"Conference Call with the Management of Mphasis hosted by IIFL Institutional Equities"

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Moderator: Ladies and gentlemen, good day and welcome to the Conference Call with the Management of Mphasis hosted by IIFL Institutional Equities. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishi Jhunjhunwala, IT Services Analyst at IIFL Institutional Equities. Thank you and over to you.

Rishi Jhunjhunwala: Thank you, Steven. Good afternoon, everyone. Today, we are hosting Mr. Nitin Rakesh – CEO and Mr. Suryanarayanan – CFO of Mphasis Limited to Discuss the Business Update in terms of the Impact of COVID-19 Outbreak. During the call, they will share their perspectives and what measures they are taking in order to basically prepare for this outbreak as well as their assessment of the key trends which will influence the section, the company going forward. After their remarks, some questions from my side initially. We will open it up for Q&A for everyone. So, with that, I will hand it over the line to Nitin for his initial remarks. Thank you, Nitin and Surya for doing the call and over to you.

Nitin Rakesh: Thanks, Rishi. First and foremost, I hope that all of you on this call and your families are safe as the COVID situation continues to evolve. And all of us are going through some extraordinary times and clearly something that is unprecedented across a couple of generations. And while we live through the disruptions in many forms, I want to thank you all for your interest and emphasis and for joining the call today. We truly appreciate your time. Thanks again, Rishi, for setting this call up.

I like to first spend a few minutes talking about what we call the state of the union and then follow it up with the Mphasis perspective from a current vantage point. Firstly, managing the new normal. We have created significant interventions where possible to leverage the work from home options keeping in mind technical issues, security protocols as well as regulatory constraints. Our clients have by and large been very supportive, and we have seen some unprecedented levels of flexibility on this front. We are at a point where we already have a large percentage of employees permitted to work from home. And as of Q4 exit, our model of work from home metrics is fairly robust. With over 90% overall coverage through operations, with 99% onsite coverage and the remainder of the work in categories that either requires special equipment, for example, R&D labs or SOC or NOC or where we are operating in business continuity mode due to regulatory, privacy or cyber concern and we continue to work on normalizing those as well.

Secondly, accelerating digital transformation. While our clients have been very appreciative of our efforts so far, this also seems to be a good opportunity to strengthen our relationship and further step up the value pyramid. There are new areas of engagement that are emerging and will continue to emerge. Our clients have realized that this situation will only accelerate their need for digital transformation and modernization. The ability for us to quickly virtualize everything we do is right now. While we are already known for things like Design Thinking Workshops and Sessions, this continues to differentiate us during these times as well. We have also been able to close majority of the deals identified for Q4 and as such are quite pleased with the fact that the disruption did not significantly impact the deal closures. And that provides a safe buffer to FY'21 revenue growth. As with the previous few quarters, our deal wins have continued to be robust and we have also continued to see broad-based wins across client segments in the direct channel.

Let me exemplify the few examples from across both US and European markets. In the first example of a wallet share gain, we were awarded a large deal in the global data initiative for a tier-1 US financial services firm by consolidating work from all partners to Mphasis and to bring in operational efficiencies through SRE style monitoring in production support along with automation and cloud migration and development work, applying our zero cost transformation framework.

The second example is that of a US tier-1 bank headquartered in New York that went through a strategic vendor selection process to prioritize and restructure their spend typically away from traditional tier-1 type vendors. Mphasis was added as the only new preferred partner with the first set of deals across multiple streams in asset and security services. This is a classic example of Mphasis being added as a challenger to the transformation agenda and will take on share of wallet from incumbents.

In the third example from the UK BFSI markets, we acquired a new client where Mphasis has been selected to partner with an integrated tech and transformation outsourcing deal, winning against two incumbents: one, tier-1 and a global vendor as well as a local European player. We are creating a CoE-based target operating model with the transformation of the IT estate through automation, technology, debt reduction, location optimization and consolidation, eventually creating and achieving flexible cost base over a three-year period across LOB such as motor finance, premium finance and treasury back office operations.

These are three great examples that exemplify how even during this difficult time we continue to partner with clients and effectively apply all of our technology levers to win against established incumbents.

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We have also quickly adopted the new normal as we expect this mode of operations to last well into Q1 FY'21. And we are able to engage with clients in virtual design workshops, architecture sessions as well as cloud-enabled virtual client experiences.

As some of you witnessed over the last two analyst days that we hosted, our customer experience center was designed to be on the cloud, and we have been sharpening our offerings within the same model. Heartening to note that we are now unearthing new opportunities created by the recent events. And while we will elaborate more on our May investor call, they broadly fall into four categories: First, acceleration of the digital transaction capability, for example, digital contracts, remote onboarding of clients, investors and employees and remote management of application uploads.

Second, cost takeout approaches to reset asset considerations, in some cases requiring strategic asset restructuring or variabilization of spends that will see renewed consideration for outsourcing and offshoring.

Third, business model shifts with supply chain or omni-channel strategy shift, leading to reprioritization of digital programs requiring architectural and design-led engagements.

And fourth, sourcing strategy considerations where we have stepped in to either provide replacement capacity or additional burst in selected areas. We expect the long-term decisions on strategic sourcing to have significant impact and potentially making this a tailwind for us and some other players in our industry as clients reassess vendor landscapes away from pure play niche and tail vendors for financial or operational reasons or consolidate location and captive strategies. Role and nature of captives is also likely to see a massive shift.

While we are expecting some changes to the client spend pattern, the effect will be more trickled down in nature for Mphasis considering that a large percentage of our revenues focused on BFSI segments where we expect some tightening of discretionary spending but we also focused on wallet share gains as explained above especially across new clients that we have acquired as well as existing client accounts.

We do expect that if the travel freeze is prolonged, it might become a bottleneck in onboarding or fulfillment, especially for new deals but we are also adjusting the program to enable digital and remote options. While the current pipeline has been executed and we are staying close to clients and prospects as well as enabling the client-facing teams for virtual engagement, new deal origination might get impacted. And while we have not yet seen any broad-based signs of major demand dislocation especially in our focus verticals, we will get a better idea over the next few weeks as things settle, and the economic prospects get clearer.

There have also been many questions of the impact to Mphasis from the logistics and travel sub-vertical that sits within our emerging vertical segment. Logistics and travel represents about 14% of Q3 FY'20 revenue, of which logistics represents 75% of that share and airlines, which is the most dislocated vertical only represents 1.4% of total revenue, most of which was consolidated within the shared services operations we run within a DXC relationship. As such the risk from revenue disruption in that segment is minimal.

Further, on DXC, currently, we are engaged with them and their clients to ensure continuity and minimize any impact. The collaboration has been fantastic, and we continue to stay close to DXC client managers to enable any immediate areas of opportunity due to the special situations requiring burst capacity, etc., There have been instances where we have been asked to step in to provide that additional capacity.

Longer-term, we are also engaged in discussing the FY'21 priority areas for DXC as well as how best to align with them in light of those areas. We still view this as a strategic partnership and any concerns on immediate term are overblown in our view.

On the non-DXC business within the channel, we continue to see good traction and opportunities and have had fantastic feedback from clients on our responsiveness and agility.

Finally, from our operations perspective, in the past few quarters, we have worked relentlessly on the supply chain optimization with increased focus on the right pyramid structure, fresher hiring, fixed price or managed services expansion, automation and offshore leverage. All of this has become second nature to us, thus strengthening our pipeline as well as our operating metrics that have stayed strong. We expect to continue to leverage these for short-term management of our business and we will take active decisions based on the evolving client situation. As we speak, we are working on balancing the very near term with the renewed focus on digital employee engagement as well as continued focus on reskilling using our Digital Talent NXT platform.

We have also rolled out a Digital Pulse Check App for remote management for productivity, quality and proctoring while leveraging the collaboration platforms that were already part of our delivery transformation program. We aim to further accelerate this program and adoption across the company. We believe this agility in our supply chain will enable us to adjust to the new demand pattern as well as service rebound as the environment recovers. Thanks once again, Rishi, for hosting this call and I am happy to take questions you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session.

Rishi Jhunjhunwala: Nitin, maybe a couple of questions from my side first as the question queue forms. First is, you talked about the measures that you have taken. How this format of work from home, project delivery has impacted service lines including say App Dev, IMS and BPO, could you talk about some of the anecdotes where the transition and delivery are being successful?

Nitin Rakesh: See, App Dev and digital projects are very quickly demolishing globally because we have the tool chain automation using DevOps which was already in place. For app management, I think we were already focused on using next step or delivery engagement platform. So, I think those were relatively straightforward migration, and of course, we require digital interventions for quality, proctoring, etc., that we rolled out already. For infra, again, most of our infra engagements, we use InfraGenie as a platform which is already an orchestration layer that sits on top of service now, so there again the whole predictive, preventive minds have helped us because we were able to leverage it quickly to not only move our piece of work but actually begin the core platform that enables a lot of our clients to actually go remote with their own workforce. I think the most complex part of the remote work has been the BPS business. And even if it was embedded within bundled deals or we have the ability to process it from remote locations, I think the complexity really has been client permissioning or regulatory/cyber/privacy concerns. And that is why we are going client-by-client. And I think that is where I would say the remote adoption is probably little bit more challenging even in BPS; we are now at almost

80% work from home enablement. So, I think that is kind of the way it has played out.

Rishi Jhunjhunwala: And how is clients in different verticals responded to the attempt to shift in this newer delivery format, have there been discussions around how the billings will work especially in the time and material kind of projects?

Nitin Rakesh: Again, so far, the effort has been to get the operations up and running or in some cases work with clients to enable this. So, I think a little bit too early to talk about any impact on billing or such. But I think more or less they have been very supportive. Of course, the concerns on cyber and privacy come more from some select financial services clients…I would not say banking but more financial services where it is either wealth management or there is some aspect of access into PII data. But I think overall the support has been fairly good and I think as things stabilize, as I said, we are already at over 90% coverage to operations. So, I still see this continue to inch upwards because I think as clients are realizing that this is a slightly more longer-term disruption that might stretch into a few weeks, I think we continue to inch up that coverage.

Rishi Jhunjhunwala: Clearly, there is going to be pressure on revenues but IT sources model has a lot of levers on the cost side as well. The obvious one that comes is on the travel side, the travel cost will clearly come down dramatically. But just wanted to get your sense in terms of what are the other levers, subcontracting, variable pay, what kind of levers can we use in order to ensure that the margin still are within a band?

Nitin Rakesh: I think all of the above to be honest, Rishi, because I think the biggest issue is to make sure that we have minimal disruption to revenue because everything kind of flows through from there. As I mentioned in my script, so far we have not seen any mass scale dislocation of projects and maybe for us that is a question of the fact that a large percentage of our revenue sits in verticals that are not in the first line of fire and depending upon how long the dislocation last, I think we will probably see some trickle down impact into some of the other verticals, but I think right now the focus is staying close to clients, executing on the pipeline that we converted already in the last two or three quarters because that provides a little bit of buffer against any other dislocation. And then of course, as I said, using all the levers from pyramid optimization to cost control, subcontractor renegotiations, of course, there is a natural travel reduction and will probably last through the next six to eight weeks at least. But I think more importantly we are still fairly focused on making sure that we minimize any disruption to revenue. Still find opportunities and the guidance for the team on the ground is to continue to play off and look forward to areas where we can actually step up. Either take over from some of the weaker players or in some cases because of our client-centric model help them think through the next pivot and effectively create opportunities.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Principal Asset Management. Please go ahead.

Ashish Agarwal: Sir, just wanted to understand, are you seeing in any of your clientele they are asking to slow down the project or even for the deals which you have already won, to delay the ramping of those deals, have some of these requests come in from the clients?

Nitin Rakesh: Ashish, the only disruption is that, what used to be the regular onboarding process has become a little bit disrupted. So there has been a request from some clients to help them redefine and restructure the onboarding process for it to be much more remote-enabled. Other than that, I think so far, we have not seen any major dislocation. But as

I said, that is because the focus for the last two weeks has really been on business continuity and getting up and running. “Do we expect some dislocation?” The answer is yes, but so far that has not shown up in any major way.

Moderator: Thank you. The next question is from the line of Nitin Jain from UTI Mutual Fund. Please go ahead.

Nitin Jain: Among your large BFS customers, especially the largest ones, what part of the business comes from discretionary spend?

Nitin Rakesh: Nitin, that is a very difficult classification to go client-by-client. I think if you look at our overall book of business, about 30%-ish is App Dev, of which not everything is discretionary either. So, I think the right way to look at it is that wherever long-term programs that we are engaged in especially on the digital side or the transformation side, I think those are a little bit more longer-term in nature. I think where the discretionary part will come in is where there was PoC development or co-innovation programs or some form of an open exploration in things that are not core part of their operations, will probably get a little bit squeezed, but I would say despite what the general perception is that every dev program is discretionary, I do not think that is fair and accurate. So, if we look at app management plus infra plus BPS, that is about 70%, 75% of our revenue which I think is fairly stable and within the remaining bucket I think we will have to go client-by-client and see how best we manage that.

Nitin Jain: Is there any risk that any of those transformation programs which are some slightly longer in tenure, they can be delayed or they can be put on hold by the client?

Nitin Rakesh: I think we have had a pretty long internal discussion on that as well. By virtue of the fact that most of our larger relationships especially or more tenured ones, we are engaged in the sub segments like wealth management or mortgages or consumer lending. I think those tend to be more B2C focused and hence likelihood of them taking some of those on a slow track or taking the pedal off the accelerator is less because that is where the biggest need for digital transformation is. I think the interesting thing for us is that we have been fairly acquisitive from a new client perspective in the last 18-months. So, all the new clients that we have acquired I think the effort will now be to continue to use that to expand wallet share and many of them happen to be in the same areas that I talked about. So, again, yes, as I said, we do expect that as the dust settles and depending on the nature of the economic outlook and the recovery, we do expect some conversations to happen but I think at this point in time at least in our larger relationships, we do believe that some of those are what we call secular tailwind areas where investment has to happen.

Rishi Jhunjhunwala: Hi, Nitin, this is Rishi. Maybe if I can go on for a follow up. Your partnership with DXC has been quite strategic. Just wanted to understand can you give some implications on the ongoing situation that would have an impact on your strategic partnership, whether can it develop into a stronger relationship or do you think the way you do work for them is going to change? And also, any reaction that you are hearing from your top clients?

Nitin Rakesh: I think there has been a lot of quote unquote concern on the impact from DXC. And I think to a large extent I would say at least the last two to three quarters, we have had a significant interest in understanding what the worst-case scenario could be. I have actually seen some modeling from at least some sell side firms where they model for a very sharp and steep decline because they have just taken a straight line formula of how much revenue is committed and how much has already gone by and hence we should be bringing down to the remaining revenue. I think that is a slightly risky way of making an assumption because the minimum revenue guarantee still has 18-months to go and it does not work in a straight line fashion because it is not a cumulative rolling number, it had annual thresholds and resets. I think we have some runway that because of the visibility that will continue to be fairly strategic for the foreseeable future. I think we have constantly focused on finding ways to align with the strategic direction. I think we understand with the new management in place the strategic direction has been set with the tech stack which has five layers, at the bottom is the ITO layer which is their core business, followed by cyber security, followed by applications, analytics and consulting. So, I think we continue to play a fairly strong role in the applications stack of the way they have defined their five-technology stack. And there are many, many clients of DXC that we are fairly deeply embedded in. So, the focus really is how do we make sure that we continue to provide value jointly to those clients, how do we take new services on behalf of DXC into those clients and how do we continue to find ways for us to stay relevant. So, I think again, no surprise but I definitely believe that the concerns are a little bit overblown on that side and we do have fairly clear runway for the foreseeable future. And I think these opportunities will be thrown up now with this current environment and will actually only be additive to that. And as things evolve, we probably would give you more updates in our May call but that is kind of from our vantage point. I think the numbers, the quarterly run rate, all of that should not be a surprise because we did call for that in our last full year meeting about 11-months ago in May and we talked about the fact that while we saw very healthy growth in that channel in FY'18 and '19, we did expect that growth could moderate. I think that is kind of where we are trending to as we speak for FY'20. On your other question about the signal from our other large clients, as I said, I think the two things I take heart from, one, through this disruption over the last two to three weeks, we virtually stopped having face-to-face meeting with clients in March because I think there was a lot of concern building up at least in the US markets and UK was about a couple of weeks behind. But through this last three, four weeks, I think we had a fairly strong engagement with clients. We have not seen meeting cancellations or pipeline discussion cancellations. So, I think that gives us a lot of heart that there is a sense of urgency on their side as well in continuing to move forward with the agenda. Having said that, as I said, there is always going to be a correlation between the overall economic environment and the work we do with them and for them. So, I think we are just staying very close to those clients. We continue to be as I said, growth focused. We continue to look for opportunities and almost all of our client-facing teams are fairly, heavily engaged in both short to medium-term opportunities that have been thrown up by this. In fact, we have probably seen very-very robust deal closing even through the month of March.

Rishi Jhunjhunwala: Can you talk a bit about how the hiring strategy could evolve for you and probably if you have some insights around the industry as well considering that there has to be probable changes in the way the pyramid management happens, the onsite mix happens and also the wage hike, so some color on that will be really useful?

Nitin Rakesh: I think there are two or three things that will definitely happen. One, the tightness that we saw in the labor market, about three, four quarters ago will probably soften a little bit, attrition will tend down for the industry as well and most importantly I think there will be some dislocation to short-term movement of staff. So, I think we have to work around those two or three items that we believe and expect to happen. What that really means is I think we have to continue to leverage a remote onboarding, remote hiring, localized hiring in pockets because we cannot even hire somebody go from one city to another within the US. I think that is something that we might end up doing for the next few weeks. And then as things do open up a little bit, we will reassess the overall strategy on utilization on bench, on freshers. So, I think if we can expect resets to happen depending on each company's pipeline and so on. For us we already had a fairly I would say tightly managed utilization number. I think we are reassessing at what level, at what point to bring on the next set of our campus hires, and if need be, we can always adjust the joining periods. But given that we still have pipeline to execute from our Q4 deals and some Q3 deals comes upon onboarding of new projects, I think we will still be fairly pragmatic about making sure that we have no impact to growth and of course revenue and then work backwards from what is needed and what we have in pipe versus what we need to supplement.

Rishi Jhunjhunwala: Based on your discussions with other industry participants, customers, supply side, especially in US and Europe, what do you think is the initial assessment where the demand can move, right, of course, we know it is moving down but how bad it can get for the industry and as a result how bad the FY'21 could be and the resultant impact on profitability?

Nitin Rakesh: Again, I think Rishi, it is a little bit too early because as I said, right, everyone's heads down in managing the day-to-day. I think as I said, we probably require two, three or more weeks till everything stabilizes and dust settles. I think the real demand scenario and how much compression will happen is a question of two things: One, what is the expected recovery track. Of course, there has been a lot of stimulus that comes back into the market. So, a lot of that will definitely flow in and mute some of these but I think the question really is what is the shape of the recovery and I think you guys are better placed to discuss that we versus you but it is really a question of how that plays out. I think for us the way we are thinking about it is definitely Q1 FY'21 will be challenging because of all the restrictions in place as well as the way our model is set up, right now we are at 90% plus coverage, so our effort is to get as close as possible to 100. So, I think it is really a question of how long this will last in various geographies but more importantly the shape of the recovery. Based on conversations with number of our top clients, I do expect them to keep while they will reprioritize their investments and their budgets, but as we expect them to see gradual recovery through the remainder of the calendar year, I would say post-June or so. I think from our perspective, we are very focused, as I said on monetizing our position with not just our existing clients and the wallet share but also with new clients. I think the focus will be, can we blunt some of these through expansion in the clients that we have acquired over the last two years and how best can we weather this, whether it is one quarter or two quarters of disruption. From a cost standpoint, I think as I said, the industry is fairly mature in managing those levers and adjusting those up and down given that large percentages of our cost is really labor cost. And if there is softening of the tightness that we have seen in the labor market and attrition starts to come down, then I think we can manage that part really well as well. I think some work to be done but evolving situation still in some cases. But definitely looks like that in the sectors that we are operating in, at least so far, we have not seen any conversations that points to a massive dislocation, whether it is a matter of time or sub-segments but we will be ready to have the conversations as they evolve.

Moderator: Thank you. The next question is from the line of Nitin Jain from UTI Mutual Fund. Please go ahead.

Nitin Jain: Just two more follow up questions: First, on the DXC, just wanted some clarification. So, within DXC, in terms of vertical exposure it is largely BFSI, right, or there is a diversification?

Nitin Rakesh: No, there is diversification much more than our direct channel within DXC. So yes, we have banking, we have insurance, we have hi tech, because there is a lot of work that we do for the HP companies, for the software companies, product development side as well. Of course, as I mentioned earlier on, there is a little bit of airlines and travel there as well. That is about 1.4% of our overall revenue right now. So, a little bit of more diversified than the direct side.

Nitin Jain: You talked about recently won new deals. Wanted to know are they ramping up as planned or there are some disruptions?

Nitin Rakesh: I think the only disruption is where the clients have asked for a pause because their ability to remote onboard contractors or employees is a little constraint. But that is not because they have delayed ramp ups for other reasons. So, I think wherever possible we are still going ahead and staffing those programs or where the clients have asked for restructuring based on remote onboarding. Because the onboarding of our employee for the project is dependent on the clients' process. There is a background check requirement, there is a creation of some of the ID process. So, some of that has taken a hit with the disruption. But as I said so far not seen major dislocation from a demand standpoint per se. As I said, some of that will come and we expect some of that to happen but so far, we are ramping up based on the wins as well.

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

Nitin Rakesh: Again, thanks, Rishi, for organizing this. Thank you all for your time and your interest in Mphasis. I am extremely grateful for our aligned committed board and all our stakeholders and we continue to stay focused on creating value for all of them and I look forward to speaking to all of you in the May call. Thank you, again.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.