



“Mphasis Limited  
Q2 FY 2025 Earnings Conference Call”  
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**Moderator:** Good morning, ladies and gentlemen, and thanks for joining the Mphasis Q2 FY 2025 Earnings Conference Call. I am Dorvin, your moderator for the day. We have with us today, Mr. Nitin Rakesh, CEO of Mphasis; Mr. Aravind Viswanathan, CFO, and Mr. Vinay Kalingara, Head of Investor Relations.

As a reminder, there is a webcast link in the call invite mail that the Mphasis management team will be referring to today. The same presentation is also available on the Mphasis website, [www.mphasis.com](http://www.mphasis.com), in the Investors section on the financial and filing as well as on both the BSE and NSE websites. Request you to have the presentation handy.

As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

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

**Nitin Rakesh** Thank you, Dorwin, and thanks, everyone, for joining us today, and appreciate your interest in Mphasis.

There is a lot going on all over the world. I thought I would begin by shining light on a few key highlights, from our vantage point and then discuss our industry.

To start with the macro, in mid-September, the Fed commenced monetary policy easing with a 50-bps cut. There seems to be an increasing consensus that the economy is heading towards a soft landing. That said, geopolitical tensions are still elevated, and the U.S. elections next month continue to create a climate of caution.

As mentioned in our previous call, in this cautiously optimistic environment, tech spend is still viewed as a strategic priority. The gradual but steady recovery seen across our client segments continues, with client sentiments showing an uptick. Overall, we characterize the spending environment as moving steadily in the right direction.

A major portion of this is driven by the increasing focus from enterprises to implement AI at scale. Across industries, businesses are aiming to maximize value from transformation, while staying focused on costs and ROI from their investments. As we see an 'at scale' adoption of AI powering this transformation, we also see clients progressing towards becoming an AI-first business by: (1) Re-architecting to incorporate an AI-first tech stack, (2) Rethinking processes to incorporate AI-led services, (3) Moving towards an Operating model driven by AI-augmented services. In the long run, we believe this will lead to an AI-led economy that transforms how enterprises operate and thrive.

In this era of AI, particularly GenAI, there is a significant shift expected in how tech-services, and consequently, value to the clients is delivered. While we see that AI projects are moving

from PoC or pilots to broader implementations, we also see emergence of AI-led solutions employing digital workers or AI agents.

These Agentic AI systems function autonomously as collaborators capable of decision making and actions. With little assistance from humans, these systems can evaluate situations and execute actions to meet predetermined objectives.

As we discussed on our last call, this leads to a potential for disruption of services delivered in the traditional labor arbitrage model and a shift from a model where ‘people run software’, to ‘software running software’. A shift from Labor-led arbitrage to Technology-led arbitrage.

Our NeoZeta™ and NeoCruX™ platforms use the powerful combination of GenAI and Agentic AI to augment human capabilities with Intelligent AI agents.

Software-led services like NeoZeta™ and NeoCruX™ completely change the economics of modernization costs. With the emerging economics of such ‘tech arbitrage-led solutions’ the business case of modernization becomes more attractive – as it reduces the labor-intensive approach and removes the bubble cost. With this, we are able to help clients rapidly and efficiently progress on their modernization journey while delivering savings in the process.

Our Savings Led Transformation™ theme is principled on this approach.

We are already able to deliver productivity through WorkFusion and other new platforms of AI agents acting independently on unrelated tasks or in concert like humans with different subpopulations fine-tuned to excel at particular tasks. Some examples of this in deals include -

Transforming business operations, for a leading global asset management firm & a leading Canadian Bank. Mphasis is delivering an AI-enabled platform implementation to transform operations, delivering 70% digital containment and improving agent productivity by 25-30% while also improving the quality of service.

Expanding AI adoption in customer experience, for a leading global pharmaceutical company. Our services revolve around managing, supporting and enhancing AI agents who answer external product queries from doctors, field reps and patients, as well as internal queries for HR, service desk etc.

Expanding AI adoption for developer productivity. The NeoCruX™ platform built by Mphasis, has cut the manual effort by 50% for code quality while fixing security vulnerability issues, for a multinational finance and insurance company.

Our pipeline continues to reflect this expanding AI adoption, with 35% of our pipeline being AI led. We see opportunities in several of these archetypes, especially in areas such as Agile IT Ops, NextOps & areas such as Data Engineering & Modernization. Our overall pipeline is up 23% YoY. All pipeline metrics are green, with broad based pick up in deals, across sectors and geographies.

Proactive deal pipeline is strong, with a majority of our pipeline from proactive pursuits. Healthy composition of large deals in the pipeline underscores that digital transformation and accelerating digital adoption continue to be core themes for our customers. Almost all the pipeline continues to be tribe-driven, archetype-led and is also well distributed across verticals and key themes such as Data, Modernization, Cybersecurity, Agile Ops, and Platforms.

As I mentioned earlier, the pipeline remains strong even after 3 large deal wins this quarter and conversion has been steady and both our BFS and non-BFS pipelines continues to grow.

Q2 saw a higher share of proactive deal wins, as we stayed focused on deal-making. TCV for the quarter was \$207 Mn. H1 TCV wins now at \$526 Mn; 3 large deals in Q2 FY25 and 6 large deals in the first half of the year. We had broad based TCV wins across verticals, our client pyramid, and strategic customers. Conversion to revenue pace has picked up through Q2. And we continue to be structurally forward-leaning, making investments where we expect demand.

Looking at the quarterly view of performance by segment, we continue to push for revenue growth, which is anchored in our strong client mining model and tech-led offerings. Q2 FY25 revenue came in at \$421 million, a growth of 2.4% sequentially in constant currency terms and 5.4% YoY. Direct business accounted for about 96% of our overall revenue in the quarter.

Our clients continue to look for best in breed solution providers for a combination of cost takeout and transformation programs. We expect the pace of revenue and deal conversion to continue to pick up through the year, propelled by the themes that we mentioned earlier today.

Our Direct revenue for the quarter increased by 2.4% sequentially in cc terms and grew by 6.2% YoY in Q2 FY25.

For the quarter, our anchor geography, U.S., grew 2.4% sequentially and 8.4 % in Direct YoY. EMEA region showed a sequential decline of 1.3% in constant currency terms, but we have been seeing good client wins and will continue to see traction here as we build the business through the remainder of the year.

Our core service line, Enterprise Apps, constitutes about 71% of revenue. We grew 2.2% sequentially on a constant currency basis in Direct Apps. The BPO segment grew 3.5% sequentially and 2.6% on a YoY basis as projects continue to ramp up. We continue to see signs of recovery in our mortgage business.

Moving to our vertical performance, as guided in the previous earnings call, we saw fairly secular growth across verticals. At an overall company level, BFS was up 3.0% sequentially in Q2 FY25, and specifically in Direct BFS was up 3.3% sequentially. Overall, Insurance grew 1.1% sequentially and TMT led the growth with 5.4% driven by wins in recent quarters. Others grew sequentially by 1.6% and we see stability in this segment with new client and deal wins, with a healthy pipeline across segments, including in healthcare over the last few quarters.

Performance in our Direct business in these segments on YoY basis was also healthy with revenue ramp-up in new customers leading the way.

Looking at our client pyramid, our Top 10 accounts grew 2.1% sequentially and our Top 11-30 clients grew 11.2% sequentially. New Client Acquisition revenue continues to grow well, sustaining its strong growth trajectory at 14.3% YoY. Client mining stats remain fairly steady both sequentially and YoY.

Coming to our financial metrics. We delivered to our philosophy of maintaining margin in the stated band, while making investments for growth. In this quarter, our EBIT margin expanded sequentially by 40 bps to 15.4%. Reported operating profit for the quarter grew 6.0% sequentially and grew 7.4% YoY. Gains in cash flow hedges increased margins in Q2 FY25 by 20 basis points. Our EPS of Rs 22.4 for this quarter represents growth of 4.6% sequentially. Cash flow generation of \$51Mn for the quarter was at ~100% of net income. Our DSO of 73 days increased by 5 days over the previous quarter mainly due to delayed collections in the last week of the quarter.

In summary, this quarter, we continued to retain our focus on execution and building for the future with AI adoption. I'll leave you with a few points.

We have been executing with a focus on the micro amidst a busy macro environment. We continue to gain from our Tech-led, Account-focused strategy and we are seeing stability in key verticals and geos, while at the same time see green shoots trend across our portfolio. We enter the second half of the fiscal year with a strong pipeline reflecting consolidation opportunities and modernization deals driven by Savings Led Transformation™ thesis. Focus on this thesis is helping create enterprise-wide adoption of AI across our customers.

We also reported broad based wins across verticals and client pyramid and continued higher share of proactive deal wins. We are seeing improving trajectory of TCV-to-revenue conversion; pace of ramp-ups and steadily improving monetization of order book. We also saw steady growth across our verticals and client cohorts; with BFS and TMT driving the growth. We delivered expanded sequential growth in margins within the targeted band of 14.6% to 16%.

Coming to outlook, few key messages for the upcoming quarters as we look at driving steady and sustainable growth.

We will be laser-focused on execution in an environment that is steadily moving in the right direction. However, we are focused solely on the micro. We do expect Q3 to reflect normal seasonality and growth to still be led by the BFS vertical as well as continued recovery in our mortgage business. We are maintaining our sustainable EBIT margin band of 14.6% to 16% while also maintaining our revenue guidance for the full-year FY25.

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

**Moderator**

Certainly, sir. Thank you very much. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan**

Good morning. Thanks for taking my questions. So, Nitin, this quarter has been pretty solid. I think it's been the best in the last 10 quarters and pretty much in line with what we suggested as a bottoming out, which we have seen. The only standout here is that if we look at the client

buckets, it looks like there is one drop off, if you give some context to that. And in the context of things bottoming out, is there anything that worries you in terms of any broad client specific issues on a going-forward basis that you would really worry about? That's the question from that perspective. And then I have one more. I'll get back.

**Nitin Rakesh**

Sure. So, Nitin, I think you're referring to the client bucket in the second category. That is normal fluctuation quarter-to-quarter, nothing major to call out in that segment, because this is a trailing 12-month data. And I won't be surprised if that reverts back to where it was a quarter ago in the next quarter or two as well. So, I don't think there is any specific thing to call out on that front.

In terms of your corollary question around anything else to call out from top clients segment, I think category of client wise, if you look at the top 10 customers, they've grown sequentially by 2%. The next 20 have grown at 11% sequentially. So, our focus on driving growth through the next set of accounts, we call it, the Focus 20 accounts, is actually really paying off.

From top clients perspective, clients will go through their cycles of businesses and spends. I think our goal is to work with every client to ensure that they meet their goals as well as we meet ours. And we continue to retain, maintain, grow wallet share. Not all of them will grow at the same pace, at the same time, but as a cohort, I think at this point we are fairly well positioned and that's the reason we've reiterated our full year guidance.

**Nitin Padmanabhan**

Got it. So, there is no specific worry on any large loss of share or any such thing on any of these, so that's a fair understanding?

**Nitin Rakesh**

If there will be, then we will call it out. I think at this point in time, as I said, we don't know what will happen in the future. At this point we are very focused on executing to the focus that we've driven with both Top 10 as well as the Focus 20 list of customers.

**Nitin Padmanabhan**

The second thing I wanted to understand was around the mortgage business. There's some dichotomy here. So, when interest rates have come down, you did see mortgage rates come off and then it's risen back up quite a bit. In that context, how are you seeing that business in terms of the shape of recovery over the next maybe 6, 12 months? How should we broadly think about it? Do you think that it will be gradual, or do you think of the historical spikes? How would you think about it broadly, directionally at least? That would be second one.

And finally, from a deal wins perspective, we have historically been above the \$300 million and this time we're slightly lower. Are you seeing any impact because of elections in terms of decision making or anything getting picked up? So those are the two questions.

**Nitin Rakesh**

Sure. I think on the mortgage side, I think, the market got too excited, and the 10-year declined by about 80 basis points or 90 basis points even before the first Fed cut happened. So, Fed cut short-term rates by 50 bps and the 30-year climbed by 50 bps after that. I think, definitely two things have been established. One, the cycle has peaked, and we are in a direction of travel that is easing off the monetary policy. Second thing that is established is there is a lot of uncertainty around the pace of that direction. I think we've seen some uptick in mortgage business in Q2. I

think we called for it. We also cautioned that we don't expect a rapid recovery. That was not the base case and that's how it's played out.

And if you look at the lines of business in mortgage, I think the first expected recovery was going to be in the diligence business and that's where it happened in Q2. Volume uptick is barely noticeable. I think there is some uptick in volume. But, especially in the last 30 days since the interest rate cut, I think there's a lot of pickup in conversation with customers around the expected pickup in refi volume in calendar Q1. So, I think we do expect that things will gradually improve, but I don't think we're expecting a rapid recovery until the rates fall a lot more. But that definitely means that there will be some tailwind in that business.

Can it go back to previous levels? Answer is absolutely yes. When it will go back? It all depends on how quickly the rates recover. Because remember, the mortgage business, real estate market, housing is a big portion of the economy. It will have to unlock at some point. I think we've seen the first phase of unlocking with the diligence business and the secondary market volume of MBS securities. I think we'll see more activity on refi and origination because there is a pent-up demand there.

On your second question around TCV and the numbers. I think two trends have emerged in the pipeline. First, there are still a lot of transformation deals. The sales cycle there is a little bit elongated on two counts. One, clients are still fairly ROI focused, is this program still delivering the ROI, what's the timeline expected on the ROI? Two, is there an element of AI infusion, which basically means that more stakeholders get involved and the cycles become longer. So that's definitely at play. We saw some key decisions getting pushed into Q3. Obviously, we are focused on executing. That's the reason pipeline is up 23% YoY. It's up sequentially as well in low-single-digits. So the pipeline is strong. Decision making on transformation deals with additional element of AI infusion, definitely creating a little bit elongation on the decision cycles.

Second trend that we've seen emerge in the last three months, and I think this is something that was called out by ISG yesterday in their quarterly release, is that there is an uptick in IT operations deals. And that is led predominantly by a desire by clients. Some of these deals in our pipeline are actually out of cycle deals. They were not due for renewal. We've seen another provider was running App Maintenance. We were doing App Dev. IT Ops, Service desk - there's a bunch of deals like that where the desire from the client is maybe I need to actually see if the AI Ops proposition gives me an exponential savings opportunity of 30% to 40%, and hence I can redeploy those savings into my new initiatives around AI.

I think you will see an emergence; I think it's still early days there, but that's definitely causing an uptick in deal activity. Especially in IT Ops, Infra and Applications Management deals. That is creating an interesting opportunity for us. Because that's a segment of the market where our right-to-win was low given that there was always a scale play with shared services models and widespread global distribution of talent. If you're dealing that with pure people-based services, I think players like us have a pretty strong right-to-win in that business as well. So I think those are the two big trends to call out on the pipeline on the TCV.

**Nitin Padmanabhan**

Thank you so much, Nitin. Very helpful, very clear. Thanks a ton. All the very best.

- Moderator** Thank you. The next question is from the line of Sudheer from Kotak Mahindra. Please go ahead.
- Sudheer Guntupalli** Thanks. Hi, Nitin. Congrats on a good quarter. So just double-clicking on some of the questions asked by the previous participants. Logistics and Transportation this quarter, there is a bit of a decline, while most other segments have seen a good recovery. So, any specific thing to call out, especially around the top accounts within this vertical, Logistics and Transportation?
- Nitin Rakesh** Sudheer, there's a marginal decline. I think it's a million dollars that's creating that, I think that's the only red on that chart. As I mentioned earlier, clients will go through their own spend cycles and business cycles. We just have to stay focused on executing and staying very close to where we can add value. There will be potentially puts and takes. It's not a one client vertical. So, I would stay very focused on executing to the cohort of clients there between Logistics, Airlines, Railroads and Transportation. Nothing else to call out at this point.
- Sudheer Guntupalli** Okay, Nitin. So just re-confirming, there is no major loss of wallet share or loss of client in this segment either, right?
- Nitin Rakesh** Nothing to report at this point, Sudheer.
- Sudheer Guntupalli** Okay, thanks, Nitin. Thank you so much. That's it from my side.
- Moderator** Thank you. The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.
- Vibhor Singhal** Good morning, everyone. Thanks for taking my question, and congrats, Nitin, on solid execution in this quarter. Two questions from my side. One is on the banking segment. We saw good recovery in this quarter, and I want to talk about banking segment, excluding the mortgage part. What is the traction that we are seeing in that segment given that we've had the first rate of the Fed, the results that have been declared by the clients like Wells Fargo and other players as well over the past week? Also, we have been quite upbeat about the prospects and more things are coming about, possibly a soft landing in the US. So, what are overall client conversations with the BFSI segment around and how do you see this vertical playing out over the next one, two-and-a-half years?
- Nitin Rakesh** Firstly, thank you for the execution comment. It's definitely taken a lot of effort to get the business to where it is, especially with all the macro action that I talked about. If you look at BFS, we actually called for bottoming in BFS business about nine months ago in the December quarter. We saw uptick in BFS in the last two quarters. And this quarter, obviously it's picked up base, aided by both the non-mortgage and of course a little bit of the mortgage side also helped this quarter, but majority of the growth came outside of the mortgage business in Q2.
- Three things to think about. Firstly, I think the reason we were able to call a bottom in that business nine months ago was purely based on uptick in small deal volume, in-year spend, ACV versus TCV uptick. And I think we called that six months ago and we are seeing some of that even in this quarter, both in terms of TCV, and more importantly, the revenue conversion has picked up as well. So even if a deal was sold 12 months ago, 18 months ago, consumption



definitely has picked up in the last three to six months, and that's good news, and that's what's helping us deliver the revenue growth in the very short-term.

Then, if you look at segments of BFS, I think the consumer banking was pretty stable, the NII expansion helped a lot, but there were parts of the business that were either market-linked. Wealth management was a little bit stressed for a period of time because of high interest rates and the RIA platforms were struggling to make money. And then we obviously looked at the CIB segment, which is the corporate investment banking segment, was very, very stressed until about three or six months ago.

We've seen gradual reopening of capital markets, not quite on the IPO side yet, but definitely on the secondary side, M&A activity, trading activity, and that's what's reflecting in almost every bank earnings in the last one week as well. So, I think banks have at least called for victory in terms of soft landing. Obviously, there is still not a lot of consensus around it, even though increasingly people are assuming that that's where we are headed. And that actually bodes well for the next at least two to three quarters. Some issues still have to be worked through. Pace of activity, pace of recovery, interest rate decline. I think all of that will go back into this element. Good news is, because of soft lending, the health of consumer and the losses on consumer credit are going to be well contained. We are also seeing increased spend coming out of regtech, KYC, AML, fincrime continues to get a lot of news flow and a lot of investment from banks, given just the amount of work that they have to do to keep up with the sanctions and the activity on that front as well.

So, I think overall there definitely is a trend, three quarters of growth in BFS sequentially. Obviously, it's starting to show up in YoY as well, and we do expect that to continue. Obviously, you have to keep in mind the seasonality issue for Q3, but in general I think that trend is well established on the BFS front. On the Insurance side, for us, it's a little bit more of a micro, bottoms up play. I am happy it grew 9% YoY this quarter. We've seen sequential growth in that as well and I think deal activity there is pretty good for us to continue to look for growth in the coming quarters as well.

**Vibhor Singhal**

Got it. Thank you so much. That was really helpful. My next question was on your opening commentary in which you mentioned about the GenAI adoption, and GenAI-led pipeline and specifically on the NeoZeta™ platform that we have. So, I think in the last discussion, we discussed a lot about how legacy code modernization is an opportunity that we are kind of approaching via these platforms. So, basically speaking about in terms of client conversations. Are the clients opening up to the legacy code modernization part? What is the kind of projects, is there any uptick in projects going from POC stage to live stage? Just some color on that would be really useful.

**Nitin Rakesh**

I think the short answer is yes. That's why 35% of the pipeline right now; and the pipeline is sitting at a record number, 35% of the pipeline is AI-led. A lot of that is a combination of modernization deals. Also, a lot of it is a combination of infusing NeoZeta™ and NeoCrux™ in an ADM construct, for example, because what NeoZeta™ is doing is actually helping map the entire application landscape and convert that into a knowledge graph that actually becomes the foundation for your applications on a go-forward basis. And that becomes a very powerful nerve

center or a dashboard for an enterprise to then maintain applications, enhance them, test them; when they onboard a new customer, what changes need to be done, simulate the test points, simulate test cases, create user journeys.

I think this is early days yet, but good initial adoption in the pipeline, good initial alpha and beta customers. We've infused that into the AWS foundry as well already. So I think, as I mentioned, these are early days. Adoption at scale is definitely on every enterprise's mind, and we're trying to see what's the best role we can play and take a forward-leaning approach on becoming a partner of choice for AI adoption at scale, something we saw actually on the cloud side as well over the last five years. I think it's a similar trajectory, but a faster adoption cycle, in my view.

**Vibhor Singhal**

Got it, got it. Just one last question from my side, it's a bookkeeping question. Our DSO days jumped sharply QoQ from 68 to 73 days, and our cash has also come down from June to September quarter. Any color on that would be really helpful.

**Aravind Viswanathan**

So, the cash has come down largely due to two reasons. We made a dividend payout of about \$124 million, and we also repaid some of the loan we had taken for one of our acquisitions of about \$67 million. If you look at cash flow generated from business, the operating cash flow was about \$50 million, which is 100% of PAT. So, to that extent, I wouldn't say cash has come down. Yes, the cash flow generation was a little lower, but it's just a good benchmark to start from. DSO went up a little bit in this quarter, marginally up YoY, up by about 5 days sequentially, largely because some of the collections slipped through to the first week of October. So, I do think we will get that in the coming quarter.

**Vibhor Singhal**

Nothing to worry about that. It's just a time factor thing and we should recover it in the next quarter.

**Aravind Viswanathan**

We are generating 100% of PAT. So, that can't be a concern, right?

**Nitin Rakesh**

Yeah. I think there's nothing to call out specifically on that issue.

**Vibhor Singhal**

Sure. Great. Thank you so much. Thanks, guys. Thanks for taking my questions and wish you all the best.

**Moderator**

Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

**Sandeep Shah**

Thanks for the opportunity and congrats on a good execution. Just wanted to understand, Nitin, some of your large peers are calling out increasing demand from cost takeout as well as vendor consolidation. So are we also witnessing such things, especially on vendor consolidation? And are we worried about the same, or are we looking to capture increasing wallet share through vendor consolidation in some of our top accounts as well as the new accounts from other vendors?

**Nitin Rakesh**

So Sandeep, I'll answer it in two ways. I mean, I'm always worried about vendor consolidation in my top accounts, and hence we have to always be very, very focused on protecting our wallet share. We have to protect the core motion in every account. And there always will be puts and

takes depending on the cycle of a customer, their spend pattern, what they're going through and so on and so forth, but broadly, the focus is to make sure that in our top accounts, we constantly gain wallet share and stay very vigilant.

As I said, top 10 cohort grew 2%, pretty much in line with the company, but the next 20 grew at 11% and a large portion of that growth is a combination of two things. One, we are using some of our tech-led offerings to get a foot in the door, tip of the spear. And then very quickly we are expanding our wallet share in those accounts, obviously consolidating either a smaller player or, in some cases, even taking share from a larger player because a lot of clients are at a point where they're always looking for a challenger mindset. One of our top 30 clients told us that they have too many champions and they're looking for a challenger, and that's part of the reason why we were able to actually consolidate our position and actually grow that account pretty rapidly in the last 12 months. So that's very much part of the next focus 20 account growth.

Even within Banking, for example, we have a number of customers where we only acquired them in the last three years. We talked about it quite often in the last couple of years. We went from having five out of the top 10 banks to actually having 15 out of the top 15 banks in our client portfolio. A lot of that really is wallet share gain because it's not like they're spending a lot of net new money. Yes, spends are going up, but a lot of that is coming from us gaining share from incumbents, small or big.

I think consolidation will always be a play. It becomes an even bigger play at times of pivot. We've seen that a few years ago, 2020-21. We'd probably see some of that play out again in '25-26. I think I mentioned this when I talked about the trend that we are seeing in the pipeline where some clients are already starting to look for AI-led IT operations. That will actually create another opportunity for players like us to create new wallet share through consolidation of those service types as well. So, it's not just a cost play. It's almost always a proposition and can you deliver a service better, can you deliver it in a different way, can you deliver it in a more tech-led way.

**Sandeep Shah**

Okay, thanks. And just the commentary about the deal pipeline across key markets, key verticals has been bullish in the 1Q call as well as bullish in 2Q call. So do you expect the TCW win, which had been slightly sluggish and tapered in the 2Q versus 1Q, can pick up in 3Q and 4Q?

**Nitin Rakesh**

I mean, I would love to tell you yes. The reality is it all depends on conversion of some of the large deals. Do we have the deals in the pipe to get to that trajectory? Answer is yes, but we are also very, very tactically focused on ensuring we take every deal. I mean, a \$0.5 million deal that can be consumed within the quarter is actually very valuable, as is a \$100 million deal that will be consumed over three years or five years. So, it's a combination. I did mention that some of these deals did slip into Q3 purely because the client scrutiny on ROI and AI infusion is a little bit high right now. This number of stakeholders you have to deal with have increased. I mean, there used to be a CIO, then there was a CDO, then there is a Chief AI Officer now. So, I think the stakeholder management on the client side is going through a little bit of a transition and change, and that's leading to a little bit elongation in cycles, especially around transformation. So, as we convert those, definitely opportunity exists for us to have a pretty robust set of wins in the second half.

- Sandeep Shah** Okay. And in your opening remarks, you call out furloughs to be normal. So, to achieve an industry-leading growth, the growth momentum needs to be maintained in 3Q, 4Q. So, are you worried the seasonality may impact the growth in 3Q, 4Q?
- Nitin Rakesh** I think we modelled it. I said we will follow the normal seasonal patterns. We modelled that. We still have obviously 10 weeks to go in this quarter to manage it, so do all of our peers. And then I think we have enough of a visibility into the remainder of the year to maintain where we are in terms of our FY25 guidance.
- Sandeep Shah** And the last question, how do you see margin outlook in the second half? Are we also still believe that the margin will have an upward bias in 3Q, 4Q over Q2 levels?
- Aravind Viswanathan** So we've been talking about our range between 14.6% to 16%. We delivered 15.4%. If you look at the upward bias kind of happened already from Q1 to Q2 as we improved about 40 basis points in the quarter. So, I think we will stick to that range, and I think we are quite confident we will operate. I mean, obviously there are puts and takes and seasonalities around Q3 being historically weaker than Q2, but I think we are very confident to be in the range that we have kind of talked about.
- Sandeep Shah** Okay. Thanks, and all the best.
- Moderator** Thank you. The next question is from the line of Nitin Jain from FairView Investments Private Limited. Please go ahead.
- Nitin Jain** Yeah. Thank you for the opportunity. So, I have two questions. First one is on the TCV. The deal wins, they have stayed consistently between \$200 million to \$250 million for the last, I think, five or six quarters. Although you have indicated that you are seeing better conversion from TCV to revenue, but with the Fed going through an interest rate cut scenario, do you believe this will pick up going further? And the second question is, you spoke about sequential growth. So I just want to double-click on that. How should we read into this quarter's sequential growth, given that last quarter we had seen a revenue decline? So, if you can elaborate. Thank you.
- Nitin Rakesh** So Nitin, I don't think we had a revenue decline last quarter. I think we had about a 0.5% sequential growth in Q1, around a 2% in Q4, and then this is a 2.4%. It's probably one of the better ones in the last few quarters. So, I think we talked about executing the order book, consuming the sold book of business, consuming the in-year short burst deals that we've been talking about for the last six months, and that's what's leading to the Q2 growth that you've seen that is pretty broad-based across verticals.
- As we look at sequential growth on a Q3, Q4 basis, it's fair to assume that Q4 will be better than Q3. And I just leave it at that and then we can do the modelling on what that will mean for us to continue to deliver to the guide that we've given. Not to forget that we've seen consensus uptick already in the last 60 days or so purely based on the industry outlook as well.
- On TCV, I think I answered that in detail in the previous question as well that the deal making pace is definitely elongated cycle purely based on multiple stakeholders and scrutiny, additional scrutiny even from sectors that are now starting to open up. But we are compensating for that

through, as I mentioned, the consumption of TCV that was already previously sold, especially in some of our top accounts. For example, we don't really have to go sign a new SOW because we have unconsumed spends that we haven't fully consumed over the last 12, 18 months.

And similarly, as we convert some of these larger deals, that can change very quickly with one or two deals coming into closure, just like we had a \$170 million deal in last quarters, and even this quarter, we have \$80 million plus deal in our clients in TMT vertical. So, I think it's the lumpy nature of large deals will continue to influence the overall TCV number metric, but we are baking that into our current order book and then kind of looking at what Q3 and Q4 look like.

**Nitin Jain**

Sounds good. Thank you.

**Moderator**

Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

**Dipesh Mehta**

Yeah. Thanks for the opportunity. A couple of questions. First about, if I look BFS growth and adjusting for top client, it seems it makes this, major of the growth this quarter. So if you can provide some color. It seems it is more participating kind of growth. So, if you can call out some more details around it. Second question is about transaction which we announced framework agreement. Whether the strategic customer is existing customer or it is a new customer, and if you can provide more detail about vertical and overall thought process around the transaction. And last question is about productivity improvement, which you highlighted in the presentation, from AI-led kind of thing. Now, it is a fairly high number, 30% to 70%. Do you expect it to have a deflationary pressure over medium term growth trajectory for sector as a whole? Thank you.

**Nitin Rakesh**

The first answer is pretty straight forward. You are not able to see that growth broad basing because you are looking at LTM data, and that's why if you look at the QoQ data, it's 2.1% QoQ top 10 and 11.2% 11 to 30 growth sequential. By definition, that means that it's not just one or two accounts. It's actually a combination of accounts, especially in the next 20 layer that is driving this growth. Especially in BFS, we've seen that play out actually for us. That's a simple data point I will guide you to. It's mentioned in the deck as well.

Second, the transaction is a vendor consolidation transaction where we've taken out an existing vendor at an existing customer in the TMT vertical, and the deal has been structured on a long-term basis. And the accounting wise, it's probably showing up in the footnotes because that's how the best way to account for the deal is, but it's really a large deal sold on a vendor consolidation basis in an existing customer that is a relatively new customer but has grown rapidly in the last four quarters.

And the third one around deflationary impact of productivity. I think it will definitely have an impact, especially for service companies that have a large book of operations businesses, especially around IT Ops, Infra Service desk and some elements of Contact Center or Customer Service. Those are the early hotspots when it comes to applying AI productivity. And I think I mentioned that in the comment around deal pipeline and the shape of that pipeline as well. So, for players like us, we see that as a right to win in an area where we were not very competitive

earlier. We didn't really have a right to win in a large five-year AMS deal that was purely based on a per ticket price. Now we think we have a right to win because we can really take a 50% effort reduction point of view on it or through the per ticket cost point of view on it. So, I think there will be a redistribution of wallet share for those who get it right, and there will definitely be pain for those who are already sitting on a big book of business that is susceptible to challenging through this tech-led disruption.

**Dipesh Mehta** Understood. Just on the first question, now if I look, let's say, BFS added \$7 million, top client added \$6 million, and that was I was referring to from a sequential perspective, but broadly, you are indicating growth is relatively.

**Nitin Rakesh** There is an LTM impact. You look at the LTM data, because - I don't know if that's, I'm reading it right, but maybe Aravind, you can check it.

**Aravind Viswanathan** Dipesh, what is the hypothesis that?

**Nitin Rakesh** \$7 million added in top account. But that's an LTM return. Concern is it's not broad-based.

**Dipesh Mehta** Maybe we can take it offline. Both numbers are for the quarter one and quarter two I am comparing. So, that is the QoQ numbers. It is not TTM, but maybe I can take it offline.

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

**Manik Taneja** Hi, thank you for the opportunity. I actually wanted to pick your brains around the deal win numbers. Do you think given the current backdrop where we have spoken about some of the flow through deals emerging in terms of smaller transactions and thereby, we continue to see large deal TCV to be modest while revenue growth continues to improve. That's question number one.

The second question was with regards to the onsite/offshore revenue mix both for us as well as for the industry. Over the course of last two, three years, more specific for the industry, we had seen this move towards higher India delivery. Do you think now with a lot of focus on AI-related engagements as well, projects are starting small, we could see a reversal on that trend for the industry as a whole?

**Nitin Rakesh** I think I'll take the second one first. I mean, at least for us, onsite/offshore is not an objective function. We don't manage the business with onsite or offshore. We manage the business with best shore. Wherever we need people to service that customer at the right profitability of the business, we will actually service it from that geography.

Also, for us, there is a little bit -- and we've discussed this in the past. Anything that is not in India sits in onsite for us. Even if I add people in Mexico, Costa Rica, Taiwan or Canada or Dallas or Florida, that will all show up in onsite. And hence I think some of that near-shoring split is not showing up, which I think we should correct. Over the next couple of quarters, we'll see if we can report out the near-shore segment separately.

I don't think that's a trend. Again, it's a question of how some of these deals get structured. If I create an AI Ops, App Management deal and that requires 100 people, traditional model was 80 of them should be offshore, 20 of them should be onshore. We may get to a point where I need 60 people; 30 onshore, 30 offshore, but the deal will actually make a lot more sense. So, I think it all depends on how this evolves. I think the labor arbitrage model will still be relevant because we are not shifting away from that model. But I don't think it's going to be an objective function. I think it will be more an outcome of what's the best place to deliver the services from. But broadly, if you look at headcount mix, I think it's not changed that dramatically for us or for the industry, and I don't think that will change going forward, but the direct linkage from headcount to revenue will definitely be a focus area for most companies in the industry.

On your first question around TCV, shape of TCV and revenue growth, I think there will potentially, depending on size and nature of deals, it is likely that you may see TCV growth that may not seem very large, but you may still see revenue growth purely based on the fact that if I am able to consume either order book until it lasts or short duration deals, then I'll be able to show growth. But reality is to grow sustainably over the next 12, 18 months, we have to obviously convert some of the large deals in the pipeline as well, and that's the focus right now.

**Manik Taneja**

Sure. And if I can dwell further on that particular aspect, this quarter's presentation once again focuses or highlights the account focused selling strategy. Is this a return back to our original thought process? Because in between, we were talking more about a vertical oriented approach rather than account-based selling that we have, that has delivered very good results for us in the last few years.

**Nitin Rakesh**

What we've tried to do is balance the account-based focus with a vertical cohort mindset. So, it's not that we went away from being account focused. We actually created a combination of accounts that sat in the same vertical to create a cluster approach or an account cohort approach and create scalability, fungibility and repeatability across those solutions.

The account-based focus never really went away. That was almost always, the pivotal focus for us was to create N equals one, which is every account is a unit of P&L, and that's when it gets the most attention. And that's what really works for us in super-scaling and super-sizing these accounts as well. But attempt has been from a scalability and a repeatability perspective to create these account cohorts or clusters that we can then manage as P&Ls.

**Manik Taneja**

So thank you and all the best for the future.

**Moderator**

Thank you. The next question comes from the line of Aayush from B&K Securities. Please go ahead.

**Aayush Rastogi**

Hi. Good morning.

**Nitin Rakesh**

Aayush, you're not very clearly audible. If you're on a phone, please pick up the handset.

**Aayush Rastogi**

Sir, just wanted to understand a couple of things. On the top account side, are you seeing any kind of a pressure from the top account? Because if we see, trajectory in this quarter, definitely

it has grown, but the last few quarters have been a bit of a pain on that side. Can we also understand that Logistics will be on the growth trajectory going forward?

The second question is that this is the very first quarter that we have seen broad-based growth, but how confident are you that this broad-based growth would be kind of getting sustained for the next couple of quarters or going forward for the full year?

Third question is on margins. So, this quarter, definitely we have given improvement in margins, but we have the wage cycle that is being divided across the period. So, is it linked to that we haven't given the wage hike in this quarter that has led to the margin expansion? Because if I see, the employment expenses have come down sharply on the quarter-on-quarter basis as a percentage of revenue. So, these are the three questions.

**Nitin Rakesh**

I addressed the first two questions already, but I'll reiterate. We said we modelled our sequential growth based on which we are guiding at least for FY25 to be where it is. We do believe Q3 will be seasonally weak, but we do believe that we have the ability to continue to deliver to what the full year should look like. And that, as I said, right, three quarters of sequential growth. We do believe that we bottomed the business in December, and we've continued to execute on the order book, the pipeline and the sold business.

On your specific questions around Logistics. Again, as I said, the view right now is baked into what we believe is likely to play out. I think there is not much delta between Q1 and Q2, or even Q4 and Q1, Q2. So that business, at least this point in time, seems pretty stable. And if we do see anything else to report, we will report that. At this point, our focus is to execute across all verticals of Logistics & Transportation. And I think we've done a pretty good job in building out new verticals there, especially Airlines, Railroads. We'll continue to execute on that as well as we go forward.

On the last question, Aravind, you want to take the question on expenses.

**Aravind Viswanathan**

So if you look at salary; two, three things kind of played out, right? One is that we saw a lot more onsite-centric growth. And therefore, you saw onsite utilization go up, which meant that the overall cost did not go up as much. Secondly, like we had talked about some amount of pickup in DR, and that again becomes a non-linear kind of growth. So therefore, there are a lot of puts and takes, but Aayush, but this is broadly how the cost kind of played out and resulted in a margin expansion of 40 basis points.

**Nitin Rakesh**

I don't think there's anything to call out on wage hikes per se. I think it's pretty much BAU on that front.

**Aayush Rastogi**

Thank you. But just extending on the margins, if I can ask. So going forward, if I like to reach the 16% high band of the margin, it would be a tall ask for the 3Q and 4Q, whereas for 14.6%, it would be on the lower side of currently what we want to be reporting. So where are we like most comfortable, what are the margin levels that we are having that can lead to on the upside of the margins, guidance that we have that is of 16%? If you can just also quantify for the same.



And the very last question on adding to this is on the headcount addition. What sort of trajectory are we eyeing for the headcount? Because headcount addition, still it's not positive for us, whereas for the peers it has been positive for the past couple of quarters, plus they are also commenting that they are hiring for the freshers as well as few of the laterals also. Thank you.

**Aravind Viswanathan**

We have given a range, Aayush, right, so it's between 14.6% and 16%. And, in the quarter gone by, we've delivered probably higher than the midpoint of the range, right? So, it's not 16%, it's not 14.6%. I think it's a range that we are comfortable with. I think we will operate in that range in the near term. There could be a little bit of ups and downs, but largely we are comfortable where we are. So that's the point on margin.

On headcount, I think we've kind of shown growth keeping headcount flat, which I think is a positive. It obviously depends on the nature of growth. We obviously have flexibility in our supply chain to increase our headcount. I think we will take a very prudent call based on the line of businesses we see growth, the amount of infusion of AI that we can do on delivery and take a conscious call.

**Nitin Rakesh**

Also I think from a peer group standpoint, Aayush you mentioned, that some of them have added headcount, especially on the freshers side. I think our utilization was actually much lower than theirs. They optimized utilization about 18 months ago. We continue to operate at a much lower utilization because of whatever supply chain metrics we had at that point. We've improved utilization even this quarter, which basically tells you that we are converting headcount to billable, and we'll continue to do that as much as we need to. And then at some point, if you see a net addition of headcount, that's going to be an outcome, not an objective function per se.

There is a pretty rigorous rolling 90-day headcount forecast that gets baked into by service line, by geography, by skill set, and that's what drives the headcount metrics. But it's not a vector function. We're not working backwards from how many people should we hire from lateral or campus. We're working forwards from how many people do we need in the next 90 days to be able to deliver to the customer.

**Aayush Rastogi**

Sure. Thank you so much. I'll join the queue again.

**Moderator**

Thank you. We have the next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

**Rahul Jain**

Thanks for the opportunity. Congratulations, Aravind, on the new role. My question, of course this has been asked in many ways. I'm just trying one more way. The way you are talking confidently about the deal with the number being weak, is it a way to look at it that the TCV data on a YoY basis is much better that gives the confidence? Is that the way to measure it? Or it would be like a continuous win and sprint, so that is how you get the confidence that things should continue to stay better year-round?

**Nitin Rakesh**

Yeah, I think there are two ways to look at it. One is definitely, there is a higher proportion of short of burst deals, that basically means that I may be able to consume that within the year. So, yes, the percentage of ACV to TCV is probably higher in 2024 than it was in '22, '23. Second,

we're coming off a down cycle. There is still unconsumed SOW spend that we are consuming right now, for which I don't need to go sell new TCV. I think we mentioned this maybe a year ago that a 30 million one-year deal got converted into a 30 million two-year deal, and we are consuming some of those deals as we speak for which I don't need to actually go sell a new deal. So elongation of TCV to revenue conversion is actually paying dividend right now because we are actually able to consume that TCV as the cycle turns back. And that's kind of what we are seeing in actually many accounts.

**Rahul Jain** So, in a way, what you're trying to say, your unexecuted order book continues to remain high. That is the metric that is giving comfort.

**Nitin Rakesh** Yes. Unconsumed order book. Because we did say that TCV to revenue conversion was actually stressed for almost four or five quarters.

**Rahul Jain** Right. Fair. Thanks.

**Moderator** Thank you. The next question is from the line of Chirag Kachadiya from Ashika Institutional Equities. Please go ahead.

**Chirag Kachadiya** So I have just one question. Yeah, so I've just one question. Other than BFS, with which vertical you are more comfortable that it will support the growth and all in the second half as well as in FY '25?

**Nitin Rakesh** I think we basically called for BFS and TMT to be leaders. Almost three quarters in a row they've been delivering on that promise, and we still believe there is upside left. We called for stabilization in others, i.e., Healthcare, which also has kind of stabilized and shown growth this quarter. We talked about Insurance being a YoY growth story as well because we have been working on recovering that pipeline. So, pretty much broad based led by BFS and TMT, and I think we have some more work to do to get it a lot more broad-based across regions as well, and that's also underway as we speak.

**Chirag Kachadiya** So some of our peers have been struggling in TMT vertical. So, what differentiation we are providing that we're more comfortable with the TMT

**Nitin Rakesh** I think the tech-led, account led, challenger positioning that we are taking with some of those established large accounts for our peers is the reason why we are able to replicate some of the success that we've had in other verticals, in TMT as well. And obviously, we've invested over the years in building domain expertise, whether it is embedded engineering, R&D, software engineering, device validation, product engineering. And all of those are helping right now to expand not just the number of logos, but wallet share in those logos. And I think I gave the example of a TMT customer where we signed a large deal with a consolidation play this quarter.

**Moderator** Thank you. Ladies and gentlemen, that will be our last question for today. I would now like to hand the conference over to Mr. Nitin Rakesh for closing comments. Over to you, sir.

**Nitin Rakesh**

Thank you all again for joining us early in the day. I think we covered a lot of ground in the last 60 minutes. Thank you, again. Wishing you and your family a wonderful upcoming festival season and looking forward to speaking with all of you in the new year.

**Moderator**

Thank you. On behalf of Mphasis Limited, that concludes this conference. If you have any further questions, please reach out to Mphasis Investor Relations at [investor.relations@mphasis.com](mailto:investor.relations@mphasis.com). Thank you all for joining.