"Mphasis Limited Q1 FY 2022 Earnings Conference Call"

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Moderator: Good morning, ladies and gentlemen. Thank you for joining the Mphasis Q1 FY 2022 Earnings Conference Call. I am Lizanne, your moderator for the day.

We have with us today Mr. Nitin Rakesh – CEO of Mphasis; and Mr. Manish Dugar – CFO. As a reminder, there is a webcast link in the call invite mail that the Mphasis management team would be referring to today. The same presentation is also available on the Mphasis website, i.e., www.mphasis.com in the Investor Section under Financial and Filing, as well on both the BSE and NSE websites. Request you to please 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.

I now hand the conference over to Mr. Shiv Muttoo from CDR India. Thank you and over to you, sir.

Shiv Muttoo: Thank you, Lizann. Good morning, everyone. And thank you for joining us on Mphasis Q1 FY 2022 Results Conference Call. We have with us today Mr. Nitin Rakesh – CEO; Mr. Manish Dugar – CFO, and Mr. Viju George – Head Investor Relations.

Before we begin, I would like to state that some of the statements 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 on the Q1 FY 2022 Results Release that has been sent out to all of you earlier. I now invite Nitin to begin the proceedings of this call. Over to you, Nitin.

Nitin Rakesh: Thank you, Shiv. Good morning, everyone. And thank you for joining the call this morning. I hope you all are staying healthy and well. As we step into this new financial year, I look back at the past year and all the events that unfolded throughout the year. It is remarkable how much we have accomplished not only in terms of financial performance, but also in our commitment to help clients, communities and our employees. I wish to first thank all Mphasis employees globally for their dedication and relentless efforts in the face of difficult personal challenges during an unprecedented situation.

In the midst of this crisis, there were also powerful opportunities. I am glad that we made the investments at the time we did and proud of how we were able to achieve client demands. Our Bring T back into IT strategy enables us to profitably play in higher-value and significant digital-led constructs. As we look back at some of the core megatrends that were in play before the crisis, it was clear that the end-customer led disruption was becoming the norm, with expectations shifting dramatically towards a digital native experience, powered and shaped by use of creative technologies that were being deployed in front of the customers. This also led to a pressure on most traditional enterprises to become more agile and responsive, especially in response times, while staying resilient in face of shifting volume and demand patterns.

The demand from businesses to their CIO and IT providers was to provide this combination of great customer experience, high agility while lowering the operating costs, including the costs of associated legacy technology. The recent crises is a major accelerant in this regard and has accentuated the need for enterprises to fast track their transformation programs, leading to a snap back in demand along a few major themes such as public and hybrid cloud adoption, data driven transformation to drive better personalized experiences, as well as to unlock the power of data driven revenue streams. There is also a renewed focus on core modernization, combined with the themes of cloud and data, as well as investing in building new platforms that can drive a new business architecture aligned towards agility and customer centricity. The investments in consumer facing tech have also seen an acceleration with the digital-first mindset. All these trends are well captured by our Tribes, as we have discussed in the past few quarters, and as I will further elaborate shortly. Playing profitably in these themes is instrumental to our market share gains and growth.

Four pillar strategy for FY 2021 and beyond, as outlined in the last call, is underpinned on building a scalable, sustainable growth firm. To recap, our theme of continuity and acceleration to play profitably in the four tech mega trends identified on the prior slide rests on fortifying four pillars.

First is continuously augmenting our capability, both from a go-to-market as well as the delivery perspective. This consists of Tribes & Squads expansion, our two differentiators, which we mentioned before; Specialist resource build-up in our cloud unit, which is structured as a guild foundational to all our Tribes; and Domain expertise, that cuts across all the units that we operate across all geographies.

Second, geographic expansion of sales and delivery. We recently announced our expansion into Canada to build on our existing operations there. We are setting up a new Mphasis Canadian headquarters in Calgary, Alberta, in partnership with Government of Alberta and University of Calgary. This is a great showcase of public-private partnership for tech transformation in the region. Through this multifaceted partnership, we plan to co-invest with the University to establish a Quantum City Centre of Excellence that will be dedicated to promoting the commercial application of quantum technologies. Recognized as one of the fastest growing service companies in quantum computing, Mphasis will act as an anchor company committed to growing applications of quantum science to users in global market, while enabling fundamental research in quantum science and engineering throughout the university. We are also expanding our expansion on the continent in Europe, with plan for the Nordics and DACH, especially Germany, along with our anchor clients in each of those regions.

Third, deepening and broadening of the leadership pool. We promoted tenured leaders, while also bringing in new management talent.

And finally, expanding our portfolio of IP driven AI/ML innovations. We continue to be a market leader in offering our AI/ML and quantum computing solutions to some of the leading technology marketplaces. NEXT Labs continues to be at the forefront of building these innovations.

A key component of our continuity and acceleration strategy is the new client acquisition or the NCA program. We have reinvigorated this program over the recent quarters with dedicated leadership. We have carved out five well considered select verticals to focus on for NCAs, namely BFS and insurance, in both of which our positioning and track record is already strong. These two verticals are large enough to continue to provide growth runway in the long term. Logistics, Hi-Tech and Healthcare from the other three verticals on the NCA charter. Each of these five verticals has its respective client acquisition strategies, led by dedicated sales, delivery and domain NCA leadership.

We have an elaborate operating model in place to transition NCA clients to strategic client status, with the client engagement structure and investments defined through the phase of the transition. We are pleased with the outcomes of our NCA strategy. Our strong growth in Hi-Tech is encouraging. We see this becoming the next $100 million vertical; on a quarterly annualized basis, we are already there. We also see our tech-based propositions and solutions frameworks have valuable use cases in multiple verticals, augmenting our NCA strategy. Another heartening outcome is that today we count all top 10 U.S. banks, ranked by asset size, among our clients, when three years ago we had five in this category.

Except for Q1 of FY 2021, the pandemic quarter, we have had consistent sequential growth every quarter, led by the Direct business growth. Our Direct business growth is accelerating on a larger revenue base. In Q1 FY 2022, our overall gross revenue at $362.9 million registered a growth of 6% quarter-over-quarter and 18.8% year-over-year in U.S. dollar terms and 5.9% quarter-over-quarter and 16.3% year-over-year in constant currency. Direct business continues to power our growth, growing at 10% quarter-over-quarter and 34.7% year-over-year in U.S. dollar terms, and 9.8% quarter-over-quarter and 32.5% year-over-year in constant currency. The trajectory of our Direct annual growth is consistently rising, with the growth topping 32% in this quarter from 7% four quarters back in first quarter FY 2021. Our year-over-year growth in Direct is the highest on record.

The contribution of Direct at 89% continues to rise. As we continue to prioritize our growth and investments in Direct, the strong showing has also helped us to manage the decline in DXC, the contribution of which is now at 9% of revenue. DXC revenue declined 18.1% quarter-over-quarter and 48.7% year-over-year in constant currency. This is in line with our commentary of DXC dropping to mid to high single digit as a percentage revenue by end of FY 2022. We continue to add clients in the significant revenue buckets. In this quarter, we added two clients in the $100 million plus category and $50 million plus category each, to take the count of $100 million and $50 million clients to four and seven respectively.

Geography wise, all our markets fared well. Our core market, the U.S., grew 27.8%. Direct in Europe has grown 35.5% year-over-year in U.S. dollar terms. Our pipeline in Europe is strong, especially with new clients, and we expect this region to continue to be a growth driver for 2022 and beyond. Specifically, I would like to call out our sustained industry leading growth performance in Direct. Market share gains with our top 10 clients and beyond have helped drive growth here. Contribution from our key clients has been consistently rising, reflecting increasing depth of key relationships and share gains. While our top end clients have collectively grown double-digits year-over-year on a consistent basis, what is equally heartening is the growth picking up beyond the top 10 clients, a theme that we will return to in a bit. We believe that our broad-based success with clients positions us well for industry-leading growth in Direct growth for 2022, on top of our industry leading Direct growth in FY 2021, in line with our FY 2022 guidance articulated last quarter.

Our growth this quarter in Direct was broad-based across most verticals, our largest vertical, Banking and Capital Markets, has grown 23.7% year-over-year in constant currency for the quarter, representing the fourth straight quarter of 20% plus growth. Our Direct BCM grew 11% quarter-over-quarter and 29.3% year-over-year in U.S. dollar terms. On a year-over-year basis, we believe this is best-in-class growth in that industry segment, and it was broad based across sub-segments of BCM. We continue to enjoy share gains with our key clients in BCM. This quarter also saw robust sequential growth in ITCE and Logistics and Transportation verticals within Direct. With ITCE growing at 16.4% sequentially, and 168% year-over-year of a low base, and Logistic & Transportation growing at 14.4% sequentially, and 27.7% year-over-year in constant currency.

Our clients stats reflect the strengthening position with several top clients post vendor consolidation. We continue to believe that our wallet-share gains emanate from our competency-driven positioning. As our top client's prioritize and execute their spending plans, our preferred partner status places us well to capture additional market share. Notably, we are also seeing stronger growth from the lower half of our top end clients, as well as growth beyond our top 10 clients. Our top 5 and top 10 clients have grown consistently, registering 17% and 24% growth respectively in 1Q on a trailing 12-month basis. The average contribution of our top five clients exceeds $110 million on a trailing 12-month basis as well.

Our top four clients are now $100 million dollar plus on a trailing 12-month basis. And all our top five clients are $75 million plus, which we believe is unique for a company of our size. Top clients number 6 - 10 have grown at 56% on a trailing 12-month basis. This is much-higher-than-average growth of 6 - 10 indicates strong growth diversification among our key clients. Our clients in the 11 - 20 bucket have grown at 19% on a trailing 12-month basis as well, with 24% growth for our Direct business on a TTM basis. Notably, all of our seven $50 million plus clients grew sequentially. In a nutshell, our strong client performance across the board supports our industry leading growth in Direct.

We recorded a TCV of $505 million in first quarter, an all-time high for Mphasis. This quarter's TCV includes a $250 million deal that we signed in this quarter and announced in the last earnings call. This marks the sixth straight quarter of $200 million plus net new TCV, i.e., not including renewal deals. Our TCV on a trailing 12-month basis is up 62% year-over-year. We believe that our firmly rising TCV trend is a testament to our improving track record in the scale and consistency of large deals. Specifically, I would like to make two points about our TCV composition that continues to shape our deals on an ongoing basis. There's an increasing component of large and longer-tenure deals. These deals are transformation-led, integrated, and leverage our multiple Deal Archetypes and Tribes in combination. Secondly, there is a heavy new-gen services portion in our net new TCV thanks to the Tribes, with a contribution of 85% of first quarter deals in new-gen areas. As we report our TCV on a net new basis, excluding renewals, we find the correlation between our TCV and revenue growth to be fairly high, exceeding 0.9 in this quarter.

Coming to our client metrics, our track record of migrating clients from one revenue bucket to the next continues to be healthy. Specifically, our conversion ratio of clients in one revenue tier to the next is solid and improving. Specifically, half of our $10 million plus clients are $20 plus million clients, and over three quarters of our clients in the $20 plus million category are $50 million plus, and 60% of our $50 million plus clients are $100 million plus clients. These stats have continued to improve.

We win two large deals on average every quarter, marked by increasing deal sizes. As the slide indicates, the average deal size on an LTM basis is $96 million, 3x of what it was two years ago. As I mentioned, our large deals are increasingly multi-tower, transformation-based and longer-tenure. The growing size reflects this capability evolution.

Our margin philosophy affords us the flexibility to manage our profitability in an environment of rising cost of talent in a heated market. In this quarter, we were able to absorb higher cost of revenue and unexpected COVID related expenses by modulating our discretionary spend on the SG&A side, and thus operated in the stated margin range. We have hired 1,981 employees in the first quarter of FY 2022, which represents a 7% addition to our workforce. Our utilization rate reflects our capacity build up, including trainees, and we expect to deploy our bench in the second quarter while continuing to aggressively hire to service new demand.

Our EBIT margin for the quarter at 15.9% is in line with our stated operating margin band of 15.5% to 17%. Our EPS for the quarter at Rs 18.16 grew 23.1% year-over-year. We had a one-time COVID impact of about 30 basis points. Our EPS growth exceeds our operating profit growth, which in turn exceeds the revenue growth, which we believe indicates operating leverage in our model.

Our cash generation stood at $48 million in Q1, represents the fifth consecutive quarter of $40 million plus cash generation, and the highest absolute level in the past 19 quarters. Our operating cash flow as a percentage of EBITDA continues to rise and exceed our profits. Our closing cash balance of $462 million is the highest since the first quarter of FY 2017.

Several ingredients go into formulation of our success mantra that powers our robust performance in Direct, namely, our personalized customer engagement model with key clients, with Sales/ Client Partner and Delivery Leader for the account and Dedicated Account CTOs. Customers are centre of our GTM and resource allocation, which allows for a high degree of account specific innovation.

Second, our ability to build ever-growing pipeline on the back of our effective Tribes & Squads model, which gives us future visibility. 85% of our TCV wins are Tribe-led. Third, supporting our Tribes model with the smart, surround-and-reinforced strategy that characterizes Mphasis' innovation DNA, including client dedicated CTOs and consulting-oriented Technology Advisory Group, programmatic innovation with our Sparkle program, focused research in IP innovation through our NEXT Labs group. Fourth, our capacity to stitch large integrated deals using our proven transformation models such as Front-to-Back and Zero Cost Transformation, which we have discussed in the past with you. The $250 million engagement that we have announced is a good example of this.

And finally, the scaling up of the digital competencies of our talent with our well-established key learning resource platform, Talent Next. This has seen rapid adoption since its inception three years ago. It provides Mphasis the skill muscle to enable execution on Next-Gen positioning, with an approach to a T-shaped talent, blending domain and technology competencies for Next-Gen skills.

All of the above put together constitute our business operating model designed for differentiation, repeatability and scalability. This model enables us to win more proactively with high win rates. Over 80% of TCV deal wins are proactively shaped. We are pleased to note that given the strong demand for our services and strengthening position across our client base, we also see pricing leverage in our business. To that end, we have actioned the value-based pricing program and are seeing early success in some parts of the portfolio. We expect this to be able to help mitigate some supply side challenges and provide currency for further investments with our clients.

To sum up, I will leave you with three points. One, we are off to a good start in FY 2022. Direct growth of 32.5% year-over-year in constant currency will continue to be supported by robust TCV that we have added across verticals. Direct performance will also help us mitigate declines in DXC, the contribution of which is now reduced to 9% of revenue in the first quarter.

Two, all our KPIs are moving in the right direction, namely, our track record of winning large deals is consistently improving with $100 million, $200 million and $250 million deals in less than a year. The nature of our deals is increasingly transformation-led and longer tenure based. Our TCV at an all-time high of $0.5 billion is up 62% on a trailing 12-month basis. Our growth is getting broad based with Europe, Hi-Tech, Logistics & Transportation aiding growth in addition to the anchor verticals of BCM and anchor geography of the U.S. We continue to drive market share gains with our clients.

And finally, our client mining metrics across every bucket continues to strengthen. As referenced, our average top five client contribution tops $110 million and our top 6 to 10 clients are now growing well above our Direct revenue growth, with 57% LTM growth. We have added to our count of $50 million and $100 million clients, with four clients in the $100 million plus and seven in the $50 million buckets pocket. We believe this is unique for a company of our size.

Three, investing for growth by using operating leverage and operating at a steady target operating margin band. We believe our margin stance ensures stability in an environment of supply headwinds; thus the revenue growth translates into sustainable EPS and PAT growth, and consistently rising free cash flow generation complemented by improving DSO.

A strong start to the year reinforces our confidence in reiterating our guidance for the industry leading growth in Direct, on top of industry leading performance in FY 2021. We retain our stated operating margin band of 15.5% to 17%. Our margin stance enables us to make the needed investments to sustain our industry leading Direct growth, while also absorbing rising costs associated with supply side. We expect continued growth from our key clients as vendor consolidation gains continue to accrue in a healthy spending environment. It is the increasingly diversified nature of our client base and their metrics that are foundations of our growth.

On that note, I request the operator to open the line for questions please.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: First of all, Nitin, Congratulations, excellent quarter in terms of growth. The first question obviously is on the kind of growth you are delivering currently, I think this probably will be one of the strongest growths ever in your history. If you can just give us some sense of how sustainable is this? Was there any one-off which was there? And combined with the deal win number, what's your perception of the market right now versus maybe a quarter back? Are you seeing an acceleration in the overall deal environment? Or it was robust and it remains so?

Nitin Rakesh: Great question, Mukul. I think there are three or four questions in your question, so let me address them one by one. Firstly, as I mentioned in my opening remarks, the spend environment is actually fairly tail winded. I think a number of the trends that have got accelerated thanks to COVID, despite the unfortunate human cost of the crisis, are basically forcing enterprises to accelerate a lot of their longer term spend plans into a crunch timeframe. I think the basic pivot; structural pivot in enterprise tech consumption really is very simply the massive migration from spending money in a CAPEX driven on-prem data-centre centric model, to consuming almost all tech as a service. Because that gives them the agility and the customer centricity that is needed to compete in the market today. This is not an overnight shift; this is not a one-two quarter phenomena. This was something that started in the 2012, 2013, 2014 timeframe, slowly was picking up speed, and got massively accelerated by the crisis. We still believe this is a 3-5 years journey for most enterprises, at the very least, because of the complexity required in actually making that pivot and changing that model, is a technological change, it is a skill set issue, it is a cultural issue. So, in many of our conversations, clients are calling it as tech investing super cycle that will last at least a few years.

Now, of course our growth has been very broad-based, I mentioned that, across client segments, across industries. It is not led by one client expansion, it is not led by one deal conversion, it is actually fairly broad-based because of the fact that all of our $50 million plus clients have grown sequentially and all of our verticals have seen solid growth on a year-over-year basis, it is really a culmination of all the work that we have done, and the fact that we have actually had a pretty strong TCV wins for five quarters in a row now. So, I think, we are in the midst of a pretty strong tech investment cycle. And the challenge for us will be to keep up with those demands. And to also continue to look around the corners, because a lot of tech is actually evolving very, very rapidly. Not only the consumption has evolved rapidly, but the change is also evolving very rapidly. So, ability to just look ahead and making those investments, what looked like a three-four year runway is probably a two quarter runway to invest. And hence, we have to be very, very nimble in those investment decisions as well. So, hopefully that gives you some color.

Mukul Garg: Sure, thanks. And I know that DXC is becoming a smaller part of your business, so this is kind of a repeated question. Any update on the resolution with DXC given the stage where you are in the MRC?

Nitin Rakesh: Again, I said that last time also, Mukul, I think we have given you some guidance on where we think we will stabilize. At this point, it is a little bit premature to talk about that, the next steps publicly. As we have more updates, we will provide them as we go forward.

Moderator: Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Congratulations for a very solid performance this quarter. Just wanted to get some sense on a couple of things, we have seen our onshore proportion of revenues increase in the current quarter. This is contrary to the trend that we have seen across the year. So, is this led by some of the new deal ramp up and do we expect this to revert? That's question number one. Second question was with regards to your comments on pricing; you said that you were seeing some pricing leverage in the market. I just wanted to get more insight on the overall pricing environment. And do you think that helps negate some of the supply side pressures? Thank you.

Nitin Rakesh: I understood your second question, I am a little unclear as to what the question was on the first part but let me address the pricing issue and then maybe you can summarize your first question for me again. As I mentioned on the pricing side that as you go up the value chain, as we engage closely, our ability to drive value-based pricing and move away from pure simple cost-plus models, as well as actually work closely with customers in ensuring that they are able to see the value we bring and the environment we are operating in, and hence give us the ability to do right pricing. So, I think that is a program that we are very collaboratively working on with our engagement teams as well as with our clients. And we definitely expect to release some of the supply constraints driven margin pressures. Of course, the intention for us is to make sure that we are able to balance growth needs, investment needs and operate in the band that we have stated. So, we definitely think that is a lever we can use to continue to invest in the business.

I think on your first question, you asked whether the growth acceleration was due to one large deal or something broader, am I right?

Manik Taneja: Nitin, basically the question was with regards to the increase in onsite component of revenues in the current quarter. Just wanted to understand, is this led by some of the large deal ramp ups?

Nitin Rakesh: I think headcount addition is the leading indicator for revenue. Definitely some of the larger deals require us to ramp up onsite first, and then we obviously find ways to continue to stabilize as we sometimes transition and sometimes stabilize the program. If you look at fourth quarter, we had a pretty strong headcount addition onsite, and that's obviously converted to revenue this quarter, because that's the way the cycle works. If you look at the current quarter, we have actually had stronger headcount addition offshore, so some of that will actually normalize as we go forward. So, I think the long-term trend doesn't look like it's going to change dramatically; we will probably have a bias towards growth offshore. But at the same time, we will obviously continue to proportionately add people in whichever geography we talk about, based on where we need the talent or where we need to deliver the work. Also keep in mind, we have also added newer geographies outside India, so some of that also may be playing up in the revenue numbers and we can give you some more color on that as well as we go forward.

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

Nitin Padmanabhan: Congratulations on a great quarter. My questions are on margins. So, this quarter, we have seen gross margins fall off quite a bit and we have dialed back on S&M and G&A. Just wanted your sense on how much of your gross margins is recoverable going forward. And we don't report attrition, but it's very clear that from an industry perspective it's going up quite a bit. So, in that context, in terms of gross margin recoverability and your ability to continue to sort of invest in S&M, just wanted your thoughts on that.

Nitin Rakesh: I will give you a quick response and may be Manish can add some more color to it. Broadly speaking, the impact on gross margin is explainable by two or three factors. Firstly, if you look at just the COVID impact, we called out about 30 bps or so as a one-time impact. Then we had utilization that dropped because we ramped up, there is obviously a lag time between hiring, deployment and billability, or ability to convert the employees from a revenue standpoint. That obviously has an impact on the margin as well. There is some element of this onshore versus offshore based on just the phase of the ramp up. And also, of course, there is some element of the ability to attract talent, and I think you referenced attrition and cost of labor. So, we are going through those as well.

I think the key thing to notice that we talked about over the last three or four quarters, is the fact that we will prioritize growth with a margin band that we want to operate in. There are certain discretionary spends that are non-manpower related, even those sit in our SG&A expense line. And I think we were able to manage those to make sure that we stay in the stated operating band ratio. Combine the factors that I talked about from the standpoint of some pricing leverage, some normalization in the onsite/offshore mix given the onboarding trends of the first quarter. And, of course, our ability to continue to operate the supply chain, so we keep our margin steady, are the things that we will focus on as we go forward. I don't know Manish if you want to add anything to that.

Manish Dugar: Nitin, you covered all the points, I would just like to give one color to it, which is the short term and the long term. There are, to your point Nitin Padmanabhan, a few costs which have come in as a one-time, whether it is the COVID expense or the investment for growth reflected in lower utilization, those are recoverable in the short run. And when we look at some of the longer-term investments, those investments will probably have a matching from our pricing conversation. So, I guess, to your point, gross margins are certainly recoverable, some in short term, some in long term. And while that happens, the profitability can be maintained in the range that we have talked about very, very clearly, and the primary levers are the discretionary spends which we can kind of control, and that's what we have demonstrated in this quarter as well.

Nitin Padmanabhan: Sure, that's helpful. Just one more from my side. The unbilled revenue has gone up quite a bit this quarter, just some color if you could give there, what's driving that and when you expect normalization?

Manish Dugar: Yes, sure. As you know, once the month gets over, the invoicing happens after the month and when you are in an accelerating mode, your subsequent month revenues are typically much higher than the previous month. And if you look at the last month revenue of previous quarter versus last month revenue of this quarter, that's a delta significantly larger than the incremental unbilled. Just to give you some quantification, the actual increase in unbilled is about $13 million while the month end revenues are actually higher by about $17 million. From an ageing perspective, 95% of this is within the payment contracted terms. So, I would say that this unbilled is just a reflection of the scale of growth and as time progress, we will bill them and these will move to the billed category. Overall, on a DSO basis if you look at it, unbilled happens to be 34 days out of the 61 days of DSO, which is pretty much in line with what we have seen in the past as well.

Moderator: Thank you. We will move on to the next question that is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Congrats on a very great set of execution based on revenue and margin. Nitin, it's good to hear about the pricing comment as a whole, so just wanted to understand, is it becoming a pricing uptick from most of your strategic accounts**.** Just wanted to understand because at one end, in the industry, there is a traditional portfolio where pricing pressure continues, at the other end there is a new generation portfolio where pricing increase can be possible. So, how these buckets look like for Mphasis? And what confidence drives that even despite some legacy portfolio, we are confident to bring the pricing up going forward? So, some color will help as a whole.

Nitin Rakesh: I think you actually answered your own question. Pricing leverage is a function of what part of the value chain you are operating in. I think I called out some four or five key trends at the beginning of my presentation, those are areas where it is possible for us to look at value-based pricing, it is also possible for us to construct some transformation themes like Zero Cost, where we can actually bundle the run business in a managed outcome construct, apply extreme automation, and then find the savings to deploy back into the chain and the transformation programs. Those are turning to be fairly popular with at least a number of our engagements where we are able to help the client find the money to apply into transformation, and hence increase the size and scope of what we do. I think on a pure run-the-business or legacy portfolio bases, you are right, there is pressure on those costs, because that's a leaking bucket and will continue to actually be leaking portion of tech spend as the spend migrate to this new mode of consuming everything on demand. So, I think, on an overall basis, we do believe that we have the ability to continue to improve our pricing leverage. Of course, as I mentioned, we are working very closely with our engagement teams and our clients and making sure that we are able to right price all our engagements

Sandeep Shah: And just on deal pipeline, with great closure of larger deals size, can you throw some light whether such larger deal size or mega deals are still in the pipeline? Or pipeline now has a more mix of small to medium size? And second on BPO, this time also the revenue growth has been robust, so is it driven through Digital or is it outside Digital Risk which is improving the growth in BPO?

Nitin Rakesh: I think, on the first question, that we have said in the last three or four quarters that our pipeline continues to be robust. Which means, as we have converted almost 1.6 billion into deals won; we have continued to actually add new deals to the pipeline. And as always, a lot of deals will be lumpy, some could be $50 million, some could be $250 million, but the pipeline actually continues to be fairly robust and fairly healthy and fairly broad-based across the sizes of deals as well. Of course, we will give you more color as we get through the next two or three quarters. On the BPS revenue growth, I think in FY 2021 third quarter we talked about the fact that many of our deals are actually bundled, where we are able to find operating levers to apply automation on the business process, apply the whole customer journey map, advisor workstation and digital intervention. So, in a number of ways, it is led by digital transformation. I think the DR portion has been fairly stable given that most of the volume increase that we saw happened in FY 2021. So, I think that portion will continue to stay stable. But broadly, the BPS growth is really driven more by transformation projects that are bundled along with many of our large deal constructs.

Sandeep Shah: Okay, thanks. And just last book-keeping question, Manish, wanted to understand in terms of Forex hedge gain in the revenue line, will it be a tailwind to the margin in FY 2022 as a whole versus FY 2021?

Manish Dugar: At this point in time, we ended the quarter at Rs. 74.3 average, and given our hedge policy of covering 100%, for the next four quarters and progressively reduced percentage over the next four quarters, the forward premium that we have is higher than what we currently are experiencing. So, we do believe that if the exchange remains at the level that which it is, we should see some tailwind on the margin, at least for that four to six quarters period.

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

Dipesh Mehta: Congrats on very strong execution and very healthy deal intake number. Two questions, first about the revenue mix, as our revenue mix tilts towards more new-gen business, and as you commented about value-based pricing program, do you think structurally our margin will expand over medium term, considering these two factors where your new-gen is growing, and you have some ability to price it better? Second question is about, can you provide some update about how the Blackstone company as a portfolio doing for us, let's say, over last few quarters? And the third thing is about the headcount addition, how we are managing our overall resource requirement, freshers versus lateral, if you can provide some color. Thanks.

Nitin Rakesh: So, Dipesh, on the first one, I think I actually reiterated the philosophy when I talked about the pricing discussion. Firstly, our attempt is to maximize growth, maximize TCV wins, and more importantly, TCV conversion to revenue growth. And that requires a certain investment, both in capability, competency build up, utilization, having the right talent, all of the above. So, I think we will prioritize growth. And the reason we want to hold the margin in the band is because there will be puts and takes that will require us every quarter to adjust up or down some of these investments. I think pricing, at this point in time, at least we are seeing it as a hedge against some of the inflationary pressures. But at this point, our expectation is to continue to operate in the margin guidance that we gave. And of course, there will be, as I mentioned, based on a specific quarterly movement, for example, in Q1 we had unexpected COVID issues, but I think we will continue to operate in the guidance range that we gave, but prioritize for growth.

Second question that he had was around Blackstone portfolio, I think, again, it's very much part of our Direct business. It continues to be a fairly strong contributor to pipeline growth, as well as TCV conversion. By definition, of course, those are companies that are not the size and scale of some of our larger accounts. But as a cluster, that is definitely very, very valuable to us. And we will continue to invest and prioritize on that growth, not only Blackstone but all the other stakeholders that we are now working with, will sit in that bucket. We obviously made a lot of investment in creating a go-to-market approach and making sure that we have the right set up for us to service those customers. We will continue to give you update as we have any, hopefully there will be some more specific updates. I think it's a little premature for us to talk about some of those at this stage.

And finally, I think on the supply side, we are taking a supply chain approach. It's a blend of campus recruitment, as well as lateral recruitment. And not to forget the third leg of the stool continues to be our talent transformation program called Talent Next. The additional thing we have done is we have added new supply centers. If you remember, the last quarter we talked about addition of our delivery centers in Taiwan, actually we expanded that significantly. Mexico was a new centre, Costa Rica is the new centre, Estonia is a new centre. And we just announced, we actually expanded in the UK for a specific land project outside of London in a city called Leeds. And we also announced a program to actually apply talent transformation and attract the talent pool from Calgary over the next couple of years. So, all of these are supply chain initiatives as well as expansion in some markets like UK and Canada. All of this kind of goes into solving the puzzle for finding the right talent for the right job in the right market at the right price.

Moderator: Thank you. The next question is from the line of Amit Ganatra from HDFC AMC. Please go ahead.

Amit Ganatra: I just have one question. So, now DXC is a very small proportion of your overall top line, and anyways the other business segments continue to do well. So, how long before you can now confidently guide that you will have industry leading overall top line growth and not only the Direct growth?

Nitin Rakesh: Amit, I think the answer to that is that as we have any updates, we will give you. I think at this point in time, let's just stay with the fact that we expect industry leading growth in Direct, which is now about 89% of our revenue. And we still expect top quartile growth in the overall company. Where we end up with FY 2022, again, we have three more quarters to go. But I think it's only fair given the current position that we will give you outlook based on our current visibility. So, that's the best-case visibility I can give you at this point in time. Having said that, I think keep in mind that we have seen accelerating growth in Direct, and that has actually really helped us mitigate de-growth in DXC. And in many cases, we were able to actually take dynamic calls on where we want to invest and what segments we want to grow. So, it's great as we try to manage the balance of the portfolio, it’s great to actually have the optionality of making sure that we are able to grow in strategic chosen areas. And that's the philosophy that we will continue to follow.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Manish, just one question on the margin trajectory for the rest of the year. Are you guys like, given the situation on the attrition side, are you guys planning some one-time correction or wages in one of the quarters? Or do you think the margin trajectory for the year should be quite similar to what we have seen in the past years?

Manish Dugar: Given we saw the increased demand and the supply situation, and this being a year of execution, while we had an upward bias to our margin, we felt it prudent to keep it in the range of 15.5% at the bottom. And we want to make sure we continue with our philosophy of investing for growth and capture the opportunity for that at this point in time. We would like to make sure that, or rather, we believe we should be able to sustain the margins in a narrow band and try and maximize from a growth opportunity perspective. As we talked about the investments that we made last quarter, and we managed to still deliver consistent margins by managing the discretionary spends. I would say that sustaining the margins is something that we will certainly be able to do during the year.

Mohit Jain: My specific question was, like generally first half versus the second half you had a different trend, of course, in FY 2021. But before that we used to have better margins in the second half, because most of the things used to happen in the first half. So, from a second quarter specifically perspective, you are saying there is no specific correction that you will see in one quarter or something, it will be the way it used to happen for Mphasis, it is spread across the year. Is that correct?

Manish Dugar: The good thing from our model perspective is, the compensation increase is baked in on a quarterly basis, given the philosophy of that being linked to the GQ score, which we talked about extensively in last quarter's earnings. So, we don't expect a lumpy one quarter big impact because of that. And at the same time, the tail winds that we will have on the margins, how much of that will flow into the EBIT will depend on our desire to continue to invest and claw back some of that to SG&A expenses. And if we still get some tailwinds and if the whole supply situation becomes better, both in terms of COVID as well as in terms of availability of talent, then it may see an upward bias. But at this point in time, based on what we see, we think it will remain in a narrow range.

Mohit Jain: Understood. And second was on the M&A side, I think a few quarters back you were talking about expanding some presence in Europe. So, is there an update there? Or how you guys are sort of approaching this whole thing of increasing accruals in Europe?

Nitin Rakesh: M&A is not just a Europe issue, to be honest. I think it's a multi-factor matrix that we are working with. There is a competency element. I think we have talked about strengthening some of our Tribes. Some of our Tribes are market leading, some of them need more investment, and some of the acceleration can happen through M&A. For example, we did DevOps strengthening through Stelligent. We did Data Tribes strengthening through our acquisition of Datalytyx in November. And we have identified a few more areas, as well as prospects that we are actively looking at right now. Second element is customer acquisition driven, there are segments of verticals or clients that we don't operate in. We have a very clear identification of which segments are attractive to us and we have that on the list as well as on the search process. And thirdly, it is geography. I think if we can find something that helps us accelerate growth in a new market, we will definitely look at it. But there is really a combination of these three. If we can find something that cuts across two of the three, or three of the three, that will get prioritized. And that's the philosophy we are taking. Very actively looking, very actively doing diligence in businesses, and very actively continue to source new transactions.

Mohit Jain: So, we should expect something in FY 2022, is that a fair estimate?

Nitin Rakesh: Well, it's not done till it's done, so it's hard for me to give you a certainty on that, but the intent is definitely there.

Mohit Jain: Anything on size, how big or small could it be? Or any comfort range that we have while looking at these targets?

Nitin Rakesh: I think we talked about some indication in the last quarter, we said we are not looking to do transformational, it's not about doing a mega deal, it's really about looking at, still the mindset is a little bit I would say strategic/tuck-in, tuck-ins are a little bit smaller, strategics are a little bit bigger. But I would say, anything that is sub 10% or 15% revenue is probably the upper limit right now.

Moderator: Thank you. Next question is from the line of Vikas Ahuja from Antique Stock Broking. Please go ahead.

Vikas Ahuja: Congrats on a very solid quarter, I have two questions. First, deal bookings continue to surprise positively, just wanted to understand what has changed exactly, or what are we doing different that our bookings are much stronger than compared to our peers, especially? And secondly, on DXC, the revenue has been declining and now last quarter you said it will end up around mid-single digits. My question is, DXC has been surprising continuously on the negative side, and what gives us confidence now that it will actually end up at mid-single digits and they will not exit it completely? Thank you.

Nitin Rakesh: I think on the first question, I actually spent a considerable amount of time going through what works for us and what is the success formula that is actually working and giving us these larger and bigger TCV deals. If you kind of going to go back to the earnings deck that we presented and look at the slide that talked about the four gradients on Slide #12, that's really a culmination of all the work we have done, all the deal archetypes we have constructed, early engagement with clients, consulting led, tech advisory led group, repeatability of our go-to-market muscle. If a deal archetype works in one customer, can we replicate it to the other? And most importantly, our mindset of being in the business of one, which means, every customer gets a fairly dedicated engagement personalized mindset that helps us contextualize, understand the current environment and then position for maximum impact.

On your second question around DXC, of course, there are no guarantees. No customer has given any guarantee. We have to continue to work to kind of win that business. I mean, based on our understanding of the account, the relationship, their needs, our ability to help whether in industries or in geographies, we do believe at this point in time that that we will have continuity of relationship. As and when things evolve, and if things change, we will give you the update.

But I think that's the best answer I can give you right now on our visibility. Of course, as I mentioned, as things change, we will update you. There are no guarantees in business, we have to earn every day.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Samiksha Capital. Please go ahead.

Nirmal Bari: Congrats on the very good set of numbers. My first question is on the Logistics & Transportation, the gross margin that we gave in segmental. So, there we have been recording significantly stronger gross margin in Logistics & Transportation. What is the reason for that and is that sustainable?

Nitin Rakesh: I think, again, every client environment is different, every industry has its own different dynamic, competitive intensity, value pricing we talked about, some of those things are at play here. So, I think this is not something new, it has historically been true as well. And we do continue to believe that as long as we keep feeding growth into that segment, we have the ability and the leverage to continue to generate good margins there.

Nirmal Bari: And the second part is on the Others segment that we report, so is there any segment significantly big enough there that we would want to break that segment out from it?

Nitin Rakesh: We made certain changes to the segment reporting. I think we still have some more work to do as we expand some of these segments. We talked about five focus areas on the NCA side, we are right now clubbing many of those in others. We will start reporting them separately as we believe we get to a point that we need to start reporting. I think, at this point in time, these are these are good visibility areas for us to give you.

Nirmal Bari: The third question is, one of the participants earlier asked this question, but I would like to frame it a bit differently. On the supply side, I think that's what we are seeing from the industry, there's so much of issue regarding attrition and wage inflation. We have typically over the years been giving salary hikes over the entire duration of the year, and there's no one single quarter where this has the impact. But this time, are we planning to do it a bit differently? I think there would be a salary hike related to normal upskilling, as well as we would give out some one-off salary hikes in any particular quarter just to retain employees.

Nitin Rakesh: I think that's a good question, we debate that constantly. And I think as part of that periodic adjustment that we have talked about, we always have some discretion in how we want to play that, how we want to spend that, so to speak, retention pool. So, we will continue to make those decisions on a pretty dynamic basis and a judicial basis. I think I have a little bit of a different approach and view to this demand supply dynamic, I think, as an industry we are in the business of creating net new skills. We exist because clients expect us to bring skills to them, they expect us to bring a lot more than skills today. But at the very heart, we have to continue to find ways to create new supply chains. And I think I talked a little bit about how we have expanded that across locations, across geographies, across tiers, across experience levels, and across cities. And I think we will just continue to do that. And whatever it takes in the interim to keep customer service delivery at the heart of everything we do, and make sure that we are able to retain, re-train, and onboard new talent, I think all of those are part of the equation.

Nirmal Bari: And the final question is, if you can please repeat the 11 to 20 customers' growth in the current quarter sequentially as well as year-on-year, I missed that number earlier.

Nitin Rakesh: Sure. I think the 11 to 20 number is 19% trailing 12-months.

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

Ashwin Mehta: Congrats on good set of numbers. Nitin, one question in terms of, we have done pretty well in the top 10 accounts, and now we are seeing a broadening of that growth with 19% growth in your top 11 - 20. So, if you can just give some idea on the next set of clients, their profile in terms of size, scale, as well as potential to drive continued improvement in terms of deal flow going forward.

Nitin Rakesh: Absolutely, Ashwin. I think the profile of customers is actually not that different, because if you kind of recall, I talked about the fact that we now have top 10 U.S. banks by assets of customers, we had five of them three years ago. So, those will obviously now be sitting in top 10 already, that's a good example of what potential exists outside of the top 10. I think by definition, we are obviously a little bit more tilted towards the Fortune100, 200, 500 clients segments anyways. So, that's where I think the opportunity is really, really immense. We have the playbook, we understand what it takes to create that, being in the business of one mindset. We operate with a very high client centricity mindset. We invest in engagement and understanding of client priorities, and we take the best of Mphasis through our Tribes and engagement teams in there. So, I am actually very excited that we have a tremendous group of customers outside of top 10, potentially not just the next 10, but the next 25 to 30 that actually can definitely be target potential areas for us to bring into the client metrics that we have talked about. The reason we now have four clients over $100 million, seven clients over $50 million, and the fact that we have improved every segment metric, is really the playbook that we just continue to apply at scale. And that's really what I think we are very, very focused on from an execution standpoint.

Ashwin Mehta: Fair. Thanks. And just one more in terms of, say, do you see an exercise of that MRC shortfall related penalty clause in DXC near term? And could that be a one-time benefit for us in terms of margins near-term? Or we would still think about smoothing the decline here, instead of going in for that?

Nitin Rakesh: Yes, at this point, I would refrain from making any comments or confirmations, because we want to just make sure that we have all the optionality we need as we think about those things. So, we will give you an update as we go through the next couple of quarters.

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

Rishi Jhunjhunwala: Just one question. Given that we are seeing a pretty sharp decline in DXC for the past four or five quarters, I just wanted to understand a bit in terms of how do we manage the supply side there or the headcount, right? Because if you really look at that, DXC is largely a non-BFSI portfolio, so just wanted to understand the fungibility, does that help? How do we manage supply there? And does that have any bearing on margins in the near term?

Nitin Rakesh: Absolutely, Rishi, great question. I think there are two ways to think about it. There is some potential for us to redeploy. There is extremely high complexity matching those ramp downs with ramp ups. And in many cases, we actually have to run them through the Talent Next program with that visibility in mind. So, I think it's a complex equation that we have to manage, that definitely has a bearing on many of the metrics that you see in the MDNA. For example, you will see a decline in ITO business, you will see a decline in some elements of our verticals. So, some places we do have fungibility, in some cases we use that as best as we can. I think our first effort is to make sure that we are able to run them through our reskilling programs and absorb them. And that's one of the reasons why you will see on a net addition basis we are still, while the numbers are going up we are still able to actually reuse and repurpose some of those people. To your question around margin impact, yes, that has some impact on holding cost or utilization, because it's impossible to match it on a day-to-day basis. But that's something that we have made part of our management matrix, and we continue to focus on those on a daily basis.

Rishi Jhunjhunwala: Great. And secondly on the deal wins, given that the quantum has increased substantially, can you give some color on how the average tenure has moved over the past one year? And also, is the large landmark deal that we had won, has already started giving revenues in 1Q? Thank you.

Nitin Rakesh: Rishi, I think the average tenure, we haven't put that number out publicly, we obviously are tracking it internally. If you look at the metric of the $96 million average deal size, that obviously is also impacted by the fact that the large deal was actually a 10-year deal. And that's probably the longest deal we have actually signed in the history of the company. But on an average basis, our duration definitely has moved, I would say, closer to the 2- 3 years mark. There's always a blend, there are some deals that are shorter term, less than a year, depending on the type of work we do. But there are many that go into 3-4-5 years catalog. I think it's a very good, I would say, reset and capability reflection that we are able to actually do larger more transformational deals that run longer as well.

Manish Dugar: If I can just add to that Rishi, while there is an increase in the number of large deals and the size of large deals, and we are winning significant amount of TCV, the tenure is not increasing very significantly. This is also reflected in the fact that when you see the correlation coefficient which we have been reporting, that has shown an improvement in terms of year-on-year. Which means, we are converting the TCV to revenue in a better manner than what we were doing before.

Nitin Rakesh: I think the only other question that you asked, Rishi, is the large deal conversion. I think we talked about the fact that we are going to be in transition in the current quarter, and we expect that to start converting into revenue Q3 onwards.

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

Sulabh Goela: I just had one question. So, on your top 10 clients base where we have seen a significant growth this quarter, Nitin, you touched upon client mining and market share gains, particularly in the strategic accounts. So, just wanted to understand that where we are in that journey of these vendor consolidation exercises, and how much do you think is played out already in the numbers there?

Nitin Rakesh: I think the fact that we are able to grow all of our top accounts over $50 million, there are actually top seven accounts so to speak, and the fact that you are still seeing 6 to 10 growth dramatically faster than 1-5, or even 1-10, is reflective of the fact that we are on the right side of the consolidation, especially in our strategic accounts. Secondly, I think, as I mentioned earlier, we definitely feel there is runway ahead from this investment cycle that we are seeing in tech. It's not a short-term phenomenon, so there's definitely going to be, as long as we have the right set of competencies and we make sure that we continue to invest in those, I think there's a runway ahead for us to continue to gain wallet-share in those accounts. Of course, we are very focused on the rest of the pyramid after the top 5 and top 10, as I just mentioned, because I think that's where we are feeling these accounts will actually become another $20 million to $50 million, to $75 million to $100 million accounts in that sequence as we progress them through the conversion. If you remember, I actually talked about conversion rate, because that's something we measure very, very closely.

Moderator: Thank you. The next question is from the line of Ashok from SUD Life. Please go ahead.

Hasmukh Visaria: This is Hasmukh from SUD Life. Congrats for the good consistent numbers on the Direct side. I have one question on the DXC front, just wanted to dig slightly deeper on the revenue leakage here. So, let's say in terms of what type of work is being getting transferred, or is it a lower margin business for you and it is being transferred to any other, let's say, Indian vendors or DXC is in-sourcing it? Any color on that front will be helpful.

Nitin Rakesh: Again, at least to our knowledge, we don't think this is a wallet-share issue. I think, for us, what we are doing really is continuing to focus on where we think there is opportunity for us. And I think the lifecycle of those businesses is different. And we will continue to, as I mentioned earlier, based on where we think, there is best use of our growth investment and dollars. The relationship continues to be good. We know there is opportunity, but we will continue to focus on where we think there is best, as I said, use of our strategic focus.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Nitin Rakesh for his closing comments.

Nitin Rakesh: Thank you, operator. I think, again, we have had a great start to FY 2022, I thank you all for your questions, your patience, your interest and your coverage of the company. We look forward to staying consistent with our performance and continue to keep our clients and our employees at the heart of everything we do. Thank you very much. Stay safe and we will talk to you next quarter.

Moderator: Ladies and gentlemen, on behalf of Mphasis Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.