"Mphasis Limited Q1 FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to Mphasis Limited Q1 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Divadkar of CDR India. Thank you and over to you, sir.

Varun Divadkar: Good morning everyone and thank you for joining us on Mphasis' Q1 FY16 results conference call. We have with us today, Mr. Ganesh Ayyar – the CEO and Mr. Suryanarayanan – the CFO.

Before we begin, I would like to state that some of the statements in today's discussion maybe forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the 'Q1 FY16 results announcement release' that has been sent to you earlier. This conference call will be archived and the transcript would be made available on Mphasis' corporate website www.mphasis.com. I now invite Mr. Ganesh Ayyar to begin the proceedings of the call.

Ganesh Ayyar: Good Morning everyone. Thanks for joining the call. Before I start discussing the results of this quarter, I would like to thank the investors and analysts community for their support thus far. During the recent meeting held about a month ago in Mumbai, I had shared with you our plans and I would like to discuss our results in the context of the roadmap that I had discussed during June.

Our focus is to increase shareholder value by focusing on Direct International business, both in terms of quantity and quality of growth. Growth of our Direct International business is in focus areas. Direct International revenue saw one of the best quarters in terms of growth where revenue grew 10.7% quarter-on-quarter which translates to 7.9% quarter-on-quarter, net of rupee depreciation. This places us strongly to achieve full year revenue growth that would be above the market growth as we continue to make further sales investments. After recording one of the best years in deal wins in FY15 in Direct International, I am pleased to share that we have started FY16 on a stronger footing, signing a significant total contract value of $76 million of new business. More importantly 64% of this contract value is from Digital and GRC area which is very important as customers are investing more and more money in Digital and GRC.

In line with our objective to move away from the services that are not in sync with the growth results seen in other businesses and to focus our management bandwidth and sharpen our focus in Digital, GRC, IS and AMS portfolio and verticalized solution areas of Banking, Capital Markets and Insurance, we have signed definitive agreements to sell the India Domestic Voice BPO Business. The total consideration of the sale agreement stood at Rs.198 million. We expect to close both these transactions by the end of second quarter subject to requisite approvals.

Moving onto to HP business, revenue was down 3.1% sequentially. The decline trend seems to be continuing for the last 17-quarters and is likely to continue. We are of course working hard to see whether we can stem the decline.

With that, I now move to our overall financial and operational performance for the quarter, which has been one of the best in the last seven quarters. On a consolidated basis, net revenue increased by 4.7% sequentially on a reported basis and 2.6% net of rupee depreciation in Q1 FY16 driven by Direct business which grew 9.1% sequentially on a reported basis and 6.7% net of rupee depreciation. Direct business accounts for 71% of our revenue. Of the 71%, 64% is Direct International and remaining 7% is outside Direct International. Our operating margin increased by 20 basis points to 12.7%. As communicated earlier, we expect margin trajectory to improve going into second half of the year. Cash addition continues to be strong at Rs.1,528 million in Q1 FY16. We have maintained our DSO at 70 days.

To summarize, this has been a good quarter in terms of executing our strategic roadmap. We have exited businesses which are not sitting into our rhythm of being a next generation technology player and found better homes for our employees and customers. We continue to see strong deal win traction for us, good pipeline in the areas of focus that we have decided. We will continue with our investment in sales and marketing to ensure that our leadership bandwidth is focused in those verticals and we expect that Direct International will grow faster than the market. The focus is to generate greater value for our shareholders.

On that note, once again, I thank you for your continued interest and I would request moderator to open up the lines for question. Over to you, moderator.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We will take our first question from Priya Rohira of Axis Capital. Please go ahead.

Priya Rohira: We have been doing great in the International business. If you could give color on the deal pipeline which we have. Secondly, the outlook on Digital Risk, how has that changed, what is the current quarter contribution from Digital Risk? If you could just help us on the margin outlook post exit of the low margin Domestic business? From a selling and marketing perspective, what are the additional investments we need to do or is this optimum level? The impact of salary hikes which kick in from the following quarter?

Ganesh Ayyar: You started with the pipeline for coming quarters. We do have a good pipeline. We believe our total contract value addition as well as our revenue growth in Direct International will remain strong and the pipeline in areas of focus is seeing great traction. We are focused on four areas – GRC and Digital is getting a lot of investments. We are also seeing traction in AMS and Infrastructure Services because customers would like to modernize those and release capital and cash so they can invest in Digital and GRC areas. Your next question was relating to margins. All I would say is that our second half margins would be better than the first half margins and the improvement will not be in bits and pieces but a good trend in time to come. You would be able to see a trajectory rather than a start and stop kind of approach.

Priya Rohira: Ganesh, if I can step in here, this quarter we reported 12.7% EBIT. Had this low margin business which we have exited not been there, what would have been the EBIT?

Ganesh Ayyar: Once you remove the domestic BPO voice business, our margin profile will improve between 20 to 30 basis points. Let me move on to Digital Risk. Digital Risk saw a good growth quarter-on-quarter and a similar improvement in margin profile. Digital Risk on sequential basis grew more than 20%. It has a strong pipeline and we believe that it will continue to do well. With regards to MSI, I will let Surya answer that question. When I talk about our operating margin profile for the second half, we are talking about operating margin improvement after MSI and whatever little investment we are going to make in sales and marketing.

V. Suryanarayanan: The MSI is expected from Q3 onwards. As of now we have not firmed up the percentage increases and we will let the street know once it is firmed up.

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

Sandeep Shah: We have said that the Board has approved to issue 2.5 million RSUs. Will it be to the restricted senior management or will it be across the company? It has been treated that this would be sourced from the market, so it looks like a buyback. Within what period of time will the buyback happen and within what period of time will the vesting happen?

Ganesh Ayyar: We have a very clear roadmap for the next three-years and there are various elements of this roadmap. For example, the BPO Domestic Voice business exit was a part of that roadmap; we worked on it for about four-five months, found the right home for it and decided to exit that business. Similarly there are other elements of the roadmap that lay a foundation for the next three-years. That roadmap also includes wealth creation platform, not just for senior management but also for key personnel of the company. This entire 2.5 million is not going to be consumed tomorrow or day after; it is establishing that framework, putting it in place, rewarding, retaining and encouraging bright set of key personnel based on the performance of the company. It is not going to be sourced overnight; we are not going to award it overnight. This is a three-year journey. To bake it in your financial model, we have already shared with you how the margins are going to shape up, and we have taken everything into account including ESOP-related costs. Earlier we used to buy shares from the market and give ESOP, later we went on to issue new shares. Now, we have gone back to the old model and this will be consumed over time.

Sandeep Shah: After the approval in the AGM we will start executing this?

Ganesh Ayyar: That is correct. We would not execute by buying 2.5 million shares right away, because they are not going to be issued in one-go.

Sandeep Shah: But sir, this would be bought from the secondary market, right?

Ganesh Ayyar: That is correct.

Sandeep Shah: If I am not wrong, this would be issued at face value being a restricted stock unit.

Ganesh Ayyar: Yes, it would be issued at a face value, that is right.

Sandeep Shah: At today's price, this is almost Rs.100 crore and this could be a cost to the P&L over a period of three-years? To some extent this will also hit the P&L starting from FY17. We are saying we have already factored all these when we give our aspirations on the margin.

Ganesh Ayyar: Yes, you are absolutely right, but even if you account for that Rs.100 crore, it is based on parameters which will generate significant shareholder value. So 3-year road map is not going to be dilutive to shareholder value. That is why there is a 3-year road map.

Sandeep Shah: In terms of Digital Risk, can you give us the split now, what is the revenue in terms of origination and forensic?

V. Suryanarayanan: Origination business was around 45% and the surround apart from forensics and QC, etc., was around 55%. We had mentioned that in Digital Risk we are exploring other lines of business around origination.

Ganesh Ayyar: We want to avoid the fluctuation which we saw earlier. That is why you are seeing newer areas which Surya just mentioned.

Sandeep Shah: Are the earlier quarter deal wins leading to very high growth in last two quarters? Are most of those ramp-ups behind or do you believe that the growth momentum would be higher than the company average going forward, what is your outlook on Digital Risk?

Ganesh Ayyar: Digital Risk in our classification is a part of our Direct International and on a combined basis we are trying to achieve three objectives — First objective is to grow faster than the market as a whole. Our first quarter revenue grew 10.7% sequentially; $76 million total contract value gives us great confidence that this will grow faster than the market. Second is quality of revenue; we added $76 million total contract value in first quarter and if you go back to 2015, we added something like $270 million total contract value. Out of $270 million in FY15 roughly half came from Digital and GRC. In first quarter, out of $76 million, 64% came from Digital and GRC. The quality of revenue shows that we are winning in areas where customers are going to be investing more, which means in an expanding marketplace, which gives us second data point for our confidence. Third important element is with regards to Digital Risk. Having experienced volatility about 4-5 quarters ago where we saw tremendous growth for 4 quarters prior to that and then suddenly it fell from the cliff. What we have done now is we have created portfolio governance model and a line of sight where we are anticipating 2-3 quarters from now and taking corrective measures ahead of time. We may see some fluctuations, but our objective is to avoid such a huge fluctuation as we experienced 4-quarters ago. Digital Risk on sequential basis grew slightly more than 20% quarter-on-quarter, which is part of our overall 10.7% growth. It was a very good quarter for Digital Risk and it was a very good quarter for rest of Direct International as well. Overall, strong quarter and confident outlook for FY16.

Sandeep Shah: On the TCV wins, what do you feel were the few steps, which we are now doing correctly, which is leading to this consistent wins on the TCV side? Is this largely coming from existing set or this is largely coming from the new set of clients through hunting?

Ganesh Ayyar: 18-months ago, we brought about some changes in our go-to-market which included restructuring the organization, investing in domain experts in newer areas and refining our go-to-market in line with what we want to do. It did not happen overnight because from pipeline to wins, wins to revenue, it takes time. What you are seeing now is the investment which we have made, including in large deal process, large deal team, so that we are able to win larger deals. Conglomeration of all this is what you see today. Obviously, we are not going to be overconfident about our wins, we have changed our process of governance of go-to-market which is helping. What you will see ahead is a strong traction in total contract value both in terms of quantity and quality. It is not an overnight success, because overnight success is dangerous: the rate at which it comes, it can go again. This is a sustained effort success and our pipeline looks strong for the remaining year.

Sandeep Shah: Is this largely coming from your current large set of accounts or are these coming from your new logos?

Ganesh Ayyar: We changed our strategy on new logos as well because that was an area of weakness that we had. We are beginning to win new logos too. Obviously, a bigger portion of our TCV wins come from existing accounts, especially the strategic accounts which we have chosen. We have chosen 16 accounts and it is coming from them. We are also seeing new deal wins in new logos and we will provide more specifics at the end of Q2 when you will see that both engines are kicking in.

Sandeep Shah: On the margins, do you believe that the margin performance is in line with what you anticipated at the start of the quarter because it looks like Digital Risk has gone to a run-rate higher than when we have acquired. So there should be a margin uptick there, plus there is growth coming in the direct business. So the margin uptick of ~20 bps could have been higher than this or you believe this is what you anticipated or is there any one-time element in the margin which should not be repeated going forward?

Ganesh Ayyar: This is as per plan and it is very important to execute as per plan so I can give greater visibility and predictability to all of you. I have gone on record to say that second half will be better than first half and I stand by what I had mentioned to the street.

Sandeep Shah: You expect margin improvement in second half despite wage inflation. Is it more to do with some favorable hedges or is this on the operational front at constant currency where we are confident, from where does the confidence come?

Ganesh Ayyar: The confidence comes from operational work because we are an IT Services company and I cannot bet on currency. Currency is obviously playing a role but that is not the reason why we are confident about the margin improvement in second half. This does take into account the wage inflation.

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

Nitin Padmanabhan: If you could give us a little color on the emerging market Direct Channel. Based on the current run rate and what is going out of that revenue bucket in terms of what we have sold? And what is the end state in terms of what will be left in that portfolio?

Ganesh Ayyar: I can answer one part of the question, I cannot answer the end part because we have not achieved the complete strategic roadmap in terms of the portfolio that we want to be in. I can certainly share the revenue impact once we close the transaction of Domestic Voice BPO on how much of revenue will be reduced in our run rate. It is in the vicinity of 4% of our total company wide revenue.

Nitin Padmanabhan: With regards to margins, 20-30 basis points that you suggest is the impact for the quarter or are you saying overall once this 4% of revenues goes that would be the bump that you would get?

Ganesh Ayyar: The second statement is right.

Nitin Padmanabhan: From a margin perspective, what are the levers that we are looking at to achieve a better second half in terms of margins — is it more in terms of the remix in the portfolio or is it something else from an operational perspective, if you could just highlight that?

Ganesh Ayyar: First of all, there are a combination of levers. The margin picture profile of the deal wins that we have had is improving. Secondly there are operational levers that we have worked on which will help us. A combination of levers is at play and as a result you will see second half margins to be better than first half.

Nitin Padmanabhan: Any thoughts on overall capital allocation in terms of acquisitions or higher dividend or any such things?

Ganesh Ayyar: No, we did not have any such decisions in this quarter's board meeting. Major review takes place once in 12-months and minor review takes place once in 6-months. As of now no change in strategy and nothing to report on any inorganic or buy-back plans or extra dividend.

Moderator: Thank you. The next question is from Gaurav Rateria of Morgan Stanley. Please go ahead.

Gaurav Rateria: Ganesh, you had mentioned that in the Direct International business 34% of the business used to come from GRC and Digital, while in the new deal wins more than 50% of that is coming from those new areas. Could you please break down your growth in the Direct International business between the new emerging areas of GRC and Digital versus the traditional areas?

Ganesh Ayyar: We have not worked that number quite yet. On an overall basis for Direct International we are confident of faster than market growth and for overall company we are confident of second half margin being better than first half.

Gaurav Rateria: On your new deal wins, could you help us understand how the deal wins play out, how much is executed in the same year, how much get executed over next 12-months and beyond that? On margins, could you highlight what were the margins for Digital Risk this quarter and what kind of improvement are you factoring in your outlook for second half for Digital Risk?

Ganesh Ayyar: The challenge is we do not go specific into each of the sub-elements in terms of margins, I can share with you broadly that Digital Risk quarter-on-quarter growth in first quarter was in excess of 20% and rest of the business within Direct International saw quarter-on-quarter growth in excess of 6%. This is the revenue growth profile. When you grow, your fixed cost gets spread over and the margin profile improves and we expect that second half margin profile for overall company would be better than what you will experience in first half.

V. Suryanarayanan: Respect to your TCV, the general tenure of these deals is around 2-3-years.

Moderator: Thank you. The next question is from Abhiram Eleswarapu of BNP Paribas. Please go ahead.

Abhiram Eleswarapu: I have a question on the margins, looking into next three-years because you have a three-year strategy. You had some sort of medium-term goal for that in the past, I think you shared something like 14-18% if I remember right. What could lead to that sort of an improvement?

Ganesh Ayyar: Actually, this business is not too complex. To define it, if the water which is flowing into pond is cleaner then it helps the pond to become clean over a period of time. What we have done is, we have increased the value of what we deliver to our client and as a result we are demanding better margins. When I look at the margin profile of wins that we have had, it is better than the average margin of that business in Direct International space. That is one factor which gives me confidence. Second factor is we have operational levers that can help us to improve margins without necessarily just depending on new wins. Tools and automation is a big source of increasing the revenue per employee, as a result margin per employee as well. We have done quite a bit of work in that area. All this will contribute and I stand by what I have shared with you in June about our 3-year plan that we will go towards the EBIT profile that you have just mentioned and you will see decent quarter-by-quarter evidence that we are going towards it.

Abhiram Eleswarapu: Some of the Indian IT peers that you have, have started quantifying the percentage of revenue that they generate from Digital. I know you club in Digital and GRC because that is your focus area, but it may help from an Investor perspective to understand what proportion of revenue is just Digital. Some companies have said it is very difficult to do that, but it may still help just to compare across companies.

Ganesh Ayyar: We will attempt, but the challenge is we are injecting Digital into GRC. So do I classify it as GRC or do I classify it as Digital? We will try and bring some more clarity in time to come, because right now we are doubling down in closing some good pipeline that we have and at the same time the wins that we have to convert to revenue.

Abhiram Eleswarapu: This one is on HP side of the business. You had two parts to it — the Enterprise Services and the non-Enterprise Services — from what I understand from the past the non-Enterprise Services was not falling as much as the rest. Is that still in the picture right now?

Ganesh Ayyar: Non-Enterprise Services is not an antidote for our business with Enterprise Services. If we do not succeed in arresting the decline of Enterprise Services you will continue to experience overall HP business decline. That is where we are doubling down because going after non-Enterprise Services business as antidote has not proved to be as effective as what we expected three-years ago. I would rather double down and solve the Enterprise Services challenge. I am already doubling down on Direct International because we are seeing tremendous traction.

Moderator: Thank you. The next question is from Jai Doshi of Kotak Securities. Please go ahead.

Jai Doshi: Just a small bookkeeping question; you have reclassified some revenues in the others category, which is about 7-8% of your overall revenues. I understand about 4% of that is BPO revenue, which you have already sold out. What would be the remaining 3-3.5% — is that the remaining portion of domestic BPO?

Ganesh Ayyar: It is not domestic BPO. The remaining portion is predominantly the business where we do some very good work in application area within India and we also have the ATM business in that number.

Moderator: Thank you. The next question is from Ashwin Mehta of Nomura Securities. Please go ahead.

Jai Doshi: Ganesh, how many employees would go out from your BPO business this quarter due to the sale to HGS and Karvy? Secondly, wanted to confirm, you mentioned 4% of overall revenues goes away because of the sale, essentially around $9 million on a quarterly basis?

Ganesh Ayyar: 4% is what we have already mentioned. In terms of number of employees, we are looking at slightly north of 10,000 employees.

Jai Doshi: Secondly, how comfortable are you in terms of running at current utilizations, which appear high given that now you would possibly start to add headcount versus headcount cuts earlier. Wanted to get a sense on that since you are more confident on growth going forward?

Ganesh Ayyar: One of the models that we have worked on is revenue per employee because in the new world that becomes a major positive factor. As you introduce tools and automation your average revenue per employee has to go up, otherwise you are not doing the right type of business. Our current utilization rate is what we have operated at for almost 12-quarters now. We have gotten used to it, it is not unhealthy. Yes, it is high compared to the industry average but no, we are not going to defocus on our operational excellence.

Jai Doshi: You mentioned that margins will look up from second half onwards. Why is that progression not necessarily visible from next quarter itself, because you do not possibly have salary hikes coming in next quarter, the domestic BPO will go away, which I presume should be lower margins?

Ganesh Ayyar: No, I did not say that next quarter will not show margin improvement. I shared a band of 12-14% for first half and I hope to revise the band for second half later on upwards.

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

Jai Doshi: Product offering hyper graph, how do we plan to monetize it and have you already started seeing any monetization there?

Ganesh Ayyar: We are having discussions in pilot but please do not model it because it is not going to be a license revenue-led model. It is strengthening our position and enhancing our value to our clients, which results in greater revenue per employee. So please do not link it to the old world license sales model. We are seeing very good traction and many customers are in discussions to at least do some pilots, some of these pilots will be paid pilots, the success would lie in hyper graph enabling our roadmap for Digital being realized for our clients, not I sold 30 licenses which translated into $3 million.

Jai Doshi: Secondly, in Digital, which are the sub-segments where we are seeing good traction – whether it is Mobility or Analytics and what are the downstream opportunities – are we seeing any or it would take some more time on that?

Ganesh Ayyar: At some point we will demonstrate what we are doing in Digital because different people have different definition of Digital and many people are confused and I do not blame them. We will share with you what is going in our portfolio when we arrange for an analyst session. This call may not be sufficient for me to explain what we do. The good news is it is finding favor with our customers. That is most important.

Jai Doshi: The sales and marketing headcount has been reducing whereas as the percentage of sales expense has been increasing. Any reason for the decline in the S&M headcount?

Ganesh Ayyar: Once again, the type of people that you bring becomes more important than the quantity. What we have done is we have evolved an integrated model of customer management, where both the delivery and sales and marketing are working together. The classification you are seeing is sales and marketing. We are adding real experts in our sales and marketing team, which can generate greater value for our clients. You will see us very aggressive in our marketing campaign, which is not advertisement or generic van campaign, but specific to certain portfolio and specific to a client, you will see us investing in higher expertise within sales and marketing team. It is not going to be a headcount-driven model, it is going to be value-driven model in sales and marketing.

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

Rishi Jhunjhunwala: One question on your potential Master Service agreement with HP that is coming up for renewal in 3-months' time. Just wanted to understand, what can potentially be the upside or downside risk going into that and how are you thinking about that?

Ganesh Ayyar: Ultimately, our objective is to see whether we can stem the decline. We are working on all the models and all the models supported by financial models which are in line with our 3-year roadmap is what we have to model. If the 3-year roadmap cannot be realized by making an offer to any client, then we will refrain from making that. Our commitment to 3-year roadmap is paramount and we are going all out to see how we can stem the decline within HP. But, our 17-quarters of data extrapolation does not support the breakthrough that we are working on yet.

Rishi Jhunjhunwala: Is it fair to say that there are chances of things becoming better or getting worse from the HP side?

Ganesh Ayyar: I think the best way to describe it is to take the last 17-quarters of data and to do an extrapolation. I would not put any emotion to say it will get better or worse.

Rishi Jhunjhunwala: Secondly, the changes that you have made in terms of removing the BPO part, just wanted to understand, what other things are in pipeline…let me frame it this way, in one year's time you have HP renegotiation already taken place, you have already removed two of the BPO businesses. How do we look at the shape of the business in terms of one, from a service line standpoint and two, from a customer standpoint?

Ganesh Ayyar: One year from now you will see Direct International as our crown jewel, and it will continue to be our crown jewel. With regards to some of the strategic roadmap implementation, if I answer that very specifically it will hurt the very thing which you are trying to generate, which is shareholder value. I would not be able to answer that question because whatever we are going to implement, we want to make sure that we maximize shareholder returns.

Rishi Jhunjhunwala: On the deal wins, you have had a pretty deal win pipeline over the past 3-4 quarters. Just wanted to understand, how much of that is new business that you have generated versus renewals?

Ganesh Ayyar: We do not quote renewals in our TCV at all. All $76 million is new wins.

Srivatsan: Srivastsan here from Spark Capital. Ganesh, wanted your thoughts on a couple of areas: One is on the Infrastructure side. One of the larger practice is out there in the market but it has not been growing and broadly if I have to say how would you rank it or rate it outside of HP, is it a focus area or not?

Ganesh Ayyar: Thanks for asking that question, really an important question. Literally, our entire Infrastructure Services business was coming from HP, we made attempt one - did not succeed, we made attempt two - did not succeed and six months ago we said we are going to make an attempt three, we invested in tool fabric and there was a resolve in our mind that if this attempt fails, then probably we have to decide to focus on BPO and APPS only. But the good news is that attempt three is gaining traction. Stay tuned. After our Q2 results we will share some specifics. It is a focus area, we have invested in automation tools fabric, we have a focused sales and go-to-market team which we have invested in, we have assembled a very-very good team to go after this, not only we have a pipeline, we have some good wins.

Srivatsan: I think you had an acquisition also in this space to go after non-HP business. Would it be fair to say they did not play out as per expectations?

Ganesh Ayyar: Yes, it is a fair statement. That was part of our 1.0.

Srivatsan: Second thing was on the Insurance piece which after many quarters has seen some decent traction. Just wanted to understand source of this growth, is it Wyde coming back after a while or is it just plain vanilla traditional services in insurance which is starting to shape up well?

Ganesh Ayyar: Both are strong. Wyde is coming back as well as our services business is getting traction.

Srivatsan: On the Wyde platform there were some thoughts of making it into a platform, BPO or IP. It will be helpful if you can give us some update as to what is the plan there?

Ganesh Ayyar: That is a very insightful question. We went with billing-as-a-service model, did not get much of a traction. However, we fundamentally believe that platform-based BPO service will hold sway and we have seen it on our success in Digital Risk that it does play out. Wyde it is getting some good traction, good pipeline, good success, large deals, and we also have an exciting roadmap for Wyde as a platform, but stay tuned for more works that we will do with making Wyde as lending itself to BPO Services.

Srivatsan: Last, more an accounting question; given some of the acquisitions we have done have not necessarily played out as per plan, do you think it is time to kind of have a knock down on the goodwill number?

Ganesh Ayyar: No, we do not have any impairment as of now. We just finished an impairment testing, we have no impairment problem.

Moderator: Thank you. The next question is from Anand Rawani of Horizon Research. Please go ahead.

Anand Rawani: You have roughly Rs. 27 billion of cash. Can you please bifurcate between operational and excess cash? Why do you not distribute the excess cash to shareholders, if any? My second question is on automation, you also spoke about it. Infosys acquired an automation company called Panaya for $250 million, even Wipro is talking about reducing their employee cost by 30%. I want to know your thoughts on automation and its impact on your revenues and EBITDA? My last question on the HP business. It has been declining for quite some time and probably that could be a reason for a low valuation multiple that Mphasis gets. So why do you not consider selling it or demerging that segment to shareholders for a better shareholders return?

Ganesh Ayyar: You have given a couple of suggestions on how to use cash and what to do with HP business. I just take that as a suggestion rather than giving reaction to those suggestions. I will let Surya answer the first question which you raised and then I will come back for second question which you had.

V. Suryanarayanan: The operational cash is around $ 150 million or so. You also have some dividend payout coming up after the shareholders' approval next quarter.

Ganesh Ayyar: The suggestion which you made, we take it back to the Board as part of a strategy and we will look at what needs to be done. I cannot comment on whether we will do it or not. HP being sold will also be taken as a suggestion. On automation, you wanted my views on Mphasis or you wanted my views on Wipro and Infosys?

Anand Rawani: Overall automation in the industry, how is it panning out and the impact of that in your company, what you are doing on that line?

Ganesh Ayyar: Automation is a reality which is confronting, which customers want, which is possible, which is what we need to offer. And that is precisely what we are doing. Whether that is going to result in fewer employees? The good news is when you are a growing company as long as you have the right talent it will not result in wide scale reduction of employees. We are not anticipating any wide scale reduction in employees and we believe it has to be an integral part of what we bring to the table. We are using it in Infrastructure Services, we are bringing it in our GRC, it is also a part of our Digital offering. In every element, we have Automation. Automation, if I may, is a platform function rather than P&L function.

Moderator: Thank you. The next question is from Ashish Chopra of Motilal Oswal Securities. Please go ahead.

Ashish Chopra: It was around Digital Risk. I think the last couple of quarters have seen very significant growth where you have added close to I think around $8 million every quarter. Last quarter you did mention about very healthy ramp in the deal that you had announced a couple of quarters back. So, just wanted to know, whether that uptick that came through in this quarter was also a function of that deal continuing to ramp or would you have also won some more deals within that area which kind of kicked in the quarter?

Ganesh Ayyar: I will answer that question slightly differently. "Are we exhausting past wins or are we adding new wins" within Digital Risk. The good news is that prior wins are resulting in revenue growth and we have also won in Q1 within Digital Risk which gives us a greater line of sight for future growth. So, both have taken place.

Ashish Chopra: So the wins in Q1 would then give you the visibility of growth in the quarters to come as well?

Ganesh Ayyar: Absolutely right.

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

Dipesh Mehta: I have a couple of data-related questions; this quarter I think we suggested some restructuring cost. Can you help us understand reason for that restructuring and what is the nature? Second is we have seen some BPO headcount growth this quarter and we intend to sell domestic BPO business. So just want to understand which space we are seeing growth and how we look at business going forward? Third is about tax rate, if we adjust for tax credit mentioned in the notes, tax rate works out to be around 33%, so can you help us understand what we should factor into for FY16 and FY17?

Ganesh Ayyar: One and three questions, I will let Surya answer. Second question, as part of the roadmap we are exiting domestic voice BPO business, end of story. We are not going to get into it because it does not make sense for you to sell and get back again. Our growth and our commitment to BPO International business, modern BPO business which is platform-based, integrated BPO business which includes both traditional apps and BPO, is huge. When we go for GRC, we go with an integrated approach. In Digital space there are opportunities. We stand committed to international BPO business and we have a dedicated go-to-market team which is working on it just like for Infrastructure Services and it is important for us to win in that area.

V. Suryanarayanan: With respect to the restructuring costs, I presume that you are referring to the exceptional items which have come below the line. They relate to the provision for the proposed sale of domestic BPO business which we have signed definitive agreements for and the close has not yet happened. We are awaiting regulatory approvals.

Deepesh Mehta: Just to get some clarity, we have mentioned three items for that restructuring. Two pertain specifically to BPO transactions and third, we mention is restructuring. So restructuring also pertains to the transaction only?

V. Suryanarayanan: No, restructuring is not pertaining to the domestic BPO, it relates to a restructuring cost with respect to Digital Risk which has been factored here.

Deepesh Mehta: Can you help us understand what we are doing with Digital Risk and which expenses we are referring to?

Ganesh Ayyar: Four quarters ago we had a massive decline and we had to restructure the company including the leadership. We took a restructuring cost related to some of the leadership that we had and as we refined it, that cost percolated down or it hit us and this is a one-time cost which you would not see in future quarters.

Dipesh Mehta: This pertains to some kind of commission or bonus paid to the employees or how we should consider this?

Ganesh Ayyar: This had to do with leadership shift outs.

Dipesh Mehta: This would not be recurring now, this is over?

Ganesh Ayyar: Absolutely.

Dipesh Mehta: Tax rate?

V. Suryanarayanan: For modeling you can take 27-28%.

Dipesh Mehta: Last question is to understand the better margin profile. I think you suggested new deals are giving confidence about improvement in margin in coming quarters. If I look traditionally what we generally look at, billing rate, utilization and those kinds of metrics which gives some clue about how the margin would behave. Now, if you can help us understand, because utilization and billing rate is broadly similar for us for quite some time and it is near to optimal level if we look historical level kind of for the company. Now, if you can help us whether we see these new deals are coming at better rate which gives us confidence or we see automation will drive significant cost and that will drive margins in coming quarters?

Ganesh Ayyar: It is not one point, both are happening as we speak.

Dipesh Mehta: About revised data sheet reporting, what we include in others – Direct International we have shown and then others if I look with geography what we report, how we should understand these two metrics?

V. Suryanarayanan: Others are basically domestic India business.

Dipesh Mehta: So if I look India revenue that should be the same?

V. Suryanarayanan: Yes, it is everything where the clients are international clients that is reclassified as Direct International.

Dipesh Mehta: India let us say is Rs.145 crore this quarter and others is roughly Rs.106 crore this quarter, so what would be the gap then?

Ganesh Ayyar: Fundamentally the 7% that you see in others (Secondary Segment) consists of domestic BPO business, some apps business that we do in India and the ATM business.

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

Nirav Dalal: In the Analyst Meet, you have spoken with respect to Digital Risk that you have visibility till September end. So, what would be your new comments on that?

Ganesh Ayyar: I stand by those comments, I would not revise them yet.

Nirav Dalal: What makes you stand by that, why not revising it upwards or downwards?

Ganesh Ayyar: One month is too short to change it. I do not want to rush to give you a point of view which may not come true. We are working on many dials to go beyond September to have a greater line of sight. It is work-in progress. There are no alarms, let us put it that way.

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

Sandeep Shah: We are mentioning about automation and tools, but if you look at time and material as a percentage to revenue, it is almost 88% of the revenue. And even if we exclude HP out of that in the Direct International, the time and material could be higher. With time and material being so high, does it provide flexibility to increase automation and tool significantly? Second, I think with business growing and time and material being higher, is it fair to say that employee growth going forward would pick up rather than our earlier strategy of net addition being really muted?

Ganesh Ayyar: Observation which you made for the first point is accurate but we have a roadmap to fix that, we are not going to slow down in automation because the name of the game is to bring value to the customer. There is enough business to be secured with the customer but you are right, the climb is tough. The second part of your question is will we see employee growth? It depends on the kind of business that we are winning. We clearly want to be very mature about our employee growth so that we do not have ups and downs. But with the kind of growth that we are experiencing in the Direct space, naturally, one can expect some kind of employee growth.

Sandeep Shah: Whatever restructuring in terms of shifting of employees from HP to the non-HP, is it behind us?

Ganesh Ayyar: We do not treat employees as HP and non-HP. We look at employees as talent and HP is our largest client and we have Direct customers, depending on where the talent can be deployed, we deploy. Suppose if one of the contracts in HP comes to an end and we have won some deals in Direct side, if this talent is deployable and if talent is agreeable, then we shift them to Direct. So that process has been in place for the last 3.5-years.

Sandeep Shah: Surya, what was the net working capital for the business through Domestic Call Centre like which is 3.5-4% of the revenue as of the 30th June?

V. Suryanarayanan: It will be around Rs. 100 crore.

Sandeep Shah: So it is like the debtors minus the payables?

V. Suryanarayanan: Debtors minus creditors would have been around Rs. 60 crore.

Sandeep Shah: This would be receivable to us, it would not be transferred to Hinduja or Karvy, right?

V. Suryanarayanan: Yes.

Moderator: Thank you. Our next question is from Rishi Jhunjhunwala of Goldman Sachs. Please go ahead.

Rishi Jhunjhunwala: Just a quick couple of follow-ups. So one is for your BPO sale that will be effective from 1st of July. So the full impact will come in this quarter or it will be spilled over?

Ganesh Ayyar: Depends on regulatory approval and the timing of close. Regulatory approval is not within our control but our estimation at this point of time is that close will happen in second quarter.

Rishi Jhunjhunwala: If that happens, then the effective date will be 1st July is what you are saying?

Ganesh Ayyar: No, we cannot pre-date it.

Rishi Jhunjhunwala: So it is still pending approval. So it can only be after the approval comes through.

Ganesh Ayyar: That is right.

Rishi Jhunjhunwala: The significant decline that we are seeing in the ITO business, is it primarily driven by HP or is there any other reason there?

Ganesh Ayyar: Yes, it is. Once again, thanks for such a vibrant discussion. I clearly believe that this close partnership and interaction that we are having will help both sides where we help you to model it and give you greater visibility so that you are able to help your clients or you are able to help your own investment. We will continue to work towards it. I am excited about what we have produced in first quarter; it gives me greater confidence as the CEO of this company that we are on track to deliver our strategic roadmap. Once again thank you so much for your interest and stay connected. Bye for now.

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