"Mphasis Limited Q3 FY18 Earnings Conference Call"

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MODERATOR: MR. SHIV MUTTOO – CDR INDIA

Moderator: Good day, ladies and gentlemen and welcome to the Mphasis Limited Q3 FY18 Earnings Conference Call. As s 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. Shiv Muttoo from CDR India. Thank you and over to you, sir.

Shiv Muttoo: Thanks, Margaret. Good afternoon everyone and thank you for joining us on Mphasis Q3 FY18 Results Conference Call. We have with us today Mr. Nitin Rakesh – CEO and Mr. Suryanarayanan – 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 risk and uncertainties. Detailed statement in this regard is available in the Q3 FY18 Results Announcement Release that has been sent out to you earlier. I now invite Mr. Nitin Rakesh to begin the proceedings of this call.

Nitin Rakesh: Thank you, Shiv. Good afternoon everyone and thanks for joining the call. Let me begin by wishing you all a prosperous, healthy and a successful 2018. I hope all of you had the opportunity to go through our MD&A which provides the details of our operational and financial performance for the quarter ended 31st December 2017.

Over the past few quarters, we have seen a clearer focus from enterprise clients on expanding the adoption of new gen technology areas, whether to leverage them for operating efficiencies - in areas such as application of automation, optimization of run functions, elimination of manual processes etc., or more importantly in adoption of new tech to integrate into digital channels to consumers, thereby impacting customer service experience as well as getting a deeper understanding of customer needs and thereby having the ability to target customized product and services. Both these trends have continued to create opportunity for service providers who have invested in positioning themselves with the right set of capabilities.

With the knowledge that every business is a digital business, we are proactively providing a road map to enable our enterprise clients to reimagine their digital future. The Mphasis X2C2 and Front to Back (F2B) transformation approach are solid foundations aimed at delivering high impact business outcomes of speed, innovation and cost effectiveness.

We have in the previous calls discussed how we see our business moving from a period of stability in 2017 to growth in 2018. While this is an ongoing process, we are happy to share that we have made good progress so far this year and our performance is reflecting this. Direct Core which has been our engine of growth continues to grow above industry. We have added growth engines through our enhanced service offerings as mentioned before, as well as addition of Blackstone portfolio of companies. The share of new gen services revenue in Direct Core has increased to 41.2% in Q3 FY18 reflecting a 39% YoY growth over the

corresponding period of last year. In the DXC business, while the MSA gave us much needed stability last year, in FY18 we doubled our sales efforts and strengthened our partnership with DXC which is now helping us win large transformative projects, which can be seen in our growth so far this year. We continue to partner with DXC to grow this further along the various vectors and channels within DXC that we have spoken about earlier. Digital Risk business is now stable in the band we had discussed earlier and we are working on strengthening the pipeline that would bring growth here going forward.

I will now move to the Q3 2018 performance:

Our direct international business continues to track well and has reported another quarter of strong deal closures at US $130 million, higher by 34% YoY. This takes our tally of YTD FY18 deals to $435 million compared to $276 million in YTD FY17, higher by 58% YoY. Around 83% of the deal wins this quarter and this year are in the focus areas of digital, NextGen and GRC services. This provides good revenue visibility going forward as well.

Moving on to the Q3 FY18 financial performance:

Consolidated revenue grew 3.5% QoQ on a reported basis and 3.7% in constant currency terms. The growth was broad based across Direct and DXC business despite the impact of seasonality and client specific year-end events. Direct International grew 3.6% QoQ on reported terms and 3.7% in constant currency. Direct Core which contributed 78% of Direct International revenue in Q3 FY18, grew 3.4% QoQ on a reported basis and 3.5% in constant currency terms. Direct Core revenue grew 9.5% YoY and 13.8% in constant currency. The deal wins in this business are a reflection of the strong pipeline that we have built, broad based and spread across new clients, strategic accounts as well as the Blackstone portfolio. We are confident of sustaining our above industry growth in Direct Core this year.

DXC/HP channel revenue saw another quarter of robust growth of 3.1% QoQ in reported terms and 3.6% on a constant currency basis. DXC/HP revenue grew 15.8% YoY in reported terms and 20.5% YoY in constant currency. We have restructured the business across many vectors and are also at the front end of a number of deals. The outlook on the business remains positive after several years of decline and we are seeing above market growth in this channel in FY18.

As we had communicated earlier, digital risk business has entered a stable phase with revenue maintained in the range of $28 million to $30 million per quarter. We have started seeing some margin uptick in this business as well and we continue to bring operational efficiencies as we speak.

Moving on to the margins despite the headwinds of annual wage hike and client specific year-end events, the operating margins improved 110 basis points QoQ to 15.5% driven by revenue growth and improving operating levers. Our fixed priced contracts have moved from 21%

revenues in Q3 2017 to 25% in Q3 2018. During the quarter, we had a favorable one-time settlement that contributed 40 bps to the margins. We continue to focus on accelerating our revenue growth and with the ramp up of large deals we are confident of operating in the stated margin band of 14%-16% EBIT.

Our cash generation continues to be strong. Total cash on the balance sheet stood at Rs. 23,153 million which translates to US $359 million. Net cash from operations during the quarter was at Rs. 2,068 million.

To conclude:

We are pleased with our efforts leading to strong TCV wins, broad based growth across all our business segments and strong margin growth. We are focused on driving wallet share gains in our strategic accounts. We have also created a set of strong reference clients and building solutions in areas where we believe our customers still have to invest. Our second engine of growth is within the Blackstone portfolio and we have a systematic approach in place to tap the opportunity. The third is taking a programmatic approach to position ourselves as a continued value-added partner with HP/DXC and helping them win in the market for transformation deals. We have also been expanding our overall sales footprint to enable continued focus on sales pipeline. To that effect, we have recently appointed Guru Grewal as Head of Europe and will continue to focus on that region as well to leverage growth opportunities. On that note, I thank you once again for your interest and I will now request the moderator to open up the line 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 Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Nitin, what do you see in terms of the runway of the Blackstone portfolio. This year has been quite decent in terms of closures there. How do you see the runway there and how is the focus on non-Blackstone Direct clients?

Nitin Rakesh: Sure Nitin. We talked about the fact that there are about 80 companies in the portfolio with roughly $1.6 billion-$1.8 billion of addressable IT spend that we can tap into. In the first quarter that we actually had wins; we announced 4 deals and ever since we have been building on that success continuously. So from a deal win perspective that is a definite contribution coming from that portfolio. Revenue contribution is just starting to kind of show up in the revenue line. So obviously from a percentage of revenue perspective there is definitely room for growth as we ramp up the deals that we sold into and continue to see further organic growth in those relationships. So that is one data point that you should think about. Second data point is, this is not a static pool and there are companies that enter and exit this pool pretty regularly even though that entry and exit is fairly lumpy and is based on market opportunity for them as well. So we now have a fairly well articulated service catalogue for that portfolio. We are starting to not only look at going into deals once they are in the portfolio but also doing

early engagement as those companies are evaluated for investment or disinvestment. So we continue to win deals and we continue to feel there is lot of further upside for us to tap into. So that is on the portfolio side within the Blackstone channel. On the Direct client base, we are fairly pleased because the TCV uptick that we are seeing also includes hunting and new logo sales. To ramp up that effort, we are further investing in Europe as I mentioned earlier and my expectation is that we continue to grow across all the four categories that we talked about which is existing strategic clients, new logo acquisitions, Europe; which I expect should grow above company growth next year as well as the Blackstone portfolio.

Moderator: Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: My first question is on the DXC business which has seen a phenomenal acceleration. You talked about industry leading growth earlier, but how do you really see this from a slightly medium to long term point of view and within that, which are the verticals or service lines, that are driving growth?

Nitin Rakesh: Thanks for that as well as your question. The focus question is on DXC/HP relationship. Let us take a step back and revisit what we talked about back in May. So we basically restructured that relationship and we called out 4 distinct strategic partnerships that we are building between DXC, HP Enterprises, HP Inc and Micro Focus. So the early successes have come from our efforts with DXC especially at the back of the cloud partnership; an application transformation relationship that we announced in May. From a wallet share gain perspective, there is definitely room for continued growth especially as we start tapping into the other 3 relationships: HPE, HPI and Micro Focus. So we feel very good about the fact that we have taken the opportunity and have started to show a lot of value. And there is runway for us to continue to find growth especially as we look at these four large strategic Fortune 500 Company as our relationships. On what is really driving the growth in terms of service lines, bulk of the growth is broadly categorized into two areas. Firstly, there is a lot of service transformation work. Think of it as core services that we are applying transformation to. I shared the example of applying predictive analytics to infra services, we have strong award-winning platform called InfraGenie. So that is driving some growth. We also have the ability to take on other services and apply things like virtual agent, AI machine learning, voice assisted support etc. So a lot of those vectors are clearly playing out and you are seeing that in some of the numbers in the MD&A as well. The second vector of growth and that is the reason why that partnership on cloud and application transformation is very important is much more front end transformative deal related. There, we are actually working jointly on going to certain select segments of the market that have been very clearly identified and actually helping in growing the pie of wallet share in new gen services. Those are the two broad categories of services lines where the growth is coming from.

Moderator: Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: Firstly, a question on the CitiMortgage announcement. Could you share more input from that front? Secondly from the Europe strategy perspective; given you are expecting it to be a new area from an incremental growth perspective. We were present only in few countries maybe Nordics and Belgium and maybe one more. Are we trying to spread out far deeper within the Europe to grow? Or is it from the same geography which we were focusing earlier?

Nitin Rakesh: Great. Let me take the Citi relationship first. Again, it was an existing relationship. We have now used our, what we are calling the T-shape strategy of understanding depth of the mortgage domain. We used digital risk as our mortgage expert subsidiary and applied this path breaking front to back transformation method that we talked about where you put customer in the middle and you try to impact customer experience and reduce operational overheads as you target product and services. And that is kind of the way we stitched the deal together. It is a perfect example of how we are bringing our expertise across the company to the front and becoming a digital transformation partner for the mortgage business at Citi. This is obviously a long term relationship and what we announced is a good example of how we are starting to apply transformation. We expect that this will be a multiphase long-term engagement. On Europe, we see just about 10% of our revenue coming from Europe at this point in time. Broadly, we were concentrated in the UK geography. We feel we have enough of a reference client base in that geography now to apply the same play book that is working for us in Direct Core in North America. The playbook really is we have some marquee local clients that we want to make sure that we put executive bandwidth, coverage, focus and relationship as well as take our service catalogue of digital transformation through F2B service transformation platform as well as the whole cloud and cognitive capability to expand our wallet share with these strategic customers. So we have identified the set of clients that we think we should be playing the wallet share game, just like we have been doing in the US. Second area of growth is from very focused set of hunting accounts that we have identified. We are starting with UK and France because we have a very strong footprint in France with our Wyde subsidiary. In fact, we have been in the market for 20 years. On 7th of December 2017, we held a 20-year anniversary when we relaunched Mphasis in France using that footprint that we have with our Wyde customers. As we penetrate deeper into these two markets in our chosen areas with our chosen service lines, we will evaluate how do we spread into areas like DACH which is Germany and Switzerland as well as Benelux and Nordics in that order.

Rahul Jain: Okay. And lastly, on the pricing that we have seen in this quarter: pretty sharp jump across metrics. How much of this is related to typical Q3 related adjustment of lower number of working days and what could be the status because of the mix change or maybe in general gain that you would have got in any accounts?

Nitin Rakesh: The impact from Q3 seasonality is fairly low. Bulk of the gain is really coming from mix change driving NextGen services and applying levers that are helping us get much better realization from our client contracts.

Rahul Jain: Especially on the onsite ITO service where the jump was significant. Is it because of something like platform revenue?

Nitin Rakesh: Absolutely. So, we talked about applying service transformation in fact on the same call two quarters ago. There were some concerns about the type of business and the type of revenues we were selling and I explained the concept of service transformation. So you are reading it right, we are actually looking at how do we apply automation platform. I talked about InfraGenie as a good example of that as well as things like virtual agents which are clearly creating a level of efficiency that we are starting to see reflect in our price and our margins.

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

Gaurav Rateria: Couple of questions. Firstly on the DXC, you explained the various vectors of growth. It will be really helpful if you can get some color with respect to how big is the order book or some quantification of the growth in pipeline versus last year.

Nitin Rakesh: Great Gaurav. We haven't historically been breaking out our pipeline. Especially deal wins or pipeline in the DXC/HP channel, primarily because it used to be a fairly lumpy, backend delivery extension type of business. As we start to get a better alignment on strategic deals, we will start sharing that metric. But for now, it is fair to say that we will continue to give you guidance on the growth trajectory with market as a benchmark and as we get a little more comfortable with the data and have the ability to curate it in a way that it can be presented, we will present the details.

Gaurav Rateria: Secondly is the contribution of revenues from Blackstone portfolio quite minimal and will this become significant or at least more meaningful going into FY19?

Nitin Rakesh: Right now, as I said most of the year has really gone into winning the deals and executing and getting them to convert through transition. So right now it is fair to assume that our overall contribution is very minimal, I would really say the lower end of single digits. But as we win, we ramp up these deals and we expand our footprint with some new deals, we will hopefully start to see this play out into a much more healthier number. Now keep in mind, the only benchmark we talked about, maybe 3 quarters ago, was the comparable portfolio company that is in the BPO services that has been operating in that channel for a long time. You know, obviously at a much smaller scale, their revenue contribution from the portfolio is very high which is almost 20 plus percent. While we are not guiding you to any number, we do have certain aspirations and we should be able to continue to operate in that channel as I indicated earlier.

Gaurav Rateria: Sure. What is really happening with the DSO, which has been moving up consistently for the last few quarters? Is it to do with the construct of deals in the current environment or

something else? And secondly on the digital risk, if you can quantify where the margins are and is there any further headroom for that to grow?

Nitin Rakesh: Absolutely. So on DSO, this is not linked to any deal structuring. It is plain and simple seasonality issue. This was a difficult quarter with a number of days in the end of the quarter being unavailable. We expect it to come back to our mid 60s range hopefully by Q4. And as I am saying this, I am also appreciative of the fact that there has to be a lot more execution rigor to get to that number. So we don't see this as a trend, it is more like a blip. On Digital Risk, we talked about margins trending to high single digit last quarter. We are now very happy to say that we went in double digits.

Gaurav Rateria: Is there any further headroom to grow?

Nitin Rakesh: About margin or revenue?

Gaurav Rateria: Margins, in Digital Risk.

Nitin Rakesh: If we can continue to convert the pipeline and find growth, then definitely there is more headroom for margin to grow. So in a way they are both linked because the best lever for margin expansion is revenue growth.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: I have two questions. So the new deals what you have announced, are these net new deals or they also involve element of renewables?

Nitin Rakesh: These are net new deals. There is no renewable including this.

Abhishek Bhandari: Alright and what would be the average tenure, I am not asking for deal specific tenure, but average tenure of these new deals?

Nitin Rakesh: Around 2 to 3 years tenure.

Abhishek Bhandari: Okay. Given that our revenue momentum has picked up sharply and some of the strategic initiatives have also started yielding results in terms of hunting new clients or mining the Blackstone portfolio, do you think we could grow faster than the industry at overall level going into FY19, possibly into double digits?

Nitin Rakesh: We will talk about FY19 as we get closer to it. We are still focused on executing Q4. But aspirationally, and we said this at the beginning of FY18 as well, we set ourselves a goal that our Direct Core business should continue to grow above market and at that time a fairly challenging ask of growing HP/DXC at least at, if not above market. So we are very pleased that both of these businesses are actually growing highly above market for the first three

quarters. We expect that for the full year FY18, we probably end up in the above market growth for the full company. Aspirationally, we wanted to continue to have above market growth for the company for the next 2-3 years as well and that is the focus and charter that we have as a team.

Abhishek Bhandari: Sure. That is helpful. My last question is on BEAT taxation clause which has come in the US tax reform. Does it in anyway impact our operations in US?

V. Suryanarayanan: As you know the BEAT taxation was announced the last week of December by the President. The tax rate is not the only item which is changing but there are lot of other related sub regulations which are part of that. We are still studying those provisions and we will come back and update if there is any specific impact on our margins due to that change.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: My question would be around, on our 6 logo wins that we have added this quarter. Any specific spends or successes that you would like to highlight, Nitin?

Nitin Rakesh: Ankit, we probably won't take client names, but it is fair to say that it is very reflective of the two large trends I talked about. Firstly, our message on customer centric transformation that leverages cloud and cognitive capabilities. It is resonating very well. So we are very happy with using that as entry strategy and aligning with their business outcomes. Secondly, the investments and the focus that we continue to put in our new logo acquisition across both US and Europe will continue to play out. So these are good incremental progress steps and we believe we can continue to find more wins to future proof the growth especially in the Direct Core business.

Ankit Pandey: In relation to what you mentioned a couple of quarters ago about reorganizing the sales team, I wonder if you could just flesh out that a little bit at this point in time?

Nitin Rakesh: So there were three things that we did as we talked about, what we call the repurposing or the realignment of not just the sales team but effectively our capability generation engine as well. So, we centralized a lot of the capability generation teams into its central units, NEXT labs being the primary focus where we put a lot more focus on cloud cognitive and service transformation. Second thing is we also took an approach of breaking down a number of silos that we had created, that we had between our multiple units. And to continue to find revenue synergy opportunities because client logos were fairly valuable across multiple units. The CitiMortgage digital transformation win is a good example of how we are now applying those capabilities that were generated centrally into every unit that we actually have clients with. Same thing with the Wyde Mphasis Corporation in France, we expect that also to play a role as we focus on Europe in FY19. So it wasn't just repurposing, it was also slightly different approach of centralizing lot of the capability units and then looking at synergies across

multiple units. And one good example that I gave couple of quarters ago was the DXC partnership on cloud and application transformation, which was effectively taken from the capability that we had built in our Direct Core unit. So we are constantly looking for opportunities that can be scaled. It is a little bit of a string of whole strategy. You stitch it together and then you start taking to all your clients and all your units.

Ankit Pandey: That is very helpful. Also, if you could just talk about Digital Risk: the momentum that we see, the strategy, the piece that sort of puts in our entire piece and how we want to take Digital Risk forward from here?

Nitin Rakesh: We said that in FY18 we would continue to focus on finding stability in revenues. We started the year at the lower end of the band of $28 to $30 million. Last two quarters we have been at the upper end of the band; which is great. What we have also been able to do was to transform the margin profile fairly dramatically which has helped us in the overall EBIT picture as well. And not only that, while there were headwinds from volume due to the interest rate situation, we actually identified 3 strategic areas to find growth and pipeline. Firstly, we sold more of what we do well. So that is clearly a plain simple take your solution to market strategy. We have got long term track record of delivering services from Digital Risk. So, it is a wallet share game and we have seen some of that convert this year as well. Secondly, it was getting into nearby adjacencies. So identifying other domains on the value chain of mortgage has actually helped us in finding some revenue momentum in the last two quarters. And third is integrating our digital strategy with Digital Risk as our mortgage expert shop and the Citi win is a great example of that. These are the three strategic vectors that we are applying to find growth this year. Again early days, but that is very much a business in transformation and hopefully will come out of this stability phase. As we get into FY19, I can talk more about what the outlook is. But this point in time, it is very much a business in transformation and very tightly fits in with our inverted T strategy of using them for the depth of mortgage expertise and applying the digital transformation capability that we built at Direct Core.

Moderator: Thank you. The next question is from the line of Sumeet Jain from Golman Sachs. Please go ahead.

Sumeet Jain: You have added lot of new clients in the emerging industries vertical. So can you comment like what kind of clients are there and have you won in the direct channel or the HP/DXC channel?

Nitin Rakesh: Thanks for that Sumeet. Good question. So think of this as a combination of three underlying client segments. There are certain existing strategic clients in Direct Core that actually sits in that channel; primarily in travel and logistics as well as in manufacturing. So we have seen good growth, these are part of our strategic list. As you know that two-thirds of our clients in strategic list are BFSI, but the other one-third are not. So that is good growth coming out of that segment. Second, we have seen expansion of some of our deal wins within DXC/HP that is classifying into that segment specifically in area like travel and transportation as well as

healthcare. And thirdly, there are at least couple of Blackstone portfolio companies that have also been classified in the emerging segment because that is where they sit. So it is again fairly broad based, it is not one client or one deal related. As we get into FY19, we will probably try and break it out into 2 or 3 other sub segments and maybe demystify that a little bit because it is now starting to become a very meaningful percentage of revenue.

Sumeet Jain: Yes. That would be really helpful and my second question is around the digital projects. We have been hearing from your bigger peers that they are now becoming bigger in size as a wider integration is happening and some of the deals are reaching $50 million in size. So are you also seeing that sort of expansion and the scalability of the vendor? Is it an advantage or a disadvantage in the digital projects?

Nitin Rakesh: So Sumeet, for those of my peers who are now seeing digital projects are getting bigger, probably earlier said that digital projects were small. I actually never said that they were small. So my stance always was that digital programs are long term large programs. You have to get on in the ground floor with early engagement, get very closely engaged with the client: both tech and ops business and you will actually see long term large digital program benefit coming to you and that is exactly what has been happening in the Direct Core business for the last 2 or 3 years. And we haven't seen that change at all. So from that perspective, we have been fairly consistent in the way we are executing on these projects and if anything, we are only seeing more acceleration. From a size perspective, we have a great position. We are big enough to deliver because we have a long term track record and we have the ability to bring cutting edge solutions. But at the same time, we also fairly flexible and nimble in the way we interact with these customers. Our size actually is playing the advantage today.

Sumeet Jain: Okay. Great. Thanks for that clarity. And maybe one question for Surya. Can you give the clarity around that one-off, 40 bps impact on the margins, what exactly is that?

V. Suryanarayanan: Yes, this was a settlement with a client and that is a one off we got in this quarter.

Sumeet Jain: So, no impact on revenues of that per se, in this quarter?

V. Suryanarayanan: Yes.

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

Ashish Chopra: There was a drop in revenues in the knowledge process segment and we used to correlate that to the traction within Digital Risk and it seems to suggest a couple of million dollars of decline in that segment. So, if you could just explain as to the Digital Risk now also gets calibrated into maybe some of the other services in the overall mix?

Nitin Rakesh: So Ashish, we have to do a little bit of work potentially to align the reporting better with the way the business is actually changing and transforming. What is happening at DR also is that,

as we are bringing them closer to Ops and Tech on combined deal. We have started to see some of that revenue getting merged as ops and tech revenue where we are not doing just the BPS or KPO work, but we are also actually owning the platforms and using the platform to deliver some of the services or in some cases even helping clients build their own platforms. So it is really a reclassification because if majority of the revenue went into platform development before we got into business services, that is probably what is contributing to that change. Similar if you look at the deal that we signed with Citi, it is actually a combination of both, but potentially because we are now leading it with the LoanFx front end solution, we will probably not classify it as a KPO deal, but it will actually show up in an Application development deal for a period of time till we actually start generating much more processing revenues from it.

Ashish Chopra: Okay. That is helpful. And secondly just a follow up on the earlier question around sales realignment. At least in terms of your reported headcount over the last two quarters, the S&M account has gone down by almost 13%. So, is there also a reclassification there or just reduction?

Nitin Rakesh: Not at all. I will explain that. So there are two things to look into. We brought together a lot of the capability and solution units and centralized them that were sitting in the sales expense. When you centralize, you actually generate efficiencies of scale and cross leverage. So that is kind of what is contributing to the head count decline. But if you look at it, we have also added people where we needed to add people. So the dollar cost on the same period is actually much higher compared to the head count decline. So, the focus really is on having the right people in the right roles in the right geographies.

Ashish Chopra: Got it. And just lastly maybe Surya can help, with regards to the movement around the margins during the quarter. I think you added around (+400) people at on-site and there was a wage hike component over there but in the overall cost there seems to be only a marginal uptick. So where would we have pulled out the levers?

V. Suryanarayanan: We talked about the one-time impact settlement that helped our EBIT margins in the current quarter. In addition, if you see our fixed price revenue in terms of the percentage, has moved up. So, as we have mentioned earlier, all the operational levers are helping us improve the margins. Naturally, the scale in terms of the revenue growth is also helping us.

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

Sandeep Shah: Just one question in terms of a few of our BFSI clients. Some large accounts maybe facing some issues because of the hurricane in the US, so that may lead to some amount of disruption for you from that account and second, there are some clients who are also doing the insourcing. So will you able to comment where you also believe that the insourcing could be a potential headwind in terms of a growth in the BFSI going forward?

Nitin Rakesh: We did see some impact due to hurricane in Q2 but that was more related to disruption of business, not so much related to casualty losses. So far we haven't really come across any major impact. So, there is nothing much to call out on the hurricane impact on an ongoing basis. Secondly on this question of insourcing, contrary to common understanding, most of the work that gets insourced is actually run business. And while we do operate and run business as part of our ADM and IMS practice, a lot of the growth that we are seeing is actually coming out of helping them either do transformation or more importantly apply digital tech and that is why you are seeing AD component grow really well for us. So from that perspective we have not seen any impact or headwind from insourcing. But insourcing or multisourcing has been part and parcel of this business for the last 20 years and we are very comfortable in working jointly with clients in that model.

Sandeep Shah: Okay. That is helpful. In terms of digital risk, there is now the Citi deal. Is it fair to say that the comfort range could be beyond $28 million-$30 million range we were foreseeing earlier?

Nitin Rakesh: As we get closer to FY19, we will talk about it. For reminder of this year, which means Q4, we are still holding on to that range.

Sandeep Shah: Okay. And last question to Surya. In terms of the hedging gains, how should we read that because your hedge rates have not materially changed and it still contribute some material portion to the margins? So can we assume that the quantum of hedge gains to the revenue line may continue for the foreseeable future?

V. Suryanarayanan: Yes. We are following a very well planned and consistent hedging policy which is helping us. If not the same impact as we had in FY18, we will still see good gains in FY19.

Sandeep Shah: And Surya, in terms of the BEAT tax in the US, are we following a branch model or more a subsidiary model. Can you give a color on the same?

V. Suryanarayanan: Yes. We follow a subsidiary model. But as I mentioned earlier, apart from just the reduction in the federal tax, there are lot of other regulations which are part of the announcement. So, we are still studying that and we will update once we complete the full impact study.

Sandeep Shah: And we would be higher than, the applicable level of $500 million, right?

V. Suryanarayanan: There is a clarification required as to whether it is applicable for the whole group. There is also another clause related clarification required. So we need to study all these and we will let you know after that.

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

Madhu Babu: Sir, one on the on-site ITO headcount that has raised substantially over the last two quarters. Is it any deal specific and what is leading to this increase?

Nitin Rakesh: We talked about this in the last two calls as well. So, there were some deals on service transformation that we signed that required higher on-site with transformation capabilities, so the conversion of that deal is what you are seeing reflected in the headcount. But on the same side, on the same note, because of the transformation and managed services fixed price application, we are also seeing the realization of the rates going up.

Madhu Babu: And second on the fixed price, that is starting to trend up regularly on the last 2-3 quarters. So, have we planned for this?

Nitin Rakesh: Yes, it is not by accident, it is by design.

Madhu Babu: Yes. So that should be margin level?

Nitin Rakesh: Absolutely, it is and that is one of the reasons why we are seeing significant uptick in margin this quarter. This comes from the fact that a number of our deals either have been converted or have been newly signed as fixed price deals, especially in the run business.

Madhu Babu: Okay. And sir I have seen that we have increased our hedge position over the last two quarters, I mean outstanding hedges. So assuming the currency would be at the current rate, how the hedge gains would be for FY19? Any quantification there?

V. Suryanarayanan: It will be difficult to quantify because it is also a function of the spot. But as I mentioned earlier and considering the increased hedge positions, we should get, if not as much in terms of absolute numbers as in FY18, but a good quantum in FY19 also.

Nitin Rakesh: The other thing to note is, that we have started opportunistically to see if we get an opportunity to go above 80% on the hedge rate. So that is probably what you are seeing reflected in the hedge quantum. We may potentially give some more disclosure on that over the next quarter MD&A. Opportunistically if we get a chance, we do have as per policy the ability to actually hedge beyond 4 quarters also, even though that quantum is not significant right now. So that is the reason why you will see the movement in the overall outstanding hedge inch up.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Nitin, one question, as a follow up on that fixed price thing. Clearly you are moving pretty fast on fixed prices as a percentage of revenues. But we are still way behind where the industry average is. Over a long term, do you think that we can settle around where the industry is? Are there pockets of business where we can't possibly do that, possibly around HP clientele or anything else?

Nitin Rakesh: Great question, Rishi. It is not as dependent on the channel where it comes from but it is more dependent on the type of service. Doing fixed price agile digital project is fairly risky because the requirements change pretty rapidly and you will end up getting into situations where either

you will have a very unhappy client or you will have a very unhappy CFO. So from that perspective, we are focused more on applying the levers of fixed price and transformation using managed services to the run business. Run business typically being application management or infrastructure management. So if we look at the overall mix of our business, about 37%-38% of our revenue is application development. So that is not very easily amenable to fixed price or managed services conversion. So that leaves about 60% which is AM plus IMS where we can apply this lever and on some elements of BPS as well. So if you think that as a universe and on the remaining 60% we are actually almost trending closer to where industry average is. We are not definitely going to go down the road of doing fixed price in development projects.

Rishi Jhunjhunwala: Great. Secondly on this quarter specifically. So seasonally it is a weak quarter for us clearly, some of the HP clients see furlough, and still we have been able to deliver pretty solid growth. How much of that would you attribute to better execution based on the deals that we have been winning versus slightly broader based uptick in demand that you might have seen from the clients?

Nitin Rakesh: It is probably more the former. On demand, the mood has certainly improved and there seems to be a general optimism around global macro environment being stable and the financial market being fairly robust. I don't think that has translated rapidly into budgets going drastically higher. We will probably get a better sense of that as our entire clients sum up their budgets and also as said the impact of what the tax changes mean for them. So we are glad that we were able to minimize the impact of client issues and furloughs using some of our deal wins and pressing the accelerator on all the growth levers we talked about. As we get a better understanding of client budgets, we will get a better sense whether they are going to be: dramatically different or marginally changed.

Rishi Jhunjhunwala: Right. And lastly on the DXC business. Clearly, we are now almost growing at about 20 odd percent year-on-year and it comes on the back of several years of deterioration in the business, so clearly some pent up revenues coming out there. But more from a sustainable perspective, we have talked about it growing largely in line with where the market growth is. But do you see upside risk to that in the sense that we still have almost 85% of the revenue still coming from just the DXC and the rest of the entities still not contributing to the overall revenues?

Nitin Rakesh: So Rishi keep in mind two things: one I talked about the dramatic shift in the way we manage this channel. We consider it as multiple accounts within the channels, and even within DXC there are multiple levers of expansion and growth and I talked about that in quite a bit detail earlier on in the call. So from that perspective, yes there is runway for growth, there is runway for expansion of wallet share, there is runway to apply our transformation capabilities to every segment of that business. But the reason we are growing isn't because we didn't grow for 6 years, so now we have pent up demand. The reason we are growing is because we have structured the way we were engaging with them and that requires heavy lifting and hard work because it is at the end, a relationship that has transitioned across multiple corporate entities

from EDS to HP to DXC. So aspirationally from a modeling perspective, even if we continue to grow this business at market, that provides significant opportunity for the company overall to keep growing above market. That is the way we are thinking about it from a 2-3 years planning perspective.

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

Ashwin Mehta: I had one question on your Blackstone portfolio. Do you believe the Blackstone portfolio business would be accretive in terms of margins possibly because there is lesser selling involved here compared to what is there in your direct piece and secondly as you start to get into the pre-deal and post-deal initial stages where possibly there is no competitive bidding?

Nitin Rakesh: It is fair to assume that the margin is fairly in line with the rest of our business for two reasons. It is not a good assumption that there is no selling required or needed. While the sale cycle maybe shorter, you still have a significant sales effort and solutioning effort that goes into it, whether it happens in early stage with or without competitive bidding because even without competitive bidding you have to go through a fairly detailed assessment process and stand the test of all the financial analysis given the nature of those transactions and those deals. So as we continue to transition them and convert them, we will also continue to feed growth and invest in them. So overall margin at an EBIT level is probably fairly in line with rest of the Direct Core business.

Ashwin Mehta: Okay. Fair enough. And secondly your selling expenses being kind of constant at $16 million-$17 million quarterly run rate. Do you think with the expansion plans in Europe and the plans to target the Blackstone clientele, is there is a possibility that this will go up?

Nitin Rakesh: So Ashwin, focus more on the manpower cost within the selling expense, that line item is something that is directly related to the efforts and the initiatives we are undertaking. That actually has uptick from a cost perspective even though from a headcount perspective it is not as high as it used to be. And it is fair to assume that as we continue to find leverage with growth, on a percentage basis our selling cost will probably be fairly stable because now we use growth to feedback further growth.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.

Deepesh Mehta: Just 2-3 questions from my side. Whether we see the tax reform has any implication on mortgage market and through which we expect any impact on DR? Second question is what would be the EBIT margin range one should look at considering that the overall growth momentum even in HP/DXC is tracking very well for us and fixed price and most of the variables or operating parameters is now supporting margins. So, whether we expect now margin range to track upwards for us, than the earlier guided 14 to 16 range. And last thing is

about what will be the effective tax rate one should assume because for last few quarters it is tracking much lower than earlier guided range. It is somewhere around 24-25 now, so if you can provide some color?

Nitin Rakesh: So I will answer the first question and maybe Surya can talk about the tax rate separately and talk about the puts and takes. While there will be some changes in interest deductibles from a mortgage perspective, too early to say whether it will have an impact on demand. However, I talked about the 3 strategic vectors of growth in DR like selling more of what we do, getting into newer areas that are adjacencies and applying ops and tech combination like the Citi deal. We are focused on creating that, using those three strategic levers to counter any headwind. At this point in time, we will just leave it at that and as things develop more and start getting clearer, we will come back and update you. So far, nothing to call up in terms of any specific impact. On the issue of overall margin guidance, so for Q4 we will stay within 14 to 16. We started this year with a lower end of the band, we are ending the year with the upper end of the band. So we will stay within 14 to 16. As we get into FY19, we will give you more color. But keep in mind the overall strategy, 2-3 year goal process that that we talked about: was market growth for the whole company and gradual improvement in operating margin profile. So that is kind of the goal with which we are working. But how to quantify what the range should be, we will give you more color on the FY19 call. Surya, you can talk about the tax rate.

V. Suryanarayanan: So, on the tax rate for the last few quarters, it has been in the range of 25% to 27%. It also depends on the revenue mix from the various countries where it emanates from. As I mentioned earlier in the call with respect to the US tax rate impact, we will come back and update. For the time being, you can assume the same band 25% to 27% as effective tax rate going forward.

Moderator: Thank you. The next question is from the line of Vishal Desai from Axis Capital. Please go ahead.

Vishal Desai: Just quickly on the DR business, I just wanted to understand from more of a pipeline perspective given that we have closed the CitiMortgage deal. Would you give some sense in terms of how the pipeline is shaping up? Are there any other logos that we are pursuing or are in advanced stages with?

Nitin Rakesh: Thanks Vishal. There is a distinction between big logo and big deal. So, given that the transformation deals are typically multiphase and we are doing them in an iterative fashion, it is fair to say that we have to continue to deliver and get to the next phase of each of the transformation deals. Overall pipeline is fairly decent. More work needs to get done to apply the transformation levers that I talked about for DR which is what we are going to focus in FY19. For 2018, , we began at the lower end of the band of $28-$30 million, we have now entered the upper level of the band, if we can stay here at least for the reminder of the year and continue to build and convert the pipeline, we will be well set for FY19.

Moderator: Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: Yes. Firstly on DXC portfolio, in the past we have been articulating that typically Q3 has some 10% impact from a lower number of working days. Is that impact similar even now and this growth has come absorbing that impact? And secondly, we have been highlighting the trend of core transformation that is happening in the banking industry. Are we trying to play this opportunity either through any core investment on enterprise product or maybe on the implementation side of it?

Nitin Rakesh: On the impact from lower hours, we probably have absorbed it on a number of fronts. Also, the fact that in another business the mix is moving more towards fixed price actually minimizes that impact because we don't have to take the furlough impact, given that we are outcome based. So we were able to work around those issues. Overall, growth was good enough for us to deal with some of the headwinds. On the second question that you had about core transformation, while core transformation will always be an important lever for clients and will continue to have opportunity, it is something that a lot of clients have been a little frustrated with because it is too complex, high risk, very expensive and very uncertain in the outcomes. This is where the approach that we talked about, which is the front to back approach actually monetizes your current core and still gives the customer the experience that the enterprise is trying to deliver, while also giving enterprise the ability to understand the customer deeper. So uniqueness of our solution will actually come from helping enterprises not having to refund and replace the core, but having to actually work with whatever core exists and taking their own time and efforts to selectively change the core. It is more about shrinking the core versus really changing the core.

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

Nitin Padmanabhan: Nitin, actually, in FY '17, if we look at the deal TCV numbers and the tenure, the tenure then, was 3 years. And now we have a much higher deal TCV wherein we are seeing that deal tenure is on an average of 2 to 3 years. So are we seeing a much higher TCV in totality with a lower tenure? Is that a fair inference to make?

Nitin Rakesh: Nitin, you are over analyzing a little bit and I tell you why Surya was little guarded in 2-3 years tenure. Keep in mind the nature of business has shifted. What used to be a 3-year application development deal followed by a 3-year application maintenance deal, overall a 6-year deal with a fairly chunky revenue, those kinds of deals are nonexistent now because even if you actually get a long-term deal, it is transformation related or it will actually have to be done in phases because it is a digital program that the first phase will get funded and the next phase will get funded. So from that perspective the nature of the business itself has undergone transformation in the way clients are actually buying and the delivery pattern. So on that basis, I do not think you should read too much into the 2-3 versus the 3.

Nitin Padmanabhan: Okay, so every incremental flow of revenue would depend on the success of the first iteration and the second and so on and so forth?

Nitin Rakesh: Let us say you signed a $100 million TCV deal, but the clients only funded $30 million, we have actually classified as $30 million and it may only be one year or 18 month engagement versus 100 million 3-year engagement.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

Ankit Pandey: My followup would be something that I asked last quarter as well: segments classification. We have the information technology communication entertainment segment and that segment is growing very fast last couple of quarters, but its margin is a different profile now, much lower than the other segments. The other segments are 25 plus and this one around 20 or even lower. So could you just highlight what is the makeup of this segment first of all?

Nitin Rakesh: Again, keep in mind the rapid acceleration we have seen in our DXC/HP channel business and obviously the ramp up requires a certain stabilization period to absorb the transition expense and that is what you are seeing. Structurally, I do not think the margin will be any different.

Ankit Pandey: And could you also share the renewables number in the deal wins, if you can?

Nitin Rakesh: We do not normally break that out separately. This deal win is only net new, so there is no renewable in this deal win number.

Moderator: Thank you. We will take our last question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: If you can just help me with DR revenue for the quarter and the share of direct core and the TCV?

Nitin Rakesh: DR is at the upper end of $28 to $30 million band that we talked out. In terms of share of direct core in the overall direct international TCV win, it is not very dissimilar to the share of revenue. So that is a good thumb rule to use.

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

Nitin Rakesh: Thank you for your continued interest and the focus with which you actually followed through. We look forward to talking to you again next quarter and have a great weekend. Thanks.

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