# "Mphasis Limited Q2 FY16 Earnings Conference Call"

## October 21, 2015

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| **MODERATOR:** | **MR. VARUN DIWADKAR – CDR INDIA** |

**Moderator:** Ladies and Gentlemen, Good Day and welcome to Mphasis Limited Q2 FY16 Earnings Conference Call. We have with us today from the management Mr. Ganesh Ayyar – CEO and Mr. Suryanarayanan – CFO from Mphasis. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this is being recorded. I would now like to hand over the conference over to Mr. Varun Diwadkar of CDR India. Thank you and over to you, sir.

**Varun Diwadkar:** Good morning, everyone and thank you for joining on Mphasis' Q2 FY16 Results Conference Call. We have with us today Mr. Ganesh Ayyar – the CEO and Mr. Suryanarayanan – the CFO. Before we begin I would like to state that some of the statements in today's discussion maybe forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q2 FY16 results announcement release that has been sent to you earlier. This conference call would be archived and the transcript would be made available on Mphasis' corporate website www.mphasis.com. I now invite Mr. Ganesh Ayyar to begin the proceedings of the call.

**Ganesh Ayyar:** Good morning everyone. Appreciate all of you for joining the call. I hope you have had the opportunity to go through our MD&A which provides details of our operational and financial performance for second quarter of 2016. We will be discussing our results in three parts viz. Direct International business, the domestic BPO business and HP business and I will share some key financial and operational highlights of this quarter in those three businesses.

In our previous call we had shared with you that our focus is on Direct International business: to grow it and to grow it in the right areas to ensure that we are winning in the areas where customers are investing more money. On that note let me give you some points about our Direct International business for the quarter.

We had a very strong quarter and this was on the back of first quarter which was also strong. Our Direct International Business recorded a revenue growth of 7.9% quarter-on-quarter or 5.2% adjusted for rupee depreciation. We continue to have a robust pipeline and had a good quarter in terms of deal wins. We added $90 million worth of TCV (Total Contract Value) in this quarter. Included in these are significant wins in our focus areas which include digital, governance, risk and compliance, next generation infrastructure services and AMS. If you add the first two quarters, we have won $166 million worth of total contract value in the first half. This certainly puts us in good position to achieve our objective to grow our direct international faster than the market.

Let me touch upon domestic BPO voice business. As you are aware our strategy was to focus more on direct international business and as part of that strategy we had decided to move away from some of the businesses. We looked for somebody to acquire our domestic voice BPO business and we announced that we had done a deal in Q1 2016. I am happy to announce that the transaction got closed on 31st August 2015. This will help us have more management bandwidth to further focus in direct international area for us to grow.

Let me move on to the third part of our business which is HP business. HP business declined 4% quarter-on-quarter. This is a concern for all of us as we have been experiencing decline for more than four years. I do not have any breakthrough to report. We continue to figure out ways and means of trying to see how we can slowdown the decline and get growth back. As of now I have nothing new to report on that front.

Moving on to overall financial and operational performance for the quarter. Steps we had taken over the last year have resulted in building greater visibility and predictability in the business. On a consolidated basis net revenue increased 4.1% sequentially on a reported basis and 2.1% net of rupee depreciation in Q2 FY16. This included two months of domestic BPO business. Excluding the domestic BPO business, we grew 5.2% on a reported basis and 3.1% net of rupee depreciation.

Gross margin expanded 100 basis points quarter-on-quarter to 25.9%, obviously aided by revenue growth. Operating margins increased by 120 basis points quarter-on-quarter to 13.9% towards the upper end of our stated band of 12-14% for the first half. Cash addition continues to be strong at Rs. 1,378 million in Q2, excluding the impact of dividend paid during the quarter for FY2015.

To summarize, this has been a good quarter. We have not only been growing our direct international business and improving our margins while ensuring that we are winning in the right areas, we have also exited the businesses that are not in sync with our strategic roadmap allowing us to focus our energy and management bandwidth in Direct International. We will continue to invest in digital, governance risk and compliance, next generation infrastructure services and AMS portfolio and obviously focus on vertical areas which includes banking, capital markets and insurance.

We have a good pipeline and have booked some good wins. I expect this momentum to continue. We are quite confident of driving direct international business growth above market and generating greater value for all our shareholders.

On this note once again I thank you for your continued interest. I would request the moderator to open up the lines for questions.

**Moderator:** Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Sandeep Shah from CIMB. Please go ahead.

**Sandeep Shah:** Congrats on a good show, especially in the Direct International Business. Firstly, my question is on a note to accounts where we have said that Rs. 232 million has been the revenue related to earlier periods booked in this quarter, can you explain the nature of this?

**V. Suryanarayanan:** This pertains to revenue which is based on milestone wherein the efforts were in previous quarter but the milestone was in current quarter and hence it was recognized this quarter.

**Ganesh Ayyar:** Sandeep in other words, while this is project specific and it seems like one time, when you undertake these projects, milestone based revenue recognition is a regular occurrence. It is not completely out of ordinary.

**Sandeep Shah:** And this is for the direct international business?

**V. Suryanarayanan:** Yes.

**Sandeep Shah:** So this relates to Q1 and not to FY2015?

**V. Suryanarayanan:** It does not pertain to FY15, it pertains to Q1 of FY16.

**Sandeep Shah:** Second question is, can you give us some color on digital risk revenue growth in this quarter and what are the prospects going forward with the fears of interest rate hikes in the US? Thirdly, in terms of the deal win TCV, can you break it down in terms of renewal and existing?

**Ganesh Ayyar:** Digital Risk has done well in second quarter. It is part of our Direct International and Direct International grew 7.9% quarter-on-quarter. Digital risk grew faster than the average of overall direct international, suffice to say that it lifted the average of overall direct international. Coming to your point on interest rate hike, impact on transactions and when this interest rate hike will take place, there is lot of speculation going on in the market and cannot comment on it. About four quarters ago our run rate had dropped to the level of low $20 million a quarter and over the last three quarters the revenue growth has been stellar. Part of it is growth which is sustainable, part of it is through project business which comes to an end and new projects have to be won. Today, the good news is from $22 million backlog business, we have brought it to $30 million range and remaining we are topping up with projects that we win. It is important for us to ensure that we keep moving that $30 million to a higher level. This is not their total revenue, I am talking about what gives us a steady visibility going forward. New wins will add to that $30 million.

**Sandeep Shah:** If I am not wrong, my quarterly run rate calculation shows it is now above $40 million, so it looks like there are close to around $13 million worth of project base revenues. Is there a possibility of revenue growth volatility in Digital Risk going forward or do you still believe that on a $43 million quarterly run rate there is good prospects looking into the deal wins which we had in the past couple of quarters?

**Ganesh Ayyar:** I do not know where you got $43 million figure but numbers are fairly close. We have good visibility into Q3 numbers and Q4 numbers we have poor visibility. We have visibility at $30 million range and we are working on deals. At this point of time it is hard to predict whether they will bring the same level of growth rates that we saw in first half but I do not expect that business to tank.

**Sandeep Shah:** Regarding your Direct International excluding Digital Risk, as we are largely focusing on BFS as a segment where cautious outlook has been given by some of the top banks both in the US as well as in Europe. Any discussion which gives you any kind of cautious outlook on IT spend going forward with the clients?

**Ganesh Ayyar:** Yes, if you are talking about traditional IT spends there is a focus on optimizing that cost across the world and banking, capital market and insurance is no exception. Maybe there is a greater focus on optimizing it in this industry versus other industries but based on my own experience I believe more money is not being thrown into traditional IT. Investments are flowing in the space of digital and GRC. Optimization of traditional IT also offers us an opportunity, so we are not missing those opportunities but money flow is clearly heading for digital and GRC.

**V. Suryanarayanan:** Sandeep, the point which you had asked with respect to TCV, entire $90 million is related to new wins. Renewals are not part of that.

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

**Ashwin Mehta:** I had a follow-up on the Rs. 232 million one-off revenues which came in this quarter, so were there any associated costs or did this directly go through to the margins?

**V. Suryanarayanan:** There were some costs related to that revenue.

**Ashwin Mehta:** Because if I adjust for it the margins appear to be flattish.

**Ganesh Ayyar:** This is not an unusual phenomena and it is fairly common in project business where you have puts and takes. While there is a note which you have seen in the accounts which is probably what is prompting you to ask this question, I do not see this as dilution in our current stated margin nor is it a dilution in margin going forward.

**Ashwin Mehta:** We have given an outlook of 13-15% margins going forward, so what would be the levers according to you which drive better margins going forward?

**Ganesh Ayyar:** One is our scale in Direct International is clearly going up. Secondly, if you look at the quality of revenue and what we are selling, which is in our TCV numbers, first half we have closed $166 million of total contract value, which is entirely new business and then there is operational optimization. These three factors will drive our margin. We have a headwind of about 170 basis points due to salary increment that we have administered starting Q3. Not only do we have to overcome that headwind, we have to work on improving the margin. So the band which we will operate would be 13-15%. You can see that in Q2 we moved the margin up by 120 basis points to 13.9%, we are touching the upper end of the 12-14% band that we mentioned, so hence we have moved the band to 13-15%, but we have work to do.

**Ashwin Mehta:** And just one last question, depreciation saw a material decline, so is it related to the BPO hive off, would the current run rates continue?

**V. Suryanarayanan:** Yes, the current run rates will continue.

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

**Nitin P:** If you look at TCV any sense you could give us in terms of how large is IMS within that overall proportion, or if you could give some sort of breakup of TCV versus the businesses that we run?

**Ganesh Ayyar:** We have focused quite a bit on infrastructure service in the direct space because our footprint in infrastructure services was predominantly working with HP. We rebuilt the entire sales force, we invested in tool fabric. Happy to report, roughly about 25% of that $90 million is coming from next generation infrastructure services.

**Nitin P:** And the second thing was from a margin perspective, there is a headwind of 170 basis points from wage increases next quarter. Do we have any levers to offset that or are we looking at margins actually coming off?

**Ganesh Ayyar:** Yes, I was mentioning that we started working on it six months ago knowing that there are going to be wage increases. While we did not have the precise number, directionally we knew how much we normally give. Second thing is the wins that we have got, the areas where we are winning is the higher quality area and last but not the least, as our scale increases in Direct International it gives us the ability to optimize more. All of the above is work in progress and we believe that we can cushion significant portion if not the entire portion of the wage increases.

**Nitin P:** So basically if I understand right the new business assuming is at higher margins, do you think that ramp up will come through next quarter and there is no worry?

**Ganesh Ayyar:** We have won deals over the last 4 quarters. We won $76 million TCV in the first quarter and $90 million TCV in second quarter this year. All those are going to translate into revenue. Greater bandwidth and focus on Direct International has helped us to shine the light in right areas and as a result we are able to identify areas where we can improve margins.

**Nitin P:** On the insurance side there seems to have been a sharp decline. Is that driven by BPO or…?

**Ganesh Ayyar:** This is project specific because one of our clients had a change in direction of business strategy which impacted a fairly large project which we were doing. That has caused this impact.

**Nitin P:** And is it likely to be a headwind going forward or that is largely done with?

**Ganesh Ayyar:** If I may lift your discussion to a higher level, looking at Direct International, do we believe that we are going to see significant decline or does it affect our focus on growing faster than the market? Absolutely not. We believe that we have the pipeline, we have the wins so we will grow faster than the market.

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

**Ashish Chopra:** My first question was around Digital Risk, you mentioned that you have established a base of around $30 million whereas there is some project specific contribution additive to that which is taking it closer to $40 million. So in terms of your visibility what would be the visibility for the project revenue from current point on for the continuation of this additive base which you would need to make up by winning additional deals?

**Ganesh Ayyar:** We have reasonable visibility for Q3 and a poor visibility for Q4. The good news is we have one more quarter to see how we can improve Q4 but there is no need to panic and I believe that we are continuously working on lifting the base and making sure that project business comes in as well. We have work to do and more work to do for Q4 and not as much for Q3.

**Ashish Chopra:** So unless there are additional wins, the lumpiness of the Digital Risk in the recent quarters could be on the downside in Q4 would be the right understanding?

**Ganesh Ayyar:** That is correct.

**Ashish Chopra:** Given that HP channel's contribution has been consistently coming down and it is now below 30% should we now expect the sensitivity from currency to be higher because earlier we had this large chunk of HP in INR book terms, so where would the sensitivity to the margins stand today?

**V. Suryanarayanan:** Yes, to some extent you are right. Of course, to a large extent it gets offset by the hedge, so it depends upon the hedge position in terms of sensitivity to currency.

**Ashish Chopra:** And lastly, I was looking at the breakup with the "other" segment which I assume is the emerging markets direct business, it shows a very significant growth versus last year, so I was just wanting to verify would this be because of the revenue reversal sitting on the last year's books or has there been any growth in that segment as well in terms of incremental business?

**V. Suryanarayanan:** Yes, there was some growth in the ATM business upon sale of some CDs.

**Ashish Chopra:** But going forward we should be resting our expectations on growth in the Direct International Business rather than HP and other business, right?

**Ganesh Ayyar:** That's right, we are just doubling down around Direct International Ashish.

**Moderator:** Thank you. Our next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

**Manik Taneja:** This question was with regards to change in margin outlook getting into H2, if you could once again explain the various levers that you see playing out to your advantage, given the fact that we will have wage hikes coming up in the next quarter?

**Ganesh Ayyar:** We are working on those headwinds due to wage increases, we have plans to significantly cushion that impact of 170 bps. We need to do little bit more work and we will.

**Manik Taneja:** Sure. Second question was with regards to the sales and marketing investments. In the past you have talked about putting investments in developing more local presence for account managers, so if you could give some sense on the progress there, is there a further need to step up the sales and marketing investments to divert on the direct side?

**Ganesh Ayyar:** You won't see a quantum jump because our revenue base is also increasing in Direct International and as a percentage we will obviously be able to spend more money. You may see marginal movement here and there but I do not expect a huge jump in sales and marketing cost going forward.

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

**Gaurav Rateria:** Couple of questions. Firstly on the new wins, it is mostly coming from your chosen areas, but what about renewals because they pertain to the legacy business, could you please give some color qualitatively in terms of how big is that portion of your business and what is really happening in terms of growth or decline or is it remaining stable?

**Ganesh Ayyar:** This question can be answered in two buckets. There is project business which does not get renewed because the project comes to an end, hence that revenue flow stops and you have to replace it with new ones. There is nothing that can be done by any service provider including us because we have to continuously look at newer opportunities to grow our revenue. Then there is second type where it comes up for renewal and whether you are able to win that renewal. So far our track record of winning renewals has been stellar because our customer satisfaction rating has been superb. Since this question probably relates to what kind of modeling you can do in terms growth for Direct International I continue to maintain that we will grow faster than the market.

**Gaurav Rateria:** On HP front how much of decline is still lead by HP shifting business out of their own captive and how much is because HP's own business is declining. The question is coming because off late we have seen HP's own enterprise services business kind of stabilizing and decline which was there about a year back that has come down dramatically. So any flow through impact which could come because HP itself has been winning in the new areas?

**Ganesh Ayyar:** As of now I have nothing to report which tells me that we have a breakthrough and the decline is going to get arrested or growth is going to come back, as and when I have anything to report I will definitely share it with this community. At this point of time with the experience of decline which we have seen over the last 4.5 years or so we just need to extrapolate the data.

**Gaurav Rateria:** And lastly any impact of seasonality this year which is unusual or can be higher than last year given the furloughs maybe there in some more accounts apart from some accounts which have seasonally seen some furloughs?

**Ganesh Ayyar:** We will see seasonality in Q3, so in that sense it affects the entire industry. I am not aware of any unusual softness in Q3.

**Moderator:** Thank you. Our next question is from the line of Srivathsan R from Spark Capital. Please go ahead.

**Srivathsan R:** Despite domestic BPO business being divested, the revenues from India seem still to be pretty buoyant, is it because a good part of revenue was included or are you seeing growth in any other piece in India business?

**Ganesh Ayyar:** Domestic BPO revenue was included two out of three months in that quarter and ATM business had kind of a one-time revenue growth. We are not strategically focused on growing domestic business.

**Srivathsan R:** And from an HP perspective, seasonally the next two quarters are weak quarters if you have to look at historical numbers, is that a trend that we can expect directionally?

**Ganesh Ayyar:** Yes, I have nothing to report which tells you that you should not be baking in the trend which you have seen over many years in second half.

**Srivathsan R:** And in terms of the Digital Risk, this quarter all the earn outs should be done, just wanted to know what would have been the total consideration bid including earn out?

**Ganesh Ayyar:** We would be able to answer that question later because they did miss some of the earn outs as the numbers did not materialize.

**Moderator:** Thank you. Our next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

**Priya Rohira:** Just a follow-up on the deal wins and the order book, is it possible for you give us a color on the order book? Secondly, can you highlight the breakup of deal wins with respect to the two high growth areas of GRC and Digital, last time you had mentioned that 64% in Q1 came from those two areas. Thirdly just as a data point, the pricing in the ITO seems to be lower, is there something to do with seasonality of the quarter or some particular milestone being achieved and should resume back. So just wanted to highlight if there is any competitive angle because that market segment is becoming too competitive now.

**Ganesh Ayyar:** First question is related to new wins, pipeline and how do we see that. Out of the $90 million, roughly about 25% comes from infrastructure, 19% from AMS and 26% coming from GRC and Digital. Do we see softness on ITO going forward? Predominantly what you are seeing is onsite and we do not have a huge footprint onsite for ITO, so it is more a corner case rather than mainstream which will help you with your modeling, we do not see significant issues because this is a good business to be in and the fact that we have won deals, 25% of our $90 million comes from infrastructure services is a reason to cheer. What was the last question you asked?

**Priya Rohira:** That was to do with the order book, is it possible for you to quantify say the order book was up by some percentage last quarter or last year which gives us the confidence in terms of the future? Maybe you are getting invited to deals which are say $40 million, $50 million plus, might be earlier say $30 million given the scale of your international business. If you have seen that sort of scale even in your order book?

**Ganesh Ayyar:** The good news is we are getting invited more and more for highly specialized deals and these specialized deals are not commoditized business because you require tremendous amount of expertise and what it does is, 1) builds your brand, 2) tends to be a better margin business and 3) it is a business which you are able to sustain because you are differentiated. We are seeing traction because of our focus especially in GRC and digital that we are getting invited for those deals. Have we seen appreciable movement in size of deals? No we have not seen that yet but we are participating in larger deals and we were participating in larger deals earlier. I mean it has not been a dramatic shift if I may.

**Priya Rohira:** Sure. And just as a last data point, digital risk would now be what, roughly around 15-16% of our revenues?

**Ganesh Ayyar:** Yes, it would be in that vicinity.

**Moderator:** Thank you. Our next question is from the line of Karan Taurani from Dolat Capital. Please go ahead.

**Karan Taurani:** I just wanted to know in terms of the margin improvement revision which you have done, is it because of Digital Risk margins also improving, what is happening on the margin on that front?

**Ganesh Ayyar:** Yes, of course it is improving because when you are growing, your margins tend to improve. There is a fixed cost which you carry and when the scale kicks in, the margin starts improving. Digital Risk margins have improved. But that is not the sole reason or the biggest contributor to our margin improvement, it is one of the contributors to our margin improvement.

**Karan Taurani:** Secondly just on the BPO contribution, wanted to know what is the exact revenue for BPO this quarter, the two months revenue?

**V. Suryanarayanan:** It is Rs. 374 million.

**Karan Taurani:** So that won't be a part of the next quarter, so that would be the amount of decline to that extent right?

**V. Suryanarayanan:** That’s right.

**Karan Taurani:** And the view on HP channel, I mean I know it is repetitive but just getting some idea as to how much would be the decline and what do you expect going ahead?

**Ganesh Ayyar:** There was a very pertinent question saying second half tends to be weak for HP channel traditionally for Mphasis. The decline has been a feature that we have been experiencing for quite number of years and I have nothing to report that I have managed to arrest the decline. So extrapolate that data and match it with the seasonality of second half and your model should be okay.

**Moderator:** Thank you. Our next question is from the line of Aniket Pandey from Karvy Stock Broking. Please go ahead.

**Aniket Pandey:** Can you throw some light on the Wyde platform, it will be helpful if you can give us some updates as to what the plan is there?

**Ganesh Ayyar:** The plan is very clear, it is a platform which is valued by our customers, there are opportunities, we have also worked on opportunity where outright sale of license is complimented with software as a solution model and we have succeeded in one transaction to do that. Wynsure platform continues to be an area of focus for us to invest and to make it bigger. We have work to do in that area, the good news is we are tracking to plan.

**Moderator:** Thank you. Our next question is from the line of Rishi Jhunjhunwala from Goldman Sachs. Please go ahead.

**Rishi Jhunjhunwala:** Couple of questions. One, any update on the RSUs that you had announced last time and have you baked in anything regarding that in your margin outlook for the next six months?

**Ganesh Ayyar:** That is part of our run rate and let me get Surya to specifically comment on it.

**V. Suryanarayanan:** What we had announced was basically the shareholders approval, the internal committee is yet to approve the number of shares to be allocated and so it is not factored in Q2 margins.

**Rishi Jhunjhunwala:** And for H2?

**V. Suryanarayanan:** That will be based on the final decision of the committee. But what Ganesh had mentioned as the band that we will operate in, it naturally will get factored.

**Rishi Jhunjhunwala:** Second question is on HP and beyond the current run rate and all, I guess we are up for an MSA renewal and this is a question that comes up every time we think about HP business. Any views on how that can potentially pan out because it is a three year thing and do you think there can be any potential positive or negative surprise around that?

**Ganesh Ayyar:** I don’t know yet, it is up for renewal February 2016 and we are still good four, five months away. I am not trying to act coy because one of the things which has helped our partnership is that we have been very open with our communication. At this point of time we do not have a view.

**Rishi Jhunjhunwala:** So it is in February, I thought it was in October, November that it used to come in the past.

**Ganesh Ayyar:** No, it is in February 2016.

**Rishi Jhunjhunwala:** In 3Q basically we are looking at two months of India business going out and slowing seasonality from a top-line perspective, but on the margin side we have wages impact and we still are expecting better margins despite the seasonality and the wage hike.

**Ganesh Ayyar:** One of the things I have to avoid is giving specificity but let me just say that we have a 170 basis points headwind due to wage increase in Q3. Today we have plans which significantly cushion that 170 basis points but not entirely and we are doing work to see whether we can entirely cushion it. The reason why we are raising the band from 12-14% to 13-15% is because in the first half we believed that there was a possibility that we will be operating somewhere between 12-13%. Going forward we believe we will operate north of 13% in both the quarters and hence we are raising the band, it does not mean that we are raising the margin profile for second half. I hope I clarified it.

**Rishi Jhunjhunwala:** Yes, thank you. And just one last thing, on deals you seem to have won more than $430 million over the past six quarters or so, can you just give us a sense of what is the average duration of these deals, how do we think about the burn rate?

**Ganesh Ayyar:** I will have to do some analysis because we have to look at weighted average to give it to you, but it tends to be between 18 months to 24 months range broadly speaking.

**Moderator:** Thank you. Our next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.

**Rahul Jain:** Just couple of things, firstly we had a good change in the total employee count but the employee cost has not moved in that tandem, so just to understand have we borne the cost for the full quarter for most of the employees or how does it work?

**Suryanarayanan V:** Employee count is at the end of the quarter. We carried the domestic BPO business for two months and then there were settlements in the third month. That is why you would not see a corresponding decrease in the employee cost.

**Rahul Jain:** But that still means there is a good growth despite no wage hike, so what has driven that in absolute terms in this quarter?

**Suryanarayanan V:** It is not only the two months, there were also settlements in respect to these employees and that contributed to the increased cost as well.

**Rahul Jain:** And that is fully taken care of in this quarter or there could be something that may spill to next quarter as well?

**Suryanarayanan V:** It is fully taken care in the current quarter, nothing will spillover to the next quarter.

**Rahul Jain:** And there is this Rs. 108 crore revenue run rate which we still run on the 'others' revenue, how much of this you know would be a steady state run rate given the current thought process that we run on this business?

**Ganesh Ayyar:** It is predominantly our ATM business and that is a long-term contract. As I said we are not spending too much or putting a lot of focus in growing domestic business but this business is likely to continue. We had some one time revenue in second quarter relating to domestic, I do not know the exact size of that one time. But broadly speaking the run rate will continue for coming three, four quarters.

**Rahul Jain:** And this 108 crore revenue includes the two month revenue, right?

**Ganesh Ayyar:** Yes, that is right.

**Rahul Jain:** What would be the adjusted run rate?

**Ganesh Ayyar:** Rs. 37.54 crore is baked into that number which you would not see in coming quarters.

**Rahul Jain:** And I missed that breakup of $90 million which you shared earlier, if you could repeat please.

**Ganesh Ayyar:** Yes, infrastructure services came about 25% and next generation AMS is 19% and Digital and GRC is roughly about 26%.

**Rahul Jain:** And what about the rest?

**Ganesh Ayyar:** Rest is the other miscellaneous businesses, I am just describing four areas where we are doubling down.

**Rahul Jain:** So you mean to say the area where we are focusing, rest is the traditional run of the things?

**Ganesh Ayyar:** Yes.

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

**Sandeep Shah:** On the wage inflation, it will come 100% in the Q3, right?

**Ganesh Ayyar:** That is right.

**Moderator:** Thank you. Our next question is from the line of Dipesh Mehta from SBICAP Securities Ltd. Please go ahead.

**Dipesh Mehta:** I have two questions. One is about can you provide some update on our next lab things, HyperGraf and InfraGraf, any color there? And second question is about impairment, we have taken some impairment this quarter so if you can help us understand the nature of that impairment. And lastly, in the previous question you answered about the settlement related cost in employee cost this quarter, is it possible to quantify? Thank you.

**Ganesh Ayyar:** InfraGraph is a work in progress, nothing specifically to report. HyperGraf is not a platform which I am going to use for significant revenue generation, it is going to be used in conjunction with other services to enhance the value for services. I do not know where you picked up this InfraGraf but certainly its too early to talk about InfraGarf. On the other question on settlement, I will get Surya to comment.

**V. Suryanarayanan:** Settlement relates to domestic BPO employees. For two months we had the employee cost and the settlement cost was there in the third month.

**V. Suryanarayanan:** The other point was with respect to impairment, this was a platform which we were developing for a particular industry, due to change in regulation we have suspended that development and that is the background to the impairment in the current quarter.

**Dipesh Mehta:** So this was the platform under development and which now we are no longer developing because of the regulation change?

**V. Suryanarayanan:** Yes.

**Dipesh Mehta:** Is it for any specific client or we are doing for our future purpose or with some client?

**Ganesh Ayyar:** It was in the mortgage space and it was for generic use rather than specifically for a client.

**Moderator:** Sir there are no questions in the queue. If you would like to add your closing remarks please, before we conclude.

**Ganesh Ayyar:** Once again thank you for your interest. Our focus on Direct International is producing results, we are doubling down on both growth and margin improvement. In Q3, the wage inflation is going to cause headwinds. We have plans to offset significant part of it and there is still work in progress for the rest of it. Our new deal wins in Q2 of $90 million is adding to the overall win climate that we are having within the company. Our focus on GRC, digital, infrastructure services and AMS is producing results. Last but not least, our closed collaboration where we have shared our data with openness and have changed the way we are sharing based on the feedback that we received has helped us to be sharper. So I thank you for being a partner in sharpening our focus, we will continue to stay engaged and thank you for your support. We will connect again.

**Moderator:** Thank you very much sir. Ladies and Gentlemen, on behalf of Mphasis Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.