# "Mphasis Ltd. Q4 FY17 Earnings Conference Call"

## May 26, 2017

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**MODERATOR:** **MR. SHIV MUTTOO – CDR INDIA**

**Moderator**: Good Day, Ladies and Gentlemen and Welcome to the Q4 FY'17 Earnings Conference Call of Mphasis Limited. 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 the 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, Margaret. Good Morning, everyone and thank you for joining us on Mphasis Q4 FY'17 Results Conference Call. We have with us today, Mr. Nitin Rakesh -- the CEO; and Mr. V. Suryanarayanan -- the CFO.

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 in the 'Q4 FY'17 Results Announcement Release' that has been sent to all of you earlier.

I now invite Mr. Nitin Rakesh to begin the proceedings of the call.

**Nitin Rakesh**: Good Morning everyone and thanks for your interest in Mphasis and for joining us on our earnings call today.

Before we begin the discussion on the quarterly and yearly performance, I would like to share a very significant announcement we made this morning. I am pleased to announce that Mphasis and DXC Technology have partnered to help DXC transform and modernize its clients' enterprise applications for public, private and hybrid cloud. Our relationship with DXC has moved from just being a delivery partner to being a front end joint go-to-market partner. Being a solution provider enables us to help DXC clients reduce the cost of their legacy IT for extreme automation, process efficiency and proprietary tools and then reinvest the savings in transforming and modernizing the business applications for the cloud, at speed and scale.

As you are aware, DXC Technology is a $25 billion IT services company, with more than 6,000 clients in 70 countries. DXC was formed by the merger of CSC and the enterprises services business of Hewlett-Packard Enterprise. Mphasis has a 10-year track record of working with the former enterprise services business and delivering value added services to its clients. Further, with the reorganization of HP, we now have four engines of growth within DXC business with HP Enterprise, HP Inc and HP's products spin off merged entity Micro Focus apart from DXC. We believe this partnership and these additional growth engines will help bring back growth in FY'18 in this channel.

Coming to the performance of HP Business during Q4'17: Blackstone acquisition has contractually ensured a revenue commitment from HP and has brought in better predictability in the overall business. HP business saw marginal decline of 0.1% sequentially on a constant currency basis. This is the third consecutive quarter of stable revenues. Having set our

relationship with DXC HP, we are now well-positioned to mind these four relationships and drive growth in FY'18 as I mentioned earlier.

Moving on to the Direct business. We are seeing similar trends with our existing customers as well due to which we are witnessing greater traction of such New Gen deals in our pipeline. This is reflected in our deal win momentum. In Q4'17, we have closed TCV of $90 million and 70% of these wins are in our focus areas of New Gen Services and GRC. In FY'17, we have won deals with TCV of $365 million with 61% deals in these focus areas. Our deal pipeline continues to improve significantly with good traction in Cloud-based and Digital deals. We will continue to differentiate on value and not just on cost.

Moving on to the Quarter Performance, let me start with Direct Core, which accounts for 74% of Direct International revenue in FY'17 and grew 11.7% in FY'17 on a reported basis and 10.4% in constant currency terms, which has been above market. We expect this segment to continue to spearhead our growth in the coming years.

In Q4'17, Direct Core revenues recorded a modest growth of 1.2% sequentially on constant currency basis. If you recall, a couple of quarters back, we had called out that one of our key customers was undergoing reorganization which impacted our growth then. While we continue to actively engage with the customer, we see this continue to impact our revenue growth and expect it to stabilize in the later part of this year.

I am also pleased to report that we are seeing good traction in Blackstone portfolio business where we have won one deal in Q4'17 and have closed three more deals since then. Our pipeline continues to be strong and gives us a new hunting ground and channel to tap into. This positions us well, to deliver above market growth in Direct Core and we will provide more specifics in our Q1'18 call to talk about these deals and their contribution to revenues which we expect will be from second half of FY'18.

Moving on to Digital Risk, as we had communicated in the previous call, the interest rate environment in the US has resulted in low number of mortgage transactions impacting purchase and refinance market. This resulted in a 10.3% revenue decline in Digital Risk in Q4 FY'17. In Q4'17, we added a new logo, a large US bank, with a significant deal size of close to about $15 million. We continue to focus on winning new clients, growing our market share, and have a reasonably good pipeline to bring in stability in revenues in this business in coming quarters.

Let me move on to our Operational Performance. Please note that consequent to us adopting the provisions of IND AS in relation to business combinations during the quarter, there have been changes in the goodwill accounting. This has resulted in certain charge to the P&L for the quarter and for the full year. Accordingly, numbers have been restated, reclassified for appropriate comparison.

Our focus on high quality revenues is evident from our deal wins and our expansion in gross margins. Q4'17 gross margins expanded 90 basis points QoQ to 27.9%, expanded 210 basis

points for FY'17 to 27.4%. Operating margins have expanded 180 basis points to 14.6% in FY'17 on the back of Direct Core revenue growth and other optimization efforts we have carried out over the last 18months. As mentioned earlier, the company adopted certain provisions of IND AS accounting in FY'17 and accordingly, amortized INR48 million in Q4'17 and INR247 million in FY'17. Excluding this, operating margin is 15% for FY'17 and 14.9% for Q4'17 which is a significant improvement over prior periods.

Net profit for FY'17 grew 25.3% over FY'16 with net margin expanding 200 basis points to 13.3%. We continue to maintain a healthy cash balance in our balance sheet of US$465 million as of March'17.

To conclude, we are witnessing good momentum in sales pipeline in the NextGen areas across Direct Core and HP/DXC businesses. Blackstone portfolio companies offer us additional hunting ground, which, with our capabilities, we are confident of mining successfully. Our size is a great advantage for us. It gives us headroom in terms of agility and at the same time, we have the scale to play in large deals as well. With all of these, we think we are well poised to accelerate growth in Direct Core and HP businesses.

Thank you again for your interest and I would now request the moderator to open up for Questions.

**Moderator**: Thank you very much. We will now begin with the Question and Answer Session. The first question is from the line of Rohira Priya from Axis Capital. Please go ahead.

**Rohira Priya**: Thank you for giving me an opportunity and congratulations on good execution of deal wins. Nitin, my first question is, in this quarter you have won one deal from Blackstone and three have been signed after that. Can you give us more color on the average sizes versus the earlier deals in Direct Core and how have you seen the average deal sizes changing in the market especially in your focus areas of GRC?

**Nitin Rakesh**: So Priya, it is probably too early to share the average deal sizes, just to give you some more color on the portfolio itself, there are 80-odd companies in the Blackstone portfolio, that is the universe for us to hunt into. The overall IT spend is over $1.5 billion per annum. We have identified, to begin with, a sub-segment of about 20 companies that we think we have an opportunity with, given the size, scale and our play areas. So these four deals that I talked about are actually four distinct companies that we are working with now. That should give you a little bit of a sense of the opportunity size and scale, and as we come into our next quarter call, I will give you some more specifics on the TCV and the deal sizes per se, but I think we are very pleased with the way we are executing that channel; we put in place a program 90-days ago and I was pleased that we closed one before the end of Q4 and we have had three more subsequent to that as well.

**Rohira Priya**: Do you think given the fact that you are sounding more positive about Direct Core and the likely opportunity from Blackstone in the coming quarters, there could be good improvement from the margins perspective because we have a very low hanging fruit in terms of fixed price.

**Nitin Rakesh**: Yes, I think right now, the way we are looking at business in FY'18, the focus is to continue to find opportunities and close deals to find growth. From a margin perspective while the company has done a lot of work over the last 18months, I think there is more work to be done. If our EBIT in the range of 14-16%, I think it is probably the good guide post, and if we are able to improve that, we will report that in the coming quarters as well, but I think really for us the focus is continuing to find opportunities and closing TCV as early as possible in FY'18.

**Rohira Priya**: We have seen a good improvement of 21% in the deal pipeline, do you think we are good enough in terms of the sales team effort or do you think that there would be some investments required over there?

**Nitin Rakesh**: I think it is a bit both. If you look at our Direct Core business, the story has really been that of strategic accounts and account mining and I think that will continue. That has driven our growth well over the last three financial years. I think we still have some more work to do in setting up a hunting operation and some more investments are needed in Europe for Direct Core.

**Rohira Priya** Sure. That's helpful and wish you all the best.

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

**Nitin Padmanabhan**: Nitin, just wanted to have your thoughts on how you think BFSI could do for you this year and in terms of the client specific issues that were there, by when do you think that can sort of come off? The second thing I wanted to know was your thoughts on acquisitions going into next year?

**Nitin Rakesh**: Sure Nitin. I think if you see when we do the segment reporting by way of industry, Digital Risk is very much part of that. I think that kind of skews the growth numbers a little bit. Outside of that, within banking, we have had some good momentum and I think that will continue. The environment is fairly stable especially in the new tech viz.- client facing tech, Cloud, Automation, Blockchain, Robot Advisory etc. where I think the demand environment is pretty good. Digital, as we have already talked about, we are looking to stabilize that through new deal wins because the volumes clearly are not where they were last year. On the specific client issue, it probably would take another quarter or two for us to find stability given the churn and the reorganization that we are seeing there. So from that perspective, we think that the Direct Core growth will probably I would say back-ended H2-driven higher growth versus H1 because we need to kind of just go through that stabilization period for these couple of items. On M&A, I think still early days for us to carve out the build, buy or partner strategy. We did announce the partnership this morning which I think is very well aligned to our aspiration of being a big player in Cloud and Cognitive Technology. We will probably kick it off diligently in terms of what kind of aspiration we will have on M&A but early indications are it will be more capability-driven and tuck in, in nature versus big bang.

**Nitin Padmanabhan**: In terms of Digital Risk, do you think that the best case is flattish, being able to stabilize the revenues, or is there even a possibility of growth there?

**Nitin Rakesh**: It is probably going to take us a little while to get back to any significant growth. So, I would say it is fair to assume that our focus right now is on stabilizing revenues through deal wins because if volumes are going down, then we need to win more business to make up for those lost volumes. That is really the immediate-term focus for us and we will also look for opportunities to stabilize the profitability of that business and that is kind of the way we are thinking about that business for at least the next two quarters.

**Nitin Padmanabhan**: From a profitability perspective in that business, do you think that since the volumes are coming off, would costs also come off at the same rate or is there a lag in the margin ploughing back to the usual level?

**Nitin Rakesh**: Obviously, there is probably going to be some time that you need for execution, but we do not think it is going to be significant. We will probably bring it back to where we need to bring it back fairly quickly, and that is the way we are wiring that as we speak as well.

**Nitin Padmanabhan**: Sure. That's quite helpful. Thank you so much and all the best.

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

**Gaurav Rateria**: Firstly, on the DXC new partnership, you said that it is joint go-to-market. Could you please help us understand the scope of the partnership in terms of what exactly would be covered? Secondly, do you need to put upfront investment in terms of sales and marketing effort for that?

**Nitin Rakesh**: Let me first talk a little bit about the charter and the scope. I think it is really an application transformation solution partnership. What that means is, obviously, we have done some work in identifying the play field and the segments of market. There is a very strong opportunity within the top clients of DXC where they do a fair bit of work both on infra and maybe some on apps to actually bolt on this application transformation capability. Clearly, we will continue to operate to our strength of being specifically focused on BFSI and essentially getting at the front- end of certain transformation deals that gives us the opportunity to then drive those application migration or new tech. So we have identified certain segment of the market, precise, very razor-focused approach to identifying those names, those accounts, those relationships where we have an opportunity and it is very closely being governed with an executive sponsorship from both side. There is a lot more to talk about as we continue to execute that. So again, we are very excited that we got the right positioning with the right partner, where we have already got a long track record of delivering. In terms of upfront capital, at this point in time there is nothing to call out. This obviously means that we will have to continue to invest in the relationship and in the go-to-market effort. But there is nothing in upfront from a capitalization perspective at this point in time to announce.

**Gaurav Rateria**: So any internal targets of how much of pipeline you need to build up over the next few quarters for this new partnership or what is your target?

**Nitin Rakesh**: We do have partnership targets but for sake of competitive intelligence, we decided not to give those out publicly at this point in time, we will update you as we start seeing wins and obviously it will start reflecting in our financial performance.

**Gaurav Rateria**: Nitin, just to explore more on this partnership. We have seen in the historical past some companies, large Indian IT vendors, exploring such partnerships with the erstwhile CSC entity, and those have not moved or the needle did not move there much. So how is it going to be very different from the old partnerships which other companies in the past have announced with this entity?

**Nitin Rakesh**: I think the one I am aware of actually did very well for the company. To my knowledge, there is at least one other existing partnership with legacy CSC. I think the difference here is on two fronts – One, there is already an established track record and we do $200+ million a year revenue with DXC which came from the HPE side of the business. So we have existing hooks into the organization, we have relationships already established with them where end customers have had experience of working with us. What we are really doing is, we are trying to transform that and get in the front end of taking opportunities to the market versus being an execution extension. Secondly, I think there is very clearly defined focus and the focus is not just cost-driven, it is driven by transformation which is where a lot of investments from the enterprise segment of the customers is. I think those two probably will be the key differentiators between the previous partnership that you are referring to and this one, and to my knowledge, the previous partnership actually did grow. Even in that, the construct was fairly fruitful for the two companies, but maybe we are probably referring to two different things.

**Gaurav Rateria**: Second question on the competitive bid process for the Blackstone deals. Was this different from any other deal you chase in your Direct Core business or you got significant edge over other competitors and that kind of helped you to close the deal much faster?

**Nitin Rakesh**: I think it is fair to assume that we get a fairly strong endorsement from Blackstone and that helps connecting with the right stakeholders on the other side, which is why I think we were able to convert in the short timeframe that I have talked about, which is about the last 90-to-120-days. Other than that, I think each enterprise that we deal with is a commercial entity like we are. In many cases, we have gone through competitive bidding process, in many cases, we competed with the traditional competitors that we compete within Direct Core business., In some cases, we have an opportunity and the bidding process was not very widely held, for example, it may not have been sent out to ten different competitors but sent to a smaller group. Even there, we have had price benchmarking and SLA benchmarking done very diligently. So I think the process is rigorous. Just because we get an introduction and an opening, it does not dilute the rigor of the partner selection process because in the end both companies will invest in long-term commitments to delivering those projects over three-to-five years.

**Gaurav Rateria**: Is it fair to assume that this 20-clients which you have targeted, is going to be the focus area for the year and will be looking to expand roster of client list only may be in the next year?

**Nitin Rakesh**: It is a dynamic process, because we selected 20 based on certain assumptions and certain data points. So two things happen - One, our experience dealing with those 20 helps us prioritize which one should be in the top5, which one should be put in the next5, and that is how we were able to convert four out of the initial list. So obviously we will expand that list, we will modify that list based on the progress we see, the momentum we see and the prioritization that we determine. So that is a very dynamic process. Also keep in mind, this portfolio itself is very dynamic. One of the deals that we did close, I cannot disclose the name yet, was never in the portfolio this time last year. So there was a completely new transaction that Blackstone got into and we had an opportunity to get engaged early on in the transaction as well. So, I think it is a dynamic portfolio, it is fair to assume that we will at any point in time have conversation with 8 to 15 companies and we will continue to prioritize where we see opportunity, size of opportunity, capability overlap, and the ability to generate momentum.

**Gaurav Rateria**: Is it fair to assume that the focus is to see that we are able to keep the margin stable and drive acceleration in the deal wins and growth?

**Nitin Rakesh**: Yes.

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

**Ashish Chopra**: Nitin, firstly, could you just explain to us how should we think about the amortization cost in FY'18 over FY'17?

**V. Suryanarayanan**: Hi, Ashish. With respect to the amortization, most of it is already covered in FY'17, and the component which will come in FY'18 is very marginal, and insignificant from overall margin perspective.

**Ashish Chopra**: Secondly, Nitin, how should we think about the overall revenue growth from here on? While Digital Risk and HP channel have been drag, Direct Core you are fairly confident should be growing above industry, there is incremental opportunity that you see within the DXC and also the new Blackstone deals that are getting signed. So if I just for a moment keep Digital Risk out of the equation, do you see the remaining portfolio now strong enough to actually deliver growth at least in line with the industry or you think that still has to be some time away given that some of these will take time?

**Nitin Rakesh**: I think it is fair to assume that we will definitely bring the HP channel back to growth this year. I think we are staking that based on the momentum we see with the pipeline as well as the needle that we have moved on the relationship front with the four entities within the HP umbrella. So, I think the bigger question is that whether that growth will exceed industry or be at par. I think that is little early to call that out because we want to see some more conversions and because we are only in the first six weeks of the financial year. But it is fair to assume that we will bring that channel back to growth this year. On Direct Core, I think despite the single customer headwinds, we are confident that we will find above market growth in that segment and it probably will be

H2-led versus H1-led given that conversion of the deals are already starting to happen and they start showing up in revenue late Q2, Q3 onwards. So I think that is what you should think about these two segments. I think DR we already covered. So if we bring HP back to growth, if we continue to find momentum in Direct Core especially including the Blackstone portfolio, then I think we will be looking at I would say a fairly different year in FY'18 than of the previous years.

**Ashish Chopra**: Just one question on the Blackstone deals you signed. So do you see them move the needle significantly on Direct Core or is it more of a penetrate and radiate kind of an approach in terms of the size of these deals where you would probably mine over time and see them grow to a significant size?

**Nitin Rakesh**: I think it is a mix of everything; actually, there are deals where you close the deal and then you go and you establish and you expand. There are deals where the first contract itself is fairly decent size within norms of what we would like to do in Direct Core. I think it is a mixed bag only because this company has a different need and platform that we get engaged with, and I think you can expect that trend to continue, that will probably on an average, will be comparable to what we do in Direct Core but individually, there may be some large deals and there may be some small deals.

**Ashish Chopra**: Thanks Nitin and all the best for FY'18.

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

**Ashwin Mehta**: Thanks for the opportunity. I had one question to Surya. Surya, you had around 220 bps benefit on margin this quarter because of hedge gains. How long do you think the hedge program would help you in terms of mitigating the impact of the recent INR appreciation?

**V. Suryanarayanan**: Thanks, Ashwin. If you look at our MD&A, we have given the hedge we are carrying forward. In terms of the cover, we are largely covered for FY'18. At the current rupee levels, we are well covered for meeting the margin guidelines which we have talked about.

**Ashwin Mehta**: Just one question in terms of Digital Risk. Earlier we were talking about $30 million kind of a base for Digital Risk, do you think that goes down before the deals that you have signed start to bring that to stability or are you close to the bottom now?

**V. Suryanarayanan**: We had earlier guided between $28- $30 million and based on the current outlook, we will be on the lower side of that, but as Nitin has mentioned earlier, we continue to monitor and try to get more deal wins which can stabilize the revenue at Digital Risk.

**Moderator**: Thank you. The next question is from the line of Abhay Moghe from Bajaj Allianz. Please go ahead.

**Abhay Moghe**: Had a couple of them; one, with all this Trump and visa-related things, are you really doing some investments in US before any bad news comes or are you still holding on to them and trying to see which way the bill goes and is that already included in your margin assumption? Second is, earlier there was an understanding that some offshoring in Digital Risk is possible and can be done over a period of time. So has that started and what is the color on that? Third, you have various segments like Digital Risk, Direct Core, HP etc., but overall, on a consol basis, when would you be able to grow above industry average -- would it be FY'18 or would it be FY'19 or where do you see that? Lastly, on this DXC partnership, will the revenue from this partnership be included in the revenue commitment that HP gave when the Blackstone deal happened or it will be over and above that?

**Nitin Rakesh**: So I think you had four questions. Let me go in that sequence; first one was around the H1 visa. I think we probably have the size of our pool and population is fairly manageable especially as compared to our larger peers. We already have a fairly diverse workforce in North America, we have always had very strong local sourcing channels and we will continue to monitor what adjustments we need to make. Because of those investments I do not think we need to do any – changes to our sourcing or our channel strategy. So while we are watching, we are also fairly comfortable in the ability to mitigate or manage any adverse news as and when and if it comes out. On the second question around DR offshoring, I think it is very much still on the cards and we will continue to move the needle on that offshoring capabilities, in fact, the new deal I talked about in Digital Risk actually has a very healthy offshore component. So that is one way in which we are moving the needle which is most of the new wins are closer to the classical onsite/offshore model that we established. Wherever possible, migrating existing businesses to higher offshore ratio is also being evaluated but obviously that has its own set of competitive challenges and risks. That is why we are very diligent in that migration.

Thirdly, on the growth outlook. I think it is fair to assume that our focus in the immediate term, which is the next four quarters, which is FY'18, is to bring as many of our segments back to growth which obviously means that the overall company growth will start reflecting that as well. So if you look at DXC and Direct Core, which is about 80% of our overall top line, if both of those segments get back to healthy growth numbers, we are clearly going to see a very different growth trajectory even for FY'18, obviously for FY'19 because that momentum and that run rate will carry over to FY'19 as well. So I think that is the way we clearly focus on execution across these two large channels and within these there are multiple levers that we have as well. Finally, on the DXC partnership, I think it is fair to assume that MRC is a construct to protect us on the downside. With the mindset that we have right now as a company, we are not really focused on the downside risk protection. We are actually focused on capturing the upside value that we can generate. We are well above the MRC consistently last four quarters. That is not something that we actively encouraged discussion or negotiation over because there is no upside to that. So the mindset of the account team, the management team and the engagement teams really is to find opportunities for growth while we do have a downside protection to the MRC. So it is fair to assume in the end we have a good strong basis or foundation to build that partnership and as such MRC is just a construct that was created in a very different environment. I would not be surprised

if we continue to operate with that mindset over the next I would say four to eight quarters as well.

**Abhay Moghe**: A follow up on the growth part. Should one see the employee hiring also like gaining momentum in the company as you win the deals and as the things gain momentum on the revenue side?

**Nitin Rakesh**: I think you can expect that our hiring trends will follow the growth trends; however, just a word of caution, it may not be linear relationship between revenue growth and headcount growth.

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

**Sandeep Shah**: Just further to what Abhay has asked related to HP and the DXC, so is it fair to say that the MSA what we have signed earlier for a downward protection that still remains?

**Nitin Rakesh**: Absolutely.

**Sandeep Shah**: How does it work because both HP and CSC together will have a huge Strength in India also? So for the new relationship, is it an exclusive relationship with you or do you have to compete with their captive arms in India because both of them have a scale capability?

**Nitin Rakesh**: Again, on the execution side which is the core ITO and AMO work, we have had this relationship for 10-years and in those 10-years also HP had its own captive in India. So it is clearly a question of where they find competitive capability, not just cost. But if you look at the new partnership construct that we have with DXC, I think the reason they are bringing us in is to essentially find a partner who brings complementary capabilities and is then able to help them win wallet share with the top clients. And clearly by extension that means that we have something that they are looking for to complement in their portfolio. That is why it is a solution partnership because we fit nicely in their entire cloud and application modernization solution side. There is the list of partners of DXC publicly available on their website. You can go and look at their solution partners and the strategic partners. On the solution partner side which is where we fit, you will also see that we are the only services company which brings this capability to bear. Most of the other solution partners are product companies or security companies. So by definition, whether we define it as exclusive or not, I think the opportunity is for us to drive this partnership and convert this to revenue.

**Sandeep Shah**: Your earlier partnership like the earlier MSA has helped to keep your SG&A lower. So this new partnership you have to invest into your sales and marketing or it would be taken care by the partner?

**Nitin Rakesh**: I think we both have to continue to work together. More than sales and marketing, the ability to drive solutioning and creating those application transformation deals upfront in many cases, try to convert existing contracts into transformation contracts. So you cut down on the large competitive bidding cycle time. So that is kind of the investment that we will continue to make. But from an overall perspective, given that we are focused on bringing growth into the HP SBU,

I think we will still be able to manage our margins in the guidelines we just gave because we will start seeing some economies of scale as well, but given that we have four relationships, we will obviously have to repurpose some of our market facing investments and aligning with our growth aspirations.

**Sandeep Shah**: Second on the Blackstone, Nitin, for the 80 companies which are in the Blackstone portfolio, are most of them largely or majority controlled by Blackstone. Any color if you can give on that?

**Nitin Rakesh**: I do not have that statistics handy, but typically they will be control positions with Blackstone because that is the way they invest. There may be some where they may have had control but now are diluted down. But it is fair to assume that in most cases they will have control position and wherever the companies are very-very large and they do not have control position it is actually also good news because we get the same level of relationship context but a larger pie to play with.

**Sandeep Shah**: This $1.5 billion which is your target spend, has it been still in insourced or has it been outsourced and if it has been outsourced, has it been outsourced to larger peers?

**Nitin Rakesh**: It is a mixed bag, again it depends on the size of company. If you look at one of their hospitality investments, it is a Fortune 500 company where they had a majority stake and that went public, they are still on minority, there obviously the environment is much-more competitive. If you look at the typical portfolio company which is in the range of $1-2 billion, there I think the opportunity size is less competitive because they are less penetrated by the traditional IT firms, but it is a mixed bag, I think given the success we saw in the last 90-days, we do have something that is working well and we will continue to execute on that plan.

**Sandeep Shah**: Do you believe margin in Blackstone business would be almost comparable to company average or it could be even higher?

**Nitin Rakesh**: I think it is fair to assume that it will be within our overall profitability norms because as I said, these are arm’s length transactions that have to stand on their own feet from a commercial validity perspective.

**Sandeep Shah**: Just on the cash payout, like we have a buyback which is pending, is it fair to say that in FY2018 -because buyback will take care of the cash distribution, there may not be dividend or just want a color on that?

**Nitin Rakesh**: I think dividend policy and buyback are probably two discrete buckets. Buyback was a one-time large distribution back to shareholders. We have kept our dividend policy pretty consistent for the last three years and you can expect that to continue in FY’18 as well.

**Sandeep Shah**: Surya, on the forex hedge. As you have said, it has been largely covering your FY2018 also. So do you believe that the quantum could be even higher than what FY’17 because we had almost Rs.79 crores worth of forex gain sitting in the revenue line in FY’17?

**V. Suryanarayanan**: Yes, it will be slightly higher than what was there in FY'17.

**Moderator**: Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

**Madhu Babu**: Has there been any realignment in the sales force for the HP business because now we are targeting four different segments in HP?

**Nitin Rakesh**: I think it is not realignment, we have obviously repurposed, we have added some, we have realigned some because - earlier it was much of a case - post they won the deal we would get engaged. Here I think each of these four have different dynamics. Again this is an evolving piece because this reorganization is still not complete. The last product company transaction is not fully done yet, probably gets done in August. I think as and when we see opportunity, we will continue to align our resources both for relationship, sales as well as delivery and management across these four entities.

**Madhu Babu**: Secondly, on one of the large accounts which is undergoing restructuring, so would that weakness continue over the next two quarters because we said that growth will be more of back-ended for this year?

**Nitin Rakesh**: I do not think we are saying that we would not see growth. I just feel that the trajectory of growth will be more back-ended. So we are definitely focused on getting growth sequentially on a consistent basis as well. The reason we call that out is because we want to just give some more color as to what is going on in Direct Core. So I think it is fair to assume that we will probably take another quarter or two to stabilize that issue. If it happens sooner, we will update you in a couple of months.

**Madhu Babu**: On the Emerging Markets Direct Channel, I think that is around 8 million run rate this quarter. So how do we see that? Would we continue to ramp down and become a small part or will we continue to focus again there?

**Nitin Rakesh**: I think it will stay stable. There is no reason for it to ramp down significantly and similarly there is also no reason for us to expect it to grow significantly because again there are parts of businesses that we restructured in the last fiscal year, that are still sitting in that bucket.

**Madhu Babu**: Is it fair to assume that Digital Risk revenue will go down further before turning around?

**Nitin Rakesh**: I think as Surya just talked about that $28-30 million quarterly range, it will probably be in that range through the remainder of FY'18.

**Moderator**: Thank you. Ladies and gentlemen, that was the last question. I hand the conference over to the management for closing comments.

**Nitin Rakesh**: No major closing comments. Again, thank you for your time. We are pleased with the way we have started to execute FY'18. We obviously have a lot of optimism in our two large segments and as well as plans for the other segments to stabilize and we look forward to updating you for our Q1 call in July. Thank you.

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