Mphasis
The Next Applied

27 July 2022

The Manager, Listing BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	The Manager, Listing National Stock Exchange of India Ltd Exchange Plaza, Plot No. c/1, G-Block, Bandra-Kurla Complex, MUMBAI – 400 051

Dear Sir/Madam,

Sub: Transcript of the Investor(s)/Analyst(s) call

Further to our intimation dated 22 July 2022, please find enclosed the transcript of the Investor(s)/Analyst(s) call which is hosted on the website of the Company at https://www.mphasis.com/content/dam/mphasis-com/global/en/investors/financial-results/2023/transcript-of-earnings-call-q1-2023.pdf.

We request you to kindly take the above on record as required under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking you,

Yours faithfully,

For Mphasis Limited

DocuSigned by:
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Mphasis Limited BANGALORE

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Encl: As above

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"Mphasis Limited Q1FY2023 Earnings Conference Call"

July 22, 2022

MANAGEMENT: **MR. NITIN RAKESH CHIEF EXECUTIVE OFFICER, MPHASIS LIMITED.**
MR. MANISH DUGAR CHIEF FINANCIAL OFFICER, MPHASIS LIMITED.

Moderator: Good morning, ladies and gentlemen. Thank you for joining Mphasis Q1FY2023 Earnings Conference Call. I am Steven, 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 at 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.

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q1 Results Release that has been sent out to all of you earlier.

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

Nitin Rakesh: Thank you, Steven. Good morning, everyone. Thank you for joining our earnings call early this morning.

While all of us are concerned about the post pandemic impact, geopolitical tension, high inflation and interest rates, supply chain disruptions, and its effect on global energy and food prices, we are still in a period of growth shaped by technology, and in fact, technology is being seen as the biggest counter inflationary tool and is reshaping the economic growth.

As enterprises are trying to make their supply chains more resilient and future proof their businesses, they will require a more holistic and proactive tech strategy. A combination of macro trends and drastic reduction in the cost of computing, AI tools being widely available through Cloud platforms and open-source software, more and more clients appreciate the extraordinary impact of Cloud-based computing, hyper-personalized customer experiences, and heightened cyber and security mitigation models on their businesses. This will accelerate gains for Cloud providers and their partners and it will allow for wide use of modern technologies, such as AI and data which are bundled onto these platforms.

At Mphasis, we continue to invest for growth across markets, tech teams and domains. A May 2022 Bain survey indicated that over 90% of U.S. companies expect to increase their IT spend, and this is consistent with what we are seeing and hearing. While there is talk of relentless privatization and pressure to reduce run spend, this creates opportunities to explore proactive cost value propositions like zero cost transformation and higher outsourcing to offshore or nearshore driven by cost advantage, the need for faster time to market and globalization of talent models.

At this point, let me switch gears and walk you through the performance during this period.

Our Q1FY23 revenue presents 22.1% YoY growth in constant currency terms. Direct revenue grew 2.4% sequentially and 28.3% year-over-year in constant currency terms. Within Direct, our anchor geography, the U.S. had robust growth of 32% year-over-year in the 1st Quarter of FY23 over FY22 in constant currency terms. Our Direct business accounted for 94% of revenue in this quarter. DXC's contribution to revenue is now 4.8%, and given the low and declining contribution of DXC's overall revenue, Direct strong growth more accurately represents our overall growth trajectory.

With regard to geographic growth our anchor geography U.S. has fared well with an overall growth of 30% in constant currency terms. Excluding DXC, the growth numbers are higher at 32%.

From a services perspective, Application service line has been a driver for growth with a 41% growth in Direct apps this quarter, thanks to the secular themes of digitalization and transformation. We believe that continued strong offshore-led apps growth is a testament to our continued investments in the right service areas using our unique Tribes & Squads-led competency development model, as well as our ability to leverage the repeatability that comes with this highly efficient model.

All our verticals saw strong double digit YoY growth this quarter. We are pleased with the continued growth in our anchor vertical, Banking and Financial Services, which grew 27% in constant currency terms despite headwinds in the mortgage LOB. Q1FY23 marks the 8th straight quarter of 20%+ YoY revenue growth in BFS. We continue to enjoy market share gains with our key BFS customers.

TMT, a focus vertical for us, continues to deliver dividends with Direct TMT growing at 50%+ YoY in constant currency. The TMT segment more than doubled in FY22, with 110% growth in constant currency terms falling on from 54% in FY21.

Similarly, we are seeing strong growth in healthcare, bundled within the Others segment for us, due to large deal wins in recent quarters. This bodes well for an additional growth driver, especially with the current macro environment.

Our contribution of fixed price engagements continues to rise. Contribution from FP as a percentage of revenue has risen by 490 basis points year-over-year in the Direct business.

FY22 also built on our client mining improvement in FY21. As we said before, we have consolidated our position with our key clients resulting in continuing market share gains. This is borne out by our client metrics. The middle chart of this slide shows that our Top 5 and Top

10 clients have grown consistently registering 30% and 32% growth respectively, in the first quarter on LTM basis. Client 6 to 10 grew at 39%, sustaining a consistent trajectory of much higher-than-average growth. Also, notable that our Top 11 to 20 clients grew at 24%, indicating the increasingly overall broad-based nature of our growth.

In particular, we are also pleased with the results of our new client acquisition engine growing at 68% year-over-year in the 1st Quarter. As mentioned before, we have reinvigorated this program with dedicated leadership and carved out 5 well considered select verticals to focus on for NCAs, and as we now call them, our Enterprise Verticals.

While on a YoY basis we are still seeing good growth in Europe, there is higher impact of the current environment in that region, especially in conversion for TCV to revenue timelines getting stretched. We continue to have deal wins and a robust pipeline and will be committed to growth in the region.

In short, our strong client performance across the board supports robust growth in the Direct business. Several capability and org-based factors support the consistent and robust performance in Direct, such as our personalized customer engagement model, where customers are center of our GTM and resource allocation, allowing for a high degree of account-specific innovations. Ability to build ever-growing pipeline on the back of our effective Tribes & Squads model, capability and capacity to stitch large integrated deals using our transformation models and deal archetypes, and I will touch upon that briefly later on. And finally, the scaling up of our digital competencies of our talent through the TalentNext platform and ongoing supply chain transformation, which I will also touch upon shortly.

We recorded TCV of $302 million of net new deals won in the 1st Quarter. In addition, we also signed another $60 million Cloud transformation deal with a top client in the month of July. Our average TCV metric is trending up over time and 84% of the TCV is in NewGen areas. Our deal wins in this quarter include one large deal of $50 million plus TCV. Despite strong TCV racked up over the past few quarters, our pipeline is still up 6% quarter-over-quarter and 10% on an annual basis, suggesting that our pipeline generation engine is firing in the current environment. We continue to generate a high percentage of our TCV through proactive deal pursuits where win rates continue to be materially higher than in RFP situations. As we report our TCV on a net new basis, excluding renewals, we find the correlation between Direct TCV and revenue growth continues to be high at 0.87.

What is behind our strong TCV track record is the evolving Tribes & Squads model. This model, which has helped us scale our ability to service the growing pipeline and to close more deals, continues to mature. The portfolio squads within each tribe ensure that we constantly evolve our solutions adopting the newer tools and methodologies. To cater to our customer's need for speed, the Tribes have evolved a composable approach to our offerings. This enables us to combine offerings from multiple Tribes effectively to address typical requirements of our customers.

We have also identified multiple solution deal archetypes that are typically needed, allowing us to build frameworks and accelerators that facilitate faster deployment. These archetypes are then contextualized to the needs of a specific domain, or even a specific customer by our deal squads. Each archetype defines all the necessary artefacts required for the sales cycle, from deal identification, proposal preparation, solution and commercial constructs, delivery frameworks, accelerators and IP assets for faster and smoother execution.

We have also updated the definition and content of our Tribes recently based on key trends and customer needs. In addition, we have constituted a Transformation Program Office with a team of seasoned large program management execs, who helped in crafting large transformation deal constructs, post-deal governance models and also to ensure lessons learned with each such program are templatized and carried forward in additional programs. Almost all of our pipeline is Tribe-driven and is up 6% sequentially despite record conversion from pipeline to new sold TCV in the in the last four quarters.

Let's now turn to our client metrics. Our track record in migrating clients from one revenue bucket to the next continues to be healthy. In this quarter, we have sequentially added to our count of $5 million, $10 million, $20 million and $150 million revenue category, while our larger $50 million plus relationships continue to deepen further. We have added one client to the greater than $150 million category on LTM basis, taking the total to three, with the average contribution from Top 5 clients being $150 million. All of our Top 6 clients are greater than $75 million, which we continue to believe is quite unique for a company in our category.

Let's look at our financial metrics. Our margin philosophy affords us the flexibility to manage our profitability in an environment of rising talent costs in a heated market. Gross margin grew 20 basis points sequentially and 160 basis points YoY to 28.2% in Q1FY23. EBIT margin at 15.3% is within the stated 15.25% to 17% band.

Adjusted for our M&A charges, operating profit grew 3.6% sequentially and 26.6% annually to Rs. 5,406 million. Adjusted operating margin was broadly stable both QoQ and YoY at 15.8%. Our adjusted EPS for the quarter grew at Rs. 22.4 grew 1.5% sequentially and 23.4% YoY.

To sum it up, I will leave you with three points:

One, Direct growth at 28% in constant currency is well above industry average and builds on the industry leading growth we achieved in the prior two years.

Two, Our KPIs are moving in the right direction.

i) Consistently improving track record in large deals, TCV wins of $1.225 billion on an LTM basis speaks to our rising TCV run-rate trend with current average quarterly run rate at $300 million plus.

ii) Improving client mining metrics across revenue buckets continues to strengthen our diversifying growth. We added one more client to the over $150 million bucket, and our average Top 5 client contribution for FY22 is $150 million. Top 6 to 10 clients grow well above our Direct revenue growth with 39% LTM growth, while 11 to 20 clients have grown at 24%.

iii) All our verticals registered a double-digit growth trajectories, in particular in our core market the U.S. and our core vertical BFS and core applications service line all continue to sustain market leading growth.

iv) Our talent strategy is on course. Our utilization reflects our efforts to infuse our talent supply chain with more freshers and optimize for pyramid. Our overall utilization has moved up by 2% points offshore and 1% onshore reflecting the trends we called out for in the last quarter and providing additional operating leverage for further expansion.

v) Our operating cash flow generation as a percentage of profit after taxes is 100%+ in FY21 and FY22

Three, investing for growth by using operating leverage and steady target operating margin band, we believe that our margin stance ensures stability while managing for key workforce retention strategies in a tough supply environment. Our EBIT margin of 15.3% lies in the stated 15.25% to 17% band and our adjusted EBIT margin of 15.8% is stable sequentially and annually.

As already mentioned, our gross margins have improved 160 bps YoY, noteworthy in a high-cost supply side environment.

Coming to our FY23 outlook. Given the rising macro uncertainties, we have taken a closer look at the outlook and we feel confident that the demand trends and tailwinds with current order book give us the visibility to continue to drive growth. We expect growth to accelerate through the remainder of FY23 especially with the green shoots from the supply side, with constraints having peaked in the recent quarter.

Our confidence stem from the following:

(a) Continuing market-share gains with clients across tiers and verticals.

(b) Ongoing robust spending plans of our high-quality client base.

(c) Ongoing addressable market expansion as we extend and deepen our competencies, including through M&A and market presence.

(d) And strength of our pipeline and track-record of converting pipeline to TCV and TCV into revenue.

Pricing, growth leverage and pyramid support our FY23 margin outlook after providing for rising supply side costs.

With that, I am going to open it up for questions and answers. Back to you operator.

Moderator: Thank you very much, Mr. Rakesh. We will now begin the question-and-answer session. The first question is from the line of Kumar Rakesh, from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question was around the deal win side. So, first quarter for us typically is a seasonally strong quarter for booking deal wins, but this particular quarter, we have seen a moderation in deals in that context. Even if we take one $60 million plus deal in which you won in this month. And despite that, it looks like some moderation which we have seen on the deal win side. So, can you Nitin, give some color on what we have seeing on the deal win side, is the momentum slowing down in continuation to what you said that the TCV to revenue conversion has slowed in Europe?

Nitin Rakesh: There is a certain nuance that I want to just point out, there is a base effect at play, we announced the large $250 million 10-year deal in the same quarter last year. So, I think if you compare it on a YoY, Q1 to Q1, you will see a little bit of that aberration. $250 Mn, 10 years, not a regular, lumpy, you know, large deals as by definition lumpy. If I look at the $365 million, number for Q1, of course the deal kind of slipped into Q2, the $60 million deal, but I think it's a fairly robust flow. We are showing you the pipeline, which is a lead indicator. The Europe comment was, I think, specific to the environment that we are operating in, especially in the UK. I don't think that we are seeing something similar in the U.S. If anything, the environment in the U.S., especially with onshore, has been supply constrained. And we are starting to kind of make sure that those green shoots that we are seeing kind of start opening up some of those constraints. We have also expanded other supply centers to counter that. So, I think TCV trends still fairly stable. Pipeline up sequentially 6%, almost 10% YoY. At this point in time, in the segments, we are operating in, which is U.S. banking, financial services, healthcare, even transportation, TMT not really seeing major impact on the pipeline. As I mentioned, there are some customers that are watching for trends, there are very few handfuls that saw a big boost from post-COVID and now are starting to kind of a see a little bit more normalization in their business. But I think that’s more an aberration, broadly, not really seeing any major short-term to medium-term impact. Because the nuance again in the pipeline, and the demand, is driven by which part of the value chain you play in. And I think we are we are playing, which is digital transformation, Cloud-based work, data platforms, I don't think there is any moderation in demand.

Kumar Rakesh: My second question was around the comment, which you made that we expect growth to accelerate in the coming quarters. But when I look at the headcount additions which we have done in this quarter, on a QoQ and YoY basis both of it, is trailing behind the revenue growth, which we have seen in this quarter. So, how are we connecting these two divergences, in our expectation that revenue is going to accelerate but headcount is trailing behind that.

Nitin Rakesh: The three data points you need to focus on, not just the headcount standalone. Firstly, the internals of the headcount. If you look at where the headcount is growing and where it is not growing, so between Apps, ITO and BPO, I think the growth is really all Apps-driven, and also fairly significant offshore-driven. That is an important data point, because obviously, the base effect of the residential mortgage market in the U.S. is coming into play right now. And we have seen annual declines in that business sequentially, that business also was stressed. So, I think there is an internal churn there that we need to focus on.

Second, looking at just headcount addition without looking at utilization is a little bit of a half story because given that we are running at 70% utilization offshore and 90% onshore, we still have enough flex in the system to be able to turn those books to billable. And that's kind of the focus for us in Q1 and potentially will stay the focus in Q2. So, don't be surprised if you see similar trends in Q2, because we have enough lateral as well as fresher non-billable people available for us to continue to migrate into billable projects.

And third, and most importantly, there is a 5%-point increase in fixed price, where the correlation to headcount is not straight line, which I think for a company our size, given the short span of time has been a pretty significant uptick. And that is helping also in other areas such as margin.

And finally, I think we talked a little bit about it over the last few quarters, price increases also go into that, especially onshore price increases which is where we have led with pricing power. So, I think those are the three or four factors you need to keep in conjunction with drawing a correlation between revenue, headcount, utilization, fixed price and bill rates.

Moderator: Thank you. The next question is from the line of Nitin Jain from Fairview Investments. Please go ahead.

Nitin Jain: So, I have two questions, if you could provide any qualitative commentary on how the attrition is panning out. And in terms of what kind of a trend we are seeing within the company.

And the other question is related to the Blink acquisition. So, have we been able to leverage the Blink clientele to win the kind of deal wins you were estimating at the time of acquisition? Thank you.

Nitin Rakesh: The first one, I think I called out for it, we are seeing green shoots, still too early to call. But attrition while still elevated, seems like it's stabilized, potentially, in some pockets, even softened, in terms of the trends. I think that will only continue to improve is the hypothesis we are playing with, given what is going on in the tech sector in the U.S., the startup community, the crypto sector. So, I think there's a lot of a lot of things that have happened in the last three months that are starting to play into the supply tightness that was going on especially onshore.

Second, I think the opening up of new centers is also a strategy to counter some of these headwinds. So, I think our Canada center went live, this month. And we will continue to expand

and rapidly deploy folks in Calgary as per plan. So, that's kind of a little bit where the attrition is, still too early to call, but at least green shoots started to appear on stabilization and potential. It looks like it, you know, we are past the peak. Now, whether it takes three months to normalize six months to normalize, I think we will update you as these trends play out. But I do believe that it has given us a fairly strong signal that that we are heading into an environment where if we have good demand, we should be able to tap into the supply pools.

Second, on the Blink acquisition, we had a thesis around standalone growth and synergy revenue. On both counts, we are running ahead of the thesis that we went in with. So, very pleased with both, Direct synergy and their standalone growth. And at this point in time, we are very well focused on executing to the reverse synergy, which is going into their accounts, keeping in mind that their top accounts at this point in time continue to be fairly engaged with them on their services. And we have seen good progress on our plans to integrate.

Nitin Jain: Just a quick follow up on the Blink part. So, are we seeing it fructifying in terms of deal win for Mphasis directly, if you could, quantify with numbers or something that would be very helpful?

Nitin Rakesh: No, we will abstain from giving quantifiable numbers for a simple reason that it is integrated into our Direct business and our NCA business. So, I think the fact that we are looking at significant growth coming out of the 11 to 20, as well as NCA segments should give you a clear indication that some of those strategies are working.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec, who has posted his question on the webcast. The questions are I) What is the proportion of exposure to capital market customers in the portfolio?

II) How should we think about the Digital Risk business on a going forward basis?

Nitin Rakesh: So, I think we wouldn't really want to break out the exposure to capital markets. But I can tell you that if I stack rank the sub-verticals within Banking and Financial Services, capital markets will not be in the Top 5, pure capital markets. We are much more focused on consumer banks, payments, financial services in asset and wealth compared to pure investment banking, capital markets and trading. So, I think from that perspective, the reason why we are still seeing very strong growth in Top 10 customers or Top 5 customers, is again, a clear indication of the fact that so far, we have not seen softness coming out of any capital market-related LOB.

The second question was around the Digital Risk business, I think it's fair to assume that we have obviously seen softening of especially the origination and the refinance business, but we did add new lines such as home equity loans, that has blunted the impact. But obviously, that is still playing through the run rate and that's the reason we said as we go through the next quarter or two, we will accelerate the growth as we get through the ramp-down effect of some of these businesses in the revenue run rate.

I think there was a comment made by one of the analysts around our balance sheet regarding the impact of Digital Risk on the profitability and I will ask Manish to clarify and explain that with some numbers.

Manish Dugar: Yes, actually, the comment was in relation to what we reported in the Annual Report. Annual Report basically takes the legal entity-wise reporting, and which also includes intercompany dividends. If you were to look at the reported numbers, by legal entity, the previous two years, the profit from Digital Risk business was 2.6% and 8.3% while this year, it looks like 33.5%. Majority of that 33.5% is actually because of dividend. And since we stopped reporting Digital Risk as a separate line item, Digital Risk as a percentage of overall business has come down and its profitability has come down as well. So, it is nowhere close to the 33%. And we should not draw any conclusions that Digital Risk impact will translate to that kind of profit impact on the company.

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

Sulabh Govila: So, Nitin, within the Top 10 accounts, we have done quite well by continuing to gain market share over the past several quarters, but the flip side of that is the concentration risk that we see in our current environment, especially. So, how should we think about that, if the macro were to remain challenging over the next few quarters? How are you thinking about that internally?

Nitin Rakesh: Sulabh, there are two sides of the same argument, I would rather have deep strategic relationships where we are engaged in some heavy lifting for large programs that are less susceptible to ramp downs than having a long list of clients that are $5, $7, $10 million to us, because we will get consolidated up pretty quick. So, I think, to me, I would rather be in the first bucket than in the second bucket. And given that we are not talking about one client being 25% to 30% of revenue, we are actually talking about three clients who are in $150 million and Top 5 average around $150 million, I think it's still a fairly broad-based top client list about which we are talking.

Having said that, given that Top 5 are growing at 30, next 5 are growing at 39%, and the next 10 are growing at 24% of course from a smaller base, I think the growth is actually fairly broad-based. So, as long as the growth is broad based across client segments, and across verticals, I think we should be able to manage the risks that you talk about. I would be very worried if there was only one client driving growth and everything else was not driving growth.

Sulabh Govila: And then with respect to fresher billability, by when do you think we should expect the utilization rate move up over the course of next few quarters and drive the growth from our fresher billability perspective?

Nitin Rakesh: Yes, I think we have already seen improvement as I mentioned right, if you look at the overall utilization it’s improved by about 2% offshore and 1% onshore. I think we still have room to improve that by 5% to 6% points. But remember, as we make fresher intake a regular part of supply chain, the number will actually fluctuate on a quarter-by-quarter basis, especially the intake that typically happens in the later part of the calendar year. So, I think there is an upward trend to utilization, we do expect it to move up. We are very focused on converting the current non-billable headcount to billable which is the reason I mentioned that there may not be a direct correlation between net headcount adds and billability or revenue adds. So, I think at this point in time we have we have some work to do, the supply chain optimization that we started last year, continues through with a combination of fresher intake, upward rotation and globalization of supply chain. So, I think all of these three will add towards it but there is an upward bias to the utilization number, especially given the strong focus that we have driven on consumption of offshore resources.

Sulabh Govila: And then last bit on the margin band, just trying to understand the relevance of the upper band of 17% margins in the current year. Would it be fair to assume that margins would be more like towards the lower end in FY23?

Manish Dugar: There are uncertainties in the environment, which could mean both negative and positive, it currently seems to be more the negative than the positive, given quite a bit of tailwind to the margins are transitional in nature, the M&A charges, amortization, as well as the stock compensation. Those are kind of upsides to the bottom-line. So, if we don't see any further significant headwinds, you know, there is a possibility that we may certainly be looking at a significant expansion in the margin as supply constraint becomes clearer, whether it will continue to be there or it reduces, then we'll know better whether we will come closer to the top-end or not. But there certainly will be an northward bias to the margin, as we had said last time when we said the lower end at higher than the previous quarters. And we actually delivered more than at the lower end for the quarter.

Moderator: Thank you. We move to the next question from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Couple of questions, starting with the utilization, Nitin, just want to understand why can't we sustain utilization at 78% to 80% or maybe upwards of 80% with growth? If ex-trainee, what constraint, whether a skill mismatch or if you can provide some sense, why we are not able to sustain because some of your peers can sustain utilization with sustainable growth trajectory, so that is question one.

Second question is about Insurance business, it is showing weakness even if I look now segment profit, it is 500 bps lower than even pre-COVID era. So, if you can provide some sense about Insurance outlook, thank you.

Nitin Rakesh: I think on the utilization front Dipesh, you have to realize that until last year, I think the question you used to ask us is why you don't hire trainees and your peers are hiring trainees. I think the answer is very simple. We started a Supply Chain Transformation Program this time last year. I have talked about the fact that we have onboarded 5,500 freshers for the first time in that larger proportion of our overall workforce, in the last two quarters of FY22 and that's the Change Management Program that we are running internally.

We did guide that utilization will stay low for a period of time as we absorb these. You have already answered part of that question, because be it a significant portion of our business that comes from transformation programs, the ability to deploy, the ability to absorb them in those strategic change programs. I think that's a long-winded cycle.

Many of our peers have been on this journey longer, we were not able to go on this journey much longer because for over FY20, '21 and '22 we were obviously bringing our people in our DXC book of business into Direct, as they were ramping down. And we couldn't really afford to run a fairly, more than the amount of bench that we ran in that period. So, I think this is, I would say kind of a transition phase for us to transition into a much more pyramid-driven supply organization, something that is very important for a long-term scalability and growth.

And I think we have to build the business with what works for us and what's the best supply chain strategy we can run. And in that context, I think we will report the utilization numbers that will be higher. And we will create a virtuous cycle out of the upward rotation and migration. You know, we aren't fully there yet because we just started the process two or three quarters ago.

Manish Dugar: On the Insurance question, Dipesh, you see despite the 3% decline quarter-on-quarter, we delivered a 22.8% growth on YoY basis which basically means that last quarter, we had some significant upside as you know some of the milestones got achieved. I don't see that as a trend. The margin movement between last quarter to this quarter is just a reflection of milestone revenues, accounting and nothing more than that.

At a pipeline level and as a quality of business both sides, I think Insurance continues to have decent stability. And if you go two, three quarters back, you would have seen that the Insurance business would not have looked as good as it looks today. And it should look better as we go forward. The only other point I would make is we do get impacted by what happens to the DXC side of business. And there is a bit of Insurance business which impacts the reported numbers as well.

Dipesh Mehta: Just follow up on the first part. I was referring largely ex-trainees kind of thing. But broadly, I get the sense in terms of the overall training related thing, and maybe business mix changing is some implication. Now the last part is, maybe I can squeeze one question about mortgage business which partly you addressed. But in your opinion, this weakness for mortgage business will last for how long or we largely bottomed out in Q1?

Nitin Rakesh: Dipesh that is very hard to forecast, because the environment is fairly fluid on that front, the rates are very volatile, you can look at the 10-year treasury of U.S. and see how much volatility there exists and the yield moves up or down by 50 bps within a one-week period. I think until the volatility subsides, I don't think we will see the peaking of mortgage rates. But as I said, the HELOC market is still pretty strong, and we still have backlogs and volumes that we are consuming. We have again restarted operation to be able to consume resources on both sides. And we have also added some new service lines, especially around Risk, Compliance as well as servicing.

So, I think this will, we use the last downturn in 2018, '19 to grow this business, consolidate our position. And we are doing the same as we speak. And I think the business is obviously in much better shape than it was two years, three years ago. But from a portfolio perspective, it is still something that has a lot of strategic value. So, we will continue to watch it. We will continue to believe that as the effect runs through the run rate, our overall direct growth will continue to accelerate through the rest of the year. And that's kind of working as of now.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from Ingrid Capital. Please go ahead.

Abhishek Shindadkar: So, in the prepaid remarks, you made a comment about increased focus on RTB spend. So, does this create headwinds for volume growth, given automation focus in the RTB spends pipelines, any color would be helpful?

Nitin Rakesh: Abhishek, as I mentioned, right, it is not just important to look at demand overall, it is important to look at demand in context to the service lines on the value chain, that our company is operating in. It’s a fairly unique time and a fairly different environment, even if we head into a slowdown or a recession, the playbook of 2008-09 or 2000-01 not going to stand up because what used to be stable and staple in those time periods, is the most at risk in this environment, because the biggest leverage, all of our enterprise clients today has today is to accelerate the exit from legacy, and free up those sunk costs and CAPEX investments.

If you look at demand, and if you happen to be a company that is focused on infrastructure services, call center operations, service desk, you will see significant headwinds because those projects will get accelerated from an exit point of view. If you are a company that is focused on transformation or change the business, or the migration from capex or bundle run and change through zero-cost transformation construct like we do, then you potentially are at a point where, and it's probably the least likely to suffer. So, I think that's the way you should think about what happens to the portfolio, demand in context of the portfolio.

Abhishek Shindadkar: And just another clarification, if you can help us understand that if a client is on a Cloud journey say, from calendar year '20 what proportion of this spend would become traditional, or would go into the maintenance portfolio, let's say in a year two or year three. I mean, where I am coming from is trying to understand, what portion of the revenue for IT companies becomes or goes into the maintenance part, which could be, up for renewal in the Cloud journey.

Nitin Rakesh: Abhishek, it's too soon to actually start counting that because the way you ran applications in a data center environment, even if you are running AMS, or of course, you bundled AMS with IMS, and whatever it was AD, that construct, that equation is actually changing very rapidly. The way you run applications that sit on the Cloud, is highly digitized, highly automated Cloud ops means, it is very much a tool chain through orchestration and software tools. So, I think that equation is still being formed. The big disruption and the biggest change really is the more client starts switching off data centers and moving to cloud-based environments, the more money becomes available to them to spend on change and the faster the change accelerates because that's a year span away. And I think that's the equation we are playing on right now.

At this point in time, I think it's too early to see what the split of Cloud applications management versus Traditional application management will look like. All I can tell you is many large transformation programs are still in very early stages of application transformation using Cloud. Data is picking up steam now. Core transformations haven't yet fully started, even though they have started enabled using things like neo banking or digital banking. So, I think this is a macro headwind blip in an early stage of a very large pivot. And that's the reason why I think, at a secular level, this tech pivot is here to stay for a while.

Moderator: Thank you. The next question is from line of Debashish Mazumdar from B&K Securities. Please go ahead.

Debashish Mazumdar: Most of my questions have been answered, I have one query. And so if we see that transaction-based line item that we have, which is around 15% to 16% of our business, just wanted to get some sense how much of this business is coming from mortgage-related activity and how much is related to others.

Manish Dugar: Transaction based business is a combination of what we do in mortgage and a lot more than that. Including in the application side of things, there are contracts where we actually commit to delivering specific transactions as an outcome. As we have mentioned earlier, it is extremely hard for us to call out a Digital Risk as a separate source of revenue, because it is very much an integrated offering. So, I won't be able to give you a number in that Digital Risk, but it is a subset of that number. So, you should get a sense of how much the digital risk business at max could be.

Debashish Mazumdar: So, for our modeling should be assumed like it is like 70% to 80% of this business is Digital Risk type business?

Manish Dugar: Debashish, this is difficult like I said, I won't recommend you make any notion like that for the purpose of modeling. Unfortunately, despite, this question coming up again, and again, it is not because we don't want to share it just that the model doesn't allow us to provide a number anymore.

Moderator: Thank you. The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Nitin, sorry to harp again on the DR mortgage business but if you look at, as you very rightly said the environment remains very fluid. And if you look at your Direct business, after many quarters of very strong growth, this quarter was a little bit relatively weaker in terms of the performance if you look both on QoQ and YoY basis. You know was a majority of the relative weakness this quarter in Direct was on account of DR or were there other factors which are also contributing? And also within DR you have been talking about operations and compliance as potential opportunities. What portion of DR are they currently and can they be big enough in a few quarters to kind of overpower the processing part, which remains weak?

Nitin Rakesh: Mukul, firstly, just to correct data points on a YoY basis we grew 28.3%. And I think the number is fairly top of the chart in terms of performance compared to the industry. On actual basis, I think, the run rate impact of the mortgage, I will call it the mortgage LOB although you call it DR, because we don't really have that nomenclature internally anymore. The mortgage LOB was one of the reasons why we called for the Q1 number to be in the range that it ended up being because we did call for short term weakness, and I think there is still some more run rate impact that is going to wash through that. But the fact that we are calling for demand, visibility, order book, TCV, pipeline led, driver of growth through the remainder of the quarters. That comes from the fact that in our core market, you know, as well as applications outsourcing transformation, we are seeing growth of 30% to 40%, that U.S. grew 32% Direct, Apps grew 41% Direct. And the pipeline is actually fairly geared towards that. So, I think that's in my books, that is where the highest quality of growth rates, and that's where we are actually fairly convinced that the pipeline and the order book will actually drive that growth, especially as the supply situation starts to stabilize over the next couple of quarters.

In addition to the mortgage LOB, other weakness came out of the Europe business where the ramp downs were extended out, even though on a YoY basis it grew but you know it didn't really keep up with the growth of the Direct business. And that's another area of work for us to continue to make sure that not only are we winning more, but we actually executing faster, despite all the constraints that we are seeing in some of those models. I think a combination of those two things, but large impact, definitely from the mortgage LOB.

On the second question, internals of the mortgage LOB, I think at this point in time, it's fair to say that interest rate sensitive driven you know refinancing is less than half the business, which used to be majority of the business five years ago.

Mukul Garg: The other question Nitin I was just trying to make sense of the commentary, which is coming out of your top client. Till a few quarters back, they were extremely positive on their technology plans over the medium term. But off late, they have expressed concerns about how the market and the economy is behaving. While you might not want to comment on their tech spending plans, just wanted to kind of get some sense of how do you see your exposure in terms of defensibility and you mentioned that the capital market is outside Top 5. So, that's probably you don't have much exposure there. But how defensible or sustainable is your exposure to them?

Nitin Rakesh: Are you talking about accounts or top clients?

Mukul Garg: Top client, more on client.

Nitin Rakesh: We never confirmed our top client, it's difficult for me to give you an answer, because I don't know who you are talking about. And you are assuming that you know, who the top client is, but I will tell you, the metric you have to see is the Top 5 and Top 10 growing. The deal that we are announcing is also coming from one of our Top 5 clients, so $60 million is announced that we closed in July. So, of course macro environment is unstable, we don't know what they will say in terms of the banking sector outlook, because a number of these happen to be large U.S banks or financial services institutions. So, I think at this point in time, we are not seeing the hurricanes about which you are worried. We are focused on driving as much consumption as we can from the order book, and we are still winning share. In fact, in some of these top clients the net new change, digital spend, we are actually winning quite well.

Moderator: Thank you. We will now take questions posted on webcast. The next question is from the line of Divyesh Mehta from Investec. His question is 1) What is the outlook for Digital Risk business? How much did digital risk, degrow during the quarter?

2) What has aided margins despite the sharp drop in the utilization? Has the increase in onsite utilization completely offset the lower offshore utilization?

3) Any color on margin headwinds and tailwinds for FY'23?

Manish Dugar: As I mentioned earlier, we don't give the Digital Risk business numbers separately. So, we would hence not also be able to give what was the movement in Digital Risk on a quarter-on-quarter basis. From a margin perspective, if you look at quarter-on-quarter movement, actually there is an improvement in utilization both offshore and onsite, it's not that the onsite utilization improvement was kind of helping manage the offshore utilization, offshore utilization improved 2% and onsite improved by 1% points.

There are puts and takes on margins to your other question. Price increase is one tailwind that we have, offshore-led Apps growth both of which drive better profits, better realizations, is the second one. Utilization improvement, though 2% and 1%, is the third one.

And as we speak, you know we are continuing to work on pyramid correction, which is fresher induction, and that reduces the average cost and that also has a tailwind on the bottom. These are what has been in the play right now. Other than that, amortization cost reduction of M&A charges and stock compensation will continue for a few more quarters to come.

Moderator: Yes, the next question is from the line of Vaibhav Gogate from Ashmore. The question is,

1) Can you give revenue growth guidance for FY'23?

2) What is the Digital Risk as percentage of revenue in current quarter?

Manish Dugar: So, the answers remain same, we don't have that number called out separately. On the overall revenue growth for the year, Nitin mentioned in his opening remarks, our momentum continues, philosophy for investing in growth while maintaining profitability, continues to be there. We don't call out any numbers or any specific Dollar value for the revenue for the year. You know, otherwise, we continue to believe that we will form the pipeline, TCV wins that we have had including the $302 million in Q1 plus the $60 million plus deal that we signed in July.

Moderator: The question from Mohit Jain is, he is from Anand Rathi. The question is, how big is the BPO mortgage business for us? And how do you see it progress through the year? Can it potentially impact our Direct business growth for FY'23? Any trends here would it be helpful?

Manish Dugar: Like I mentioned earlier, we don't call out the numbers, specifically. Last quarter, we talked about the fact that we are seeing headwinds in this business. Some of it had already impacted Q3 number, some of it impacted Q4. And it certainly had impacted Q1 numbers as well. The complementary services that we have built and Nitin's comment around our ability to now take volumes in HELOC, we don't expect it to have any material impact on the numbers, as we go forward.

Nitin Rakesh: I think, I just want to make a comment that, almost everybody wants to know a number or a percentage of revenue. I think it's extremely hard because a lot of these lines are integrated into everything we do, putting out the platform to building the data, to doing the underwriting, bring regulatory compliance, it's very hard for us to continue to demarcate, service line contract-by-contract. So, it's not that we are not, we are trying to be elusive, it's just that it's hard to estimate because whichever we give it's actually going to be inaccurate given the way the business is integrated.

I think there is, obviously, concerns coming out of the environment. I think the large part of the run rate impact we have already seen, 50% decline in volumes is the headline number that you saw on the U.S. new origination, not our number but the industry number. So, obviously, in a lot of the impact has happened. Despite that impact on a top comp basis we have grown our banking business in the high 20s, 28%. That should give you a sense that the business is much more broad-based then you are worrying about right now.

I think this is not an environment where we have a significant portion of revenue at risk, unlike what we had in another situation years ago, where I think the focus used to be on that one client, which was committed for five years. This is a very different situation. So, my request will be do not equate this environment with what happened three years ago, which we by the way also handled quite well, in the last two years. So, I think, focus on where the quality of growth, focus on the pipeline and conversion rates, focus on growth, which is again, despite having this business represented in many of those top client, Top 10 accounts have grown 30%. And that's a metric that you need to focus on.

Moderator: Thank you. The next question is from the line of Devang Bhatt from IDBI Capital. Please go-ahead sir.

Devang Bhatt: I had just one question, your onsite BPO headcount has declined on Q-on-Q basis, can you help me with that?

Nitin Rakesh: I think it's basically linked to the internal changing from the declines mostly came from the mortgage business that obviously we talked about quite extensively in the last 60 minutes. And there is a basically a correlation between what you're seeing in the in the BPO onshore numbers, and overall company growth mix.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: I think somewhere you commented about the tailwind on the margin, which you may have. So, any bit of color in terms of what all could be those factors, one of course is currency and I mean the remuneration last year was also high relatively. So, is that what is an incremental thing with softening, relatively softening of the supply side problem and remuneration already been high for us on the portfolio basis. Those are things other than currency that you have.

Manish Dugar: The primary ones that we talked about is the tailwind of price increase, the tailwind of the potential opportunity to expand utilization, the growth coming from onsite and offshore centric revenue, which both basically come with higher margins, and the stock compensation and M&A charges that has been given, continuing to decline in absolute terms, actually decline even faster on the percentage terms. And beyond this, there are other initiatives being taken including starting to invest in building the fresher muscle, which was kind of put to rest for some time given we were trying to redeploy earnings coming out of the DXC decline, and that also as it kicks in, it should start giving us operational margin tailwinds.

Rahul Jain: So, of course, these things you alluded, what I was asking is that purely on the salary side of it, can we say that our base right now, the changes that we might have made last year are so adequate that there could not do a big headwind to us or it could be similar cycle this year as well?

Manish Dugar: Compensation as a philosophy, you know Nitin talked about us using Talent Next and the Geek Quotient where upgrade in the skills translating into increased billability automatically translates into increased compensation. And that's a perpetual continuous cycle. And as you would relate to it, is a virtuous cycle because we pay more if we make more. So, I don't think it will be a once in a year kind of an event. And given the way it is conducted, it creates a margin headwind, so to speak.

Rahul Jain: And just one follow up for Nitin, I mean, the way you are articulating, is it safe to assume the positioning that we have with our clients, and the kind of size of the business we have, and whatever macro leading we have, right now we can continue to deliver the same growth that we might be thinking let's say 6 or 7 months back for our business for this year and the year to come?

Nitin Rakesh: I think at this point you know we are not really changing any of our stance either on growth or on the tailwinds that Manish just talked about on the margin side. So, I think it requires us to stay focused on executing what we have at hand, and of course expand our wallet share further, because we do believe that there will be opportunities in the next two to four quarters, and actual further consolidation with our existing client base, as they start thinking about set of partners that can actually help them further their agenda on transformation.

Moderator: Thank you. As there are no further questions from the participant, I now hand the conference over to Mr. Nitin Rakesh for closing comments. Over to you, sir.

Nitin Rakesh: I just want to thank you all for continued interest in Mphasis and your sustained investment in time and effort. I think we are very focused driving our clients towards the future that they are all building towards. And we believe as I mentioned that we meet opportunities in the near to medium terms to further consolidate our position with many of our clients and we stay focused in executing to that vision. So, thank you again, and we look forward to talking to you next quarter.

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