"Mphasis Limited
Q3 FY 2025 Earnings Conference Call"
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Moderator

Good morning, ladies and gentlemen, and thanks for joining the Mphasis Q3 FY2025 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 Mphasis management team will be referring to today. The same presentation is also available on the Mphasis website www.mphasis.com, in the Investors section under 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 presentation may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the Q3 results release that was sent out to all of you earlier. I now hand the floor over to Mr. Nitin Rakesh to begin the proceedings of this call. Thank you, and over to you, Nitin.

Nitin Rakesh

Thank you, Dorvin, and thanks everyone for joining us today. Hope you had a great start to 2025. We appreciate your interest in Mphasis.

As our AI thesis is starting to play out, over the past few years, we've spoken about Savings-Led Transformation™, AI platforms such as Mphasis NeoZeta™ and NeoCrux™ as well as Agentic AI.

We are now implementing many AI projects that are fast-moving beyond pilot or POC stage. It is starting to scale and accelerating primarily due to paradigm shifts based on the following few factors.

Ability to supersize deals, because we can now bundle ADM, AMS and IMS together with Savings-Led Transformation™ and also presenting vendor consolidation opportunities using the same approach.

Second, we are able to augment AI with human capabilities, which changes the ROI economics of many deals. Clients are able to achieve quicker transformations which leads to unlocking of modernization opportunities, for example, that were previously prohibitive for clients to undertake.

Our ability to compete and win in more opportunities leading to an expansion of our total addressable market is also helping pipeline expansion.

And finally, the infusion of platforms and productivity gains offered earns us a seat at the transformation table. The infusion of platform-led approach is increasingly table stakes for many programs especially around modernization, ADM and AMS deals.

We have multiple implementations for large scale financial services customers. Mphasis NeoZeta™ platform accelerates relearning productivity much faster and more broadly than was previously possible, completing relearning in a matter of days versus weeks. NeoCrux™ on the other hand is an integral part of all NeoZeta™ pilots to do forward engineering from relearned business rules, data dictionaries and business capabilities.

We've completed two implementations with nine more in the works. We've seen productivity gains of 30% to 60% across different phases of the SDLC, including improvement in code quality, generating unit test cases and code documentation, thereby accelerating implementation and reducing project risks. Our clients who have signed up for this exciting journey are spread across all our target industry verticals.

As called out in the last quarter, there is significant visibility in pipeline growth and we are increasing the number of AI Ops deals. I'd like to highlight a few things on the TCV chart.

BFS pipeline is up 58% YoY and non-BFS pipeline is up 44% YoY. Large deals pipeline is up 49% sequentially. Significantly increased traction in AI archetypes including AI Ops and modernization, including Kore. We have over 20 large deals where NeoZeta™ and NeoCrux™ are in play as well.

Q3 saw a high share of proactive deal wins as we stayed focused on deal making. TCV closure for the quarter was $351 million, which is the highest in the past six quarters. We have five large deals in Q3 FY25 and 11 large deals for YTD FY25 as well. TCV wins are across verticals, client pyramid and archetypes. There is also an increasing pace of conversion of TCV to revenue and we continue to be structurally forward-leaning, making investments where we expect demand.

In addition to Q3 TCV wins, we have closed an additional $100 million deal in the BFS vertical in January of 2025. This will reflect in the Q4 FY25 TCV wins.

A few of the large deals that we won in Q3.

A large wireless network operator in the US selected Mphasis to provide scalable and differentiated multi-year services across design, experience and quality engineering. Mphasis leveraged its strong capabilities in diverse areas like UX, research and quality engineering.

Second, a technology major engaged Mphasis to contribute to digital experience innovations, architecture and the technical roadmap. The client engaged us because of our strong capability to support their future projects in AI and Salesforce/ Agentforce integration with their existing systems. Third, a large BFS client engaged Mphasis for application development and cloud transformation across product lines and business lines. Just a few examples of the large deals we signed in this quarter.

We have also made significant investment in GTM, including talent acquisition, and we appointed Head of our Strategic Engagements team Mike Meyer as we announced earlier during Q3. Mike will spearhead strategic deals in collaboration with various business units, enhancing overall growth, alignment and effectiveness. He's also responsible for pipeline development along with the end-to-end sales cycle management to optimize market opportunities for high-value contracts.

In addition, we also inaugurated a Cyber Fusion Center in Bangalore which is a state-of-the-art facility representing significant milestone in our commitment to enhancing cybersecurity solutions for global clients across industries. The center is providing 24/7 advanced threat detection, incident response and continuous threat monitoring, leveraging cutting-edge AI, ML and automation capabilities. This will not only improve our efficiency in responding to cyber threats by over 50%, but also reduce the attack surface by 45%, ensuring high visibility of threat landscapes across Information Technology (IT) and Operational Technology (OT) platforms.

Going to performance by segments, we continue to push for revenue growth which is anchored in our strong client mining model and tech-led offerings. Our Q3 revenue came in at $419 million on the spot basis, with a growth of 0.2% sequentially and 4.6% YoY in constant currency terms. Our Direct business accounted for about 96% of our overall revenue in the quarter. We expect the pace of revenue and deal conversions to remain strong, propelled by the Savings-Led Transformation™ themes I just talked about.

Our Direct revenue for the quarter increased by 0.2% sequentially and by 5.1% year-over-year in Q3 FY25 in constant currency terms. Our growth momentum in Direct continues despite the seasonality impact in Q3.

For the quarter, our anchor geography US, grew by 0.6% sequentially and 6.3% YoY in Direct. EMEA region declined sequentially by 5% in constant currency terms, following primarily the seasonality impacts. Rest of the world grew 3.3% sequentially and 14% YoY in constant currency terms. Our core service line, Enterprise Apps constitutes about 72% of revenue, and the revenue contribution from this service line continues to grow. We grew about 0.7% sequentially in CC terms in Direct Apps. The BPO segment grew 0.4% sequentially and 3.7% on a YoY basis as projects continue to ramp up and we see continued uptick in our mortgage business as well.

Going to performance by vertical, our BFS and TMT verticals continued the growth momentum. At an overall company level, BFS was up 1.6% sequentially and 8.6% year-over-year in Q3 FY25 and specifically in Direct, BFS was up 1.8% sequentially and 9.5% year-over-year. BFS growth has largely been driven by wallet share gains in existing accounts and strong execution in new account wins, including the accounts that were opened in the recent few quarters. Insurance vertical grew 4.4% sequentially. TMT vertical grew 2.9% sequentially with Direct TMT growth at 15.7% YoY, driven by continued deal wins and conversion of recent large deal wins to revenue.

Our client pyramid continues to improve across the board. Sequentially, we've added one client in the $75Mn+ plus range and two clients in the $20Mn+ and $10Mn+ categories, respectively. One of the new BFS clients we signed last year has already ramped up to a $20Mn+ account. Also on a quarterly annualized basis, we have a BFS client crossing $100Mn+ as well.

New accounts in TMT are also showing good traction. With the recent large wins in the last three quarters, we ramped up a high-tech account to approximately $50Mn annual revenue run-rate account. Top 10 accounts declined 0.8% sequentially and 11 to 30 accounts grew 0.6% sequentially. On an LTM basis, 11 to 30 accounts grew at 3.1% YoY.

Coming to our financial metrics, we delivered to our philosophy of maintaining margin in the stated band while making investments for growth. Despite the seasonality impact, our EBIT margin remained stable at 15.3%. Reported operating profit for the quarter grew 0.2% sequentially and 9.7% year-over-year. EPS of INR22.6 for this quarter represents a 1% sequential growth and a 14.1% year-over-year growth. Operating cash flow generation continues to be strong at $55Mn for the quarter, 110% of net income. DSO of 72 days improved one day sequentially, aided by better collections.

Summarizing our Q3'25 performance, we are seeing broad-based pipeline growth driven by large deal opportunities. We've had traction in the AI archetypes including AI Ops modernization, continued high share of proactive deals as we've been calling out. Improvement in TCV closures across the verticals and continuing to gain across the client pyramid with our tech-led, account focused strategy. The growth has definitely been led by BFS and TMT verticals and execution rigor delivered stable margins within the target band of 14.6% to 16%.

Coming to the outlook for the remainder of the year, few key messages. We continue to execute in an environment steadily moving in the right direction, focusing on the micro as the AI-led opportunities play out. The macro continues to turn in a favourable direction for BFS while there are still some things to be sorted through. We see some recovery in discretionary spend continuing while there are signs of uptick visible in the mortgage business despite the uncertainties. We've seen visible momentum in pipeline conversions and expect to be above industry growth for the full year, gaining from improving TCV to revenue conversion and strong TCV wins while at the same time targeting sustainable margin within the current band of 14.6% to 16%.

On that note, let's open the call for questions, operator.

Moderator Certainly, sir. Thank you very much. We have the first question from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli Nitin, thanks for the opportunity. Good morning. So, to remain above industry average growth for FY25 and industry average can be broadly assumed to be in the range of around 4.5% to 5%, so we should be able to clock 3%, 3.5% kind of growth or thereabouts in March. So, what gives us the confidence on that run rate apart from the deal wins? My question is broadly is there any other leakages that you're worried about? Or the portfolio can be assumed to be largely stable with incremental TCV to revenue conversion becoming faster?

Nitin Rakesh So, Sudheer, I think the math is the math. You've done the math already. I think we do expect Q4 to be, I would say, the best quarter in the last three years from a sequential growth perspective. And I think you've already displayed some of the math skills. From the point of view of the portfolio, I think we are fairly forward-leaning, as I mentioned, to making sure that the pipeline continues to convert to TCV. We've seen, a six-quarter high in TCV in this quarter. In addition, we've signed a large deal already in Q4 within the first two weeks. So that actually gives us some boost to converting some of that into in-quarter revenue as well. So, all things put together, puts and takes, there's always going to be portfolio approach. At this point in time, I think we are fairly comfortable with where we stand especially as it relates to the remainder of the year. As we get into FY26, we'll probably give you more color. There is always work to be done, whether it's in some client segments, some verticals, some geographies. We called some of those things out in the script as well. But more importantly, I think staying very focused on conversion of both pipeline to TCV and TCV to revenue.

Sudheer Guntupalli Got it, Nitin. And the sharp decline in Logistics vertical that we are seeing this quarter, is this one client led, or this is more broad-based and industry vertical specific? And a related question is, any update on the logistics client where there is a bit of speculation that we may have lost this client and so on?

Nitin Rakesh So, Sudheer, firstly, this is not linked. The decline you're seeing is not linked to any one customer. Some of it was expected but it's not just one customer led. I don't think it is constructive to over-index the conversation on "a customer". As I said, right, we are aware of all the speculation and the rumours. It's very difficult to address each one of those, especially unfounded, or ability to name customers and discuss them gets very limiting from a management standpoint, given the broader context of competitive intensity, customer relationship, confidentiality contracts and so on and so forth. So, take it for what we are giving you: which is the ability to drive growth through the remainder of the year, the ability to focus on pipeline and conversion and the confirmation that the decline you're referring to in Q3 is not linked to any one single large decline. Again, if you triangulate it, you have all looked at the numbers. If that was the case, the US would have had a bigger decline than Europe. Just to give you some context. So, I think sometimes it's good to triangulate data points versus focusing on the narratives that you hear from the market or from our competitors.

Sudheer Guntupalli Got it, Nitin. And just last question, what might be the impact of furloughs this quarter, if you can call out?

Aravind Viswanathan So, it's pretty similar to what we experienced last year. The number is around 2% is what you can consider as the furlough impact for the quarter.

Sudheer Guntupalli Sure, Aravind. And most of it is expected to reverse in the March quarter. Or are you seeing any peculiar impact of extended furloughs or something of that sort?

Nitin Rakesh There are two parts to that answer. Firstly, I mean, the nature of the business is such that there is no automatic reversal of furlough in the following quarter. So, we have to make sure that we continue to work at a client level and at an account level to recover as much as we can recover back because there's a logical reason for that year-end action, right? You look at budgets getting closed at the end of the year and that also leads to certain action in Q3. Seasonality comes from furloughs and some of those actions. Because if reversal was automatic, then almost every peer of ours would report growth in Q4. And you know that's not the case. So, we are expecting to recover a portion of it back for sure. I would say a good healthy portion of it back. We are not seeing any material extension of the furlough into Q4. We probably saw some of that over the last two years. This year seems to be a little bit better, and hence that's also going into the confidence that I gave you on our Q4 performance.

Sudheer Guntupalli Thanks, Nitin and Aravind. All the very best for the future.

Moderator Thank you. We have the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan Hi, good morning. Congrats on the solid deal wins. Nitin, two questions for you and one for Aravind. So, one is that I think your peer basically talked about how they've had to pass on a lot of AI-led productivity benefits to a very large customer. Are you seeing that and how are you thinking about that in terms of how much you'll be able to relatively retain? So that's one.

The second is, I think if I look at the portfolio looks like BFSI, TMT, all of those are leaning towards high single digit year-on-year growth rates. But the only drag is from a Logistics and Transportation perspective. Now here, if you think about it, is the current quarter a more furlough driven impact and do you expect that to come back? And second, when you look at the deal pipeline and the order book within that vertical you see things improve? So those are the two questions for you, Nitin. And there's one for Aravind which I will ask later.

Nitin Rakesh Yeah, you get to Aravind once I'm done because otherwise I'll forget my questions. I think the first question around AI-led productivity, It's a fairly nuanced answer because if the expectation is to implement it in a current portfolio where you're either doing a large dev program or a large run program and you have to protect your turf, then you obviously have to be fairly sharp about how much of that can you retain and how much of that you have to give back. But I think if you move the conversation away from just efficiency and cost savings to a Savings-Led Transformation™ approach, then the ability to bundle either a multi-tower, or AD with AMS, or run with change, for example, you take on an existing application portfolio with a very strong modernization story linked to it, then I think you have the ability to not only protect margins but actually grow your wallet share. And that's kind of what we are seeing.

I can't comment on what somebody else said in terms of what they had to do. But in our case, we are not seeing this as any major headwind to either wallet share or margin. In fact, where we need to be, we will be very forward-leaning on supersizing deals using this. And that's what I called out in the commentary. A little bit of that definitely is playing out in the fact that pipeline is up 50% YoY because we are able to bundle a larger construct because that provides efficiency, certainty of outcome and rapid deployment of some of these solutions as the three key levers besides just cost. If the focus is going to be over-indexed on just cost saving, then it'll be very hard to convince the customer why they can't take all of that back into their P&L. So that's kind of on the first one. I'm happy to take more questions on that if you have.

On the second item, I think the pipeline is actually very, very broad-based. Some of our largest deals are spread very well across all the verticals including Logistics & Transportation. So, we do expect good deal activity. I don't think this is a very large furlough component. Some of it may be in there. This is definitely more a question of certain client-related project items or in some cases year-end related budgeting issues. But we do expect uptick in dealmaking in that vertical. I think the 'Others' vertical has also been contributing to a decline a little bit. It's been a little patchy in Healthcare. We had a couple of good quarters and then there were certain other payer-related headwinds that came in. So there's work to be done for us in Healthcare as well. And again, from a pipeline standpoint, from a deal closure standpoint, I think there is good activity in that vertical also. So I think, as I mentioned, a little bit more consistency needed across segments. That's very much the focus. But good news is, there's visibility in the pipeline very much there for all the verticals that need some work.

Nitin Padmanabhan Perfect. That's helpful. Aravind, is there any one-off within the D&A line item? There's a marked increase this quarter and any specifics on revenue from tsQs that could accrue in the next quarter?

Aravind Viswanathan So, there are no one timers per se, right? Typically, some marketing events that we've done and spends around that, that has come through. But I think if you see a three, four quarter trend, it kind of oscillates a little bit. So I don't think there is nothing much to read into it.

Nitin Padmanabhan I was referring to the depreciation amount.

Aravind Viswanathan So, on the depreciation side, as you know, we had won a deal last quarter on one of the large telcos. And as part of that deal, it was a consolidation deal, for which there was a money paid for rebadging employees and as part of that while the accounting followed M&A accounting, there is no goodwill or assets taken over. The entire amount paid is amortized into the P&L as depreciation of intangibles. And that is the amount that has kind of come in. I expect that it will normalize. But you have other transactions that we do, and we will have to see how that comes. But it is largely driven on the back of a new deal that we announced in October. On tsQs, we're not giving details on breakout.

Nitin Padmanabhan Should we take this as a steady state?

Aravind Viswanathan Actually, it will oscillate, right? I don't want to get into a quarter-wise forecast on this. But as we do deals like these, because we won another deal which we have talked about this quarter also as part of the consolidation. So maybe the previous one will little bit taper down and the new one will have an impact. So, I would say that right now you may not see a very big difference in Q4 vis-a-vis Q3 on that line item.

Nitin Rakesh So, Nitin, what Aravind is explaining is the accounting treatment. But from a philosophy standpoint, wherever we see an opportunity to do tail consolidation or take on contracts that might be with non-strategic vendors or that gives us an opportunity to structure a large five-year deal, we would actually do that even if that means that we have to structure a transaction where it works for both the customer and us. So, some of these will continue to be one-offs that you will see primarily driven by the fact that we see opportunity, we take it and we invest in the business and with the customer. And that's how we are getting these clients to progress through the client pyramid as well.

Nitin Padmanabhan But would we need to worry about headwinds to margins with these transactions or it should be accretive over its life cycle? How should we think about it?

Nitin Rakesh These are highly accretive deals if you look at the nature of the transactions, the tenure and the profitability. So, you don't need to worry so much about the accounting impact-related headwinds. Otherwise, we'd have called it out and you should have seen that -- you should have seen that in Q3 and in our guidance for Q4. I don't think that's the case.

Nitin Padmanabhan Yeah, sure. Perfect. Thank you so much and all the very best.

Moderator Thank you. The next question is from the line of Abhishek Kumar from JM Financial Limited. Please go ahead.

Abhishek Kumar Yeah. Hi, good morning. Two questions, Nitin, both on TCV. First, you said in the presentation that TCV to revenue conversion is improving. Now two parts here. One, what was happening earlier? Was it just the slow conversion that was impacting the headline growth number or was it slightly elevated leakage because of mortgage and some of the other stressed top 10 accounts? And second, what has changed that is giving you the confidence that TCV to revenue conversion will be better going forward?

Nitin Rakesh Both great questions. There was definitely churn in the business. I mean, we've talked about at peak what the contribution from mortgage was to at bottom what the contribution was. And there was a pretty big swing within four or five quarters. That stabilized definitely at the end of 2023 when we called for a bottoming in the business. Now this is the fourth quarter where we've seen sequential growth. I think we need a little bit more consistency in that number from a quarter-on-quarter perspective, which is what we are all focused on.

From what has changed, I think some of the uncertainties that at a macro level started getting addressed, whether it was peaking of the interest rate cycle, middle of 2024, it was clear that cycle has peaked. But it took another three months till September for the cuts to start. Between September and December, we had 100 basis point cut that definitely had some uptick to not only volumes, but more importantly confidence in the cycle and the soft landing. Secondly, if you look at the outcome of the elections, there is some degree of certainty on the fact that the tax cuts will get definitely extended which means that enterprises can now plan budgets with that assumption in mind versus an uncertainty around how that goes and where that goes. That definitely leads to higher enterprise confidence when it comes to committing to larger programs.

The issue earlier was, they would commit to a program, but it was one step forward, one step backward because the data points were so commingled and confusing that it was hard for them to take a two-year, three-year view as to whether they can commit that kind of budget for that duration. So, there was a very high scrutiny on projects and spends. Still high scrutiny, it's not that there's free money available, but at the same time, there is more confidence and the ability to commit to some of these larger programs has definitely upticked in the last, three months or so. So that's kind of where we are seeing the business and the approach and the confidence arriving from.

And that also if you can see we've closed $450Mn in the last three months, including the January deal. That's a six-quarter high, probably more than the last two quarters put together. Pipeline is up. In addition to these big closures, pipeline has actually not just inched up, but it's actually jumped up to a number where we are 50% higher. It's a record number. 23% sequential growth in pipeline is not something that I've seen often in the business. Obviously, we've been investing in the large deal framework. We've talked about adding a new leader and very much, and as I said, forward-leaning on it, purely based on the qualification of the deals in the pipe, as well as the ability to continue to originate deals as well.

So, all put together, environment looks to be improving further from where we were definitely this time last year. There was a little bit of a tentativeness in the recovery. And obviously, for the first two quarters of calendar '24, there was a fair amount of scepticism around whether the recovery will take shape. We've seen that across the industry now in the last two, three quarters. So, I think it's just a continuation of that trend.

Abhishek Kumar Great. Just a follow-up on what you said towards the end. You've hired a new leader, you're looking at some of the large deals and we just discussed some of the rebadging, etc. So is that a conscious strategy to go after these consolidation deals, those sort of $100Mn+ kind of consolidation deals which we were probably not participating as much, given higher exposure to apps, etc. Is that a conscious strategy that has changed recently and therefore we should expect slightly more larger deals going forward?

Nitin Rakesh The answer is, this is very much a deliberate effort to balance risk reward as we look for opportunities and deals. And the reason I say that is that just because we are doing these consolidation deals which require some element of structuring or investment, doesn't mean that we are throwing caution to the wind and doing deals that shouldn't be done right. So, I just want to make sure that I articulate that very openly. Of course, we've focused on large deals. We've been reporting the number of large deals, for over five years now. We used to do one to two a quarter. We are now between three and five a quarter. Average deal size has gone up slowly but surely. We had a mega large deal quarter about six quarters ago. So this is very much a deliberate attempt at building muscle that we think is required. And by the way, not only is it required to get scale, but there's an opportunity to use the capabilities that we've been invested in. And I talked a fair bit about that in the script as well. So, I think this is very much a deliberate conscious attempt. Unfortunately, in business, you can't really have a subconscious confidence-driven winning strategy. So, we are focused very much on consciously driving growth through this.

Abhishek Kumar Great. That's helpful. Thank you and good luck.

Moderator Thank you. The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal Yeah, hi, thanks for taking my question. Nitin, just want to delve a bit more on the Logistics vertical. I know we've delved a lot on it already. I mean, it stands out as a sharp contrast to all the other verticals which actually reported quite handsome growth in this quarter. So, what ails this vertical, particularly if you can delve a bit more on this? Is it that the vertical itself is facing tech spends which are coming lower? Is it some clients who are actually ramping down or is it loss of wallet share or something like that? And can you provide some trajectory as to when do you think this vertical could bottom out for us in the coming quarters?

Nitin Rakesh So, let me first break down the vertical for you. It is called Logistics and Transportation because it has a combination of Logistics, Airlines, Railroads in there. Logistics isn't just what you think it is. There is a supply chain element to it. There are shipping companies in there, airlines is well understood. It's a new vertical we created over the last two and a half years. We've announced multiple wins in that area, including the recently won AWS Industry Partner of the Year award for Airlines in 2024 that was handed to us at the re:Invent. And then of course there's the Railroads element. So, if you look at all of these three have a different dynamic and a growth trajectory. The Airline business has grown well for us. Obviously it's a very small base. We expect that to become a much more meaningful portion of this business over the next 18 to 24 months. A large number of deals and the activities that we are talking about actually do sit there. Same with some of the other segments of this vertical. The decline, as I mentioned, is not related only to one large customer or any one single customer. It's a combination of things that happened. And again, as I mentioned, there are seasonality factors at play, not just the cyclicality of the business. The non-airline business is also something that is exposed highly to global macro and supply chain headwinds. There is definitely work to be done there. And again, not every customer in every segment will grow at the same pace, either on a sequential basis or on an annual basis. So, this is kind of the puts and takes that we are dealing with. Fairly focused on driving growth through deal wins and of course making sure that we continue to protect what we can with existing customers as well as acquiring new customers.

Vibhor Singhal And any timeline that you could provide that when you think with the effort that we are making in terms of Airlines and other sub segments when this vertical could bottom out for us, we could start seeing positive sequential growth in this quarter? Any kind of a subjective direction itself also would be helpful.

Nitin Rakesh So, Vibhor, I can give you an answer, but the answer can change within like one deal being signed up, right. This is not a vertical, the size of Banking for us. So, the shape of the vertical can change very, very quickly. So, I think what I will tell you is, the portfolio visibility that we've given you for Q4 assumes a certain set of actions. That could change as we announced or as we try to close deals, and we announced activities there. So instead of giving you a timeline by which this will bottom out, I would just tell you that we'll continue to update you as we progress our actions because there are some really interesting actions that we're trying to execute.

Vibhor Singhal Got it. That was helpful. Also, just to quickly pick your brain on the Insurance vertical, how do you see the outlook for that vertical going forward? I think BFS, I think we've spoken a bit about that. I think that's quite clear. On the Insurance any key puts and takes that you would probably want to share? The growth has been quite good through this year, in fact, through the last six quarters. Do you expect the momentum to continue?

Nitin Rakesh Again, we started talking about stabilization in that about a year ago and we've seen a pretty decent growth in that business sequentially this quarter. Some of it is linked to new client acquisition and expansion of our wallet share in that business. That business obviously is across both sides of the Atlantic. So, there is a UK, European element and then there's obviously a US element. I think at this point it looks like that it will continue to give us sequential improvement. We have visibility into existing clients where we won wallet share and deals that will continue to convert. So, I mean, from the point of view of leading the growth, I think it'll still probably be led by Banking and TMT, but Insurance definitely is a contributor to growth from an overall company standpoint as we go over the next few quarters. And again, caveat that with the fact that deal activity can change all of that pretty quickly, right? So that's the focus on from a pipeline conversion standpoint.

Vibhor Singhal No, got it. That's really helpful. I think the deal conversions have been quite good and fingers crossed that that continues to change the momentum for us.

Vibhor Singhal Great. Thanks for taking my questions and I wish you all the best.

Moderator Thank you. We have the next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah Yeah, thanks. Thanks for the opportunity. Nitin, just wanted to understand, any client conversation in the Insurance segment because of the California fires? Do you believe the growth momentum can disrupt going forward?

Nitin Rakesh I think it's still a little bit early days. We have not at this point seen that conversation reach our offices or desks or interactions. I think it's a very complicated state as well as a federal subject. Maybe some clarity will emerge now that the administration is in place. There's definitely going to be some impact on some large carriers, especially that cover home and auto because both of those will take an impact. But I think there is probably a realization that there is a dollar limit to that given the backstop that was given by the government in California. So, at this point, nothing to call out. We'll keep watching it. I don't think the incidents are behind us yet because there seems to be some more activity this week. So, I think nothing to call out on that front. We probably will know more about it as they report their current quarter earnings and make some disclosures. On the flip side, though, I think it gives us an opportunity to sharpen our pencils and go to them with some propositions. So that's something that we've already started to think about.

Sandeep Shah Okay. And in terms of large deals, with a conscious effort to increase, is it fair to assume that these large deals will also be at a company average or there could be some investment which may lead to some compromise on the margins going forward?

Nitin Rakesh Very, very good question. I think the stance that we've taken is, and we've talked about it for the last, I would say, a few quarters, maybe even few years is we continue to prioritize growth and hold the margin steady which means, if we have the ability to drive operational efficiencies, we'd love to invest that back into growth. Growth can come from, I mean, investment requirement is in three or four different buckets. First one is definitely capability. We've been investing, we've actually upped our investment in capability, competency, as we built these AI platforms over the last few years, especially over the last 18 months. Second investment required is in GTM which, for example, setting up the large deals team, expanding our coverage on accounts, going from just the top 10 to the next 20 accounts, expanding into newer verticals and newer geographies. All of that requires investment in GTM. And the third investment is at a deal level, within a large deal construct, what investment is required and how much of that can be absorbed. And that's why I think Aravind was explaining earlier, as we've looked at some of these large deals, we felt we could absorb that level of investment without disrupting our overall margin profile. So, we do expect these deals to obviously be either at or above the overall company average if we have to hold our margins steady. So, I think that's the approach and the philosophy with which we are approaching the market. Again, the ability to use discontiguous opportunities using some of these platforms gives us confidence that we have line of sight to what's the art of the possible, what's the size of the prize is. Of course, competitive intensity in the business is always high. There are peers who are in a way punting the savings percentages in the outer years to get into the deal in the earlier years. We have to just be very careful that we have the level of confidence that we can actually execute to those programs. And I think given that we've been executing these large deals over the last few years already, I think we do have a pretty good idea what the guardrails should look like.

Sandeep Shah Okay. And just a last book-keeping question. The 9th January deal which we have signed with tsQs Inc., is it the deal construct like M&A or the deal construct is similar to what we have signed in EDZ and that may keep the amortization cost higher for a foreseeable future?

Aravind Viswanathan It will be identical, Sandeep, to EDZ. It is another vendor consolidation deal, right, with people take over. So, it will be identical to that. And again, at a deal level, these are, I would say, accretive to the company margins, even post the amortization. So that's the way you should look at that.

Sandeep Shah Okay. So, amortization line as per you, Aravind, may not materially decline in the fourth quarter, but may come down starting next financial year?

Aravind Viswanathan Yes. Unless we win more deals which necessitates such line items to come through.

Sandeep Shah Okay, thanks. And I will come back in the queue.

Moderator The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala Yeah, thanks for the opportunity. Nitin, if we look at, say, our revenues over the past three years, including the down-cycle of FY24, we are up 5%. If we look at headcount during the same period, it's down 15%. And even in the last one year now, as of 3Q YoY basis, our revenues are growing 5%, our headcount is down. Just wanted to understand, and you've talked a lot about the contribution of AI into some of the deals that we are winning. I just wanted to understand how much the non-linearity is getting played out in the new business that we are doing and whether is it fair to assume that even going forward, for the revenue growth that we might achieve, the non-linearity is potentially going to expand and as a result could be a margin lever.

Nitin Rakesh So, Rishi, great question. I was waiting for someone to ask the question because I knew this was going to be an item for discussion. If I look at the metrics you shared, especially over the last 12 months, I think there are three components to it that you should think about when it comes to revenue to headcount correlation. The very first component very evidently reported is utilization. We were running at a lower-than-industry utilization because of the infusion of pyramid. We've talked about construction of the pyramid in '22-'23. That doesn't happen in one or two quarters. It actually takes multiple quarters to do. So, the shape of the pyramid definitely changed and that meant that we had to actually lower our utilization. And now we've been eating into that utilization over the last four quarters. Still work to do. We'll probably see some infusion again at the bottom of the pyramid. We'll continue to work on those actions based on the rolling 90-day headcount requirement plan that we run. Second element of the headcount revenue correlation is onsite versus offshore. If you see in the same period, onshore headcount has actually gone up at a billable level. And that's because as we do some of these deals that have been talked about, they start onshore, and then we transition them over a period of one or two or three quarters. And that I think has distorted a little bit of the revenue to headcount correlation purely for the last four quarters. Nothing alarming because in the end the thesis will always be 30-70, 20-80. That's the reason why clients look for savings. Our ability to infuse right-shoring with tech is important. We've already talked about centres outside of India that don't count in the offshore locations, so that's all sitting in there. Third element of that is the AI or non-linearity that we talked about. We are definitely seeing some of that, especially in areas that require AI-led Ops, for example, production support, enhancements, QA, the ability to drive 30%, 40% of the manual effort is definitely driving conversations. Again, I mention the fact that not all of that has to be in a T&M construct. So, when we do some of these in a managed outcome basis, even in the mortgage business, we have the ability to drive efficiency using some of the same constructs. That is starting to play out. It's a little bit early days for that, but it's definitely very much in that equation in the last four quarters and will probably be more in the equation over the next four quarters because some of the deals we've sold very recently will require us to strengthen that muscle. In the longer run, the correlation between revenue growth and headcount growth will not go away, but it won't be as high as it used to be in the last 10 years.

Rishi Jhunjhunwala Understood. And just one confirmation. You made a comment earlier in the call that 4Q could potentially be the strongest 4Q you have seen from a QoQ growth perspective in the last three years. I'm just confirming the last three years, you mean 4Q FY23/4/5, because 4Q FY22 was 4.3%?

Nitin Rakesh Yes, you're right. That was the previous peak. Since then, is what I meant when I said last three years.

Rishi Jhunjhunwala Yeah, just wanted to confirm. Thank you.

Nitin Rakesh Yeah, absolutely. Thank you

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

Dipesh Mehta A couple of questions. First about the $100Mn deal which we subsequently announced in the current quarter. If you can provide some more detail about the contour of the deal in terms of whether it is existing client, new client, vertical. If you can share whatever additional detail you can share.

Second question is about the top 20 clients. Considering because now budget cycle is getting finalized and if one wants to get confidence about growth considering the concentration which we have, are we seeing any, let's say, signs of concern area in any of the top 20 clients which can lead to, let's say, issues and derail growth momentum which we likely to see in Q4, entering into FY26? And last question is, we give new-gen TCV numbers. Surprisingly, it fell below 50% this quarter, which we have not seen in at least recent past. If you can provide, because the way we are suggesting deal construct kind of thing, then these components would be higher. Surprisingly, in Q3, that number is the lowest which we have ever seen kind of thing. Thank you.

Nitin Rakesh Sure. So, I think the first one is around the new deal in Q4. It is in the Banking domain, and it is a new customer. And the nature of work is application and infrastructure transformation using public and private cloud. That's the deal, the execution timelines are pretty clear, well defined and it's definitely a 2025 calendar year execution initiation as well. It's a multi-year deal. Second question was, do we see any clients in the top 20 that can contribute to growth, if I'm understanding correctly, right?

Dipesh Mehta Yeah, it is reverse, whether it can create headwinds?

Nitin Rakesh Headwinds. Again, it's very difficult to call a client in the top 20. Again, you can ask that question with a different context of top 10 or verticals. So, I think puts and takes will always be there. There are always clients that are declining sequentially or YoY. Our effort is to make sure that the net positives are higher than the net negative. So, from that perspective, the top 5, top 10, top 20 anyways is a dynamic list. It's not the same static list. There are clients in the top 10 today that were not in the top 10 a year or two ago and that's very much the focus from a pyramid growth standpoint. So, nothing to really call out at this point. We will continue to monitor the portfolio both at a geo, vertical and a client segment level and report it. And the third question was around new-gen. It's a good question. We've been a little bit conservative in taking some of these vendor consolidation opportunities and not reporting them as new-gen and that's what's driving the lower percentage. Because the large deal that Aravind talked about that we've done with an existing customer with a consolidation play, we so far have not applied any new-gen or AI muscle to it. So that's something that we will do during execution. But from a reporting standpoint that's probably what's distorting the new gen percentage. There's definitely going to be infusion of tech-led capability besides just right-shoring to make sure that the deal is executed for what we committed to the customer

Dipesh Mehta Just harping more on the top 20 which I said, it is more from the growth perspective. Let's say, we will see good momentum picking up for us in Q4. If any of those issues again crop up, we will see deceleration considering we have fairly high concentration in top 5, top 10, top 20 and that's why I try to get sense do you see, let's say, considering puts and take which we know in the portfolio of top 20 clients, can provide any big headwind to our growth acceleration momentum, which we have started to see?

Nitin Rakesh So, Dipesh, again, difficult to give you. I mean, I really don't have a way to calibrate as to what the exact response should be, except tell you that there will be hotspot accounts. There are hotspot accounts in the top 10, top 20, because as I mentioned, not every account, not every vertical will grow at the same pace consistently. We will take a portfolio approach and continue to report it. We definitely have work to do where we think we can plug some of these headwinds. There are two ways to grow. One is everything grows. Other is you grow around all the issues that you have. So, we try to do both of them and wherever possible look for opportunities to grow around issues as well. And we've done that in the past. You looked at our concentration to one large customer five years ago used to be almost 26%, 28%. We are down to 2%. We've also looked at concentration or risk coming out of the mortgage business. So, we've grown around that as well. So, I think we'll continue to just apply the same playbooks that we know how to and in a way, the lead indicators will always be pipeline, pipeline to TCV, TCV to growth.

Dipesh Mehta Understand. Thank you.

Moderator Thank you. The next question is from the line of Shradha from AMSEC. Please go ahead.

Shradha Agrawal Yeah. Hi, Nitin. Two questions from my side. (not audible).

Nitin Rakesh Shradha, your voice was breaking. Can you please repeat the question?

Shradha Agrawal Yeah. So we've been operating at 74%, 75% utilization since last two, three quarters. So how do we read the trajectory of utilization from here onwards?

Aravind Viswanathan So I think we've had a sharp improvement in utilization over the last four quarters, right. I think it is safe to say that we would be around similar levels. But I think one of the points that we've at least been very focused on, right, pivoting towards growth. And I think a lot of our supply chain is determined by how the growth materializes. Now, if you really look at even the data that we share, you've seen a sharper increase in on-site over the last three, four years and naturally that lends itself to a better blended utilization because on-site always operates at higher utilization. So I would say that directionally I don't see a major shift in utilization from where we are. But utilization, supply chain are frankly input parameters to manage demand, right? And if there is a change in the nature of demand which we don't see currently, but if there is, things will change, but otherwise it should be along similar lines.

Shradha Agrawal Right. And just couple of questions from me…..(not audible)

Moderator Sorry to interrupt, Shradha, but your line seems to be breaking in between once again. Maybe request you to please move to an area with better network or reception?

Nitin Rakesh Or if you don't mind just send that question on the chat window. I'm sure there is one way to do that.

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 and congratulations for the steady performance. Nitin, while you mentioned about the fact that we should probably see the correlation between revenue growth and headcount reduce going forward, it will be great to understand your thoughts as to do you think some of these transitions towards almost like a platform business can drive margin gains for us given in the past we've seen the industry compete the way the margin gets back to customers? That's question number one. The second question, with the way that you see demand playing out across different industry segments, do you think our concentration or proportion of business coming in from Banking once again grows in the foreseeable future given the way one is seeing industry demand progress?

Nitin Rakesh So, I think the first question let me take that one. I'm not sure second one I understand, but let's take the first one around transition to the platform model. I think that is in a way the North Star. Question is, as you rightly said that industry has competed away the gains from this model back to the customer. There are two issues that we are very, very watchful of. Change management at the client level. Will the client buying behaviour change from buying predominantly capacity-driven contracts? Second change, management behaviour will always be around competitive intensity, the ability to construct deals that actually give you some lift and some benefit. Early days, I think we are in the first innings of a baseball game, so to speak. This will play out over the next few years definitely. All I can tell you is there are existing instances of at least a handful of companies that have managed to transition from a pure services or a solutions business to a platform-based services business. We are very focused on learning the best practices and making sure that, as we invest in some of the platforms, we will definitely take a commercial approach that is value-accretive to the customer to begin with, but most importantly also highly gives us a degree of differentiation and stickiness that helps us beyond just looking at short-term margin lifts. So I think again, early days. This is a topic that will continue to be discussed over the next few quarters. We are again very deliberately and consciously driving a whole set of actions around it, and we'll continue to keep you updated. If you don't mind, can you repeat the second question, please? BFSI growth I understand, but...

Manik Taneja Sure. So, my second question was that in the post-pandemic demand upswing, we saw the proportion of revenue that we get from Banking go up given the strong spending in that segment. Do you see that once again inch up in the foreseeable future given the way you are seeing demand patterns play?

Nitin Rakesh Manik, short answer is, we will take the growth where we can find it, in the short run because there is only one colour of currency. If you look at our longer-term trajectory, let's take, a five-year, seven year view as well. Banking used to be 50% of revenue and it's still very much 50% of revenue at an overall company level, give or take a percent here or there. So I think the portfolio diversification approach of building the other enterprise verticals definitely has given us good rewards in the last three or four years. And TMT is a great example. The approach to very short term will always be over-index on opportunity and deal making. And the approach to long term is to continue to look at portfolio across verticals, geographies, and services. So, I wouldn't worry too much about getting overexposed. I think there is tremendous opportunity and by the way, this is without the upside risk to business growth if the interest rate cycle truly plays out in some shape or form. And this is the first time we've seen in, I think, the history of financial markets that at least I've been following where after 100 bps cut, the 10-year has gone the other way. So, I think we have suffered a little bit in the last couple of years. We'll take the benefits in the very short run, and we'll continue to focus on driving in our core vertical the right to win and expand as much as we can with existing clients, new clients, new geographies in the BFSI segment.

Manik Taneja Sure. Thank you and all the best for the future.

Moderator Thank you. The next question is from the line of Abhishek Shindadkr from Incred Capital. Please go ahead

Abhishek Shindadkr Hi, thanks for the opportunity and accommodating me. Nitin, just one question on the headcount. Now, how should we read the decline in the headcount and corresponding change in the next-gen services TCV? So, it seems like a strategy to focus on managed services deal. Now, are we kind of planning headcount for the potential rebadging of employees that can happen associated with this kind of deals or it is the change of a pyramid where we are moving from the middle layer to more freshers and that's what is a reflection of it? Thank you.

Nitin Rakesh Yeah, I think I addressed the headcount issue that Rishi had asked. I don't have anything new to add except tell you that you can't plan for a rebadge deal until the deal happens. If it happens, you work, you plan around it and you see how to optimize your current pyramid and your current deliverable to the customer. So, I think the short answer is that we will continue to do headcount forecasting on a rolling 90-day basis, look at how the demand environment looks like across locations and skill sets and then try to meet that with either internal utilization or external fulfilment. And that's very much an operational rigor that is well built into the company and will continue to get optimized as we grow the business.

Abhishek Shindadkr Thanks. And just a follow-up question to it. As we move more towards managed services deal, has anything changed in terms of the revenue recognition for the managed services deals? Last year, we had heard of taking transition timelines up to six months. Anything changed on that count would be helpful. Thank you.

Nitin Rakesh Yeah, I think the revenue acceleration from TCV definitely has improved which means the transition timelines are not as long right now. When it comes to managed services, it's a combination of right-shoring and effort elimination as I mentioned earlier. So that will definitely play out into the aspect of the non-linearity in headcount to revenue correlation. Beyond that I think we will report and explain these numbers as we go forward. But we are looking actively for opportunities where effort elimination is very much part of the thesis of constructing a solution and large deal around it.

Abhishek Shindadkr Great. That is very helpful. Thank you for taking my question and best wishes for the next year as well.

Moderator Thank you. Ladies and gentlemen, we will take that as a 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 very much. And on behalf of Mphasis, that concludes this conference call. If you have any further questions, please reach out to our Investor Relations team. And we thank you for your interest and look forward to speaking to you again in three months.

Moderator Thank you. Ladies and gentlemen, on behalf of Mphasis Limited, that concludes this conference. If you have any further questions, please reach out to the Mphasis Investor Relations team at investor.relations@mphasis.com. Thank you all for joining us. You may now disconnect your lines.