



“Mphasis Limited Management Update Call”

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Moderator: Good morning, ladies and gentlemen. And thank you for joining the Mphasis Management Update call at such short notice. I am Raymond, your moderator for the day.

We have with us today Mr. Amit Dixit – Senior Managing Director, co-Head of Asia Acquisitions and Head of India for Blackstone Private Equity; and Mr. Nitin Rakesh – CEO of Mphasis.

As a reminder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Shiv Muttoo: Thank you, Raymond. Good morning, everyone. Thank you for joining us on this call today, which is organized to discuss the transactions announced by Blackstone. As announced earlier, we have with us today Nitin Rakesh – CEO, Mphasis; and Amit Dixit – co-Head of Asia Acquisitions and Head of India for Blackstone Private Equity.

Before we begin this call, a reminder that we are in a silent period. And on this call we would like to limit all discussions on the transactions announced today. A separate call will be organized to discuss Q4 financial and operating performance after the results are announced. I now invite Nitin to begin the proceedings of this call. Over to you, Nitin.

Nitin Rakesh: Thank you, Shiv. Good morning, everyone. Thank you for your participation in short notice and for your continued interest in Mphasis. On the call today I have with me Amit Dixit as well, most of you know him or know of him.

The reason we are here today, as you all know, is a press release a couple of hours ago that was issued by Blackstone. Blackstone announced that private equity funds managed by Blackstone has entered into definitive agreements to acquire a majority stake in Mphasis Limited. While Blackstone has been a majority shareholder since 2016, this is a fresh recommitment from new Blackstone funds along with new co-investors.

While both funds are managed by Blackstone, the underlying beneficial ownership of the acquiring funds is different, leading to a change in control, which triggers the open offer under the takeover code. Blackstone will commit up to US \$2.8 billion in Mphasis. Notably, Abu Dhabi Investment Authority, the Regents of University of California and other long-term co-investors will co-invest along with Blackstone.

This is a particularly gratifying and proud moment for us at Mphasis. I would like to invite Amit to talk about this transaction, and then I will make a few comments after. Amit?

Amit Dixit:

Thanks, Nitin. And the feeling is mutual, we are also very gratified and thankful to management for their outstanding contribution over the last four years. Information technology and software services has been a strong sector for value creation and wealth creation for India for the last two decades, and this story will continue. And Mphasis is backed by strong secular tailwinds, because fundamentally what is happening is global enterprises are increasingly migrating to the cloud. As we all know, in the last one year, majority of our interactions with our own colleagues or customers, employees, all have been over the cloud through WebEx or Zoom, what have you. That is the fundamental tailwind which is benefiting Mphasis.

In addition to that, the management team and Mphasis is terrific, outstanding partners to Blackstone, and they have done an outstanding job over the last 4.5 years, average experience of more than 20 years. Mphasis also has a very unique tribes-led model which has led to a very strong order backlog. As you all probably know, highest ever total contract wins in the last nine months. Mphasis is not a new company, but these are the best ever nine months we have had in the last 20 years. We are thankful for our customer support, our top 10 customers have an average tenure of 19 years. So, long-term strategic deep customers. Also, among other areas, Mphasis is particularly strong in financial services. It serves 35 out of the top 50 American banking and financial services firms. And overall, this business model affords very strong free cash flow generation, very high return on invested capital, low capital intensity. And the company's fundamental tip of the arrow is a very strong suite of cloud and digital offerings, which is what's leading to very strong revenue momentum.

So, we, as you know, Blackstone first invested in this company in 2016. Even at that time we believed that Mphasis will be 10-to-15-year growth story, not the typical four to five years. So, we are super excited that this investment enables us to confirm the value creation agenda for a long-term continuity in the management team, continuity in the board, continuity in customers, plus, obviously, we provide additional resources, capital or clients to accelerate this growth momentum. So, as Nitin mentioned, we are committing a very large amount, \$2.8 billion, to acquire a controlling stake in Mphasis. And marquee, long-term sovereign funds and pension funds, Abu Dhabi Investment Authority, the Regents of University of California, also called investing, which tells you the commitment and confidence not just Blackstone have in this company, but also sovereign funds who have don't have a fund structure they have in the value creation for the long time.

So, with that, let me just pause here and pass the microphone back to Nitin.

Nitin Rakesh:

Thanks, Amit. Continuity and acceleration is a theme that which we at Mphasis are seeing this next phase of our journey. We started this transformation partnership back in 2017 with a strong partnership between all key stakeholders, especially the management, Blackstone and our board. We have been able to see consistent execution across all key metrics and have continued to strengthen our position in key clients as well as added significant new growth engines. Our investments in building market leading capability in digital transformation through Tribes and Squads model, has borne rich dividends to both our clients, employees, as well as for the

foundation for significant acceleration, as witnessed by the deal wins in the last few quarters. We see this transition as a continuity of Blackstone's commitment and a vote of confidence in Mphasis, in its management team, and our ability to build on what we have achieved in the last few years, following Blackstone's first investment. We are also delighted that blue chip sovereigns and pension funds such as ADIA and Regents of University of California specifically committing to Mphasis through this new fund and the testimony of long-term commitment and a vote of confidence of a solid set of shareholders.

We see this investment as having several positives for us, some of which I would like to list. One, continued acceleration, as I just mentioned. The management team of Mphasis is committed and will continue to lead the organization. There is continuity of management and strategy. In other words, it is business as usual for us at Mphasis, with the growth leaning stance of the company further reinforced as we look at building on the momentum we have built in the recent quarters.

Two, expanding opportunities within the private equity channel. We will continue to find business opportunities in the Blackstone channel. In addition, we can also explore opportunities from the investee firms of co-investors, thus expanding our private equity channel. This, we believe, will provide an additional opportunity for growth.

Three, addressing investor perception of sponsor sell down. In our conversations with some of you, you have cited some investor overhang because of perception that there could be some sponsors sell down. This recommitment, we believe, should put to rest such perceptions, given the Blackstone's typical holding period is in its investment is between five and seven years.

Blackstone believes that there's a significant value that can be continued to create in Mphasis over the next five to 10 years.

On that note. Let's open it up for questions please. Operator?

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sudhir Guntupalli from ICICI Securities. Please go ahead.

Sudhir Guntupalli: I have just one question. Now the share price is around Rs. 1,760, but in just a hypothetical scenario, given the heavy market volatility, let us assume if the open offer gets completely subscribed at Rs. 1,677, then what are the legal aspects around it? Because I think then Blackstone stake will exceed 75%, right?

Nitin Rakesh: So, I will take that question. I think the takeover regulations as well as the listing regulations don't allow for the promoter state to go above 75%. So, any purchase will be capped at 75%. And whatever is the excess stake that is left above the selling points, will have to be retained by the selling points for a period of up to two years, I am not sure it is 12 or 24 months. That's the exact nature of the regulations, and we will follow that regulations to the key, as we follow through this process. So, I think that's pretty much, it's also laid out in the public announcement that was made this morning, on the exact nature and scope of how this will play out.

- Moderator:** Thank you. The next question is from the line of Abhishek Sindadkar from Elara Capital. Please go ahead.
- Abhishek Shindadkar:** Just a follow-up to the earlier question, it seems that there is a mentioned that Marble PTE may only 7% approximately, in case the entire 26% comes through. And there is also a mentioned that it will be classified as non-promoter. So, does that kind of anyway change the selling structure for the 7%? Thank you.
- Nitin Rakesh:** You actually answered your own question. Marble II PTE, which is existing promoter will be declassified as a promoter and will be reclassified as a public shareholder. So, they can retain the 7% as a public shareholder, but given the structure and underlying beneficial ownership differences, that's a completely different segment of shareholders. So, there is no time limit for them to actually sell down or hold, because they will be public shareholder beyond the open offer. Once the open offer is closed, they will be declassified as a promoter.
- Abhishek Shindadkar:** So, does that mean that, that 24 months period does not apply to that 7%?
- Nitin Rakesh:** It does not apply to the 7%. They are a public shareholder; it does not apply to the 7%.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.
- Sandeep Shah:** Just a clarity. So, in the case this 100% goes through as an open offer, there is no lock-in for the existing Blackstone Private Equity group holding which can be close to 7%, is it the right understanding?
- Nitin Rakesh:** Again, as I mentioned, once they are reclassified as a public shareholder, then whatever the norms are for public shareholders apply to the same entity.
- Sandeep Shah:** Okay. But there is no contractual lock-in for them in that scenario?
- Nitin Rakesh:** Not to my knowledge.
- Sandeep Shah:** Okay. And second, it's needless to ask but this arrangement does not change any business prospects with DXC? I agree it's not the right forum, but with this share purchase agreement, there is nothing changes in terms of business, right?
- Nitin Rakesh:** You answered your own question.
- Moderator:** Thank you. Next question is from the line of the Dipesh Mehta from Emkay Global. Please go ahead.
- Dipesh Mehta:** Just want to get a sense about the co-investment with some of the long-term investors, can you provide some detail, how the structure will be and what kind of investment they are making in

the overall transaction structure? And second question is about, whether this 75%, you said earlier also they can cross 75%, but whether intention-wise it is only 75% and that's why Marble PTE will retain some of the stake? So, that clarification will help. Thanks.

Nitin Rakesh:

So, Dipesh, I will answer second question first. I think very clearly, we are following the takeover regulations, as well as the listing regulations, both are to be followed. So, the moment there is a change in 25% or more underlying beneficial ownership, it triggers the change in control provisions and the takeover code. For which you have to make a 26% open offer minimum mandatory. However, the listing regulations do not allow any promoter to hold more than 25%. So, the new buying funds which will be classified as promoters, after this transaction, cannot control more than 75%, which is a reason why there is a theoretical possibility that Marble II PTE, which is the selling shareholder, might end up with 7% shareholding, but they will be declassified as promoters and classified as public shareholders. So, hopefully that gives you clarity on what the intention is. Intention is very clearly to follow the law and the regulations that are driving this decision and the discussion.

On your first question around the co-investors, maybe I can have Amit give us a little bit more colour on how this co-investment model works. I don't know if we will be able to give you specific details with breakdown on numbers, but at least we can give you a little bit more colour on how the co-investor model works. Amit?

Amit Dixit:

Thanks, Nitin. So, the co-investors are long-term investors. They don't have a fund structure because they are managing money on behalf of sovereign of Abu Dhabi or the pensioners of University of California, respectively. So, those are the co-investors, they will be a minority partner in the entity, which is acquiring the buying entity, Blackstone will be the majority shareholder in that entity. And we expect the co-investors, one, given their long-term orientation to provide a very long-term ownership structure in this company. And number two, these are very large investors into companies globally, and hopefully that will unlock more portfolio company business from these investors also, in addition to Blackstone.

Moderator:

Thank you. The next question is from the line of Rishit from Nomura. Please go ahead.

Rishit Parikh:

Amit, while I understand the maximum price for Marble PTE shareholders will be Rs. 1,450, right? Maybe I am missing something, but if you could provide me a little colour on how did we arrive at the price? And given it's still at a 15% discount to the current price, so will the shareholders be comfortable with that sort of discount?

Amit Dixit:

Yes. Thanks, Rishit. So, the purchasing price for the buyers is Rs. 1,452 to Rs. 1,497 per share. It is 12% to 16% premium to the 12-month average price. And it's like a 3-ish percent discount to the 6-month average price. And the open offer is at Rs. 1,677, which was in line with the market price which was closing on Friday. So, as you know, in the change of control transactions, these are negotiated prices, and that is how the price is going to work.

- Rishit Parikh:** Okay. So, typically we look at the 12-month average price.
- Amit Dixit:** 12 months average price, so it is a substantial premium.
- Rishit Parikh:** Because in the last 12 months the share price would have changed materially across the board, but that is the way to look at. Okay, perfect. Okay, I think that's all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
- Vibhor Singhal:** So, I have a question for Amit. So, Amit, we know, of course, Blackstone is a long-term investor and client as per the investor release that you have sent but at the end of the day, you are a private equity firm, so just wanted if you could provide some color on the new funds that would probably now be giving the ownership of Mphasis as to what exactly is their investment horizon period and basically what is the fund size or any specific details that you could probably share with us? This would help us as investors in Mphasis to get more visibility about the horizon of the Blackstone investment in Mphasis.
- Amit Dixit:** Yes, good question, Vibhor. See, overall, even when we first invested, we always thought this is a 10-to-15-year story, because the secular tailwind in the IT services sector are really strong. That's the reason this sector is the single largest wealth creator in India for the last 30 years. And now cloud migration, especially with this pandemic, is providing a big help to the whole sector. No pun intended, I know your firm is PhillipCapital, so this is providing a fillip to this entire sector, which is going to create another 10 years of massive revenue momentum. And that's why you are seeing the order backlog at Mphasis the best it has ever been in the last 20 years.
- Now to your specific question on our funds. See, our typical Blackstone funds raise for a period of 10 years. So, the funds which are sort of buying into it, they are also 10-year funds. So, overall, you should assume 7-to-10-year life of these funds now going forward into the future. Plus, the co-investors who are coming in, as I mentioned, they don't have a fund structure, they are sovereigns and pension funds, so they have their license infinite.
- Vibhor Singhal:** Sure. So, I can assume that the remaining life of the funds that are investing in Mphasis have a remaining life of around 10 years?
- Amit Dixit:** That's right.
- Moderator:** Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.
- Abhishek Bhandari:** So, will the board structure change or expand to accommodate the new minority shareholders, the long-term shareholders?

- Amit Dixit:** So, the current board will remain the same, that is the idea, then we will decide going forward on if we want to expand the board.
- Abhishek Bhandari:** Sure. And I think in your prepared remarks, you mentioned that the new takeover probably will give more access to private equity clients for Mphasis. So, could you help us understand how that could work? In the sense that will it be similar thing to what you helped Mphasis in your early investment by giving access to your portfolio companies? If so, what could be the inverse of that portfolio company under this new investment structure?
- Amit Dixit:** Yes. So, as you know, Blackstone manages now \$650 billion of assets globally in a variety of companies. And I do not have the number of the total IT spend, but their IT spend is in billions of dollars. And so that entire portfolio not just in the U.S., but in Europe and Asia, will be available to Mphasis. And Mphasis is the only IT services investment in the entire global Blackstone portfolio. So, it's not like we have five investments and Mphasis is one of them, in the entire global portfolio this is the only company. So, obviously, they have to compete to win the business, but they are very uniquely positioned. So, that is just Blackstone itself. In addition to Blackstone, the University of California and ADIA, these are coming in, these are again hundreds of billions of dollars of assets under management sovereigns. The universities themselves, by the way, can be big customer, forget their portfolio companies, but universities also have very large IT spend. So, I think those are the additional channels we plan to tap into. And I think the other area, which I think Nitin briefly mentioned, the company has \$400 million of cash on the balance sheet. I think that could be very strategically used for strategic M&A, because to bolster our revenue momentum. And we did two small acquisitions, if you remember, in the last four years, Stelligent and Datalytx, but we could do something chunkier this time around. So, that could be another growth factor going forward.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.
- Sandeep Shah:** Just a follow-up to the previous question, just to get a clarity, whether the addressable market within the investee company of Blackstone channel post this transaction will go up or remain more or less similar what it used to be a year as a whole?
- Amit Dixit:** It will go up, Sandeep. Because see, Blackstone is not a static pool, we are constantly buying new companies and that's why our AUM constantly increases. And the more you get into an opportunity early on and invest, the better. If a company has been in our portfolio for five years, it is hard to extract an incumbent and go into new IT business with a new company, new acquisition which we made upfront. Because in almost all our investments globally, a productivity improvement program, which is what we call it, and a part of our productivity improvement program comes from IT offshoring, it is a thesis in every single company. So, those new investments, Mphasis is uniquely well positioned to go ask.

- Moderator:** Thank you. The next question is from the line of Sumit Jain from Goldman Sachs. Please go ahead.
- Sumit Jain:** Congratulations, Nitin, for a great execution over these last four or five years. So, just continuing from the previous question in terms of finding opportunities in Blackstone portfolio companies. Can you briefly comment today what part of direct channel are the Blackstone portfolio revenues? And any long-term visibility now you have given that this fund from Blackstone has maybe seven to 10-year visibility? Can you briefly comment on the overall TAM on that part of the business?
- Nitin Rakesh:** Sumit, I think what we will do is we will give you a little bit more colour on that in the Q4 earnings and the FY 2022 earnings call. And we will also try and see if between now and then we can get a little bit more colour even on the new portfolios that we will have access to, My sense is, probably will take another quarter or so for us to give you that breakdown. But as Amit mentioned, broadly, the total investible market in the Blackstone portfolio itself has actually gone up quite significantly, given just the momentum that Blackstone has had in acquiring stakes, while the nature of some of those investments has also changed. So, we will give you a little bit more colour on this when we do the Q4 earnings call.
- Sumit Jain:** Got it, Nitin. My second question was around the scope for large deals. I mean, we have seen few large deal announcements by Mphasis over last two, three quarters. But generally, we are seeing clients in signing up these large deals want to have a visibility about the stability in promoter. So, do you think given the opportunity we have in front of us around cloud migration, digitalization, this commitment by Blackstone would further increase the scope of large deals in coming quarters?
- Nitin Rakesh:** So, I think that's a good question. Except that, given the statistic that Amit gave you that the average tenure of more than 19 years is top 10 customers, I don't think that there was a lot of concern either ways. Of course, the return last few months of speculation in media had created a little bit of questions, but I think we managed that well. So, this will definitely provide a boost and a vote of confidence from the world's largest private equity investor, will definitely give that additional comfort that is needed to construct some of these larger transactions as we go forward. But I think the first nine months of TCV momentum, despite some of these uncertainties has been a fairly strong validation in our differentiated service offerings. And what we have to offer is being appreciated. So, I think that will continue. We will continue to make sure that we stay ahead.
- Sumit Jain:** Thanks, Nitin. And maybe one question for Amit. I think, Amit, since a lot of senior managing directors of Blackstone are there on the board of several Fortune 500 and G 2000 Enterprises, I mean, what you are hearing from your colleagues in Blackstone as to in terms of COVID, how has it changed the positioning of the Indian IT industry altogether? And will we see offshoring as a secular tailwind going forward even when we return back to the pre-COVID levels maybe

one year, two years down the line in terms of travel returning back? So, what has happened or changed in terms of positioning of the industry, if you can briefly comment.

Amit Dixit:

See, a good question. As you know, we are putting our money where our mouth is, it is a massive commitment, \$3 billion into Indian IT services sector, into Mphasis. So, we have put the money where our mouth is. We think, as Blackstone globally top-down, we have identified eight themes as multi-decadal themes, I am not talking about just private equity, but I am talking about the 650 Blackstone enterprises. If you look at the topmost level across private equity real-estate, there have been eight themes which Blackstone believes are multi-decadal trends, and some of them have been accelerated by COVID. And cloud migration is one of those eight themes. So, as a firm, you will see Blackstone across the board actually doing a lot around cloud migration. So, that's our overall big picture, 100,000-foot view on this trend.

To your question, is it secular? Is it cyclical? Clearly there is a boost with the pandemic which is coming in. But having said that, this is actually secular, cloud migration did not start with COVID, cloud migration started many years before that, but COVID provided you the acceleration. It is very simple, today any enterprise cannot communicate with its customers or its employee unless it does a video conference, WebEx or Zoom or what have you, over the cloud. You don't have any of that option. So, I think that has really forced the global enterprises to rethink that what is my IT model? And I think that anyway cloud was happening, this is providing the acceleration, and it will continue. And I think this is showing in the order backlog, not just for Mphasis, you can look at the Indian IT, look at Infosys, we look at TCS, look at HCL, look at Wipro, every one of them has had probably one of the best years ever in terms of order win momentum, number one.

Number two, the other question about new deals. You have seen Mphasis do new large deals, so have other players also. So, both, I think my view is, you will see longer term digital adoption actually continue. And the trend towards larger deals will also continue and deals within Blackstone also, even what we used to do five years back now has completely changed, the size has changed by 5x. So, even we ourselves, as one client, deal sizes are materially larger.

The last point I would make is, the reason why this sector continues to hump is because of natural hedge currency. You get your revenues in US dollars and part of your cost are in local currency in India or not. And as you know, rupee has had a tendency to depreciate, it is about 2% to 2.5% for the last 75 years. India became independent, the rupee to the dollar was 1:1, today it is 1:75 after 75 years of independence. So, one year we have lost every year of independence. Every sector in India, as you know, wage inflation is a real issue. But that rupee depreciation helps you absorb the wage inflation because rupee, again, as you have seen, has gone from 73 to 75.5 just in the last two weeks. So, I think that is another aspect where it's a very unique sector. And that's why you see the sector humming for more than 20 years now. The natural hedge to currency provides, in a relatively asset-light model with low capital intensity, allows for very good free cash flow generation and very good dividend distribution, and so on and so forth.

Anyway, let me get off my soapbox. But I hope I have communicated my enthusiasm.

Sumit Jain: Thank you for that insight. And maybe one last question for maybe Nitin, I think in terms of investment into the business, Nitin, any areas in terms of geographies, service line or digital capability we may look at now, which was holding our hand maybe in the last six to 12 months, given the way the market is shifting now?

Nitin Rakesh: Again, Sumit, we will give you a little bit more colour on the Q4 earnings call. But broadly, I think we have been very focused on not only continuing to grow our existing book of clients, wallet share gains, but more importantly, adding what we call the new engines and new drivers of growth. So, I think all the investments we have made, we will continue to monitor them, expand on them where we think we need to. So, there will definitely be additional areas of investment, both on the competency side, on the vertical side and even on the geography side. We will give you a little bit more color on that as well when we do the Q4 call.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to Mr. Nitin Rakesh for closing comments.

Nitin Rakesh: Thank you, operator. Again, just in closing, we are gratified to continue our partnership with Blackstone, both as a leading investor as well as our leading client channel. We believe Blackstone's sustained strategic partnership will help the company accelerate its growth and scale new heights. Sovereign and pension funds co-investing is a testimony of long-term commitment as well and a vote of confidence of a solid set of new stakeholders. Thanks again, Amit, for joining the call. And thank you all for spending the time. And we look forward to seeing you in our next analyst call.

Amit Dixit: Absolutely, Nitin. A big thank you to you and all the management and employees of Mphasis. Also, a big thank to the investors and analysts, all of you who are on this call, thank you for covering the company and supporting the company. Also, a big thanks to Mphasis clients who have been with us for long periods of time, and an outstanding board that we have at the company. So, really a big thank you to all the stakeholders and participants in this journey. And a very, very warm welcome to our co-investors in ADIA and UC Regents. Thank you.

Nitin Rakesh: Thank you, guys.

Moderator: Thank you very much. On behalf of Mphasis Limited, that concludes the conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.