MEDIA COVERAGE

Media:	Business Standard
Date	April 15, 2016
Link	http://www.business-standard.com/article/companies/q-a-with-ganesh-ayyar-ceo-and-executive-director-of-mphasis-116041300627_1.html

Business Standard

Mphasis the first fullfledged IT service company within Blackstone's portfolio: Ganesh Ayyar

Q&A with ceo and executive director of Mphasis

ALSO READ
Acquisition by Blackstone to accelerate Mphasis' growth
Blackstone to acquire Mphasis; deal size $825 million to $1.1 billion
Tech Mahindra pulls out of race to acquire Mphasis
Mphasis slips after open offer by Blackstone at discount
India will continue to be our growth engine: Neelam Dhawan

PE player Blackstone has entered into a definitive agreement with Hewlett Packard Enterprise (HPE) to buy a majority stake in IT services firm Mphasis for a consideration varying between Rs 5,466 crore and Rs 7,071 crore (or, approximately $825 million - $1.1 billion).

In an interview with *Gireesh Babu*, **Ganesh Ayyar**, ceo and executive director of Mphasis elaborates the advantages the company see in the deal. *Edited Excerpts*:

What does the deal mean to Mphasis and its future?

One bright spot is the potential to build greater business with their portfolio companies. Second bright spot is the new Master Service Agreement (MSA) with HPE, which also includes them making us prefered service partner for them. Last three years, our HP business has declined around 21 per cent per annum. The decline was overshadowing the growth in direct business. The MSA gives you a line of sight for the next five years, which is a minimum service guarantee. The minimum revenue commitment is $990 million for five years. This gives us complete predictability about HP business at a minimum level. As a prefered partner, we can go up, but the guarantee is that it will not fall below this level.

The decline overshadowed the performance and created uncertainty in the minds of the employees, especially if you are serving HP Channel. Now there is certainty and a potential to grow. 24 per cent of our revenue declining at 21 per cent, causes the company five per cent growth. The cost of that decline is five per cent for the total company, per annum. Now, with the MSA, instead of declining, that five per cent growth is added now. The haziness which was surrounding Mphasis has been lifted.

This incremental growth from this, along with the additional business from Blackstones portfolio, could help us to grow beyond industry growth rate. The growth from the direct core business, is in additional to this. All put together, the potential for this company to be at the top quadrant of the industry in growth and value becomes possible. I am not committing anything here.

What would be the percentage of business from HP with the new MSA?

In Q3, which ended on December 31, the share of HP in total business was 24 per cent. Where it would be now depends on various factors. In absolute terms, our run rate in Q3 was $220 million from HP, for the full year. That is, if I take the revenue from HP in Q3 and multiply by four, we will have $220 million. If it had declined at the rate of 21 per cent, we would have hit $174 million. If you look at an average revenue to come from the MSA, it would be $198 million per annum.

What is the cross selling opportunity for Mphasis with the Blackstone portfolio companies?

Mphasis will be the first and only fullfledged IT services company within Blackstone's portfolio, once the transaction closes. All of their portfolio companies are spending on IT. Blackstone could have looked at it, and arrived at a $1billion per annum as a potential addressable size for Mphasis.

The fact that it is addressable does not mean that it is going to be given to us. We have to compete on that business and everything else being equal, we may get a preference, but we have to prove that everything else is equal. It will be an arms-length dealing.

What this brings to us is a new potential revenue stream, which never existed in our revenue today. If we do a hypothesis and say that we get 30 per cent of the addressable market, it means $300 million per annum. For Mphasis, as a company, based on our current run rate, $300 million is roughly 32 per cent growth. If the second part of your hypothesis is that you secure these orders for over three years, you have got 31 per cent growth for the entire company over a period of three years, which is a non existed revenue stream. It is incremental to what we were doing otherwise.

On the other hand, it will also bring value to the Blackstone family. Traditionally offshore companies have always helped you to optimise cost. If we are able to help the companies optimise one third of the cost, according to the hypothesis we just spoke, if it is $300 million, $100 million will be the saving. This could mean $700 million market cap saved for the family of companies, if we go by the hypothesis. Besides, adding the increase in our market cap owing to the additional business, it will bring the family a benefit of $1.3 billion in terms of market cap, which is over and above the services excellence, next generation services. It is a very symbiotic model. These numbers are all

Business Standard
Author: Gireesh Babu
Date: **April 15, 2016**

Mphasis the first fullfledged IT service company within Blackstone's portfolio: Ganesh Ayyar

PE player Blackstone has entered into a definitive agreement with Hewlett Packard Enterprise (HPE) to buy a majority stake in IT services firm Mphasis for a consideration varying between Rs 5,466 crore and Rs 7,071 crore (or, approximately $825 million - $1.1 billion).

In an interview with Gireesh Babu, Ganesh Ayyar, ceo and executive director of Mphasis elaborates the advantages the company see in the deal. Edited Exerpts:

What does the deal mean to Mphasis and its future?

One bright spot is the potential to build greater business with their portfolio companies. Second bright spot is the new Master Service Agreement (MSA) with HPE, which also includes them making us prefered service partner for them. Last three years, our HP business has declined around 21 per cent per annum. The decline was overshadowing the growth in direct business. The MSA gives you a line of sight for the next five years, which is a minimum service guarantee. The minimum revenue commitment is $990 million for five years. This gives us complete predictability about HP business at a minimum level. As a prefered partner, we can go up, but the guarantee is that it will not fall below this level.

The decline overshadowed the performance and created uncertainty in the minds of the employees, especially if you are serving HP Channel. Now there is certainty and a potential to grow. 24 per cent of our revenue declining at 21 per cent, causes the company five per cent growth. The cost of that decline is five per cent for the total company, per annum. Now, with the MSA, instead of declining, that five per cent growth is added now. The haziness which was surrounding Mphasis has been lifted.

This incremental growth from this, along with the additional business from Blackstones portfolio, could help us to grow beyond industry growth rate. The growth from the direct core business, is in additional to this. All put together, the potential for this company to be at the top quadrant of the industry in growth and value becomes possible. I am not committing anything here.

What would be the percentage of business from HP with the new MSA?

In Q3, which ended on December 31, the share of HP in total business was 24 per cent. Where it would be now depends on various factors. In absolute terms, our run rate in Q3 was $220 million from HP, for the full year. That is, if I take the revenue from HP in Q3 and multiply by four, we will have $220 million. If it had declined at the rate of 21 per cent, we would have hit $174 million. If you look at an average revenue to come from the MSA, it would be $198 million per annum.

What is the cross selling opportunity for Mphasis with the Blackstone portfolio companies?

Mphasis will be the first and only fullfledged IT services company within Blackstone's portfolio, once the transaction closes. All of their portfolio companies are spending on IT. Blackstone could have looked at it, and arrived at a $1billion per annum as a potential addressable size for Mphasis.

The fact that it is addressable does not mean that it is going to be given to us. We have to compete on that business and everything else being equal, we may get a preference, but we have to prove that everything else is equal. It will be an arms-length dealing.

What this brings to us is a new potential revenue stream, which never existed in our revenue today. If we do a hypothesis and say that we get 30 per cent of the addressable market, it means $300 million per annum. For Mphasis, as a company, based on our current run rate, $300 million is roughly 32 per cent growth. If the second part of your hypothesis is that you secure these orders for over three years, you have got 31 per cent growth for the entire company over a period of three years, which is a non existed revenue stream. It is incremental to what we were doing otherwise.

On the other hand, it will also bring value to the Blackstone family. Traditionally offshore companies have always helped you to optimise cost. If we are able to help the companies optimise one third of the cost, according to the hypothesis we just spoke, if it is $300 million, $100 million will be the saving. This could mean $700 million market cap saved for the family of companies, if we go by the hypothesis. Besides, adding the increase in our market cap owing to the additional business, it will bring the family a benefit of $1.3 billion in terms of market cap, which is over and above the services excellence, next generation services. It is a very symbiotic model. These numbers are all just hypothetical and not a forecast.

One of the things I am very clear about is that I don't want these businesses to be "given" to us. I want to compete and earn that business and earn that revenue.

Which are the companies in their portfolio that attracts your interest?

Horizontal services may be a good starting point, I think. Digital, infrastructure management and certain aspects of application development lifecycle can be a horizontal. Our first port of call will be to understand what are the demand patterns in each company. I haven't studied those companies so far, so I can say only "may be".

Would you look for acquisitions with the backing of Blackstone?

We will revisit our M&A strategy, post close. It will be a different environment for us as a company with the shareholder changing hands. We are continuously scanning the market. Our interest lies in the intersection of GRC and digital. Companies which have unique value proposition around their IP, not super large companies, but smaller ones, anywhere around $50 million revenue.