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26 October 2023

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

Dear Sir/Madam,

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

Further to our intimation dated 20 October 2023, please find enclosed the transcript of the Investor(s)/Analyst(s) call which is hosted on the website of the Company at https://www.mphasis.com/content/dam/mphasis-com/global/en/investors/financial-results/2024/transcript-of-earnings-call-q2-2024.pdf

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

Thanking you,

Yours faithfully,

For Mphasis Limited

NARAYAN SUBRAMANIAN Digitally signed by NARAYAN SUBRAMANIAN

Subramanian Narayan
Senior Vice President and Company Secretary

DS SN

Encl: As above

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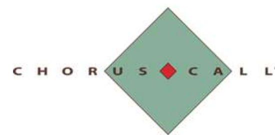
"Mphasis Limited

Q2 FY 2024 Earnings Conference Call"

October 20, 2023



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

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Moderator: Good morning, ladies and gentlemen, and thanks for joining the Mphasis Q2 FY 2024 Earnings Conference Call. I am Zico Pereira, your moderator for the day. We have with us today Mr. Nitin Rakesh, CEO of Mphasis and Mr. Manish Dugar, CFO. As a reminder, there is a webcast link in the call invite mail that the Mphasis management team would be referring to today. The same presentation is also available on the Mphasis website, www.mphasis.com, in the Investors section under Financial and Filing as well as on both the BSE and NSE websites. Request you have the presentation handy.

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

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q2 results release that has been sent out to all of you earlier.

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

Nitin Rakesh: Thanks, Zico, and good morning, everyone. Thank you for joining us today. As you may have noticed in the opening slide, Mphasis has just turned 25 last month. A lot of you have been following us since the early days. On behalf of the management and the Board, I would like to thank you all for your interest, investment and camaraderie over the years. We look forward to the next 25 years of being a hi-tech, hi-touch, hi-trust organization. Thank you again.

I understand you may have had lesser time than the previous quarters to go through our MD&A. Hopefully, this call will help with the deep dive in answering any questions you may have. As we begin the second half of FY '24, I would like to start by discussing a few macro trends before double-clicking on Mphasis' performance numbers.

There are a few themes playing out in the market right now, namely, varied growth trends. There is a duality in growth across segments. BFS and Insurance are moderating, while health care, utilities and travel continue to have tech spends.

On the discretionary client spend, clients want a transformation partner and consolidation and cost takeout plays are dominant themes. Adoption of AI continues to be a strong theme. GenAI is automating, augmenting and accelerating multiple areas across service offerings. Additionally, we see relentless prioritization in the market.

There is this construct of digital duality playing out. On one hand, there's extreme focus on spends, especially discretionary. And on the other hand, there's a healthy desire for continuous transformation and innovation, especially in application of AI across enterprises. Forward-thinking enterprises are strategizing to streamline their operations, scale their processes and find means to conserve cash. As the deck gets reshuffled, transformation partners are likely preferred

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over traditional vendors. Tech budgets are focused on quick wins even as executives tend to be more pragmatic in these uncertain times.

McKinsey's AI survey report states that leaders are automating most data related processes which can both improve efficiency in AI development and expand the number of applications they can develop by providing more high-quality data feed into the AI algorithms. In the past year, early adopter high performers have become even more likely than other organizations to follow certain advanced scaling practices such as using standardized tool sets to create production-ready data pipelines and using an end-to-end platform for AI-related data science, data engineering and application development that they've developed in-house.

Since we were founded 25 years ago, we've been relentless in our commitment to design and architecture, combined with an engineering DNA, allowing us to create a portfolio of cutting-edge offerings and services, combined with domain expertise. This is reflected in our build- buy-partner strategy as well. We have built -Vectors of our growth strategy are aligned around technology capability expansion, vertical focus and geography expansion axis, increasing our repeatability of deal archetypes using the Tribe and Squad model, which we have discussed before. Additionally, we have been consistently building our leadership teams. We've added new leadership across geographies such as Canada as well as in select verticals such as insurance, while continuing to strengthen our coverage in our strong verticals like BFS. We are very happy to welcome Ayaskant Sarangi, who joined us earlier this week as our CHRO.

We have partnered with several hyperscalers as there are specialized market-leading AI platforms and solutions companies such as Kore.ai, WorkFusion, Databricks, etcetera. We expect additional deal archetypes as we expand on these offerings.

While you already know of our past acquisitions, this quarter, I would like to tell you a bit more about Silverline and invite the CEO, Gireesh, to share his perspective in a few minutes. Silverline is a Salesforce Summit Partner, the highest Tier in Salesforce partner program.

Silverline's deep Salesforce expertise and scale, combined with our execution muscle and reach, will not only assist us in designing next-gen digital capabilities, but will also help establish us as a dominant player in the Salesforce ecosystem. This acquisition will complement our key strategic initiative of driving the intersection across customer experience transformation, contact center modernization and conversational AI-enabled automation, thus enabling tech transformation to meet the evolving and dynamic needs of our customers.

With that, I invite Gireesh to share details on the company he has founded and built.

Gireesh Sonnad: Thank you, Nitin. The Silverline team is very excited to now be a part of Mphasis, and we are already hard at work aligning our teams to create value and drive innovation for our mutual clients. As you have mentioned, Silverline offers digital transformation consulting services on the Salesforce platform. We are a U.S.-based consultancy and a Salesforce Summit Partner, which is currently the highest tier in the Salesforce partner program. With over 400 consultants around the world, we guide clients through every stage of their digital transformation journey with consulting and advisory services, implementation and managed services and specialty

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platform capabilities. We are known for our expertise in the full suite of Salesforce technology and for our deep industry knowledge.

Together, these capabilities allow us to help organizations take a data-driven and technology-focused approach to better connecting with and serving their customers. With nearly 15 years of performance history, we have delivered thousands of successful transformations and bring to Mphasis deep Salesforce ecosystem relationships, a talented team that is globally recognized for its Salesforce expertise and expansive industry knowledge in key verticals, including financial services, retail, health care, life sciences and media and entertainment, many of which naturally align with the industry focus at Mphasis.

Our positioning in the Salesforce ecosystem is particularly powerful. In addition to operating at the highest level of partner accreditation, we were part of the Salesforce Ventures investment portfolio for over 10 years and have built strong, long-lasting executive-level relationships. These deep connections to Salesforce power our growth and extend our influence in the ecosystem.

We are a close partner to Salesforce in its industries' first strategy, and Silverline has been one of a select group of product launch partners for Financial Services Cloud, Health Cloud and Media Cloud, and are a preferred partner to several key ISP industry solutions. All this manifests in benefits such as enhanced pipeline generation through joint client pursuits, strong delivery partnerships with Salesforce and product development insight through our involvement as partner advisory board members.

For Silverline, as the Salesforce ecosystem continued to grow and the opportunity for AI and data-driven innovation increased, we saw an opportunity to accelerate our own growth journey. Mphasis was the natural place for Silverline to do that. As part of Mphasis, we immediately expand the breadth of Silverline's capabilities and the global reach of our insights. And together, we align complementary capabilities that will help us build even more compelling digital experiences for our combined set of clients.

Silverline's digital transformation approach with Salesforce matches well with the service transformation approach of Mphasis.

With this combination, Mphasis now has access to the fast-growing Salesforce ecosystem for continued growth. Specifically, we see 3 vectors to drive growth through our combined capabilities. First, we will accelerate Silverline's core growth current strategy and we continue to support our current clients and engage more organizations in digital transformation work. Second, we will bring our Salesforce services to the impressive roster of marquee clients at Mphasis.

And third, Mphasis and Silverline will explore new growth opportunities as we go to market together in this AI-led revolution. As we look to the future, we feel the possibilities are endless. Our teams have a shared vision for success and are already hard at work making this a reality. I'm excited for our people, for our combined set of clients and for the continued growth at Mphasis. Thank you, Nitin.

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Nitin Rakesh: Thank you, Gireesh. I'm personally thrilled with the opportunity of artificial intelligence to maximize business outcomes. At Mphasis, cloud and cognitive-led solutions have been central to our unique Front2Back approach to transformation. The Mphasis.ai business unit delivers various benefits to enterprise clients that include offerings that drive business outcomes, starting with the AI Advisory unit to help assess and identify key AI interventions to complete archetypes such as contact center transformation, customer experience transformation, etcetera.

Further, our clients have access to an array of Mphasis-patented AI assets with over 250 ready-to-use models available on the hyperscaler marketplaces and frameworks created at the Mphasis Next Labs. These frameworks can be seamlessly integrated into existing systems and processes. Access to state-of-the-art conversational AI platforms powered by generative AI technology and large language models transform customer experience management, employee engagement as well as to drive operational efficiency and increase NPS scores.

We've also turbocharged the Mphasis Sparkle Innovation Ecosystem which has enrolled over 50 domain-specific startups, including those that are AI-focused and can accelerate the co-creation of robust, go-to-market solutions for enterprises. Examples from the business unit's suite of intelligent service offerings are now being created as additional deal archetypes in true Mphasis fashion. Contact center and customer experience transformation is a solution that helps enterprises, for example, deliver great customer, agent and employee experiences, reducing digital leakage and delivering operational efficiencies by introducing AI-based intervention into the ecosystem.

In addition, our early investments and partnerships in AI are bearing results. We see 29% of our TCV being AI-led as of the first half of FY '24. We see AI influencing additional new archetypes in and around areas I just mentioned before, including productivity transformation and delivery efficiency, expanding our addressable market further into these services.

Almost all our pipeline continues to be tribe-driven, archetype-led and is up 2% sequentially and 33% year-over-year despite record conversion from pipeline to new sold TCV in the first half of FY '24. Our pipeline is also well distributed across verticals. BFS continues to generate a high share of pipeline at 38%. However, the other verticals have also increased their share now to 62%, suggesting that our investment in growth diversification is working. We've also seen a shift towards large deals in the pipeline, suggesting that digital transformation and accelerating digital adoption continue to be core themes for our clients.

Our pipeline generation in some of the smaller verticals such as health care has been particularly robust with pipeline in this vertical being 3x on a Y-o-Y basis. More than 2/3 of our pipeline continues to be application-centric, further reflecting the strength of our application transformation and modernization engineering process. Pipeline is also well distributed across key themes such as data, modernization, cybersecurity, Agile Ops and platforms. Expertise in these themes continues to be resident in our tribes, as we've discussed with you in the past.

As I mentioned earlier, our TCV for the first half is at USD961 million, one of the highest levels. There are a few things that I would like to highlight further on this aspect. TCV wins in the first half include 10 large deals, of which 3 of them were won in this quarter. Six of the large deals

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in the first half are in verticals outside of the BFS, which shows that our vertical cohort strategy is working across the board.

This quarter, we are also pleased with the deal momentum revival seen in the mortgage business after several months. Notably, significant TCV wins also continue to be from beyond our top 10 accounts and are well distributed between our various service lines. More than 70% of our deal wins continue to be powered by next-gen technology adoption.

We've mentioned on our previous calls that we are seeing lengthening of sales cycle in converting pipeline into TCV and TCV into revenue due to greater scrutiny of the tech spends. While the conversion of pipeline into TCV seems to have normalized, we note that TCV revenue conversion cycle is still elongated and somewhat sluggish in a few deals. We expect further improvement on this during the course of FY '24.

We continue to push for revenue growth, which is anchored in our strong client mining model and tech-led offerings. Our second quarter FY '24 revenue came in at USD398.4 million, marginally high over previous quarter in constant currency terms. We continue to be impacted by overall macro environment, of course, as well.

Our Direct business accounted for 95% of our overall revenue in second quarter '24. The mortgage business declined sequentially by about 7% in this quarter. The contribution of Digital Risk, our mortgage BPO subsidiary, now stands at approximately 6% of overall revenue in Q2 versus 11% a year ago in Q2 of FY '23.

As mentioned, we see incremental stability in this segment based purely on the market share gains from new and existing clients who are increasingly looking at best-in-breed solution providers for a combination of cost takeout and transformation programs, giving us visibility to an order book that signals the bottoming in this segment without calling for a change in the macro conditions. While we expected some of these deals to be revenue accretive in Q2, we saw some -- we've seen a pushout of conversion due to transition in ramp-up timelines towards the later part of Q2, and we're now expecting to see that revenue to pick up in Q3.

Our direct revenue increased by 0.3% sequentially in constant currency terms and declined by 8.9% Y-o-Y in Q2 FY '24. Direct ex mortgage increased by about 1% quarter-over-quarter in constant currency terms, continuing to reflect relative tightness in discretionary spends in some of our clients and the macro overhang.

Our anchor geography, U.S. declined 11.9% direct Y-o-Y and declined 2.2% sequentially as remnants of macro overhang in the banking sector persist. The EMEA region and the Rest of the World grew Y-o-Y basis as well as sequentially. We've seen good client wins and traction there.

Our core service line of enterprise applications consisting of 70% of revenue marginally declined by 0.3% sequentially in constant currency terms in the direct business impacted by tightness in discretionary spending in some of our clients and select pockets in BFS.

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The BPO segment, which has suffered from the downturn in the mortgage segment over the last 4 quarters declined 26% Y-o-Y, but grew 4% on a sequential basis. We see further potential for AI-led gains in this service line.

Moving to vertical performance. Our mainstay vertical, BFS, was down 20.5% Y-o-Y on an overall basis, weighed down by the mortgage business, excluding the impact of DR, BFS declined 11.4% Y-o-Y.

We saw good growth in the TMT vertical with our client wins in recent quarters ramping up well. Similarly, our smaller verticals in direct, such as healthcare are growing quite well, as reflected in the 6.5% Y-o-Y growth in Q2 in the others segment.

Pursuant to a merger between 2 of our top 10 clients, the client metrics of previous periods have been accordingly restated. Our top 10 accounts declined 9.3% year-over-year on an LTM basis, going down by the mortgage business pressures in the past few quarters and tightness in discretionary spends.

Note that our top 10 clients, ex the mortgage business remained flat Y-o-Y despite the pressures from regional bank crisis earlier this year. Our 11 to 20 client segments marginally increased at 0.3% Y-o-Y in a tough macro environment.

As mentioned earlier, the contribution of Digital Risk now stands at 6% of overall revenue in Q2 versus 11% a year ago. To ensure scalability and facilitate the next phase of growth, a realigned vertical GTM structure was implemented in April '23 to align the GTM organization and drive better sales synergies and enable scalability, repeatability with the vertical focus.

Results of this are bearing fruit as we see our clients from 21 to 30 at a healthy pace, 22.5% on a Y-o-Y basis. Our new client acquisition revenue continues to grow double digits as well. Client mining stats remain steady, both sequentially and on a Y-o-Y basis.

The Y-o-Y movement in clients in the 75 million and 100 million plus categories is purely due to market softness on a Y-o-Y basis. We expect this to come back as the mortgage spends resume. We're using this opportunity to continue to consolidate our wallet share gains and our market share with our mortgage clients.

Coming to our financial metrics, our margin philosophy affords us the flexibility to manage our profitability in the face of revenue headwinds. This quarter, our EBIT margin stood at 15.5%, within the stated margin guidance band of 15.25% to 16.25%. Reported operating profit declined 5.8% Y-o-Y due to revenue headwinds and improved 1.4% sequentially. Losses in cash flow hedges impacted margins in Q2 by 60 basis points.

Our EPS of INR20.8 for this quarter is a decline of 1.1% sequentially despite higher operating margin mainly due to reduction in other income due to lower investible surplus on account of dividend payout. Cash flow generation for the first half of the year was USD120 million, which is 100% plus of PAT for the half year.

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We generated highest ever quarterly operating cash generation of USD86 million in Q2, which is 180% of our net profit. Adjusted for the one-timers of USD21 million of delayed Q1 collections, the cash generation in Q2 would be USD65 million, which is 137% of our net profit for the quarter. Our DSO also improved by 8 days to 70 days at the end of Q2 '24.

While many of the deals we saw last quarter have converted, there are still some deals that are taking time from a conversion standpoint. In Q2, we remain focused on ensuring revenue stability with margin expansion theme. I'll leave you with a few points.

Macro-driven overhang continues in select verticals while we focus on the micro and account-specific efforts.

Despite multiple pressures, we saw stability in sequential revenues, driven in part by the visibility from the highest ever TCV closure in the first half at USD 961 million. Further, we saw continued stability of DXC segment, while making gains in the mortgage business order book, setting us up for subsequent quarters.

Our efforts towards diversification of TCV and pipeline beyond BFS and non-top 10 clients continues to bear results, while BFS pipeline also grew by 21% Y-o-Y. AI-centric deal propositions are paying off, accounting for nearly 29% of the total TCV in the first half, driven by continued acceleration in the Mphasis .AI business unit as well as continued investments in capability building across categories including the recent acquisition of Silverline as well as our strategic partnership on professional services at WorkFusion.

Our market share continues to be robust with continued wallet share and consolidation deals in play with most of our top clients. We've delivered expanded margin despite revenue challenges-sustained focus on utilization productivity and offshore leverage have been the key drivers of this space.

As we come to the remainder of the year outlook, we continue to take a forward leaning stance on our tech-led positioning. We have a strong pipeline entering the second half of the year led by AI, cloud and transformation deals. We expect sequential revenue growth through the remainder of FY '24, driven primarily by the fact that the mortgage segment has bottomed out with signs of order book pick up.

And while there continues to be an overhang from the regional bank crisis, we also have seasonality trends and tighter macro conditions driving slower uptick in revenue in Q3. Our revenue diversification of non-BFS outside top account continues to bear results.

On the margin front, we retain our message of margin stability, excluding M&A charges, operating margin will remain in the 15.25% to 16.25% throughout FY '24 with a continued focus on operational rigor, giving us increased confidence in the trajectory of our performance.

On that note, moderator, let's open it up for questions, please.

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

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Nitin Padmanabhan: Also for the quarter, if you could, one, characterize the weakness that you saw during the quarter, was it a surprise? So that's one. Second, is the -- you have sort of restated the top client contribution numbers. So, some context on that.

And finally, from an H2 perspective, do you think the leakage on the book will still be high and revenue accretion from the deals -- or do you think that revenue accretion from deals can sort of compensate and H2 can actually be reasonably stronger than H1, right? So, those were the three questions.

Nitin Rakesh: So, I think on your first question on the -- whether it was a surprise. I think there were a couple of deals that we thought would pick up sooner than they are, primarily driven by either additional scrutiny or in some cases ask from the clients for a longer ramp-up period, given just the transition timelines that we estimated versus where they want us to be. That actually was very evident in a couple of deals, including one in mortgage.

No loss of revenue, no loss of share. I think it's just a timing phase-out issue. What should have ramped up in August, September is probably going to ramp-up in October, November, December timeframe.

So, from that perspective, I think the timing of that push out definitely had a little softer impact on the quarter. But as such, we still made up and more for some of the other discretionary spend cuts, the leakage, as you called out.

I think the -- select pockets, as I called out in BFS, that tightening is fairly evident across the industry. We do believe, as we continue to convert order book into revenue, which means sold deal for the first half, we should be able to make up for a fair bit of that. Keeping in mind the seasonality effect in Q3, I think we are still reasonably confident that we should be able to deliver sequential growth, but we believe it will actually pick up as we get out of the seasonality impact and accelerate further in Q4.

In terms of client restatement, as I mentioned in my script, 2 of our top 10 clients merged. So, we had to restate that with our top 10 client metrics and we've gone back 4 quarters and given you the analysis for you to be able to do a like-to-like comparison. And from that perspective, I think, that's probably the best we could do to give you a very similar feel to -- so you can actually compare numbers. Second half I think already answered that in Q3 and Q4.

Nitin Padmanabhan: Yes. Sorry. So essentially, second half should, on a progressive basis, be better Q3 obviously furloughs but...

Nitin Rakesh: Yes.

Nitin Padmanabhan: Do you think furloughs are -- compared to last year, how does it look? The last year was bad. Do you think this time it's better or there is more...

Nitin Rakesh: Hard to predict comparatively. We definitely know that this has been a tougher year. Segment-wise, last year, the furlough impact was in different segments, than I think it's going to be in this

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year because last year, high tech was the first one to call a furlough. This year, BFS seems like this is probably the leader in the pack, when it comes to having some impact.

I think we are, at this point in time, focused on making sure that we are able to minimize that impact. We've taken certain estimates in our current visibility, and we'll hopefully be able to manage that through additional business ramp-up as we talked about and still show sequential growth.

Nitin Padmanabhan: Sure. Perfect. That's helpful. And just one last one. In the last quarter, we spoke about capacity build-up in the home equity business. And that should sort of lead to growth in Q3. So for that business, if you look at the numbers, it doesn't look like the head count has sort of improved. So just wanted your thoughts there. Is that the one that you mentioned is sort of pushed out or...

Nitin Rakesh: Yes, that's kind of what's driving that than one particular program that we talked about. But what's happened since further update is that, we've seen actually pretty good deal closure in that segment in Q2. That should result in some uptick in Q3 as well. Obviously, as I mentioned that, there is a certain transition and ramp-up time line that will also go into Q4. So Q3, Q4 definitely look better sequential quarters for the mortgage business.

Again, I want to reemphasize that, this is not a call on the macro. We are not saying volumes will pick up or we think the interest environment has bottomed out. This is purely based on the fact that we've gone and we've been able to open new opportunities, close deals with customers that are now starting to think about a best in breed provider who can actually give them a transformation plus a cost lift.

That's kind of -- this is really a pure market share. Our biggest competitors in the space are either not able to provide that same level of transformation and cost play. And in some cases, they are still captive to our customers, and hence, we are a pretty credible alternative for them to be able to use in a downturn like this. So it's purely based on our deal wins and our order book versus being based on the macro. So I just want to make sure that was clearly understood as well.

Moderator: Thank you. Our next question is from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

Sulabh Govila: Yes. Hi, thanks for taking my question. So I have three questions. So first is on the banking. Nitin, just wanted to understand, how are we internally thinking about it, especially within the top 10 customers? When do you think things will start recovering? I know there are multiple moving parts. But given there was some excess supply created at some of the banks and there's a discretionary cut, which is offset by some of the deal wins that are happening. So just trying to understand, in your internal estimates, how are you thinking about the banking, especially from a top 10 perspective?

The second question is on the supply side. There's a moderation in head count, but a much sharper decline in utilization despite organic revenue not declining as much this quarter. So just trying to understand, how should one look at that?

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And the third question is on the outlook piece. So this progressive growth -- sequential growth in Q3 and Q4, would that hold true on an organic basis also? And what's the impact of M&A charges that we are thinking about, given that guidance has some update excluding M&A charges?

Nitin Rakesh: Okay. So let me take those in that order. I think you talked about growth view for banking top 10 customers, and you already called out for a couple of the answer items that I was going to talk about, which is discretionary spend cut primarily driven by overcapacity at the banks. That's definitely playing out through 2022 and -- later part of '22 and most part of '23.

Hard to call when that will shift or change, except that this concept of an annual budget exercise that has started at the banks didn't quite hold true for '23 because many of them, given the uncertainty in the macro and the promise of recession that we are still waiting for, has kind of given a lot of pause to that budgeting exercise, and many of them went into a monthly budget model itself.

So it's very hard to call what happens in that segment. We can't control the macro, so we are focused on the micro, which is account specific actions, not just in top 10 accounts, but also in accounts that we acquired in the last two years or three years where we are more of a challenger, a lot less to lose and we can be a lot more disruptive with our deal archetypes.

So net-net result is, of course, seasonality of the quarter will definitely play up there, but we do expect -- we do think that, we continue to focus on account-specific actions. Hopefully, the regional banking headwinds have kind of stabilized. So we should definitely see stability in that segment this quarter and potentially growth in the next quarter given the order book, again, and I called that out as well.

On the supply metrics, head count utilization, revenue correlation, given that more than 50% of the revenue is really managed outcome of some form, there are certain milestone-based deliverables that lead into the revenue number. And of course, the head count metrics also -- our head count revenue correlation also gets impacted by on-site and offshore.

If you see our offshore percentage, it's up 4% yoy. But at the same time, we've seen some pickup in these transformation deals that definitely played into that revenue to head count model. I think utilization dropped marginally driven primarily by, as I mentioned, late quarter actions on the head count and the billability.

So from that perspective, not too much to read into or call out into that. In a way, it gives us a little bit more room to grow with the current head count and ramp-up as we start some of these deals from a delivery standpoint. So we'll continue to keep a very close watch to see how much room we need. We are still fairly forward leaning on fresher adoption and pyramid corrections. So I think that, we are fairly well equipped to handle that change of supply-demand dynamic.

On the outlook, if we look at the organic number, we definitely think, we'll be able to eke out growth in Q3. The extent of that will depend on how much seasonality plays in. But the outlook we gave you was not inclusive of the inorganic actions. Of course, the inorganic number will

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show up in the reported numbers and that will definitely give a boost to the overall number as well.

Manish Dugar: The last question, Sulabh, on the M&A charges. Since we just concluded the transaction, we are going through the purchase price allocation discussion. And it will govern how much is the cost of amortization other than the transaction costs that will come into the P&L and the retention bonuses, plus the synergy expenses. Excluding the acquisition charges and M&A charges, our belief is that the margin will be sustained or expanded.

So if you were to look at the margins without the M&A charges, it will look as an expansion in the coming quarter as well. Currently, the estimate of the M&A charges is in the zip code of 0.7% to 0.8%. But we will get the confirmations once the purchase price allocation discussions are over and we'll be able to communicate that once that is done.

Sulabh Govila: Sure. So just a quick follow-up, Manish. If I understood this correctly, the estimate of purchase price allocation impact is 0.7% to 0.8%?

Manish Dugar: No. The current estimate of total charges, excluding what is the transaction cost, is 0.7% to 0.8%, which includes the cost of retention bonus, the synergy investments that we will make in the initial period plus the amortization of purchase price allocation. However, that will get fructified once the PPA is complete.

Sulabh Govila: Understood. Thanks for taking my question.

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

Manik Taneja: Hello and thank you for the opportunity. First of all, with a clarification question, trying to understand the contribution of the HP subsidiary that we had acquired at the end of last quarter. And if that is -- and if that number is still driving the strong sequential growth on the TMT side? That's question number one.

The second question was with regards to getting some qualitative commentary in terms of the revenue growth trends that we've seen for us in the logistics and the transportation business, along with that also on the BFS business, ex of DR?

Manish Dugar: So Manik, on your first question on the eBECS transaction, as we spoke about it last quarter, the idea was to acquire the capability that we can utilize for all larger customers at Mphasis. A lot of the client and the revenue that we acquired were not necessarily something that we intended to continue with.

So while you would have seen an LTM basis reported number of the entity that has been acquired, what has actually got consolidated in our books does not have any significant material impact. And obviously, since we have consolidated full quarter last quarter, this quarter anyway is having no impact of any growth of that over the previous quarter. And so, if you want to talk about the logistics part?

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Nitin Rakesh: Yes. I think on the question on our logistics and travel, I think there's a tale of two cities. While the travel piece has actually done fairly okay, especially the airlines business has actually grown quite well. There is obviously more work to be done from a macro perspective for us to see growth come back. We've seen signs of stability. The part of the reason why we are making in some forward-looking estimate on our sequential growth is also coming from the fact that we've definitely seen I would say, there is good order book buildup in that segment as well including the logistics and both logistics and travel sites. I think sequentially, things will probably look better as we go forward. The pace of growth will depend on how quickly we are able to convert those to revenue as well. But at this point in time, I think stability to cautious optimism is the best way to look at the logistics and travel segment.

Manik Taneja: Sure. And the last one was a clarification with regards to segmental margins that is reported for the TMT vertical. They've gone up to almost 39% in the current quarter. Is there some element of both onetime revenues that's driving the strong uplift there? And are these segmental margins sustainable?

Manish Dugar: So Manik, as you would have noticed in our financials, we have disclosed that there has been a contingent consideration that has been reversed. So as you would expect, there are bonuses that are planned and they are dependent on delivery of certain numbers. Since, we believe that, we are going to fall short of what potential opportunity of 100% payout was, we did a re-take on what that payout will be and the excess that we were carrying has been reversed. So, a large part of that actually was in the TMT vertical and that's what's reflected in the margin up lift.

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

Ankur Rudra: Hey, thank you. Hi, Nitin Manish. Just a quick question on the visibility of growth and where the confidence is coming from. If the macro conditions remain unhelpful in terms of banking budgets and pricing rates, do you think that your comments or the performance in the period might change. There's a risk to, what you expect in terms of growth recovery. That's part one.

Second part, if you can talk about, how you feel the budgeting conversations on the monthly or quarterly budgeting cycle is happening with your top customers on the banking side? And any early indications of how CY'24 will pan out? Will it be similar to this year? Or do you think there's a chance of it being better or worse?

Nitin Rakesh: Ankur, on the first one, as I mentioned, right. We are not taking a call on the macro when we talk about outlook on the business because this is a very micro bottoms-up account-by-account pipeline, TCV, order book view. It is very hard to take a call on the macro. If the macro worsens like it did in the middle of last quarter, then of course, there's always going to be an uncertainty because we are definitely in a time where it's hard to have a forecast. I think the best of central bankers are struggling to figure out next moves on the macro front. The 10-year spike has obviously surprised everybody this week as well. So, I think it's very, very hard to take a macro call and we are not taking a macro call.

We are based on what we see today, based on the visibility we have from our, not just top customers but also other segments, we are kind of giving an estimate. I spent through fairly

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detailed analysis of what's going on in the mortgage business. That's a good example of how we are making the visibility from an order book perspective versus from a macro perspective.

There is definitely at least some level of visibility on the fact that there is work to be done that cannot be pushed out for long periods of time. End-of-the-year budgets will obviously get extinguished and rebudgeting of 2024 will kick in. So we are seeing, at least in some pockets, customers taking decisions to actually execute programs. I wouldn't quite call it a year-end flush, it's not that prominent, but it's definitely some level of decision-making has moved on, especially for programs that require them to move because that will help them take the cost out of integrated program -- integrated platforms that they don't need to carry into next year.

On the budgeting front, too early to call, also a little bit more nuanced, especially on the banking side. I think if you think about multiple segments of banking and I think I talked about it last time as well. Very highly capital market focused businesses- I don't think there will be an uptick in spend. If anything, they'll continue to watch, the environment very closely. Watch the deal close, watch the M&A activity, capital market activity and that will drive a lot of the incremental decision making.

On the consumer front, on the consumer banking and wealth management front, things are a little bit better because I think there is continued investment from almost every bank making a pivot into annuity-based businesses, wanting to go away from transaction-based businesses to fee-based businesses. So that's where we are seeing continued interest from banks in helping set up those platforms for wealth and asset.

So I think it's a little bit more nuanced than just having a singular view of banking budgets for next year. I think the -- in general, the larger universal banks probably are better place to weather this. Of course, individual bank ratios will determine what budgeting they will carry in.

But, I think, from the point of view of the monthly versus quarterly versus annual cycles, I think it's hard to say what each of them will do given just the uncertainty they are themselves dealing with. Expecting spiking interest rate that already has happened to lead into deterioration of consumer , obviously provisioning plays in and if it doesn't play out, reversal will happen and budgets will open up again. So there's a lot of moving parts to that equation.

Ankur Rudra: Thank you. Appreciate the color. A quick question on the signings. While first half is very strong, if I just look at the quarter, this seems to be slightly on the softer side compared to what we've been used to seeing from you for the last six, seven quarters. And slightly in contrast with many of your peers have reported relative to this improvement in momentum this quarter. Is this a function of timing? Or is this a function of maybe a lack of signing in banking, which is a much bigger exposure for you?

Nitin Rakesh: So, Ankur, just to give you some color, almost half the deals this quarter are in banking. The lumpiness of large deals is what is driving the 700 million to 250 million swing. Also, as you can expect, there is a certain tenure a deal has to stay in the pipe for it to actually go from origination to conversion.

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And because we converted a bumper quarter in Q1, which we're very pleased with because that gives us visibility into a good order book. I think the -- as we normalize and come back in, I think you will see the trailing 12-month number will continue to actually be a good indicator of that versus just the quarterly number.

Ankur Rudra: Excellent. Just last question on Silverline. It looks like an interesting acquisition, best of luck. Maybe elaborate a bit more on the cross-sell opportunity here? Is this more on your banking customers? Or is it for the rest of the portfolio? And if you can comment, Manish, on the impact on margins and earnings accretion, etcetera, over the next -- this year, next year, etcetera?

Nitin Rakesh: Ankur, I'll address the first part. I think the impact is definitely synergy opportunities with almost every segment of our customers because given the strength that Silverline brings in and Girish talked about it in great detail around the product -- visibility into the product council, more importantly, the role they've had in the vertical cloud strategy at Salesforce, this actually makes it very interesting for not just banking, but even nonbanking customers for us.

Especially health cloud, also we don't do a lot of media, so this definitely gives us a tip of the spear on the media side and you've seen we've acquired some decent customers along with the acquisition in the media space. Tier 1 media companies are in the client roster there. So definitely capability acquisitive, accretive and it's definitely leadership accretive.

We are pleased with the level of leadership and the calibre of leaders that come along with this. We will definitely try to make sure that it continues to be growth accretive because we're opening a TAM that we were not really that well positioned in. We had an existing Mphasis Salesforce business but it was not quite not as-deep-as what Silverline brings to us.

And finally, I think there is a very large ecosystem on the customer experience transformation side that this can unlock as well. And if you include what we've done over the last two years between Blink, the whole contact center modernization approach, conversational AI embedded into it and Salesforce, the portfolio platform, there's actually a pretty strong synergy there from a large deal creation as well.

Manish Dugar: So from a P&L impact perspective, Ankur, Manish here. There are, as you would expect, three things that need to be considered. One is the intangible and amortization of the intangible that gets frozen once we have the purchase price allocation done, which is in progress.

Second is the investment that we would make in the first 90 and 180 days to make sure that the integration program runs perfectly smoothly for the synergy benefits to get realized, revenue synergies as well as cost synergies. And third, cost that has been incurred for the transaction, including some of the retention bonuses that we want to make sure keeps the management and the leadership team of of Silverline excited.

Current view of all of these expenses put together is in the zipcode of 0.7% to 0.8%. However, we will know once the PPA is done in terms of exactness of what that number is.

Moderator: Our next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

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Dipesh Mehta: So implication, I think you indicated 2 of 10 clients merged. So if you can help us understand implication of this thing from near term to medium term, from growth potential perspective because their tech spending might be now combined and it has some implications. So if you can provide some sense about it, integration initial benefit in the medium term some kind of negative implication?

Second question is about the -- if I look, we used to give correlation between deal intake and revenue. It used to be fairly high for us. If I look for last few quarters, it is not playing out that way. Your TTM deal intake is 30% as higher. Revenue growth is still in the negative territory. So if you can help us understand how one should think about it? Thanks.

Manish Dugar: So Dipesh, Manish here. I'll take the second question first, which is the correlation between the deal closures and revenue. As you would expect the correlation coefficient also signifies renewal of the business and no runoffs. Two primary things that has been impacting the renewals. One is what's happening in the mortgage business. And there, while it does not so much reflect in TCV closures because most of the revenue growth comes from volume increases, the same thing happens on the negative side as well.

And that volume decline has had a significant impact on runoff, causing the mortgage business to come down from 11% of revenue last year same quarter to 6% this quarter, and that has a big impact on the correlation coefficient other than the fact that a lot of small discretionary budget spends that were being -- that were coming in has stopped coming in or has significantly reduced because of all the uncertainties that are in the environment, especially in the banking segment because of the regional banking crisis as well as the bank sitting on larger than required head count and that also means that the renewal rates are much lesser.

The same thing will reverse and reverse to maybe more than 1% -- more than 1 correlation coefficient once we see these volumes come back. But as Nitin mentioned, we are not factoring in any macro changes or any changes in interest rates for us to give that guidance at this point in time. But if and when that happens, it should start reflecting in the correlation coefficient as well.

Nitin Rakesh: And on the first question, Dipesh, on combination of customers and budgets going forward. I think we are not thinking out that far because right now, we are focused on monetizing the opportunity that this current merger presents to us because there is a fair amount of integration spend that will be unlocked.

As we obviously get through the integration program over the next few quarters, I think we'll continue to reassess how we stack rank and what our wallet share is and how we can unlock the visible markets. But I think at least for the short to medium term, I think there is a little bit more of an opportunity than a threat purely given just the fact that the programs are now starting to begin.

Moderator: Our next question is from the line of Sandeep from Equirus Securities. Please go ahead.

Sandeep: Nitin is it fair to assume that there could be a sizable growth push from 3Q to 4Q because of a lot of TCV in the order book, which is waiting to convert from TCV in the revenue. Is it fair to assume that?

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Nitin Rakesh: Yes, I think that's part of the reason why we are talking about acceleration in growth as we see through Q3 and Q4. Definitely, some of it is linked to the order book and some of it is linked to the conversion. And as the sluggishness eases off based on not again any macro call, but based on just the fact that we stay very focused on converting that to revenue, some of that will definitely aid in this tailwind.

Sandeep: Okay. And, Manish, just wanted to understand how to model the hedge losses in the revenue line? How does that look like entry in Q3? And I do agree, eBECS has been immaterial to the revenue, but if you can still quantify the revenue contribution in second quarter.

Manish Dugar: So Sandeep, we have been watching the premium that exists in the hedges as we go forward. As you would know, it used to be in the 4% to 5% range, and it is now at 1% to 1.9%. And that essentially means that we have been relooking at our hedge book. We have reduced it from, what we would have had around 75%, 80% covered to around 50%, 55% covered.

Every quarter, we are getting the benefit of higher exchange conversion rates. For example, this quarter, we were able to convert at INR82.5. But because the closing exchange was at INR83, which was almost INR1 higher than the previous quarter, we still ended up having hedge loss in our books. So it's an opportunity loss. We could have gained more if we had not hedged at all.

We still believe from a principal and philosophy perspective, certainty of cost currency and a sustained policy of cover of exchange at least for next 4 quarters and then the following 4 quarters on a reducing percentage basis, is the right strategy to adopt. We might be having a negative hedge loss at this point in time because of significant volatility and depreciation of rupee. But if it continues to be at the current levels, we expect that maybe in another couple of quarters, we should be back to hedge profits with reducing hedge loss on a quarter-on-quarter basis.

Your question on eBECS, like we said, it is not a material number, and we would prefer not to give a number in terms of what it has actually come into the books. But it has been consolidated for the full quarter, and we have taken calls on what of it we want to continue and what we want to take haircut on.

Sandeep: Okay. And likely consolidation date for Silverline in the October or maybe starting November?

Manish Dugar: So based on the principle of convenience accounting, while the signature happened and the closing happened on the 12th of October, we would consolidate effective 1st of October.

Moderator: The last question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Just two questions. The first one, Nitin, we had called out strong traction in Canada, both from a deal win and a pipeline perspective in the first quarter. Given the recent challenges, do we -- any early indications in terms of potential impact of processing Visa or delaying transitions?

And the second part to it is, it seems like the acquisition Silverline has a subsidiary based in Toronto. Any color in terms of what's the exposure to public services or to the business of Canada in terms of geography? That could be helpful. Thank you for taking my question.

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Nitin Rakesh: So I think you're absolutely right. We've seen massive expansion in both TCV wins and pipeline coming out of Canada. I think we talked about the fact that we sold more business in a quarter there than we had for eight quarters in terms of revenue. I think that deal momentum has continued, both in terms of pipeline, and we expect that to also continue in terms of closure as we go through the remainder of the year.

Given that at least from an Mphasis standpoint, our exposure to public services, public sector is fairly minimal. That hasn't really shown up in any major dislocations of existing ongoing deals or conversations. Also, given that sensitivity will be higher if there is a pause or stoppage in immigration services in Canada. So far, that hasn't happened yet either, but we are keeping a close watch on it.

So I think at this point, no major red flags to call out. And based on what I'm hearing from Girish, I don't think there is any major impact coming out of the same issue in Silverline's Toronto subsidiary either.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Nitin Rakesh for closing comments.

Nitin Rakesh: Thank you all for your interest in Mphasis and your questions. While the macro remains uncertain, we are cautiously optimistic, focused primarily on converting our TCV, our pipeline and partnerships, and we are very, very focused on execution. Happy Navratri to all of you and your families. Have a great weekend.

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