal where we are squeezing the run cost, gaining wallet share at the expense of other providers in that account. It's a new account for us. So, we're obviously gaining share there and reprioritizing a lot of the spend and that comes through savings into a modernization program.

Nitin Padmanabhan: That's very helpful. Thank you. All the best.

Nitin Padmanabhan: Thank you.

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

Mohit Jain: Sir, two questions, both on revenues, mostly an extension of the previous one. So, in the fourth quarter as you spoke about slight decline. And now you're guiding for steep decline behind us in terms of mortgage business. So, first is, now on you expecting Q1, Q4 revenues to be flattish or should we assume a steep decline in Q1 as well before stabilization returns in Q2. That's only for mortgage business. And then on the Direct side, now there is some, what should I say, there is some commentary, commentaries are different across various companies. So, to that extent, what are we expecting from our clientele in 1Q. This is on ex-mortgage type business.

Nitin Rakesh: Sure. So I think the quantum of decline that we saw in Q3 and Q4 is definitely behind us. We are not expecting that quantum of decline in Q1. I think the question is are we at the bottom or are we near the bottom. I think the answer is, we are definitely near the bottom and we probably get a little better idea over the next few weeks on whether Q1 is the bottom or Q4 was the bottom. I think the quantum of decline will definitely, even if there is a decline in Q1 in the mortgage business, will be a fraction of what it was in Q3 and in Q4 in absolute terms. And the reason I'm not able to give you a clear answer is because volumes go up and down.

Mohit Jain: That is clear enough.

Nitin Rakesh: To give you an example, right. When the mortgage rates came down to around 6%, January volumes picked up quite dramatically and then they dropped off again in Feb and March. So, that's the volatility that we're seeing in that business. Also some very short-term delinquency type issues create immediate opportunity. So, I think we are very focused on those, but I think the short point is that the quantum of decline will definitely be a fraction, small fraction compared to what we've seen in the last few quarters.

On the non-mortgage Direct business, I think the key metric I will point to is the continued expansion of the pipeline and the fact that we are still able to consummate large deals where we're actually creating these opportunities proactively, I think we are fairly confident in retaining our win rates, which we have actually maintained through Q3, Q4 despite the environment and as we see green shoot of stability even in BFS, we've seen good uptick of deals. The fact that our pipeline is 35%- 36% higher than last year and the win rates are stable means that we are actually setting ourselves up for fairly significant TCV against over the course of FY '24.

So I think that's the best way to think about the environment right now. Of course it is hard work to close those deals and it's even harder work to close them and convert them to revenue, but I think the activity while it may slowdown, hasn't really that paused that much. So that's the silver lining so to speak in the current environment as well.

Mohit Jain: So as a take away, you are not seeing any slowdown in, say, business closure, deal closure for 2Q as well, that $300 million that you spoke about sort of continues at a similar momentum.

Nitin Rakesh: Yes.

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Mohit Jain: And second thing is that the TCV which we won last year, FY '23, but because of conversion being slow, we could not convert into revenues. Do you expect in FY '24, what happens to that actually, does it become order backlog, which will flow through in FY '24 or do you think that is something, which could be lost?

Nitin Rakesh: Yes. No, it is not lost, it definitely goes into the backlog and I think I explained in the last call as well, sometimes you sign a 12-month $20 million deal and because of the ramp slow down, it becomes 18 months, $20 million deal, but it doesn't disappear.

Mohit Jain: So in 2024, revenue growth should be slightly faster than the TCV growth in that sense?

Nitin Rakesh: I think let's wait for the next quarter or two to declare victory but the backlog definitely adds up.

Moderator: Thank you. The next question is from the line of Ankur Rudra from JPMorgan. Please go ahead.

Ankur Rudra: It is clearly a tough quarter. I wanted to get a sense. Nitin, how the demand, billings and bookings evolved through the course of the quarter. Was it consistently bad from January and February or did you see this more later in the quarter in March, which is why you're pointing to the weakness in the first quarter. That's the first question.

The second question is, you've highlighted, you've obviously seen continued and sustained signing success, very good signings momentum despite the revenue softness. Is there a certain level of signings that you need for Mphasis to stay at the same place on a quarterly basis. For example, you highlighted how it's been $300 million or so on a quarterly basis. Is there a minimum $100 million, $150 million required just to sort of overcome the melting iceberg problem that we have every quarter.

Nitin Rakesh: So Ankur the answer is two parts. Firstly, at least on the mortgage side, things definitely got tougher through the quarter, because as I mentioned, January was a bump in volumes given the new mortgage rates were at or below 6% and home equity line was actually quite robust, but both of those, kind of, had a ramp down through the quarter.

On the TCV side and on the Direct side. I don't think there was any perceptible deterioration barring obviously the two weeks in March where there was significant re-prioritization of just executive bandwidth in dealing with some of the issues. Some clients were seeing massive inflow of funds so they had to divert all their resources into on-boarding customers and doing KYC and making sure the systems are holding up. Some clients were having significant outflows, so there were obviously different set of challenges there.

I think in terms of, if I look at the trend of TCV closure, I think the fact that we were able to close two large deals and one of them at $150 million plus basically, and I think many of those activities continued through the quarter. There wasn't any perceptible deterioration, so to speak. I think the bulk of issues that we've seen in the last two quarters compared to the peer group really came out of the mortgage business. Last quarter we had sequential growth in Direct ex mortgage. This quarter we had a minor decline, not unusual given the environment. So I think

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from the melting iceberg perspective, what we really have to do is focus on making sure that this mortgage decline and the DXC decline gets under control and that's exactly what I mentioned that we think we are very much near the bottom, if not at the bottom in the mortgage business and we definitely have visibility to DXC stability at or around these levels for the foreseeable future based on just the nature of our engagements.

On your question around what's the minimum TCV required to sustain. I think we've consistently done $300 million plus, that's I would say, a good benchmark to think about and as the leakage in mortgage drops off, even though the Y-o-Y comparisons will still be tough for a few quarters, definitely the sequential number will start looking healthy again and that's the reason why we are indicating strong sequential growth in the Direct ex mortgage business as well as potentially improvement in the mortgage revenue as we progress through the year. So think of Q1 as stabilization and really making sure that we are plugging that leakage and hopefully bring the growth momentum back as we continue to convert deals and revenue.

Ankur Rudra: Just last question. I noted your statement about expecting very strong sequential momentum from second quarter. What gives you the confidence right now that level of visibility that 1Q will be the bottom and you will see growth momentum restart from 2Q. Anything specific from clients committing to start these dates. Obviously the environment remains uncertain. I know that's beyond your control.

Nitin Rakesh: I think that will link back to the previous answer. I think, we had $10 million plus declines in both quarters just from mortgage and just plugging that leak itself will give us the springboard that we are looking for and that's the visibility we are looking for in Q1.

Secondly, I think we talked about the backlog, we talked about conversion of closed signed deals and we've obviously looked at the pipeline and have an expectation of how we will progress some of those deals especially with existing large relationships where we have a better handle on how that plays out in terms of closure and conversion. So I think it's a combination of those two things.

Moderator: Thank you. The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Well, part of my questions already been answered in response to Ankur's question. I just wanted to get a sense on what are you seeing with one of your large customers on the logistics side which has decided to target significant cost savings as well as in-house more work or ship more work in-house with the setting up of the new captive in Hyderabad.

Nitin Rakesh: I think again not to go into specific client items but the two themes that continue to resonate including with the customer that you are referring to without naming. Firstly, we are actually very, very strongly positioned when it comes to being the transformation partners. You also noticed there is not just a cost and a captive conversation, there is also a significant reorg of the whole tech and infrastructure estate that they run across the org. And I think we are the chosen partner for that and have been for a period of time. In short, the wallet share gains there have

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been strong and I think confidence comes from also the fact that we continue to align towards spend areas that they prioritized. And many of our peers within top accounts continue to actually get deprioritized purely based on the alignment with transformation program. So I think our confidence comes from the position we have in many of our top accounts. The forward leaning tech driven change agenda that we are driving and the close alignment with executive priorities as they work through their own internal change programs.

Manik Taneja: Sure. And one last one basically on the change in org structure. You basically referred moving towards verticalized based GTM structure. Is this is in contrast to the account-based retail structure that we followed in the past and the merit that you have spoken about that particular structure. If you could help us understand what's driving us to change this GTM going forward.

Nitin Rakesh: I think, firstly, we are not going away from a named account strategy because that is very much part and parcel of the way we drive our account planning and mining template and the success that we've seen in our Top 10 and 11 to 20 accounts. The reason to do a realignment rather than reorg, I used the word realignment of GTM is because there is now merit in taking smaller accounts, for example, within BFS that will gain a fair amount with this account cohort mindset because the priorities and the patterns of problems and solutions within BFS are very, very similar even though they're powered by the same tribes and squads.

So if the common element earlier was the tribe and squads and the solutions layer, we've created another common element of account cohorts because there is leverage to be gained, time to be gained, repeatability and scalability to be gained, as we look at these accounts cohorts to be from within the same verticals. So think of this as a blend of an account-based high touch structure with a very deep understanding of what that account needs and how we plan to run it and mine it and combine that with of course the success that we've had in opening new logos and now scaling those logos with the learnings we have in the large accounts. I think that's really where this is coming from.

The change is not drastic because a number of our large accounts were already in BFS for example, but the change is a little bit more focused and it will give us an opportunity to also double down on areas where, from a vertical standpoint, we weren't able to see those patterns and hence you would probably see a little bit more incisive growth mindset in some of the verticals outside of BFS as well.

Moderator: Thank you. Next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: In initial remark, you highlighted that your non-BFSI deal pipeline growth is 55%. So within that, can you highlight which verticals to which segments will be much more growth and sharper or faster recovery. And second question, if you can give some more light in terms of geography-wise outlook. These are two of my questions.

Nitin Rakesh: I think outside of BFSI, just by sheer size of the vertical, Hi-Tech/TMT has the biggest pipeline. We have also seen green shoots of recovery in the current calendar year in that business. Last

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year was a tough year. While the Q4 headline number shows a decline sequentially, in Hi-Tech that's largely driven by DXC as I said in my comments. So I think if I look at just sheer size of large deals, Hi-Tech is probably the one that definitely is leading the charge but there are also interesting deals in travel and logistics.

We just talked about the situation with logistics. I think that's also sitting right there. And as we build up the healthcare unit, we also think there are opportunities there that have emerged while we closed some very strong TCV in healthcare in the last 12 to 18 months, that's also something that is representative. But I think Hi-Tech, travel and logistics are probably a bigger share right now, just given the size of those businesses.

Mitul Shah: Sir, question on geography-wise.

Nitin Rakesh: Yes. Sorry about that. I think from BFS, most of our exposure in Europe is BFSI, so there's definitely been some knock-on impact there and hence you've seen a little bit moderation in growth in Q4. Pipeline actually in Europe has also increased. We do have some very large deals that we continue to work on. For the year, we definitely have double digit type visibility into growth in that region. Our growth in rest of the world, primarily India has been very strong, healthy double digits and we expect the healthy double digits trend to continue in that segment as well. So that's sort of to give you a little bit of a sense of the non-US side. Of course, for our overall Direct business to grow in line with industry, the US has to grow ex-mortgage. So I think that's kind of where we stand on the geo breakup.

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

Dipesh Mehta: Couple of questions. First about just some comment about the vertical growth trajectory. If I look at insurance, insurance remained weak for some time for us. If you can provide some sense what is currently going on in insurance because we had hoped for growth, but it has so far not played out in terms of recovery in that vertical. Second thing is logistics. Even though Y-o-Y growth is good, but for last four, five quarters, you can look at, it is very flattish kind of performance.

So after a good run, when we used to club it into emerging separate it out significant growth trajectory, now it is flattening out. So whether it is challenges in broad basing growth perspective compared to a large client that is what creating issues or how one should look at this growth and over medium term, how we expect it to be more secular growth trajectory. Third question is about growth. I think you said FY '24 would be Q2 onwards growth. But do you think we can have a positive trajectory of growth in FY '24.

Nitin Rakesh: Dipesh, let me take those three in the order that you asked that question, I think you're right, insurance has underwhelmed us as well, specific to a large client issues that has gone through some significant corporate restructuring activity, but we won two large deals in insurance in the last two quarters and as they start to ramp up starting late Q4, early Q1, we'll definitely see sequential growth popping-up in insurance in Q1. With this vertical realignment, that's one of the byproducts of that will be hyper growth laser focus on each of these segments which is the

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reason why we actually created a realignment to create these account cohorts that we can then drive growth in.

In terms of your question on logistics, definitely we had some headwinds, given the restructuring and slowdown in e-commerce, not just across one customer, but across actually a broader group, but some of that has definitely been countered by the growth in our travel and airline business. We definitely think FY '24 is a growth year both on a sequential basis as well as on Y-o-Y basis and I think part of the issue for Q1 will get solved when we convert the pipeline, but we definitely are well placed with both travel as well as transportation and logistics for FY '24. Again, I think, as I mentioned, we've actually gained quite a bit of wallet share even with larger relationships in that segment. And I think your third question was around, can you remind me please.

Dipesh Mehta: Full year growth.

Nitin Rakesh: Yes. I think, as I mentioned right, Q1 stabilization definitely means focus on sequential growth. In our Direct ex mortgage business, full year growth is definitely visible as I mentioned at market. Even in our BFS non-mortgage business, full year growth is visible. Question is whether it will be at market, can we push it higher. I think there's a little bit more uncertainty to work through there. Other segments definitely full year growth is visible.

So I think it really will boil down to from a headline perspective, as we stabilize the mortgage business, if we are able to find sequential growth, then I think you will see strong sequential growth across the headline number as well. On a Y-o-Y basis, because of the mortgage drag that continued through the year, you still may find a little bit more muted Y-o-Y numbers for overall business but the silver lining there as I mentioned is the fact that the closure conversion and pipeline continues to be strong.

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

Ashwin Mehta: So Nitin, consolidation and taking wallet share through zero-cost transformation in large accounts is one of the key drivers of our growth. So what are the trends there across verticals and is there a decision making slow-down there as well. And secondly, we have a significant exposure to our top 10 clients. Any client-specific issues to call-out and how material are these from an exposure perspective. And then I have a follow-up.

Nitin Rakesh: Sure, Ashwin. I think, as I explained, deal making is happening. Deal origination is actually happening much more at a robust pace because there is extreme amount of openness and willingness from a client to hear a story how on we can construct a transformation thesis without actually asking for fresh funding. And I think that has definitely opened-up a whole series of opportunities. It's not that we were not taking this solution to market in FY '21 or FY'22, it's just that the enterprise segment was so flush with spend money at that point that they were more focused on spending than saving. As that has become a lot less challenged, there is high visibility, a high acceptability for constructs that create this mechanism as evidenced by the large deal that I just talked about.

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So I think that definitely has legs, there is repeatability and scalability in their archetype. And you combine that with the new focus that a lot of our clients have on creating productivity by using tools like AI and co-pilot, that actually becomes another interesting wedge into creating modern engineering practices led deal archetype. Still early days for that one, but I think that will become really serious contender in the next couple of quarters. So I think the cycles are little bit more elongated. I would say more elongated from a conversion to revenue standpoint than from just pure deal standpoint. I think the deal environment is still fairly conducive for us to continue to create and close deals and that's also reflected in the pipeline numbers I shared with you both Y-o-Y and sequentially. Your second question?

Ashwin Mehta: Any client specific issues.

Nitin Rakesh: Yes. I think, if you look at the top 10 clients, I think obviously there is a fair representation of BFS in there. I think we did talk about specific clients that got hit in March. So as a metric, the Top 10 metric will probably get a little bit challenged in the short run, but that's the reason why 11 to 20 growth and NCA growth is really what we will continue to focus on as we have done in FY '23 as well. And that's why I think the non-BFSI pipeline growth is also very much being driven proactively. So I think some of these metrics will get a little bit skewed as some of those issues come into play, at least in the very short run, but good news is, there is no wallet share loss in any Top 10 customer across the company.

Ashwin Mehta: Sure. And just one follow-up for Manish. Manish, we have seen material hedge losses on the revenue line. How does that look from an FY '24 perspective.

Manish Dugar: Sure, Ashwin. We follow hedge policy of getting cover visibility to the next four quarters and then declining percentage as we go to the second year. A lot of the cover that we have taken last year for the next four quarters were kind of significantly challenged when we saw a significant appreciation in dollar in a short time. Good news is, a lot of that has kind of got consumed and as we get into Q1 and Q2, we should exhaust all of that to almost 100% by quarter two.

So if the spot remains in the 82, 82.5 zip code, we will start seeing near zero impact of hedge losses in the books and that would mean an expansion in the bottom line from where we are today when we are taking a charge of almost INR 28 crores for the quarter. We have also consciously kept the future quarters a little less hedged; one, because of the uncertainty and more importantly, because the forward premiums have come down significantly because of significant reduction in the gap between the interest rates in India versus the interest rates in the US.

So that also gives us an ability to kind of benefit from further appreciation in dollars. So in short, two quarters that we saw losses of INR 29 crores and INR 28 crores, which should come down as we go forward and we should get closer to the spot rates as long as the spot remains in that zip code and does not depreciate significantly.

Ashwin Mehta: So Manish, in that light and given the utilization scope that we have, why are we guiding for more like flattish margins and not an improvement. Is it to kind of expand spends on the selling side of things?

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Manish Dugar: No. Ashwin, our guidance is 15.25% to 16.25%. And as you know, we are currently at 15.3%. I think it would be fair to say that we expect reported margins to go up certainly this year versus what we saw last year, driven by, one, improvement in utilization and fresher deployment and second, the gains of exchange coming in. Because the revenues declined, we were not able to benefit fully in our margins in quarter four.

So while the gross margin expanded to 27.4%, we would have expected it to expand more and some of it got eaten away because of the revenue decline impact that we had to absorb and also because the revenue drop leads to lower operating leverage because absolute expenses in S&M and G&A remains kind of constant. We saw that the G&A percentage went up. So as we go forward, when the revenue growth comes back and we start seeing that operating leverage and expansion, we feel more confident about expanding from 15.3% upwards. What that exact number will be it's difficult to say, but it should certainly be more than 15.3%.

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

Abhishek Shindadkar: Three questions if I may. The first is on the top customer. In the growth, can you just give us some color, was there any specific ramp up of project, what drove that. The second is, I wanted to get a sense on the portfolio of Blink UX, we had a great capability, but exposure to BFSI and Hi-Tech. So what you're seeing in that market from a demand standpoint would be helpful. And the third question is on the employee number. The deduction that you seen, is it largely voluntary or is there involuntary component in that as well.

Nitin Rakesh: Sure. So I think on the large customer, I mean, again, not to get into specific client commentary, I think there again is a wallet share gain play that we've talked about over the last 12 months. You can expect that from a wallet share perspective, we will continue to have very strong position there. Whether that spend continues to hold-up, if there is any fluctuation, we'll probably find out over the course of next quarter or two, but from a positioning standpoint, from a spend standpoint, we feel fairly confident that our position remains strong there.

Secondly, on Blink, I think bulk of that client base is Hi-Tech even, within Hi-tech, it's more of a FAANG group. There was some slowdown in the last couple of quarters, but we've seen in the recent few weeks aligned to what you're seeing in their earnings there actually has been a pretty decent uptick in deal closures and there is definitely visibility to continue sequential growth in that segment of the business as well. Not to mention that we've already seen significant benefits on both synergy revenue and synergy deals from that business in the last 12 months. In fact, the influence on deal wins have actually been very, very strong because the whole point was to use that as an arrowhead to drive larger deals in our existing client base and that also has happened.

Manish Dugar: Nitin, the other question was on attrition.

Nitin Rakesh: You want to take it?

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Manish Dugar: Yes, I can. So Abhishek, we had kind of tightened our recruitment and looked at utilization with a very, very rigorous and intense lens. We haven't let go anybody, we haven't had any involuntary attrition. All of what you see is a reduction because of voluntary attrition, which we kind of manage to not backfill by recruiting from outside, but by deploying people from within, a large number of which were fresher deployments.

Moderator: Thank you. Next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Thanks for the opportunity. So first question, can you give some color in terms of our exposure to regional US banks that may lead to any new client-specific issues and that is the reason we are calling out the first quarter BFS being soft and if yes, will it bottom out in the Q1 or that softness will continue beyond Q1 as well.

Nitin Rakesh: I think as it stands today, we already saw some hit on that in March. And on a run rate basis, that will definitely show up in Q1. Again things might change because that's a very fluid position, but we already gave out the fact that our total exposure is low single digits. So that should give you some sense on what the impact can be. Obviously, we're not expecting it to fall off to zero either. So definitely, we think that Q1 is probably the biggest hit there. And after that we should definitely see stabilization on a sequential basis.

Sandeep Shah: Okay, thanks and all the best.

Moderator: Thank you. The next question is from the line of Harshil Shethia from AUM Fund Advisors. Please go ahead.

Harshil Shethia: Hi sir, what is the percentage contribution of mortgage business in the current quarter, which was 8% last quarter.

Nitin Rakesh: I think I mentioned that in my remarks. It is 6% change.

Manish Dugar: 6.8%.

Moderator: Thank you. The next question is from the line of Shradha from AMSEC. Please go ahead.

Shradha: Hi, just one question on the mortgage business. So what is the mix of origination and home equity in mortgage for us. I think last quarter we had called out home equity portion might still be vulnerable even though there might be some stability in the home division part of mortgage. So what is our view on the business segment within mortgage now.

Nitin Rakesh: Shradha, you are very difficult to hear because I think there is some disturbance on your cell phone. Is the question, what is the current mix of home equity versus the rest or is the question?

Shradha: Yes. Home equity versus origination in mortgage and what is the view on the home equity portion?

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Nitin Rakesh: So I think about a third of the business continues to be non-origination, non-diligence based, so that's kind of where we are at the end of Q4. That, obviously, mix was very different two years ago where home equity was almost non-existent for us. Does that answer your question?

Shradha: Yes. I think last quarter you had indicated that the home equity portion in mortgage could be vulnerable and that home prices in the US can start cracking up. From that perspective, how do you see the home equity portion playing out now?

Nitin Rakesh: I think, Shradha, it is better to think about it as a composite. I think we talked about the fact that the bulk of the decline is behind us and we are definitely close to the bottom. The internals of the outlook, I think we've seen some impact on housing prices translating into volumes already in the last three months in the recent quarter. I think at this point, it does look like we might be able to stabilize the overall business between all the service lines. So I think I'll just leave it at that.

Moderator: Thank you. Nitin, we'll take the last question, that is the text question from the webcast, which is from Santhosh Nigam from SM Wealth. Question is on future growth and new business verticals. Is there any new technology company is inventing?

Nitin Rakesh: I think I've already answered a lot of the growth-oriented questions around outlook for the year even at the segment level. So I won't repeat that answer. I think the question on our new technology is probably in relation to all the buzz in the market around ChatGPT and AI. Mphasis has actually been one of the leaders in this space for the last few years. As early as FY '19, we've actually had our own machine learning platform and we've also incorporated earlier versions of GPT as well as GPT4 into those algorithms.

These algorithms are available for consumption on the AWS marketplace for the last four years. We have algorithms on Quantum computing as well that are already available, using quantum simulators. So I think our tech-first approach really definitely is helping and is giving us the ability to continue to craft solutions based on some of these new technologies that have now become mainstream. I think the biggest takeaway from the ChatGPT revolution is that it's now mainstream boardroom topic and that gives us the ability to actually continue to drive conversations and deals. The two primary areas where we're seeing adoption of these cutting-edge new tech areas, one is in what we call modern engineering practices and developer productivity, which is again, an opportunity for us to take more wallet share from our competitors if we are able to actually align our client's software development and engineering practices more towards using these tools.

And the second is in areas that have a significant automation element for example, contact center automation, using digital self help and chatbots, as well as in creating agent productivity using ChatGPT or large language model for which also we have a deal archetype and we'll continue to make further announcements as we expand in that segment, but we are very actively participating in those areas as well.

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Moderator: So we have one more text question that has just come in. It is from Athreya. R from iThought. Could you please talk about the M&A strategy at this time. Are we looking at anything in the near term?

Nitin Rakesh: I think difficult to answer the timeline, but I will take that question as I can answer it which is, M&A is very much on our execution path. We've constantly looked at deals, especially in the recent quarters. We have deals under consideration, we have deals under diligence and potentially as we expand our outlook given the current environment, we will also get a lot more strategic in looking at using M&A as a tool to expand our growth and diversify into new verticals and new geographies as well. So all of that is in our consideration set for FY '24 and again, hard to confirm when a deal will happen, but we are hopeful that in the current financial year, we should be able to consummate a transaction or two.

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

Nitin Rakesh: Thank you all for your time and your interest. We look forward to talking to you next quarter and we will continue to drive responsible growth. And I believe it's a long weekend, so take care and enjoy the long weekend.

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 all for joining. You may now disconnect your lines.