



# “Mphasis Limited Q3 FY 2021 Earnings Conference Call”

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**Moderator:** Good morning, ladies and gentlemen. Thank you for joining the Mphasis' Q3 FY 2021 Earnings Conference Call. I am Lizzan, 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, i.e., [www.mphasis.com](http://www.mphasis.com), in the Investor Section under Financial and Filing, as well as both the BSE and NSE websites. I request you to please have the presentation handy.

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

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

**Shiv Muttoo:** Thank you, Lizzan. Good morning, everyone. And thank you for joining us on Mphasis Q3 FY 2021 results conference call. We have with us today Mr. Nitin Rakesh, CEO; Mr. Manish Dugar, CFO; and Mr. Viju George, Head Investor Relations.

Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q3 FY 2021 results release that has been sent out to all of you earlier. I now invite Nitin to begin the proceedings of this call. Over to you, Nitin.

**Nitin Rakesh:** Thank you, Shiv. Good morning, everyone. Thank you for joining us on the call today. Wishing you all a very Healthy, Happy and Prosperous 2021. As we enter a new year, much has been said and written about 2020, much of what is focused on how best to forget a year like it since it brought tremendous hardship to the global communities, causing millions to suffer as well as cause havoc across economies. We continue to deal with the suffering.

And while there is light at the end of the tunnel, thanks to modern medicine and vaccinations, we are still not out of the woods. Enterprises have been laser-focused on working through their priorities and have started to look beyond, with a view to leveraging the crisis-led opportunity for transformation. As Lenin once said, "Sometimes nothing happens for decades and sometimes decades happen in weeks". That is about the most apt description for the fallout of the pandemic-driven crisis with enterprises across the world.

Human cost notwithstanding, several outcomes of the crisis on businesses were a culmination of few underlying trends that already existed in the environment. From smartphone-driven experiences, ever-expanding compute infrastructure with every device now being a computer, connected devices and so on. Hence, it is not a surprise that once we went into a remote world, these trends got accelerated, adoption went through the roof and disruption became rampant.

This is a perfect storm that enabled digital vanguards to accelerate their market position as well and spurred many enterprises who are amid this journey to accelerate their transformation road maps, as we noted early in the pandemic in one of our quarterly calls. These trends are of tremendous interest to a business like Mphasis, since we service many enterprises that are in many different stages of this digital transformation. As such, we are also now witnessing many tailwinds tied to their transformation acceleration.

With the adoption of digital technologies, technology spend remains strong. Our recent industry reports stated digital adoption is accelerating across industries for both consumers and enterprises. For example, a leading global bank added 5 million new customers on its mobile banking app in one quarter during the pandemic. E-commerce penetration in the U.S., for instance, increased by nearly 19 percentage points in the first quarter of 2020 compared to 10 percentage points increase in the previous decade.

Meanwhile, with increasing focus on remote enablement, companies are also reporting an increase in the digital skilling of their employees and are actively reviewing processes to identify opportunities for automation and digitization. We believe 2021 will see continued investments by enterprises in digital transformation. If 2020 was all about resilience and continuity of business, 2021 seems to be about clients starting to form and budget for medium to long-term plans around digital transformation.

We see opportunity around these trends broadly fitting in four buckets; customer engagement using digital channels and design, use of data in driving customer and operational analytics, adoption of infrastructure and application transformation elements using cloud, and finally, investments to transform core business operations.

We have often talked about technology tribes as a competency build-up framework, and the Mphasis agile org design of tribes and squads being a true differentiator. The strength of these tribes is not just the expertise in high-demand tech areas, but also in how multiple tribes collaborate to structure and execute on deals. Tribes function collaboratively to construct, design, propose and deliver on more complex deal archetypes, and we are witnessing increased traction in constructing such archetypes.

For example, Zero Cost Transformation archetype leverages four of our tribes: Modernization, NextGen IT Ops, DevOps and Data. Another example, our Next Gen IT Ops tribe merges our Application Management and Infra Management Services tribes to position us for larger, integrated deals.

The evolution of these tribes and the way they have come together creates higher order deal archetypes favoring increasing deal sizes. Because tribes do not operate in a rigid hierarchy but as agile tech competency streams, we believe that the easy, yet intimate collaboration enabled by the org design is a source of competitive advantage. Another interesting feature of our tribes based GTM is that it drives a high percentage of proactive pursuits in our pipeline. Our tribes are

structured for scalability through enterprise-level reference architectures, templated deal archetypes, repeatable go-to-market pitches and a standardized model design to delivery.

In just the past few quarters since the launch, our tribes-led approach is significantly contributing to our deal pipeline, with 49% increase in our deal pipeline compared to a year ago. Notably, we are seeing a rather high portion of our pipeline from pursuits having substantial offshore leverage as well. As we mentioned in the last quarter call, we have also continued to invest in expanding the tribe universe and have added two new tribes in FY 2021.

Our TCVs of deals won, driven significantly by the tribes model, is up 64% YTD FY 2021, and pipeline is up 50% Y-o-Y, despite record quarters of TCV wins in FY 2021, thereby showcasing the continued ability to organize and close large deals. We will cover this further in our TCV analysis later in the presentation to showcase the large deals won in Q3 2021.

Specialty division of Ardonagh Group, UK's largest independent insurance broker, has signed up Mphasis to transform how they engage with clients, colleagues, carriers and regulators. With a TCV of about \$50 million, the project entails digital transformation, data, automation and managing back-office operations using Next Ops, Experience, Next Gen IT Ops and Data Tribes.

Secondly, a Fortune 500 global consulting professional services firm, specializing in risk and insurance services, chose Mphasis to modernize their complex legacy platform in the health and voluntary benefits division to reduce total cost of ownership and improve overall customer experience. This is a multiyear large deal that leveraged our Modernization, IT Ops and Experience tribes as well.

One of America's premier financial services company was in their final phase of a multiyear core banking transformation. Mphasis was chosen as a strategic partner for QA and digital interface development as they implement the core banking platform.

Moving on to the revenue performance:

Direct business continues to power our growth. Growing 5.1% quarter-over-quarter and 23.7% year-over-year on a reported basis and 5.3% quarter-over-quarter and 19% year-over-year in constant currency. On three quarter YTD basis, Direct business grew 22.9% on reported basis and 16.2% in constant currency. The contribution of Direct to overall revenue stands at 85%. Our Direct revenue has crossed \$1 billion mark on a trailing 12-month basis.

The strong showing in Direct has helped us to manage the decline in the DXC. DXC revenue declined 17.9% quarter-over-quarter and 39% year-over-year on a reported basis, and declined 18.2% quarter-over-quarter and 42% year-over-year in constant currency. DXC contribution to revenue is now further reduced to 13% of revenues in the third quarter.

EBIT improved 3.2% quarter-over-quarter and 9.6% year-over-year in Q3. EBIT margin improved 30 bps quarter-over-quarter to 16.4% and is at the higher end of our articulated 15.5% to 16.5% EBIT margin band.

Specifically, I would also like to add some more color on our Direct performance. Growth is broad-based across all client segments. Market share gains and strategic alignment with new spend areas with the top 10 clients have contributed to help growth, reflecting increased depth of our relationships. This segment has collectively grown in strong double-digit Y-o-Y on a consistent basis.

Last quarter, we have referred to our maintaining and winning strategic partner status with several of our key clients post vendor consolidation. Thus, going forward, we expect continued growth from this segment as vendor consolidation gains start to accrue. Notably, we are seeing stronger growth from the lower half of our top 10 clients. Specifically, our clients ranked 6 to 10 have grown 40% in U.S. dollar terms on a TTM basis, growing ~2.5x our overall Direct revenue growth.

As our strategic clients continue to contribute to our current and near-term revenue growth in Direct, we see new client acquisition focus bearing fruit over the medium to long term. We have expanded coverage of our new client acquisition program with additional leadership bandwidth. The NCA structure now consists of five well-considered select verticals for specific focus, namely BFS, Insurance, in both of which our positioning and track record is already solid and vertical is large enough to continue to provide growth runway in the long run; Logistics, Hi-Tech and Healthcare are the other three. Each of these verticals has its respective client acquisition strategies led by dedicated sales, delivery and domain leadership. I will expand further on the Hi-Tech business shortly. Using our well-proven account management framework, we have an elaborate operating model in place to transition clients to strategic status with the client engagement structure and investments defined through the phases of the transition. As clients move through the transition phase and become strategic clients, we progressively bring the full force and scope of our engagement model in engaging with such accounts.

As mentioned in our previous calls, Europe is a focus area for us, and we are pleased with the fact that our increased sales efforts and investments in the region are yielding good results. Direct business in Europe has grown 13.5% quarter-over-quarter and 20% year-over-year this quarter, and 23% financial year-to-date in constant currency terms. Our pipeline in Europe remains strong, especially with new clients such as Ardonagh and others. We expect this region to continue to be a growth driver for us for FY 2021 and beyond.

Our growth in this quarter in Direct was broad-based across verticals as well. We continue to see strong growth momentum and positive outlook in our key focus vertical of banking and capital markets. The Direct BFS segment reported another strong quarter with growth with a 2.4% quarter-over-quarter and 30.2% year-over-year growth in constant currency terms. On a Y-o-Y basis, we believe this is best-in-class growth in that industry segment and was broad-based across

sub-segments of BCM. We continue to enjoy market share gains with our key clients. Sequential growth in BCM is even stronger if we exclude the legacy DR business.

Direct Insurance vertical grew 7% sequentially in constant currency. We have built a robust TCV and pipeline in this domain, including the large deals in Q3, and expect to convert this into revenue in the coming quarters. Our success at these large deals demonstrates the growing success of our positioning in this vertical and our penetration globally, including the U.K. This quarter has also seen sequential growth in the ITCE and Logistics & Transportation verticals within Direct, with the former growing at 56% off a small base, based on the growth in the Direct Hi-Tech segment.

In FY 2018-2019, we embarked on building new growth vectors and invested in industries outside of BFS. I am pleased to let you know that one of our bets has really paid off, and we now have a strong growth driver with the Direct sub-vertical of Hi-Tech. This sub-vertical delivers core product engineering services for companies in the following micro segments; Compute Systems, Enterprise Software, Medical Devices, Consumer Tech and Industrial Engineering. We have leveraged our decades-long expertise of working in core product development areas to open new doors and drive growth in this vertical and add to our capabilities.

Customers are seeing tremendous value in how we bring our deep tech DNA, transformation methodologies, design and engineering capabilities in their product transformation journey. We help our Hi-Tech vertical customers in their journey to transforming their product into XaaS and help to go Cloud-Native. From our conversations, customers are eager to see the interplay of engineering services DNA and deep tech expertise from our Next Gen AppDev tribe, everything as a platform tribe, cyber security as well as Experience. We see the Direct Hi-Tech vertical as a good synergistic yet countercyclical balance through our strength in other verticals with a strong tailwind for growth based on the current order book and pipeline.

Moving on to TCV wins:

Our Direct TCV wins for this quarter were at \$247 million. This represents the fourth straight quarter of \$200 million plus net new TCV, not including renewal deals. Our net new TCV is up 59% trailing 12 months over prior period and 64% higher on a financial year-to-date basis. We believe that our rising TCV trend is a testament to our improving track record in the scale and consistency of large deals.

Specifically, I would like to make two points about the TCV composition that continues to shape our deals on an ongoing basis. Firstly, there's an increasing component of large deals in this. These large deals are transformation-led and leverage our deal archetypes and tribes, as mentioned in the earlier section of the presentation. Secondly, there is a heavy New-Gen Services portion on net new TCV, thanks to the tribes, with a contribution over 70% even in Q3. Because we report our TCV on a net new basis and exclude renewals, we see a robust correlation between revenue and TCV. Thus as we find success in increasing our TCV wins, we believe that this

would commensurately translate into high revenue growth as well. Our pipeline continues to be at a record high despite healthy deal conversion and comprises of multiple large deals in motion. We talked about three such deals from Q3 earlier in the presentation.

Coming to our client metrics:

Our track record in migrating clients from one revenue bucket to the next continues to be healthy. Specifically, our conversion ratio of clients in one revenue tier to the next is 50%. Specifically, slightly more than half of our \$10 million-plus clients are \$20 million-plus clients. And the same holds true for our \$20 million-plus to \$50 million-plus and so on. We are especially pleased with the strengthening position with several top clients post vendor consolidation. We continue to believe that our wallet share gains emanate from our competency driven positioning. In this quarter, we have added one new client in the \$50 million plus category and four new clients in the \$5 million plus bucket.

On a quarter revenue run-rate annualized basis, we now have four clients in the \$100 million plus bucket in the Direct business. The average size of our large deals is also showing an increasing trend. As this chart indicates, the average large deal size on an LTM basis has more than doubled in two years. As we mentioned, our large deals are increasingly multi-tower, transformation-based and longer tenured. The growing size reflects this capability evolution as well.

Coming to the operating performance:

EBIT saw growth of 3.2% quarter-over-quarter and 9.6% year-over-year. EPS grew 8.7% quarter-over-quarter and 10.7% year-over-year in Q3 to Rs. 17.44. Our growth in Direct business offers operating leverage resulting in faster longer-term earnings growth, while continuing to provide avenues for further investments. EPS growth profile is consistent with our margin philosophy. Margin is at 16.4% in Q3, in line with our stated intent of maintaining operating margins in the 15.5% to 16.5% band as we continue to invest for growth.

Notably, we have consciously taken up our investments during the period, reflected in our increased sales and marketing spend as a percentage of our revenues. The revenue growth performance of Direct, improving trend of our TCV, profile of our large deal wins and our ability to manage the stability and breakability of our margin profile at lower volatility, further underscores the success of this philosophy. Cash generation sustained its healthy trend with net cash generation at US\$42 million and DSO at 62 days.

To summarize:

I would like to leave you with four points:

One, overall revenue growth supported by sustained strength in Direct. Direct grew 5.3% sequentially and 19% year-over-year and over 16% YTD in constant currency. Direct growth will continue to be supported by robust TCV that we have added across verticals. Direct

performance has helped mitigate the decline in DXC, the contribution of which has now reduced to 13% of revenue.

Two, multiple KPIs are moving in the right direction. Track record in winning large deals is consistently improving with US\$100 million and US\$200 million deals signed in this fiscal. The nature of our large deals is increasingly transformation-led and long tenure based. Our growth is getting broad-based, while we continue to deliver market share gains with our key clients. Client mining metrics across revenue buckets continue to improve. Our 6 to 10 clients are now growing well above average Direct revenue growth. We see strong multiyear growth in Europe as we invest for greater presence here.

Three, we are working on building visibility in the DXC channel beyond September 2021. As an update, notwithstanding the declines in the recent quarter, we reiterate the validity of the minimum revenue commitment or the MRC construct. In this quarter, we have signed an agreement to reaffirm our status as a strategic partner with DXC. This status places us well to benefit from vendor consolidation and provides us revenue visibility beyond September 2021. We have recently won a multi-year \$37 million contract, which extends well beyond September 2021, and we expect to sign more such deals going ahead, thus building visibility in this channel for the future. Our MRC agreement with DXC has certain fallback provisions in the event of a shortfall in the short term.

Finally, investing for growth by using operating leverage, steadfastly operating in our stated target operating band and in this quarter, as we hit the upper end of the band, our margin philosophy reflects continued investments across the business, funded by increased gross margins. We believe that our margin stability ensures that the revenue growth transfers into sustainable EPS and PAT growth and consistently rising free cash flow generation.

On that note, I would like to have the operator to open the line for questions.

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

**Mukul Garg:** Nitin, just wanted to get a bit of understanding on DXC. The drop this quarter was quite substantial. So, three parts to this question. First, what was the reason for the impact in Q3? Does this mean given the MRC that you may have a spurt in revenues in the near term? What is the fallback provision which you just mentioned? And, the strategic relationship which you have signed up, is it fair to assume that that's a three-year extension, which was expected and any contours that you can share with us?

**Nitin Rakesh:** Sure, Mukul. Firstly, given the tailwind that we are seeing in the overall business, we thought it was prudent for us to continue to work towards building a portfolio, both from a concentration perspective as well as from a profitability perspective that actually suited our longer-term aspiration. So while we came in below the expected backstop number that we talked about, there



is still about a three quarter period where we can have some catch up. And I think it's premature for me to say whether we will see a spurt or no, but definitely we are in the zip code of stability, if I can kind of call it that.

Secondly, you asked about the fallback provisions. We will give you more details in case those provisions get triggered because we still have three quarters to go, as I said. But broadly, the construct was that in case there is a shortfall in revenue, there will be some provision that will kick in to protect our P&L.

Thirdly, there was no renewal required per se because the MSA is valid for actually 11 years. We have talked about that earlier as well. The only thing that was a five-year construct was the MRC. So as such, what we have really done is we reaffirmed our status. So we are in the mix for their wallet share as they continue to think about consolidating their partners. And that's what we have signed in the recent quarter. And what that definitely does is, it gives us visibility into not just the existing revenue, but also new revenue that we are signing that goes past September 2021. So hopefully, that gives you answer to the three questions.

**Mukul Garg:**

Right. So just to follow-up on that visibility, is it fair to assume that that visibility means that the quarterly revenue stability will remain around current levels? Or that's a bit premature to comment?

**Nitin Rakesh:**

It's premature to comment Mukul because, again, frankly, as we get away from MRC construct, there is no reason for us to give you specific guidance on a client, right? We don't really typically do that for other clients either. So, my request will be to continue to run as we get into the last few months, a couple of quarters of the MRC construct, let's start thinking about this as another client relationship that will continue to have within the portfolio. But I think clearly, the zip code seems right, as I mentioned, from a level of revenue perspective. Obviously, there will be some puts and takes and ups and downs on our quarter-over-quarter basis. But I do think we have certain stability that we can predict in the near to medium-term.

**Mukul Garg:**

Understood. I think that's all for my side. Just one follow-up, if I can ask. Given that there are concerns on interest rate increase in U.S., if you can just offer some perspective on DR?

**Nitin Rakesh:**

DR business saw volume uptick, I would say, in the first half of the year. In the very recent months, we have seen volumes in a way kind of stabilize and maybe taper off as well. So while we don't think that there are headwinds per se, but we are kind of hitting a level where we can see some sustainability of the volumes. But definitely, this seems to be a neutral environment right now from a volume perspective. So, I think the very short-term continues to look like it will be stable. Clearly, the growth in Direct ex-DXC has been higher, ex-DR has been higher as well. So it's a good place to be in that business because we definitely use that time to consolidate our position with clients, and we gained from the tailwinds as they appeared. But right now, we seem to be in the neutral zone.

- Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.
- Nitin Padmanabhan:** My question was around margins. I think you did mention that we are at the higher end of the band. I just wanted your thoughts on how we should think about it. And considering that DXC is coming off pretty sharply, you do have incremental margins available. So just wanted your thoughts around how you are thinking about margins and how we should think about it going forward.
- Nitin Rakesh:** Sure, Nitin. I will give you a couple of inputs, and maybe Manish can add to those. So clearly, as we stated over the last two or three quarters, we are being very deliberate about the fact that we want to leverage this time period to accelerate growth in the Direct business. From that perspective, we have actually upped our investment across the board from increased sales. And you can see that in our sales expenses. We have actually maintained utilization, we have stayed away from the temptation of increasing utilization and taking those gains in the P&L because we need that flexibility from a supply chain perspective because we signed many large deals.
- Thirdly, we have also invested in building competency, both in front of the customer as well as in our tribes. And finally, we have also done one acquisition this quarter as you see. So, I think while there is an upward bias to the margin purely based on the operating leverage as well as the business mix change, we also think that, that bias will continue because we are actually starting to see higher demand for offshore services. If you look at our pipeline as well as our current quarter, that trend is very, very firmly in place as well. So the right way to think about it is stable with an upward bias because we are accelerating investments to favor faster growth. And as we kind of get through the next quarter or so, we will give you a little bit more guidance on FY 2022.
- Nitin Padmanabhan:** Sure. Just one more, if I may. On the deal wins, the large deal wins that we have been winning versus the earlier wins that we have had, are the tenures longer than the usual three years that we have seen in the past? And is there any difference in the constructs that we have today?
- Nitin Rakesh:** Yes, Nitin. Again, if you refer to the earlier part of my presentation and as you get the transcripts you will be able to correlate that with the presentation. We have definitely seen larger deals, we have seen multi-tower, i.e., integrated deals that cut across run and change, that cut across apps, transformation to cloud, infra movement to cloud. And we have also seen deals that run across ops and tech. So, I think the deal archetypes that I talked about in the initial part of the presentation, give you some examples of those kind of those five, six different types of deals that are driving large deals. TCV. Tenure is another reason why the deal sizes have gone up as well. We are now signing deals even in the zip code of five years. In fact, we find one deal that is actually even 10 years. And I think we will see more of those as well as we go forward because these transformation programs require some heavy lifting upfront. And that's where clients need the most help. And then, of course, they give you the tenure for you to be able to monetize the investment we are making in some of those constructs and the IP assets that they are bringing to

the table as well. So it's a combination of both. Scope is bigger, bundling of multiple towers and tribes into one, and finally tenure and the nature of work.

**Nitin Padmanabhan:** Sure. Just one clarification, if I may. Is it possible to give the average tenure on the wins that we have had because it really helps on the correlation to revenue?

**Nitin Rakesh:** I don't have that number handy. Maybe what we will do is, as we either come back for the next quarter call or we will include that in the release documents, it's available on the website. Because we have given you the average size this quarter, I think that is another new information that we haven't shared with you before. If you look at Slide 10 of the presentation, we are showing the average size as it has changed over the last 3 years.

**Moderator:** Thank you. The next question is from the line of Yogesh Aggarwal from HSBC. Please go ahead.

**Yogesh Aggarwal:** Nitin, Manish, I just want to go back on margins, actually. So from an outside view, almost every company has reported around 300 basis point margin expansion from last year. So, you are saying all that is invested back and it's quite deliberate, and therefore, going forward, as your travel, other costs normalize, will you be able to bring that investment down again to keep the margins stable?

**Nitin Rakesh:** Sure. Manish, if you want to take the structural versus short-term investments.

**Manish Dugar:** Yes, absolutely. So Yogesh, if you look at the reported numbers, some bit of expansion has been reflected in our numbers as well, whether it is in gross margin or at an EBIT level. And investments, like we discussed last quarter, are primarily in two categories. There are some savings and cost take outs that we have, which are one-time in nature, which may kind of go away as the pandemic-related savings come down. And then there are some structural savings, which are long-term in nature. So, when we make investments and we make decisions around where to invest and what to invest, they are in those two buckets, which is where the investments are one-time in nature and where the investments are long-term structural. So, the way we try to manage the profitability is that we are not using short-term savings for long-term investment, like you would do typically in a treasury operation, right? So, the flexibility to amp up and down the investments is in alignment with the savings nature. And hence, there is a reasonable degree of confidence that we should be able to maintain EBIT in this range with an upward bias, irrespective of how the pandemic plays out.

**Nitin Rakesh:** To give you more color, given that we are not really building products and platforms and capitalizing the investment, most of our investments are in the nature of OPEX anyways. So, we can tune up or tune down the R&D investment or the competency investment. We can definitely re-allocate resources as we need into billable projects, for example. So, that's a good example of the structural versus shorter-term investments that Manish is talking about.

- Yogesh Aggarwal:** Right, right. Great. That makes sense. Just one more follow-up, Nitin, in terms of demand, it's been really strong. So, are you seeing some pricing power coming back for you guys, for the industry in terms of like-to-like improvement in billing rates?
- Nitin Rakesh:** Yes. So, I will tell you about us, Yogesh, I mean, it's a little bit harder for us to talk at the industry level per se. But we went through a phase in the, I would say, middle part of the last calendar year where because of uncertainty there was discretionary spend cuts and some pressure. But, I would say, over the last couple of quarters the focus for clients has been more around finding the right partner for really leveraging what they need done from a transformation standpoint. And given that 80% plus of our business actually is originated proactively, we are not really, at this point in time, seeing significant pricing pressure. If anything, I think the proactive nature of the deals gives us the ability to price right. Having said that, there is always opportunity for us to improve our pricing power and pricing leverage. But especially as the pipeline has shifted towards in favor of offshore, I think some of that will come into play automatically as well. So, I would say, stable environment from a pricing standpoint, some upward bias, given the individual client situation, but broadly stable, and of course, demand continues to be robust.
- Moderator:** Thank you. We will move on to the next question that is from the line of Dipesh from Emkay Global. Please go ahead.
- Dipesh Mehta:** Thanks for the opportunity and very strong execution, particularly on Direct side. A couple of questions. Firstly, can you help us provide some detail about the acquisition Datalytx, which we have done? So how many skilled employees have we acquired? What is the size and scale? So, if you can provide that, and how it fits to our overall scheme? So maybe you can answer it, and then I can follow-up.
- Nitin Rakesh:** Yes. So we gave out those details when we actually announced the acquisition. I think GBP13.5 million with very clear focus on data engineering and data modernization, primarily on Snowflake and Talend platforms. It brought to us, I would say, significant number, under 100, but significant number of qualified engineers, certified, and of course, with a strong track record of actually delivering solutions. It also brought to us certain IP assets that will become strong complement to the IPs that we have built as we take clients on the data journey. This fits well within our data tribe. And in many cases, I think the Snowflake partnership is of value and interest to us as well. They are the largest U.K. partner for Snowflake competency. So multiple boxes got ticked with this acquisition. We are right now in the early stages of integration, but so far, everything is going well, and we continue to expand the set of offerings to both our clients as well as reverse the process with clients we acquired with them as well.
- Dipesh Mehta:** And what would be their run rate now from revenue run rate perspective?
- Nitin Rakesh:** I don't think we actually gave out that number, but it was less than 0.5% of our overall revenue. So it's really a small business from a revenue standpoint, but really the competency was very deep.

- Dipesh Mehta:** Understood. Second question is about, do we have any change in hedging policy? Because our business is showing significant traction, but if look at outstanding hedging, it is down. So if you can provide whether any changes and how one would understand?
- Manish Dugar:** So I can take that, Nitin. The hedging policy has been and continues to be 70% to 100% of coverage for the next four quarters. And then the subsequent quarters between 60%, 70% and 80%. Given the movement in currency, the strengthening of rupee, we have reduced coverage that we would take tactically, but there is no change from a strategic perspective in terms of the hedge. And we are reasonably well covered for the next four quarters to give us enough time to wait and look at how the currency moves and then dial up the hedge again.
- Dipesh Mehta:** Understand. And last two from my side. First, about the salary and attrition related. How, Nitin, you expect that to play out? And what we have planned from salary perspective? And second question is our other segment is showing good traction for the last two quarters, particularly India ATM business. And so how do you expect that trajectory to o?
- Nitin Rakesh:** So on wage hikes, so we talked about it over the last three or four quarters, we moved away from annual hikes and we linked the wage hikes to our Talent Next program and up-skilling. So as employees continue to go up the value chain with their skills, we continue to kind of effect changes in both increments and promotions. So, that's been a very consistent process. It doesn't bunch up everything for one period or one quarter, but effectively smoothens it out as well as drives the right up-skilling behavior as well. So, we have been consistently doing that, and we have been doing that through the last three quarters of this quarter as well, this year as well, and we will continue to do it over the remainder of the financial year.
- On attrition, I think so far nothing to call out. It's been fairly stable. Of course, as demand picks up, we do expect that we will have to continue to watch very closely. So anyway, so at this point in time, nothing to call out on that front either. Sorry, can you repeat your last question, please?
- Dipesh Mehta:** Yes. Other segment is showing some uptick on last two quarters. So India ATM business, if you can provide some perspective.
- Nitin Rakesh:** Yes. Direct Others is really, to us it's a business that will stay on the balance sheet, but not really focused on it because it is kind of, in a way, goes up and down with the volumes. Nothing specifically to call a on that segment, honestly, because it's not a strategic business for us.
- Moderator:** Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.
- Manik Taneja:** So, Nitin, basically, what we have seen is that we have done well at an overall Direct business growth level but wanted to get some insights, especially when I look at the revenue split across service lines. So, what we have been seeing in the last few quarters is that BPM essentially has driven bulk of the incremental revenue addition. So, I just wanted to understand how much of it

is linked to the DR business and how much of it essentially relates to the core business? Thank you.

**Nitin Rakesh:**

Yes. What is happening is, since most of the DXC business was non-BPS, bulk of the decline is actually hitting the growth in other business lines. As I mentioned, I think the legacy DR business continues, while it's robust but not all of the BPS is actually sitting there. We have a pretty healthy BPS business that is bundled deals that we sell to our Direct clients, and we have been doing it for over 20 years, and we have also seen a resurgence in growth in that business.

So, from a guidance perspective, I think some of that was linked definitely to the declines we saw outside the Direct business. We also think that we probably have peaked in that business as we speak. We expect the BPS contribution to be in the band of 20% to 25% on a sustainable basis. But it's definitely a business that gives us great balance, both from a leverage perspective as well as from the perspective of long-term nature and the annuity nature of the business as well. So there will be a complement of that. But we probably have peaked in that given just the dynamics of the customer concentration that we just went through.

**Manik Taneja:**

Sure. And if I may chip in with one more. Just wanted to get your thoughts on the possibility of capabilities-based pricing emerging for the Indian tech as the customers essentially get much more acceptable work executed from anywhere. And the typical location-based pricing, essentially the construct around the location-based pricing is also reduced. So just wanted to get your thoughts here.

**Nitin Rakesh:**

Yes. Again, early days, also at least in the U.S. and Europe we are still in an abnormal situation with the lockdown. So I think as we recover and we arrive at a long-term mix of remote and on-prem, we will probably get a better sense. But let me assure you, this is a very sophisticated market from a buyer perspective. And there wouldn't be any arbitrage left because these clients give you the flexibility to pay for skill and work remote, there will definitely be some put and take that will come into play as we go through those negotiations. I think the thing that we are definitely seeing, though, is there is willingness on the client side to look at outcome-based deals, even on non-run, they are not just looking at contracting for T&M, but they are happy to contract for capacity or constructs that align certain outcomes. So that willingness has definitely improved as clients have looked at partnering with providers that can actually accelerate that movement and align their incentives to the right outcome.

**Moderator:**

We will move on to the next question that is from the line of Harish Kumar Gupta, an investor. Please go ahead. As there is no response from the current participant, we will move on to next that is from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:**

My question is a little bit more theoretical in nature. But from the last 12 months perspective, we have seen DXC revenues almost falling or becoming half of where they were. And therefore, my assessment was that you could not improve your utilization and offshoring to that extent because our perception was DXC is more offshore centric and allows you to have a better utilization and

this time resources are released. Coming to the next 12 months, do you think your margin band can actually change, given that now DXC contribution is 13% so the hit on the consolidated number will not be that large in any way?

**Nitin Rakesh:**

Since you asked me a theoretical question, I will give you a theoretical answer. In theory, what you are saying is right, but keep in mind that there is also the constraint of not having the ability to get people to travel, and whatever we are doing we are doing with local supply chains. But having said that, I don't think the utilization number was dependent only on one business because we definitely have growth in other side of the business that can consume part of that release of people who come on the bench. So it's more to do with our visibility and view on what we need to do to convert sold TCV to revenue the fastest. And that's why if you see the last two quarters, our execution on that has been really, really robust because we really wanted to monetize, from the point we sell the TCV, we should very, very quickly be able to convert that to revenue. And that's why we maintained utilization in that band of 80-odd percent, because that's the flexibility we need right now, especially given the supply chain constraints of travel. So, we have had to maintain local, in many cases, even hyperlocal sets of people because we knew that we are going to ramp up those folks as we go forward. So that's what's more driving the utilization versus just the decline. Coming to your question about...

**Mohit Jain:**

85% is not that we are getting back to, is it?

**Nitin Rakesh:**

It doesn't mean that we won't get back into it, but there are multiple variables that go into the utilization number, forecasted demand, pipeline, your current bench, your ratio of freshers versus the rest of the pyramid, and finally, your expectation for growth going forward as well. So, I think it can definitely go back higher, and that's the flexibility that Manish was talking about in making those decisions on an operating level basis, actually almost every month, we make decisions on whether we should ramp up the hiring, ramp down the hiring, increase utilization. So those are calls that are made by the operating teams almost on a daily basis, actually. Going back to your question about the margin band, I think it's a little early for us to...

**Mohit Jain:**

Sir, sorry to interrupt. In the context of offshoring, likely to go up, as you mentioned in the opening remarks?

**Nitin Rakesh:**

Yes, yes. Sorry, in that context, actually, our onshore utilization anyway is very high, so there is very little flexibility with onshore. Most of the utilization play really happens offshore.

**Mohit Jain:**

Yes, sir. Offshore proportion of work, the offshore delivery will have positive bias?

**Nitin Rakesh:**

Offshore delivery will have a positive bias on the margin, not on the utilization.

**Mohit Jain:**

No, no, on utilization, I got my answer. I was referring to your margin band, because offshoring is the second factor which can benefit you.

- Nitin Rakesh:** Yes, I was coming to margin. We already said that there is an upward bias to the margin even in the current band. And the reasons for those are multiple, including offshoring, it's not just the only reason. So from that perspective there is definitely an upward trajectory in the bias. As we get to FY 2022, we will give you a new band that we can guide towards.
- Moderator:** Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.
- Abhishek Shindadkar:** Congrats on a great execution. Nitin, just wanted to understand a little deeper on your comments on digital banking. So do you believe that the uptick in BFS could surprise positively in CY 2021? And from a perspective that this is more an increase in pie versus repurposing of spends from one bucket to another, your perspective would be helpful. Thank you.
- Nitin Rakesh:** I think that's a very astute question because definitely this is an increase in the pie because we are now actually going after segments that expand the universe in which we played, primarily led with tech. So if our Next Ops tribe is a culmination of enterprise automation, combined with things like process optimization as well as workflow. So, I think as you start thinking about applying technology to a broader set, especially with AI/ML and enterprise automation capabilities, we are definitely seeing bundling of new shares of wallet. And I mentioned this in my remarks as well that as we looked at even our top 10 clients, we have opened up new pockets of spend that we were not really focused on or targeting earlier, and neither was some of our peer group. So the reason I said that we probably will operate in a band where BPS growth will continue, but it will probably stabilize from a share perspective, is because we do expect that as some of the other headwinds go behind us, we will kind of catch up in growth vis-a-vis Apps and IMS business as well.
- Abhishek Shindadkar:** And if I can just add a follow-up, nothing specific to you, but from the commentary that we have heard until now, it seems that market share gain is a broad commentary. Can you help us understand who are the losers in this space without kind of articulating any specific names, but who's kind of losing in this entire game?
- Nitin Rakesh:** It's hard to tell you who without taking the names, but I honestly, clearly can't take the names either. But I will give you a broad thematic construct that started many years ago. Actually, it's a very strong validation of the business model that our industry, especially India-centric providers have built up. I think the value migration away from global majors to India-centric providers started in 2000/2001-time frame, actually continues to date. So there is definitely a movement of wallet share towards this segment. And within this segment, of course, there is differentiation because there are size players, there are specialized capability players, there are players who combine both those competencies with the high-impact ability to scale where needed, that's where we believe we fit in. So, I think this broad value migration towards these India-centric providers continues to date.



And of course, it's not hard to see where that migration is coming from. I think there are a number of firms in our industry that obviously have not seen the level of growth that our industry has seen in terms of the India-centric providers as well. So, I think that's, I would say, a very broad construct. Also, keep in mind, at least from our perspective, we run a very tight portfolio of clients. We are not spread out very thin. So, from a standpoint of our top 30 clients really matter to us. And of course, we have a number of other clients and the hunting business as well. But I think everybody obviously cannot win in the same customer, but the market is big enough for, at least at an industry level, for many players to win because there are other players that we don't compete against.

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

**Harshil Shethia:** Sir, can you say that we can deliver a double-digit growth in CC terms for CY 2021?

**Nitin Rakesh:** Again, we don't run the business on a calendar year basis, we are still in the fourth quarter of FY 2021. So, as I mentioned, as we get into FY 2022, we will give you a little bit more color on how that is likely to pan out. Except that I will leave you with two or three things to think about. Given that we provide net new TCV wins, which means we don't include renewals, we have given you the correlation between TCV wins and revenue growth. So TCV win is the biggest key indicator for sustainability of revenue growth. Second, we have also talked about the health of the pipeline and the fact that we are still sitting at a record pipeline, which happens to be 50% higher than the pipeline that we had a year ago. So, those are two leading indicators that should give you a sense on the longevity and the sustainability of revenue growth.

**Harshil Shethia:** So absolutely, our pipeline has been fabulous in the past three quarters, so congratulations on that. But looking at the pipeline, we definitely feel that we can deliver. Excluding the DXC revenues, I think, from this quarter itself, we are up by around 17-odd percent if I am not wrong?

**Nitin Rakesh:** Yes. The Direct business this quarter delivered 19% growth Y-o-Y. So that's an acceleration from the previous two quarters as well. Just on a financial year-to-date basis, we are growing that business over 16%. And it's all organic, so that should give you a sense of the serious acceleration that can come through with pipeline expansion and TCV wins.

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

**Rahul Jain:** So firstly, we have done so well exceptionally in the Direct account in all operating parameters, but some of these differentiated capabilities on talent and technology is not helping us stabilize our revenue stream from DXC. Is this entirely due to weak client business situation? Or there are some misses at our end that we might have identified?

**Nitin Rakesh:** Yes. I think we are comparing apples-to-oranges, as I was mentioning, there are different dynamics in different channels. I don't think it's a straight correlation between what works in one will work in the other. So there are certain nuances that come into play when you actually have

a channel approach versus a direct approach. And that is probably a bigger reason. And of course, keeping in mind the reality of those nuances, and the fact that we made certain conscious calls on how we want to strengthen our portfolio of clients and mix of business for the long-term, we have kind of driven the approach that we have given. But I think it's also fair to say that we do believe there is a potential long-term in the relationship, and we will continue to work towards making sure that we not only stay in the mix, but we earn their trust and find ways to stay relevant to them longer term. And that's exactly the way we panned it out over the last few quarters.

**Rahul Jain:** Right, right. And secondly, from the historical cost that we are saving probably, what all these costs are probably sustainable beyond pandemic, post-pandemic kind of an environment on specific factors like deal pursue travels, offshore leverage, both in terms of better productivity in offshore and delivery cost and on-site factors?

**Nitin Rakesh:** Yes. As Manish mentioned earlier, there are certain short-term operating levers, which are really cost savings, and there are certain structured investments. I gave some examples of those as well. So, we are fairly aware of which dials to push when it comes to optimizing the shorter-term cost. Because, as I mentioned, keep in mind that a lot of our investments, whether in sales or in capability buildup, are all operating in nature. So, we can very easily dial them back by repurposing some of those investments. So we will continue to make those calls and balance those. Go ahead Manish.

**Manish Dugar:** Yes. Just to add to what Nitin said, I think instead of trying to predict what the future business model will be and whether we will have x percentage working from home or y percentage working from office, and hence, planning our costs, we have chosen to create scenarios and flexibility in our investing model so that as things progress, we can tweak it and make sure that we benefit from upsides through investing for growth. And in case there are some savings which go away, we can still maintain the margins in the range that we have guided by dialing down the investments which are short-term, or which are investments that can be dialed up.

**Rahul Jain:** Right. So yes, I mean, the whole point is that is there a good possibility to manage the entire reverse trend, right? Right now, probably lower attrition leading to lower training costs, lower hiring costs and lesser pricing pressure environment. All these things are coming together, but probably when all of it reverse the other way, will that be a much more balanced act then?

**Manish Dugar:** No. So, the assumption that everything is coming lower is not right. Like you, yourself mentioned, there are some which probably will remain for long-term and there are some which may not, both from cost and investment perspective. So, it's not that everything is good and very positive today and everything will become bad tomorrow. And at the same time, rather it is more important to figure out the model which can give us the flexibility rather than trying to predict what will happen in the future.

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

- Sandeep Shah:** So the question is in terms of the DXC. Looking at the pace of the decline in the last three quarters, is any analysis being done on the nature of decline? Is it more to do with the issues with DXC in terms of their own wallet share? Or is it more to do with acceleration through higher in-sourcing as a whole? If nature has not changed, what makes us to give a confidence that there could be some stability going forward?
- Nitin Rakesh:** I will refrain from commenting on anything that pertains to somebody else's business. All I can tell you is, there is definitely visibility based on which I am giving you a guidance on the fact that we do have a sense of stability emerging. Secondly, I think there are multiple priorities that each company will drive towards, and how we align with those priorities is the best way we can still stay relevant in that client base. And I think that's what we have done over the last two or three quarters. Thirdly, there were certain conscious calls that we did take to align our portfolio to our desired state of portfolio mix as well as profitability, and that has also contributed to some of the trends that you referred to. I think it is fair to say that we have used the growth and the tailwind in the direct business to take certain actions that we think will align us for the long-term.
- Sandeep Shah:** Okay. Fair enough. Just, Nitin, wanted to understand the sense of stability will even prevail after the MRC expiry after September 2021? And what is the nature of the new agreement which you spoke about in the opening remarks with the DXC as a whole? As you have said, the earlier MSA is valid for 11 years, so what is this new agreement all about?
- Nitin Rakesh:** Yes, the MSA is valid, but we have to also make sure that we continue to be strategic in their vendor list so we can gain from wallet share. That's what this agreement is all about. And, as I mentioned, we have visibility to revenues going past September 2021, including the new deals that we talked about. So, from that perspective, we do believe that we will have visibility and renewal. As deals continue to come up for renewal, we do believe that we will have visibility going past September 2021. Beyond that, as we get closer to the time frame, we will continue to see give you added visibility. And again, I will just summarize by saying the reason I am talking about emerging stability and the fact that we do have certain actions that have initiated from our end and of course in partnership, we are kind of referring to the current state of our outlook.
- Sandeep Shah:** Okay. Fair enough. Just last two questions. You earlier alluded that more growth in the BPO versus consistent decline in the application is more to link with the DXC decline. Is it the right way of looking at it?
- Nitin Rakesh:** Partially, yes. Both, there is growth in integrated deals that is driving the BPS growth, and of course, the declines have offset the other growth.
- Sandeep Shah:** Okay. And Nitin, just some color in terms of Digital Risk. What percentage of the business would have now become non-correlated with the interest rate movement? Is it still very low percentage or it has now gone to almost half-half in terms of sensitivity to interest rate may not be that big for the business as a whole?

**Nitin Rakesh:** Yes. I think I will refrain from giving you further breakup. All I can tell you is that we do believe that we have created a pretty significant diversification in that business across multiple service lines. And if anything, we have used the last three of four quarters to add those service lines to our mix as well. And we do believe that we do have a fairly good idea of how we blend countercyclical businesses in there as well.

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

**Ashwin Mehta:** Nitin, you initially, in your remarks, mentioned about the new client acquisition strategy. Would be good to hear from you in terms of what are we exactly doing to, say, expand upon the performance that we have seen, which has been very strong in the top 10 accounts for us, to say the next 20 or next 40 accounts? And in particular, anything that we have kind of put in place to kind of get that part of the business going?

**Nitin Rakesh:** So, Ashwin, firstly, if you look at the revenue performance chart that we presented, we are not saying that the new client business is not growing. In fact, actually, if anything, it has grown 60% CAGR, of course, from a small base in the last three years. What we are really saying is that since we have opened a number of these new logos and we are now transitioning them into, we have a well-defined framework I talked about that, which kind of takes an account through multiple stages so we can actually start calling it a strategic account. That requires investment. That requires investment in account coverage, solutioning and architecture folks as well as, of course, delivery leadership. So, I think some of the investment that I was referring to goes in there. But we have also expanded just pure sales coverage because we think that we need to do justice to these accounts that we have opened. We need to actually make those investments across those four or five sub-domains of verticals that I talked about. So it's a well-thought-through multi-stage process to take an account.

And by the way, the fact that we are talking about growth in top 10 accounts also means that these are not the same 10 accounts that we had five years ago or three years ago, because as accounts grow they get into the top 10, right? So that itself is a testimony to the fact that we have actually opened and created new growth drivers, both from a vertical perspective and from an account perspective. We gave you an example of the Hi-Tech sub-vertical, which is a great testament to how we created these new growth drivers. And of course, there will be clients in that sub-vertical that will now show up in a top 10, too. So, I don't want to leave you with the perception that it's the same set of 10 accounts. It's a much broader group of accounts that we are now seeing growth from. Of course, the top 10 names will depend on the TTM performance of those accounts. But we have added new drivers of growth, both from a new client perspective as well as from a new geography perspective.

**Ashwin Mehta:** Okay. And just one more question. How are we thinking on payouts beyond our stated band of 50% of profitability, given that we are running at cash of almost \$365 million? And our acquisitions have been largely capability-based tuck-in acquisitions with smaller outflows?

**Nitin Rakesh:** Yes. I think at this point, there is nothing to call out on that, Ashwin. As the Board deliberates on use of cash, we will definitely update you. We took a call earlier in the year given the pandemic situation that we will keep cash on the balance sheet, given the uncertainty and the potential opportunities that would have come up for use of cash. But at this point in time, nothing else to call out.

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

**Nitin Rakesh:** Thank you all for joining us today. As you are aware, we have been relentlessly preparing and investing for multiple transformation programs. And our customer obsession and creating customer relationships never failed. Clients appreciate our deep tech mindset solution skills, transformation approach and above all, a client-centric org design, that provides nimbleness and flexibility. That's the reason we have been able to consolidate our position with many top clients. I thank you for staying invested in Mphasis, and we will see you again on the next quarter call.

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