ETMarkets Management Talk: Mphasis CEO Nitin Rakesh explains duality of business in Q3 earnings

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Synopsis

We believe that some of the pipelines that we have built up over the vendor consolidation theme should start to translate into TCV in the coming quarters. At this stage, we are focusing on the micro while being attentive to the developing macro environment.

NEW DELHI: IT solutions provider Mphasis CEO Nitin Rakesh says while the core businesses are growing on a YoY basis, the mortgage servicing business in the US experienced significant headwinds in the December quarter.

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Edited excerpts from a chat with Nitin Rakesh, CEO, Mphasis:

In constant currency terms, your revenue declined 2.5% QoQ in the December quarter. Can you explain what led to the decline?

There is a duality of business at play where on one side our core businesses defined as whole applications, cloud, BFSI, and non-BFSI new verticals, are growing on a YoY basis. Our mortgage servicing business in the US residential market experienced significant headwinds this quarter which has hurt the overall headline number.

Having said that, our lead indicators are positive with our direct business which has grown at 15% YoY in constant currency and almost all of our pipeline is up 6% sequentially and 27% YoY. Our deal wins are at $401 million, the second highest on record with BFSI continuing to generate the highest share of the pipeline at 56%, despite large conversions in Q3.

After new TCV wins of $401 million in Q3, how does the pipeline look like for the next few quarters?

Our continuously evolving Tribes & Squads model driving the themes of Cloud-led Transformation is the driving force behind our strong TCV. This model has helped us scale our ability to service the growing pipeline. Our overall pipeline for our large deals remains strong and well-distributed across all verticals. While, in Q3 over half of the TCV originated from the BFSI and continues to be the foundation of our pipeline and TCV wins, our non-BFSI pipeline has also grown 35% YoY.

We believe that some of the pipelines that we have built up over the vendor consolidation theme should start to translate into TCV in the coming quarters. At this stage, we are focusing on the micro while being attentive to the developing macro environment.

Which are the 3-4 key growth triggers that you see going ahead?

We are seeing growth in two areas of our business – one is our core business services and the other is our non-core/smaller verticals outside of BFS such as Insurance and Healthcare. This robust growth of smaller verticals reflects the success of our New Client Acquisition (NCA) strategy, which has grown at 30% YoY in this quarter. Apart from this, as mentioned earlier over half of the TCV in this quarter accrues from BFS, our anchor vertical, offering visibility of continued growth in this vertical. We have also been able to add some marquee new logos, with large spend pools, giving us further growth visibility, as well as reinforcing our differentiation in new segments besides BFS. Despite the headwinds, we are seeing in some parts of the business, we continue to have the operating leverage needed to invest in the business for growth, which means we must continue to make strategic investments in both farming and hunting.

You have identified healthcare as a new engine of growth. What are the expectations?

While we continue to find gains from our positioning of Specialization at Scale in Banking, we are also seeing the contribution of other new engines of growth, especially our smaller verticals such as Healthcare, clubbed in the others segment, growing faster, registering 37% Y/Y growth within Direct. As I mentioned earlier, this growth of smaller verticals reflects the success of our New Client Acquisition (NCA) strategy and the addition of some marquee new logos, with large spend pools, gives us further growth visibility while strengthening our differentiation in new segments besides BFS.

An American healthcare service provider engaged with us in a service transformation construct for building a provider-credentialing platform for its large care delivery system in the northeast United States. The program would be spread across seven years, where we take over existing service obligations across their core employees as well as to additional vendors and transform the business by building a new credentialing platform through the

Mphasis
NSE 1.37 % XAAP Methodology.

Have you noticed any impact of slowdown in Europe and US markets?
We are operating in an environment of increasing macro-uncertainty which (a) potentially impacts the decision-making of clients thus affecting the pace of translation of pipeline into TCV, and TCV into revenue, (b) potentially requires clients to repurpose their spending and (c) reprioritize spending across segments of tech investment, all of which can alter the complexion of near-term growth.

However, enterprises do continue to prioritize investments in areas such as cloud adoption, data engineering, and strategic data assets, as well as areas like cybersecurity and customer experience and support transformation, as the latter also leads to a significant cost takeout opportunity given the current high-cost base. We see specific themes resonating across industries (such as in banking and P&C insurance); themes that facilitate accelerated transformation and digitization.

Despite the resource environment easing up over the past couple of months, there is a scarcity of talent to address specific niches or segments in these areas. Our investment in tribes is well aligned to play in these themes. On the other hand, vendors most exposed to offerings related to operating legacy tech architectures, systems such as data centers, mainframes, and traditional support, etc. may find budgets in such areas getting squeezed in 2023. Additionally, an uncertain macro may well weigh on the mortgage business in the near term.

To conclude, our consistent performance in apps and in anchor verticals such as Banking & Financial Services (BFS) is the result of our ability to profitably play such themes. We also expect to grow several of our top accounts sequentially sustaining our market-share gains; thus, despite being at all-time quarterly-high revenue, they could continue to scale.

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