"Mphasis Limited

Q4 FY 2024 Earnings Conference Call"

April 26, 2024

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Moderator: Good morning, ladies and gentlemen. Thanks for joining the Mphasis Q4 FY 2024 Earnings Conference Call. I'm Zico Pereira, 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, www.mphasis.com, in the Investors section under the Financial and Filing as well as on both the BSE and NSE website. Request you 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 star then zero 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 in the Q4 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, Nitin.

Nitin Rakesh: Thank you, Zico, and thanks, everyone, for joining us today. I appreciate your interest in Mphasis, and I know its early morning. I trust everyone has had a chance to review our earnings release documents. I'd like to start by discussing macro trends as always, and then we'll double click on the Mphasis performance numbers.

As we've been calling out for a few quarters now, the market continues to be characterized by duality. On one hand, the global business world is dealing with an unprecedented situation of high interest rates, supply chain woes, labor market dislocations, record inflation and a fragile geopolitical environment.

Consequently, the level of uncertainty in the environment stays high, leading to a high degree of indecision on investment decisions, keeping pressure on discretionary spends. On the other hand, further technological advancements and increased focus on sustainable practices are some trends that have the potential to change how businesses operate.

Worldwide IT spending is expected to total $5 trillion in calendar year '24, an increase of 6.8% from 2023, according to the last forecast by Gartner, who also states that IT services will continue to see an increase in growth in 2024, becoming the largest segment of IT spending for the first time. This is largely due to enterprises investing in organizational efficiency and optimization projects. These investments will be crucial during this period of economic uncertainty.

We now are seeing new pockets of spend opening up in organizations that are looking to invest in modernizing legacy systems, leveraging AI and automation to improve operational efficiency.

Efficiency and cost optimization players are gaining traction as organizations look to find short-term wins to fund longer-term technological priorities. As Gen AI dominates discussions on tech spend, it's increasing adoption will spur additional growth. In our conversations with customers, we continue to see them trying to balance cost savings priorities in the current macro environment with the need to stay relevant, tech forward and competitive.

As we advise our clients, we also continue to evolve internally to stay ahead of the curve as technology adoption rapidly changes. The market continues to evolve and at a rapid pace. There is a need for service providers to go beyond the current and not just apply AI. Our ability to orchestrate the ecosystem by bringing in technology and people together to solve our customer needs strongly positions us in this tech-first environment. At Mphasis as every tribe was getting AI-enabled, we now see our solution and deal archetypes getting rapidly supercharged. We have been investing to stay ahead through an AI-led archetype approach.

Our prominent AI partnerships across hyperscalers and the overall ecosystem is seeing rapid growth and solid for customer needs. To quote a few examples, we've recently engaged in an AI-driven IT production support engagement to improve reliability and uptime for a top three US bank. We helped accelerate claims processing efficiency by 85% for a large benefits admin provider using an AI-driven approach.

We also helped set up an AI security platform based on Zero Trust principles for a Canadian health care provider. If you recall, Mphasis was one of the first to create an AI business unit called Mphasis.ai. We've been working with our customers to build a point of view and helping them think through their AI journey on productivity and consumer experience, and we've now evolved to modernization as well.

Modernization is one of the biggest opportunities and we have developed an archetype that is now enabled by Gen AI-centered platforms. We are starting to see every archetype from customer experience transformation to productivity, modernization, our zero-cost transformation being AI-enabled. Tech providers in the market is moving rapidly. We are investing in continuous development of the ecosystem to stay ahead of the curve in our ability to orchestrate tech, people, services especially in the ecosystem of the market with AWS, Microsoft and Google.

We recently announced a Strategic Collaborative Agreement with AWS focused on Gen AI in financial services. Mphasis will also set up a Gen AI foundry to develop POCs for industry-specific use cases. Similarly Google recognized us for our deep engineering capabilities. We recently built a hybrid multi-cloud operating platform that will leverage AI using Gemini Code Assist to accelerate the software development life cycle. Mphasis has also launched Gen AI blueprint on Microsoft's Azure Marketplace in collaboration with Microsoft and OpenAI. This will help organizations seamlessly integrate and adopt Gen AI solutions to boost efficiency and scale operations.

For instance, we've been building Gen AI platform for automating and reimagining complex processes, including reverse engineering, application relearn and reengineer, things that have traditionally been manual. Consequently, we have introduced two new platforms, as part of our

Mphasis.ai business unit, Modernization and Developer Experience Acceleration. Recently, we have introduced an AI adoption framework, which enables our customers to move beyond POCs and adopt AI within the business.

The Modernization platform helps in modernization of legacy applications written in languages like COBOL and Java, using Gen AI LLMs and LAMs, with the objective of reducing the relearning time by over 50%. Building on the foundation led by the modernization platform, the Developer Experience platform takes the next step while generating the target step for the modern application, accelerating this phase by 40% to 50% as well.

Moving on to the AI adoption framework, enterprises today are doing lots of POCs, but struggling to adopt Gen AI at scale in their businesses. Our comprehensive framework simplifies adoption by bringing people, process and technology together. We are extremely excited about the capabilities that these platforms and solutions will bring to our customers.

Looking back at our journey through this past year and where we were versus where we are indicated at the beginning of FY24. We entered 2024 with a strong pipeline in cloud transformation and consolidation. Our TCV closures in a challenging year reflected our ability to see pipelines through to deal closure. We had indicated that we would achieve revenue stability in DXC. And to that effect, DXC is now roughly 3% of our revenues.

In keeping with our message to drive the non-BFS and the non-US markets growth, we have built strong verticals in health care and TMT and continue to consolidate wins in these verticals. The share of our emerging verticals such as insurance, TMT, logistics and transportation and others has increased from 49% to 52% of revenue.

In Canada, we started with a set of financial services focused customers, and we now have a well-diversified clientele across verticals, and we recorded a 42% year-over-year increase in revenues in FY24. We continue to be driven by innovation-led growth and operational excellence for our clients. We invested in our nearshore model and increased head count by 27% in regions such as Taiwan, Mexico, Poland, Costa Rica, Canada, etc.

On technology, we made strategic choices to invest in capabilities and skills. In 2024, we were able to quickly acquire and rapidly integrate our AI, sales force and other capabilities with our tribes and archetypes and deliver a more well-rounded suite of services to our customers. Our top 11 to 30 customers ex mortgage grew 13% in FY24 versus the previous year. The large deal wins outside of our top 10 customers grew by 73% in FY24 versus the previous year.

Specifically on revenue growth, in April '23, we called out Q1 '24 softness in the BFS segment, which unfortunately lingered through the first half of the fiscal year. We indicated in April last year that mortgage segment was close to bottoming out and that we expected incremental stability throughout the later part of '24. Though the interest rate environment hasn't changed as we anticipated, the mortgage segment has broadly stayed stable, especially over the recent 2 to 3 quarters through FY24.

We also indicated that direct is likely to be -- growth in direct is likely to be back ended, with sequential growth starting second half of FY24. And while the growth came in later and slower than expected, however, investments have been in place to drive and capitalize on green shoots as they emerged.

We are pleased with the pipeline growth outside of the top 10 accounts, which has grown by 10% year-over-year as well as 19% growth in our BFS pipeline. Our proactive deal pipeline is strong with about 76% of our deals from proactive pursuits. A healthy composition of large deals in the pipeline underscores that digital transformation and accelerating digital adoption continue to be core themes for our clients, which are now getting supercharged by AI adoption as well.

Almost all our pipeline continues to be tribe-driven, archetype-led and is well distributed across verticals and key themes such as data, modernization, cyber, agile ops and platforms. We see AI-enabled opportunities in several of these archetypes and especially in areas that are opening up new addressable markets for us such as Agile IT Ops, Next Ops and further acceleration in data engineering and modernization.

As I mentioned earlier, our pipeline remains strong and conversion has been steady, though still slow given the impact of seasonality and the macro factors. Large deals continue to show up in our pipeline, and we've also seen an uptick in smaller deals as well, especially in Q4, providing clearer visibility to some revival in discretionary deals while also boosting the pace of revenue conversion with shorter duration, quick burst deals.

We continued with a higher share of proactive deal wins as we stayed focused on deal-making in a challenging year. We saw broad based TCV wins across verticals and across the client pyramid with several strategic customers. We closed the year with new TCV wins at $1.38 billion in FY24 and closed deals worth $177 million in Q4 '24.

Notably, significant TCV wins continue to be from our beyond top 10 accounts and are well distributed between our various service lines. 77% of our deal wins in this quarter were powered by next-gen technology adoption.

We saw 15 large deal wins in FY24, including 1 large deal in Q4, and we remain focused on ramping these for revenue. We are seeing conversion to revenue pace pick up, and our deal archetypes are further strengthened by capability acquisitions made during the year, enabling us to offer a larger breadth of services. We continue to be structurally forward leaning, making investments where we expect demand. We continue to push for revenue growth, which is anchored in a strong client mining model and tech-led offerings.

Our Q4 FY24 revenue came in at USD410.7 million, a growth of 2.1% over previous quarter in constant currency terms. For the full year, we closed FY24 at revenues of $1.61 billion, a decline of 6.5% over previous year in constant currency terms. Direct business accounted for about 95% of our overall revenue in Q4 '24 and for the full year. The mortgage business remained stable this quarter, driven by new deal wins from previous quarters.

Our clients continue to look for best-in-breed solution providers for a combination of cost takeout and transformation programs. We expect the pace of revenue and deal conversion to pick up, especially in transformative deals through the remainder of -- through the coming years.

Our Direct revenue for the quarter increased by 2% sequentially in CC terms and by 0.4% Y-o-Y in Q4 FY24. For the quarter, our anchor geography, the U.S. improved 2.9% sequentially and grew by 0.4% in direct Y-o-Y in Q4 '24. EMEA region also grew on a year-over-year basis. We have been seeing good client wins and continue to see traction there. Our core service line, enterprise apps constitute about 71% of revenue. We grew 2.8% sequentially in constant currency terms in Direct apps. The BPO segment grew 1.8% sequentially and stayed flattish on a Y-o-Y basis. We expect this segment to see stability ahead as well.

Moving to our vertical performance. As guided in Q3 earnings call, growth was led by BFS and TMT. BFS was up 2.6% sequentially in Q4, and TMT and logistics were up by 4.5% and 2.2%, respectively, driven by client and deal wins in recent quarters.

Similarly, our others vertical in direct is growing quite well as reflected in the 21.6% year-over-year growth in Q4 FY24. We see good ramp-up in new customers added across segments, including in health care in the last few quarters in this segment.

Our top 10 accounts declined 10.8% Y-o-Y on an LTM basis, mainly impacted by macro conditions, seasonality and the regional banking issues in the early part of the year. Our top 11 to 20 clients increased by 10.5% Y-o-Y, and 21 to 30 client segment grew by 17.3% Y-o-Y on an LTM basis.

Our new client acquisition revenue continues to grow well, sustaining its strong growth trajectory at 27%. Client mining stats remained steady, both sequentially and year-over-year. Our wallet share with key clients continues to be stable, and we are well positioned with consolidation opportunities and share of gains. This is particularly visible in the recovery in growth in BFS in Q4 revenues for us as well as our pipeline growth in BFS.

Coming to our financial metrics. Our margin philosophy affords us the flexibility to manage our profitability in the face of revenue headwinds. In this quarter, our EBIT margin stood at 14.9% and Silverline acquisition costs impacted our margin by 0.8%. Reported operating profit for the quarter declined 1.4% year-over-year and grew 2.2% sequentially. Losses in cash flow hedges impacted margins in Q4 FY24 by 10 basis points.

For the year, our reported margin stood at 15.1%. Our EPS at INR20.8 for this quarter represents a growth of 5% sequentially. For the year, our EPS stood at INR82.4, a decline of 5.3% annually. Cash flow generation at USD55 million for the quarter was 116% of net income. Year-to-date cash flow was at about USD237 million, continuing the trajectory of 100-plus percent of net income and a growth of 56% year-over-year.

Our DSO of 66 days was better by 3 days over the previous quarter by 5 days over the previous year. The Board of Mphasis also recommended a final dividend of INR55 per share to be placed before shareholders for approval.

In summary, we've continued to retain our focus on the micro through FY24 and on ensuring operational stability amidst the duality in the macro environment. I'll leave you with a few points on the summary chart.

We continue to focus on building for growth and have made investments for a tech-led, strategically diversified and transformative growth. We exit FY24 with a resilient pipeline across TCV archetypes, including in our anchor BFS vertical. We grew capabilities through our strategy of build, buy and partner with the launch of Mphasis.ai platform and business unit, continuing strengthening of partnerships ecosystem across hyperscalers as well as specialist players such as Kore.ai and WorkFusion. We also expanded our Salesforce capabilities with the acquisition of Silverline.

We continue to diversify our revenue and pipeline beyond BFS and our top 10 clients. We've revitalized our leadership in core geos, verticals and technologies and have expanded our addressable market with new and enhanced capabilities. We're starting to see early signs of TCV to revenue conversion pickup as reflected in the performance in Q4.

FY24 margin stayed expanded to the upper end of the guided band on a normalized basis, coming in closer to 16% towards the second half with our continued focus on productivity and operating levers. We had strong operating cash flow through the year and showed continuous improvement in DSO with operating cash 56% higher than FY '23.

Coming to the outlook for FY '25. There are a few key messages that I would like you to take away. Firstly, we continue to integrate our capabilities and execute to capture growth opportunities as provided by the new environment, as I mentioned in the previous few minutes. We're also very focused on converting our past and current deal wins to revenue. Despite uncertainty in spend and sentiment, FY '25 outlook is better than the previous year. We expect that in FY '25, we will be at above industry growth with visible gains from tech-led and account focused strategy, including share gains, consolidation and continued active mining of clients, especially in the 11 to 30 and the NCA categories. We will continue to execute in areas of growth and invest across capabilities and verticals.

On margins, we retain our message of sustainable and steady margins in a narrow band while investing for growth. Our operating margins will remain in the stated band of 14.6% to 16% in the upcoming year with a continued focus on operational rigor, giving us increased confidence on the trajectory of our performance.

On that note, moderator, let's open up for questions, please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nitin Jain from Fair View Investment Private Limited.

Nitin Jain: Thank you for the opportunity. And I wanted to delve a little deeper on the TCV wins. So despite the strong positioning of the company on AI and the sequential improvement in the BFS industry, the TCV wins have been sequentially declining over the year. So how do we see this trend going forward? How are we able to leverage our positioning in AI in terms of deal wins?

And the next question is also related to deal wins. So a lot of industry players have started providing numbers in terms of their TCV -- their AI deal pipeline and revenue generated from AI. So would you also be in a position to share any quantitative data? Thank you.

Nitin Rakesh: Sure, Nitin. I can take the -- both the questions, actually are pretty linked to each other. Firstly, I think we had a very bunched up early part of the year with some very large deals getting bunched together in late Q1, early Q2. And we guided that we'll have to continue to move deals through the pipeline through the remainder of the year. And that's the reason why the pipeline is up 5% sequentially just Q4 over Q3. A large part of the growth came obviously from the rebuilding of the pipeline in BFS as we've seen opportunities open up.

There are two nuances to think about the TCV number. One, I think the -- on a full year basis, we've still grown the TCV wins by about 5% in a challenging year. Second, a lot of these deals are, as we guided, especially in the early part of the year were multiyear deals, have not yet fully ramped up and we continue to monetize the opportunity provided by those deals to ramp up. So that's one thing to keep in mind because the linkage between order book and revenue growth is much clearer for us given that we only report net new deals.

Secondly, especially in Q4, we've seen a number of short burst deals. These are typically -- while we are reporting TCV, they're typically even shorter.. the duration is even shorter than 1 year in many of these deals.

I think the $0 million to $10 million category deals for us the contribution, even on a dollar basis, is actually very high this quarter. And that gives us the ability to ramp up these deals very, very shortly -- quickly. And hence, you've seen some of that already show up in Q4 numbers, and we expect that to also show up in the following couple of quarters. So I think that's one thing to keep in mind when it comes to the shape and nature of the TCV.

Your second question around how we're using capability and how we're driving that competitive advantage. I think the ability to orchestrate the tech ecosystem, ability to provide a solution that leans on application of tech versus pure capacity or T&M basis, I think, is really where the market is headed. We have -- we broke out the overall TCV, and we basically said about 28% of that was AI-led. Combination of examples I gave you in the presentation are all pointing towards those AI-led deals.

I think it's a little bit too early to start creating a metric that we can report every quarter given that we are heading to a point where almost every archetype, every solution will have some element of tech orchestration. But I think we'll continue to work towards figuring out what's the best way to represent growth in that business.

I mean it's not just us, even the hyperscalers are having the same challenge with the 2 earnings calls that I heard -- listened to today between Google and Microsoft. I think it's not very easy to differentiate how much is AI-led and how much is cloud-led.

So we'll continue to find ways to give you a representation. But for now, I think the takeaway message is that lead indicators are pipeline. Pipeline in AI-led deals is directly linked to the 4 archetypes I talked about, which is Agile IT Ops, Next Ops, Data engineering and modernization. Those are the four very, very large pockets of opportunity, and those are the four biggest buckets of our pipeline at this point as we speak. We do expect the TCV conversion rate to show a much healthier number as we start FY '25 as well.

Manish Dugar: On the reporting of the numbers, Nitin Jain, we did talk about winning TCV of AI business being one third of our $700 million TCV win, and wherever relevant, we will provide that information. At this point in time, we are not calling it out separately in the revenue split.

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

Mohit Jain: Sir, one question. In margins, was there some benefit that you guys received during the year from unknown reversal or other things, which gets accounted for an EBITDA? Or how should we look at it for 4Q and for FY24 ?

Manish Dugar: So, Mohit, there are investments and programs that are created to drive growth. And some of them fructify with the costs actually getting paid out. And in some cases, since the performance does not match up, those monies don't get paid out. There's nothing which is out of the ordinary from a business as usual perspective. And the reporting had to happen because technically how the accounting works for some of these transactions.

But think of it as some portion of the incentives that were planned did not get paid out. And as that got reversed, given our philosophy of puts and takes and investing when there is an opportunity, we found other areas where we could invest it in. So it should not be seen as something which is either a directionally positive or negative from an EBIT perspective.

Mohit Jain: So we need not adjust EBITDA for the INR200 crores kind of figure?

Manish Dugar: No. There will be -- see, a lot of these investments are onetime, like we said, right? Short-term savings go into short-term investments, long-term savings go into long-term investments. So has that saving accrued being invested in equivalent areas. So there is nothing that will upset the guided range. As you would have seen over the last 16 quarters, we have ensured that we maintain the margin to a stable range. And any upside or downside is adjusted through either dialing up or dialing down the investments.

Mohit Jain: Okay. And second, as a follow-up on the previous, like, when should we expect TCV to start growing again because that number is coming off quite sharply, started with $700 now, we are below 200.

Nitin Rakesh: Yes. But I think, again, as I said, right, Yes, as I said, right, large deals by definition will be lumpy. I think when you consume such a big number and there is a windfall quarter, you will see rebuilding of the pipeline through the phases, and that's what we are focused on. I think on a steady-state basis, the LTM average is something we are very confident that we'll reach back as we get through FY '25.

Mohit Jain: So your LTM average will take us to industry-leading growth for FY '25? You don't think we need to pull up on TCV?

Nitin Rakesh: Above industry growth is what we're calling for right now. I didn't say industry-leading yet. If we get through the next couple of quarters as planned and expected, then we will definitely update that guidance. But at this point in time, what we are saying is if we get back to -- given the nature and duration of some of the deals that we are starting to see, we do think that if we get back to our LTM average, we should be in a good place for FY '25.

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

Dipesh Mehta: A couple of questions. Starting with medium term, you indicated about increasing TAM by 57%, 58% in last 3 years. If I look our performance, our revenue growth trajectory will be broadly in line with industry. We are not seeing any benefit from TAM expansion. So if you can help us understand how one should reconcile these two numbers which is fair? Second thing is about the margin range, you indicated fairly wide range now. Sorry -- yes, you look at a fairly wider range for EBIT?

Nitin Rakesh: Yes, Manish, why don't you take the EBIT question first, and I'll address the 3-year revenue question.

Manish Dugar: Sure. Yes. So Dipesh, as you know, means, last year, our guidance on the margin was 15.25% to 16.25%. And the primary reason why we maintain that range is because of the uncertainties. We are, as we speak, at 14.9%, while we are driving to a range of 14.6% to 16%. And the only reason for that is we believe there are some one-timers in this 14.9% like last quarter, and we had called it out specifically.

We do believe that as we go forward, we will have opportunities both from an operating leverage perspective and from the perspective of all the productivity and operating levers that we are working on, which should help us further move towards the top end of the margins, other than the fact that some of the impact of acquisitions will get utilized.

However, given the uncertainty, we wanted to make sure that our guidance does not get breached either at the bottom end or the top end, and hence, the guidance of what the normalized margins are. We expect that unless something drastically goes wrong, we should be more towards the middle or the top end of the margin range.

Nitin Rakesh: So, Dipesh, to answer your first question around the 3-year revenue growth rate versus TAM expansion, again off the top of my head, FY '22, FY '23 and FY24. FY '22, direct revenue growth was around 35%. Industry revenue growth in that year was probably around 16% to 20% range. FY '23, direct revenue growth was 12%. Industry growth in that year was probably in the 6% to 8% range. FY24, direct revenue growth is minus 2.3%. Industry growth is probably in the 0% to 2% range.

If you do a CAGR analysis, you will actually see that we probably grew 2x the industry on a 3-year CAGR basis.. And by the way, this includes the impact of DR on the mortgage business because obviously, that included -- that was included in FY '22 and '23 numbers as well.

So I think it's -- if you do -- the longer-range CAGR analysis you do, the better the performance will actually look. Obviously, this performance is getting muted by the impact that we've taken on two large hits in the last 12 months, mortgage and regional bank. But I think coming out of that, the CAGR -- the TAM expansion is actually working in our favor as also driven by the large deal wins and the fact that we had a record 15 large deals in FY24. Happy to share more data as you wish.

Dipesh Mehta: I have a few follow-ups. First about, let's say, data-wise, depreciation has inched up sharply this quarter, whether this would be new normal or there is any one-off in this quarter, which one should be aware of? Second question about if I look at New-Gen TCV which was always a focus area for us rather than total TCV.

Now New-Gen TCV, if I look on TTM basis, it is showing Y-o-Y decline? So if you can provide some context to it, how one should read it? And lastly, let's say, vertical-wise, if I look at it, if you can provide some strength about how you expect growth trajectory to be led by in FY '25. And if any percentage you would like to highlight across vertical?

Nitin Rakesh: Manish, you want to take the depreciation question and then I can address the vertical outlook.

Manish Dugar: Yes.

Nitin Rakesh: I didn't understand the second question, which was around the...

Manish Dugar: TCV trailing 12 months, Nitin.

Nitin Rakesh: Yes, okay. You can take that too.

Dipesh Mehta: New-Gen TCV. I'm not referring to total TCV, New-Gen.

Manish Dugar: Okay, New-Gen TCV. So on the depreciation, Dipesh, as you would have seen, the EBITDA expanded from 18% to 18.7%. And while the margin -- EBIT margin remained at 14.9%, the primary reason for that is some of the savings that we accrued were in the nature of non-cash and some of the savings, that onetime -- the depreciation increase that you are seeing is not normal. You should expect it to be in the range as it was in the prior quarters. Nitin, you want to take the New-Gen TCV?

Nitin Rakesh: Yes. I'll take the other two. I think the New-Gen number in the 75% to 80% range is kind of the average. The rest of it is actually comes from organic. As I mentioned, existing programs get ramped up, ramped down. And hence, you will see a tail of 15%, 20% that will reflect. I wouldn't read too much into the New-Gen number.

I think as we go forward, as I mentioned, given the tech orchestration, people plus platform play, if anything, I think that will become the primary source of deal construction and deal wins. On outlook by vertical, I think we mentioned in the last quarter call that at least for the short term, we expect growth to be driven by BFS and TMT. And I think that is still the case, at least in the very short run.

We do think that the worst is behind us in the logistics business. Travel business already actually been growing well for us between airlines and railroads. And I think even insurance business has grown well on a Y-o-Y basis, and we do have a pretty good view into trajectory for that business. I think, most of the businesses are pointing towards a pretty decent picture, purely based on the in-account actions and the bottoms up work that the teams have done across all geographies.

Moderator: Thank you. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities.

Chirag Kachhadiya: Yes. Nitin, I have one question on margin front. So the margin road map which we still -- as an outlook in FY '25, are we going to drive that? And what is our outlook on hiring as well?

Manish Dugar: So I'll take the question on margin. Chirag, the constant philosophy for Mphasis has been that of investing for growth while maintaining margin in a narrowband. The narrow band, we believe will have a northward bias as the revenue scales and that is demonstrated in us continuously increasing the margin delivered on a year-on-year basis.

Even the range this year, if you see is -- the lower end of the range has gone up if you normalize for the acquisition, means our reported margin is 14.9%. If you take the impact of acquisitions, the new one and the earlier ones. Adjusted for that, the margin is about 16%. And the range that we have called out will eventually look like 15.7% to 17.1%.

So -- and most of this is driven by the philosophy that as and when we have opportunities in terms of short-term investment capability or long-term investment capability, we will invest in ideas and areas that help us broaden our spider chart, which we presented in the Investor deck, which are all the dimensions in which we want to continue investing to prepare the business for the future and for a long-term growth.

And if and when there are some constraints, we have the ability to dial those investments down. So that enables us to ensure that the delivered margin remains in a stable range. And that is how we will continue doing it. And based on what we see today, 14.6% to 16% delivered margin is something that we believe we will be able to deliver in the coming year.

Nitin Rakesh: On the head count front, I think still a little bit unclear picture as to where the immediate term discretionary demand will end up. So we are not really building any large capacity at this point in time given that we do have the ability to apply multiple levers. Just like you saw in Q4, we were able to actually show a pretty decent revenue ramp-up. Of course, we ate into some of the utilization and we got the benefits of seasonality back in as well.

But I think the -- my -- at least the short-term view on hiring trends is that we will have to really be in lockstep with the demand forecast and we are very focused on doing a rolling 90-day forecast at this point. We still obviously have utilization that can further be improved. But at this point, I think we are sitting pretty comfortable with the capacity required for us to grow.

And this will really have to be a very dynamic in-quarter decisions to be made around how much to invest in a ramp up capacity. However, a significant investment is already going into upskilling of the people, especially around some of these Gen AI platforms, both internal and third-party platforms. So I think there's a bit of a revolution or evolution going through in the supply chain as well. Supply chain will have to be very much in lockstep. And in a way, highly automated way of operating, so we can make quick moves with short term -- short heads ups.

Moderator: Thank you. The next question is from the line of Manik Taneja from Axis Capital.

Manik Taneja: So I just wanted to get your thoughts on two things. In the past, you have spoken about on the -- from a financial services standpoint, you've spoken about strength on the retail side, strength in wealth management and retail banking, while pressure in investment banking, given the lack of deal activity.

Even what we are seeing in the more recent past in terms of new IPOs coming up in the developed markets, do you think this part of the business segment starts to do well for us? And if you could provide us some broad context of your split of business across some of the industry segments within banking?

And the second question was with regards to the org structure or the GTM change that we did last year. If you could help us understand where are we in terms of settling down of the new GTM structure and also talk about the progress on the new client acquisition-led growth?

Nitin Rakesh: Sure. I think on the first one, interestingly, the reference I made to some shorter-term quick burst deals is actually a direct reflection of a little bit of the improved landscape when it comes to capital markets. We've seen some bank earnings, and we've seen the impact of trading and capital markets businesses actually surprise on the upside to The Street. Some of that is translating into actions that they're starting to take because the belief is that The Street is in the early stages of capital markets reopening. So I think some of that is definitely good news for the capital markets segment.

Consumer banking, I think a lot of transformation work around experience transformation for customer experience, the cost takeout from operations, both business ops and IT ops as well as -- the capital markets and consumer bank are talked about. Asset and wealth is actually an area of investment because a lot of large firms have strategically decided to diversify towards asset and wealth given the annuity nature of those businesses. There, I think a lot of work is going on around data as well as adoption of Gen AI in the way they think about research and trading as well.

So I think the -- obviously, the consumer lending segment is still a little bit stressed. The direct linkage of that to mortgage and auto loans. Both of those are either -- there's not enough volume or the delinquencies are higher. So those are actually a little bit of hot spots that we haven't yet found a full answer to. So that's kind of on the -- within the BFS segment, what's going on.

Insurance, since BFSI is kind of typically talked about, I think there is decent demand for modernization solutions across life and annuities players. P&C guys are a little bit more class specific stories given the -- that their own internal dynamics are very different. And the brokers are also very rapidly refreshing their tech platforms, consolidating them and driving forward. So that's the reason why we've started to see some decent activity both in deals and in revenue on the insurance business as well on a Y-o-Y basis. Can you repeat the second question?

Manik Taneja: My second question was regarding the org structure, GTM?

Nitin Rakesh: Yes. GTM structure. I think the structure is fully settled, Manik. I think we -- it's been 4 quarters now. We are starting to reap the benefits of these go-to-market account cohorts by vertical in the U.S. That was kind of the only change we made, I think, in our regional structure in Europe and emerging continues.

I think the synergy benefit of having a set of accounts run by the same leadership team is what is driving our rapid expansion outside of the top 10 accounts -- outside of the top 5 accounts actually. I think there is a very interesting set of logos that were acquired in the last 3 years that are actually supercharging the overall book of business in BFS, and that's partly also one of the reasons why we are fairly confident about the short-term prospects in that business.

Same thing for things like travel and airlines, same -- a very similar outcome that is being derived through the synergy that is generated in that unit as well. So I think we achieved the objectives that we set out to achieve. Obviously, FY24 was a head-winded year for the industry and for our clients. But I think as we are seeing this uptick and recovery in growth, I think that structure will probably become a fairly strong go-to-market pivot for us -- pillar for us.

And not to forget that there is a very strong layer of solutions and tribes that actually cuts across all units, all markets, all geographies. So that continues to provide that consistency and scalability in deal archetypes. So I think everything is well settled in, given the ability to take a new capability and bundle into a deal archetype is well established at our end as well.

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

Rahul Jain: Yes, thanks. So basically, I have a couple of questions. One is to, I know there's no easy answer to this, but just to understand what is the industry growth benchmark for you? Is it more around the Gartner IT services forecast number? Or this is more to do with what the average of top 10, 15 players in Indian market may potentially do for this year?

Nitin Rakesh: That's an easy answer. It's the latter. It's not the Gartner number. It's the -- it's really the NASSCOM forecast of the top 20 players average.

Rahul Jain: Understood. And -- to the same point, if we see the number that Gartner is producing, in their forecast looks much better than what NASSCOM did last year and what they are expecting now. So is it more to do with corporates investing in AI where probably at this point Indian sales have less role to play or maybe some other technology we have lesser play at this point, which explains the difference of Indian IT growing slower than Gartner, which has never been the case historically.

Nitin Rakesh: Yes. I think I would take the Gartner number for what it is. It's a forecast. It is not -- even in -- into calendar '23, I don't think there was that level of growth as they forecast. They started the year with a 9% forecast. They ended the year with the 3% forecast. So I think they will revise it based on how the market evolves and develops.

At this point, I do believe though that Indian IT is actually going to grow faster than global SIs. You can see that with some of the larger global SIs numbers and their forecast or consensus or guidance for '24, you'll still see that, that number is actually lower than the average of the Indian SI growth number.

And that has been the case for the last 25 years. I think the value migration in favor of India-centric IT delivery is continuing, and of course, the gap has narrowed. It used to be a pretty big gap. But given that the overall industry growth has come off in the last couple of years, that gap has, of course, narrowed.

So I think the right way to think about the growth rate is as we go through the year, where we end up with the forecast. Of course, that is a line in the sand that we follow because that's a benchmark that gets set at the beginning of the year. Some of that is also, by the way, consumed by the hyperscalers because of the early consulting services work that needs to get done before it turns into execution deals that actually come to SIs, both global and India.

Rahul Jain: Right, right. And just last bit, since we've been early into this AI theme, is there a way to understand the precise TAM within the or [SAM] within the $40 billion, $50 billion AI market that is defined, which would be more related to the kind of work which we may eventually do?

Nitin Rakesh: I think the short answer is that there are wide-ranging forecasts of the size of the AI market, depending on what segment of AI you're talking about. If you look at machine learning, different estimate; Gen AI, different estimate; conversational AI, different estimate. Still very, very early days. So I think it's like the '95, '96 time frame with Internet. I don't think it's -- anybody has a clear handle.

One thing though is very clear that things are moving very rapidly, and evolution is very fast, at least in the tech landscape. So I don't think it's going to take 5 years. Within the next couple of years, it will be pretty clear.

The way I see it is, as we talked about during the commentary that I gave over the presentation, I think there is potential for almost every archetype, every service type to get enabled by some adoption of tech. Not all of it will be Gen AI. But if you look at something like Agile IT Ops, production support, service desk, there is a pretty significant combination of conversational AI and machine learning, pattern recognition, predictive, preventive self-feeling mindset that is actually driving a lot of adoption of tech platforms and AI in those service lines.

So I think to me, just like digital was in the early days, there was a lot of tagging and retagging and redefinition. I think this is a phase we'll have to go through. Painful, but we'll have to go through it over the next few quarters. And then to me, almost everything you do must be touched by some form of tech, otherwise, it's going to get completely disrupted or it will disappear as a service line. And we've seen that with many, many past service lines. One really good example is stand-alone testing. It's pretty much non-existent today.

So I think it's a refresh, almost every service type, every drive, every archetype and effectively approach the business as if almost everything will get touched by some element of tech. Now again, Gen AI is a high cycle issue. So I'm staying away from saying everything will be Gen AI, but almost everything has the potential of getting converted into a tech play.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: The first question, Nitin, wanted to understand. I think you are the first one to highlight that the small tenure, small size deals are also forming part of the deal pipeline and the deal wins. So is it concentrated with a few clients in 1 vertical or it has been widespread across many verticals?

Nitin Rakesh: I think it's -- I wouldn't say it is concentrated in 1 vertical, but given the outsized share of BFS for us, I think it's most visible there. And remember, the banks are almost always power gaining and early adopters of almost all new tech. So some of that is playing in there as well as they are starting to think about how these new tech platforms are in going to impact their overall programs.

Many of them are already in the journey for cloud migration or transformation. Now this gets -- gives them another lever to not just accelerate their journey, but actually fund that journey. So I think it is more broad based than just 1 or 2 verticals, but at the same time, I'm very enthused by the fact that the level of activity in BFS at least for us, is pretty strong right now. And that gives me a certain degree of confidence for the short term.

Sandeep Shah: Okay. Fair enough. And, Nitin, is it fair to believe now most of your client specific issue, large accounts across many verticals, which has impacted your growth in the last couple of years, are largely behind, especially in the top client within your BFSI vertical?

Nitin Rakesh: Yes, I think not commenting on any one particular customer. I think I did call out when we talked about the vertical outlook. Most of -- I wouldn't say all, but most of client-specific issues seem to be -- the worst seems to be behind us. As capital market activity recovers, I think whatever is left will probably get addressed through that. Then the only thing left to recover will be the interest rate sensitive business around mortgage.

There, I still don't see any pickup in volumes. I think whatever sustainable revenue we are generating is being generated through either the fact that we are a lot more efficient than our clients operations or we are actually gaining share from some other providers and new customers. So I think it's a -- barring that segment, I think the large account issues seem to be -- at least seems -- the worst seems to be behind us.

Sandeep Shah: Okay. And just clarity in terms of your earlier comment FY'24 TCV is not fully reflected in terms of the conversion into revenues. So do you believe the first quarter FY 24 TCV which might not have been converted fully into revenues may -- now may not delay going forward and start looking in terms of conversion to revenues in the coming quarters. So despite the fourth quarter TCV being low, one cannot judge the softer revenue growth. It could be a vice versa where earlier quarters deal wins are converting into revenue and the growth could be better.

Nitin Rakesh: Absolutely. I think I called for that. It's not just the first quarter TCV. I think we had $1.38 billion in the last 4 quarters. A lot of that, we are consuming through. Some of the earlier deals are still not fully ramped up, and we've been calling for that delay happening over two quarters -- last two quarters. This quarter, we've seen some pickup in activity, and it's still not fully ramped up. So I think we'll continue to consume what order book we have as we also focus on closing the order book.

Sandeep Shah: And last clarification, Manish, just wanted to understand this G&A cost has gone down materially on absolute basis by 24%, what has led to this and what would be the normalized run rate?

Manish Dugar: So Sandeep, the real metric that we kind of track and look for is the EBIT number. And when you have some onetime reversals and onetime charges, it may come in different buckets. So we do have a disclosure that there is a reasonable amount of money that we reversed in this quarter. A large part of that actually came in as a reduction in the G&A cost and the gross margin line item, while the investment that we made corresponding to that saving actually went in SE and gross margin.

So you would see a reduction in the G&A number because of that while the SE looks higher. However, the real way to think about it is a longer term trend. And there, I think the number is a little higher than the 5% that we reported, and that is what the the normalized G&A will look like going forward.

Sandeep Shah: 14.9% as a reported margin does not have any one-off to call out, right way to understand?

Manish Dugar: So 14.9%, last quarter also we had said that there is some bit of upside because of onetime and so is the case this quarter and which is why we have guided a lower end of 14.6%. However, the endeavor and the view is that if things remain stable and we are able to get operating leverage, we should be able to deliver 14.9% or higher.

Moderator: The next question is from the line of Vibhor Singhal from Nuvama Equities.

Vibhor Singhal: Maybe my question was on BFS direct, excluding DR. What is the -- I mean, of course, in this quarter, it was down 9% Y-on-Y as we can see for the presentation, but I'm sure there's a sequential improvement in the business as we have seen. So what is -- if you could just basically give some idea to what is happening in that segment, what are our key trends, which we should look at? And going forward in the next 2 to 3 quarters, how do you see that segment playing out?

Nitin Rakesh: Yes. I think, I actually addressed in a couple of different ways, both through my comments and through the previous questions. But just to kind of sum it up, the ability of enterprises to look at how they can redesign operations and technology using some of the newer capabilities that have been made available in the last 12 months is driving one pocket of conversations and deals.

Not many of those deals are fully supersized yet because somebody will roll out a certain number of POCs or pilots or certain teams will actually adopt that first and then they will scale it. So that's one pocket of opening that we are seeing. That's why we've been very power leaning on, for example, the AWS around FS in the U.S. with a foundry approach.

Second, I think the ability to -- for us to create deals, I gave an example of a production support COE for a large U.S. bank. That was not something that we would have been able to win 18 or 24 months ago because that was a scale game, per ticket pricing, how many different locations do you have people in, what's the per ticket reduction you can commit over the next 12, 24, 36 months. Any how many thousands of people are in that operation for you will drive your ability to win that business?

Today, that playing field has been level set because client is not focused -- or at least our approach to the business is to not get the customer to focus on the per ticket cost, but to focus on reduction in overall ticket volume because you can actually automate a lot of that intervention by using AI-led ops or machine learning combined pattern recognition combined with self-learning. So that's a completely asymmetric opening of TAM.

I don't know if that is – that places everybody in the same position. The answer is probably not because that market by itself is going to get very heavily disrupted with automation and AIOps. But for us, that's definitely adding both to pipeline and to deals.

And third, I think I talked a little bit about green shoots of activity coming out of this, the short-burst deals. Some of it is linked to the capital markets recovery. Some of it is just linked to the fact that 1 quarter into the year, I think there is a little bit of change fatigue. They didn't really do much last year. They have to do a certain number of programs this year. Question is, what does the macro do to that spend on a 6-, 9-, 12-month basis? The answer is we don't know. We just have to focus on in-account action and bottom-up driving off wallet share gains.

And I think given that we've also added a number of marquee logos in BFS in the last 18 to 24 months, 36 months, that's a massive opportunity for us to gain share. So I think it's really a combination of all of these things. None of this is macro dependent for us because we really can't take a call on that.

All of it is dependent on our actions and what we control, and that's what's driving our confidence in the fact that at least for the next -- for the first half of the year, we have decent visibility. We'll update that visibility as we get into the next quarter or two because that will give us a little bit more sense of whether these green shoots on short-burst deals are sustainable.

Vibhor Singhal: Got it. But on the demand side, just to wrap up with clarifications on my side. On the demand side, I mean, how are the BFSI customers, again -- excluding mortgage that I'm talking about, how are the BFSI customers reacting to the interest rate scenario being pushed out further and further? Is there any dependency of the -- on the tech spend on this thing or do you think we are well past that and now tech spend hit the bottom end and from there we should recover?

Nitin Rakesh: Yes. I think some of it is kind of just baked into the acceptance that higher for longer is here to stay. Question is whether July happens, September happens, I don't know any -- I don't think anybody knows. I think at this point, obviously, I mean, you saw the bank earnings, there was very little to call out there saying higher interest rates are hurting bank earnings. Yes, they are paying more for deposits, but their NIMs that have expanded for the last couple of years.

So I think it's in a way kind of an uncomfortable equilibrium, so to speak. Question is, can that equilibrium be tipped in favor of higher spends? I think it's too early for us to call. That's why we're really, really focused on in-account actions.

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

Nitin Rakesh: Again, thank you all for your continued interest in Mphasis and your questions. And I know it was early in the morning. We are very, very pleased with the way we've executed over the last few months. Very focused on continuing to execute, as I mentioned, on a bottoms-up micro basis. And while the environment stays uncertain, we are cautiously optimistic. Thank you again, and I'll talk to you all in the next quarterly call.

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