"Mphasis Limited

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MANAGEMENT: **MR. NITIN RAKESH – CHIEF EXECUTIVE OFFICER – MPHASIS LIMITED**

MR. MANISH DUGAR – CHIEF FINANCIAL OFFICER – MPHASIS LIMITED

Moderator: Good morning, ladies and gentlemen, and thanks for joining the Mphasis Q1 FY 2025 Earnings Conference Call. I am Dorvin, 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 will be referring to today. The same presentation is also available on the Mphasis website, www.mphasis.com, in the Investors section on the financial and filing as well as on both the BSE and NSE websites. Request you to 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, 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 risks and uncertainties. A detailed statement in this regard is available in the Q1 results release that was 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, Dorvin, and thanks, everyone, for joining us today. I appreciate your interest in Mphasis. I know it's early. I trust everyone had a chance to review our earnings release documents, especially the IR presentation that I will refer to today. While there are some challenges, economies continue to be resilient, with customers still spending, and there's an increasing consensus around a soft landing. There is also a growing imperative for businesses to drive growth and streamline operations while making AI the driving force to automate repetitive tasks, improve decision-making processes, and create personalized customer experiences. All of these are expected to increase efficiency, reduce costs and improve customer satisfaction.

As we have been stating in the past few quarters, the market continues to be characterized by duality. In our interactions with customers, what we have seen so far, tech remains a top priority for our customers as they seek to operate amidst this duality and a cautiously optimistic environment. Investments are slowly inching up, especially in transformative technologies. Gen AI is very much an imperative, both for short-term efficiency gains as well as for long-term business rearchitecture.

Growth needs best-in-class technology landscape, with resilience and agility built in, to escape limitations forced by legacy technology estates. There is a need to go beyond just cost takeouts. While undoubtedly efficiency and cost optimization plays are strong themes, organizations are looking to find short-term wins to fund long-term technological priorities.

As we help our customers navigate this environment, we see the following imperatives. There is a strong focus on resilience and growth. We see this theme across sectors and geographies. While discretionary spends haven't changed vastly compared to the previous quarter, there has

been a gradual pickup in client engagement. We called out the bottom towards the end of 2023, and in our last quarter, we said we are seeing some green shoots, and that trend continues.

AI will transform experience and lead to efficiencies across enterprise customers, employees and partners. The potential for AI and Gen AI is getting realized as we move from concept to application across multiple domains within an enterprise. This is now visible in the deal discussions and the pipeline buildup. Modernization and data continue to be the main anchors for our customers and resonate in deal activities as well.

Savings Led Transformation ™, a theme we launched earlier this year, and AI led solutions are the way forward. Our customers are seeking to balance cost saving priorities in the current macro environment with the imperative to stay tech forward and competitive. This is a step forward from Zero cost transformation or cost-led deals as clients look for realizing immediate value for enabling AI across the enterprise while adopting new ways of working in an AI-augmented fashion, such as copilot or digital workers, complementing human effort. We see this trend to be a forebearer of more outcome-based deals, with a strong focus on ROI and value generation.

At Mphasis, we were early to spot the AI opportunity over the last 5 years, starting with our machine learning and AI labs at Next Labs, as well as the unique market-leading presence of these algorithms on the hyperscaler marketplaces since 2018. If you recall, Mphasis was also one of the first to create an AI business unit called Mphasis.AI. Consequently, we've kept you updated regularly on our progress on the same, and I will expand on that today.

We've been working with our customers to build a point of view, help them think through their AI journeys on productivity, customer experience and modernization and the like. We infused all our tribes and deal archetypes with AI and have been investing to stay ahead through prominent AI partnerships across hyperscalers and AI leaders. We are now entering the phase where platforms are getting adoption at scale and AI is beginning to seep into almost every solution.

We see the AI impact on enterprise IT is huge, and modernization and efficiency are synchronous themes. AI is an end-to-end opportunity which requires a forward-thinking, holistic approach requiring a business and a technology architecture redesign.

Gen AI is delivering efficiency and enhanced customer and employee experiences. AI, more broadly, including Gen AI, is being democratized rapidly and at scale.

To extend our tech-led and account-led positioning and to align with these mega trends, we have continued to sharpen our solutions stack and are today announcing the launch of two market-leading platforms. We are launching an industry-first modernization platform called Mphasis NeoZeta™, which is a platform for transforming legacy applications, written in languages like COBOL, Natural or legacy Java, using Gen AI LLMs and LAMs to reduce relearning time by over 50%. This is unlocking a large addressable market for applications that are either considered too complex and expensive for modernization. We're already live with this solution and some early beta plan engagements and expect our investments with partnerships like AWS Gen AI foundry to get rapidly boosted by these solutions.

We are also launching Mphasis NeoCrux™, an industry-leading platform designed to improve software engineering productivity by streamlining the software development life cycle processes and integrating Gen AI functionalities. This is the first such platform in the marketplace available as an integrated development environment extension, or an IDE extension, and is in production at 2 live clients in our application service line. Additionally, Mphasis NeoZeta™ e-learning agents converse with Mphasis NeoCrux™ agents to provide an even faster time to build next-gen solutions.

We have seen that Savings Led Transformation ™ is an imperative for our customers and further extends zero-cost transformation that we've already implemented. Solutions like Mphasis NeoZeta™ and Mphasis NeoCrux™ will enable higher developer productivity and faster software velocity, which means clients achieve quicker transformation. So, you are transforming your software engineering lifecycle while actually creating savings opportunity through higher developer productivity and reduction in dev costs.

Last quarter, we announced a unique strategic partnership with AWS, bringing Gen AI services for financial services customers. Let me share with some progress reports with you on this. We are currently partnering with several clients within the foundry for solutions such as: KYC, or Know Your Customer; Know Your Businesses for a large European bank; a Gen AI enabled Intelligent Document Processing, i.e., IDP, for insurance clients servicing FSA and HSA claims as well as IDP solutions for mortgage clients; Live Call Analytics for a large global bank to provide sentiment analysis, compliance check, etc; Gen AI for modernization for large financial institutions, where Mphasis will be leveraging our modernization platform Mphasis NeoCrux™ on AWS as mentioned earlier in my remarks. AI-led developer efficiency for a large banking platform company, where we were able to take this solution from the foundry into a large deal in the first quarter of FY25. The last 2 solutions I just spoke about leverage both Mphasis NeoCrux™ and Mphasis NeoZeta™.

AWS and Mphasis are also involved with clients in providing architecture review, solution support and guidance in ensuring faster completion of POCs and accelerating Gen AI adoption. Mphasis is also helping clients in Microsoft, to improve adoption of the Microsoft Copilot stack, ensuring data governance and security, employee productivity and extending functionality with third-party and custom integrations.

We're also proud to share that Mphasis won the NASSCOM AI Gamechangers Award 2023-'24 in the Healthcare & Pharma category for Enterprise at the NASSCOM AI Conference earlier this week. We will issue more details on the same in the coming days.

We've rebuilt the pipeline to a strong level after healthy TCV closures in the previous year. Our overall pipeline is up 22% year-over-year and 17% sequentially. All pipeline metrics are green, with broad-based pickup in deals across sectors such as top 10 accounts, non-top 10 accounts, BFS, non-BFS, all geographies as well as across large deals. We are pleased with the pipeline growth in the top 10 accounts, which has grown by 31% sequentially, pointing to a recovery in this segment in the quarters to come as well as our non-BFS pipeline sequential growth of 25%. BFS pipeline is also up 7% Q-o-Q after a large deal conversion in Q1 and up 15% year-over-year.

Our proactive deal pipeline is strong, with about 78% of the pipeline from proactive pursuits. Healthy composition of large deals in the pipeline underscores that digital transformation and accelerating adoption of AI continue to be core theme for our customers. Almost all our pipeline continues to be tribe-driven, archetype-led and well-distributed across verticals and key themes such as Data, Modernization, Agile IT Ops and Platforms.

One-third of our pipeline is AI-led. We see opportunities in several of these archetypes, especially in areas such as Agile IT Ops, Next Ops and Data engineering and Modernization. As I mentioned earlier, pipeline remained strong, and conversion has been steady.

We continued with a higher share of proactive deal wins in our TCV wins of $319 million in the first quarter of FY25. The quarter saw 3 large deals, including one large deal of over $100 million in our BFS vertical. Our strong win rate with proactive pursuit continues, with more than 90% of the wins being proactive deals.

We saw broad-based TCV wins across verticals and across the client pyramid with several strategic customers, as well as new customers. Significant TCV wins continue to be from our beyond top 10 accounts and are well distributed between various service lines. 84% of our deal wins in the quarter were powered by next-gen technologies adoption. Conversion from TCV to revenue also continues to improve. We continue to be structurally forward leaning, making investments where we expect demand.

Coming to performance by segment. We continue to push our revenue growth, which is anchored in our strong client mining model and tech-led offerings. Our Q1 revenue came in at $410 million, a growth of 3.1% Y-o-Y in constant currency terms and a decline of 0.1% sequentially. Our Direct business accounted for 96% of our overall revenue in the quarter.

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

Our Direct revenue for the quarter increased by 0.3% sequentially in constant currency terms and grew by 4.1% year-over-year in the Q1 FY 25 quarter. For the quarter, our anchor geography U.S. improved by 0.2% sequentially and grew 3.5% in Direct business year-over-year basis. EMEA region grew its Direct business at 10.4% on a Y-o-Y basis. We've been seeing good client wins and continue to see traction here.

Our core service line, Enterprise Apps, constitutes about 71% of our revenue. We grew that business 0.6% sequentially on constant currency terms in the Direct business. BPO segment declined by 2.1% sequentially as certain projects were completed and new projects begin to ramp up and grew at 3.1% on a Y-o-Y basis. We expect this segment to see stability ahead, and we're also seeing early signs of recovery in the mortgage business unit.

Moving to our vertical performance. As guided in the previous call, we saw fairly secular growth across verticals. At an overall company level, BFS was up 1.1% sequentially in Q1, and

specifically in Direct Ex-DR, BFS was up 0.9% sequentially. Overall, Insurance grew 2.4% sequentially. TMT and Logistics, up by 0.6% and 0.2%, respectively, driven by wins in recent quarters.

Others segment declined sequentially after a good Q4. This was primarily led by project completions in the Healthcare vertical after a strong enrolment season in Q4 '24. We see stability in this segment with new client and deal wins and the healthy pipeline across segments, including Healthcare in the past few quarters.

One of the large deal wins in Q1 is in the Healthcare vertical and is led by a platform-based transformation using the Javelina platform, implementing Agile IT Ops and Everything as a Platform tribes. Performance in our Direct business in these segments on a Y-o-Y basis was also healthy, with revenue ramp-up in new customers across segments.

While our top 10 accounts declined by 10.1% on a year-over-year basis, mainly impacted by macro in the past few quarters. Seasonality and regional banking issues in the preceding quarters also played a role. Our top 11 to 30 customers increased 10.2% on an LTM basis. Sequentially, on a quarter-on-quarter basis, top 10 accounts grew 1.2% and accounts 11 to 30 grew 3.4%. Client 6 to 10 also sequentially grew at 1.6%.

Our new client acquisition revenue continues to grow well, sustaining its strong growth trajectory at 22% year-over-year. Client mining remains steady Q-o-Q and Y-o-Y. Wallet share with key clients continues to be stable, and we are well positioned with consolidation opportunities and share gains driven primarily by Savings Led Transformation ™ thesis. This is particularly visible in the recovery growth in BFS in Q4 and Q1 FY25 revenues as well as the pipeline metrics I shared earlier across multiple segments.

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 15%. Silverline acquisition costs impacted our margin by 0.8%. Reported operating profit for the quarter grew by 2.8% Y-o-Y and 1.1%, sequentially.

Gains in cash flow hedges increased margins in Q1 by 5 basis points. EPS at INR 21.4 for the quarter represents a growth of 2.8% sequentially.

Cash flow generation at $53 million for the quarter was 110% of net income. DSO of 68 days increased by 2 days over previous quarter and improved by 10 days over the previous year.

In summary, this quarter, we have witnessed the fact that we continue to retain our focus on operational stability and building for future amidst the cautious optimism in the macro environment. I'll leave you with a few data points.

We continue to focus on building for growth. We have had good progress in rebuilding and extending the pipeline. We have a well-diversified pipeline with non-BFS and top 10 contributing very broadly. We recorded healthy TCV closures in Q1 at $319 million.

Wins are broad-based across verticals, strategic customers as well as from non-top 10 accounts.

We saw second quarter of sequential growth in direct revenues and a portfolio well positioned for growth. We see sequential stability in all key verticals and geos, improving the trajectory of TCV-to-revenue conversion.

We recorded margin stability within the stated band with a continued focus on productivity and operating levers and posted consistent operating cash flow and improvement in DSOs.

Coming to the outlook for Q2 and beyond. Few key messages for the upcoming quarters as we look at driving steady and sustainable growth. Despite multiple challenges, tech spend continues to be seen as a strategic priority.

Steady recovery is visible across client segments, especially in BFS, which is our anchor vertical. With the early signs of gradual recovery in the mortgage business segment, though we have not baked in major gains from this segment yet, in accordance with our philosophy of focusing on micro in an uncertain macro with respect to interest rates. We continue to expect to be above industry growth for the full year, gaining from the tech-led account focused strategy I talked about.

We continue to target sustainable EBIT margin within the stated band of 14.6% to 16%, and we will maintain this while investing for growth, with focus on productivity, efficiencies and operating leverage. We will continue to execute in areas of growth and invest across capabilities and verticals.

On that note, operator, let's open the line for questions, please.

Moderator: Certainly, Sir. The first question is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: I had a couple of questions on the Gen AI piece. So, I think we have done a fair bit of work there. From a cost savings perspective for the client, what has been your experience across application services, people and infra?

The second is, do you think deal sizes led by Mphasis NeoZeta™ can be large, although it will start small with smaller applications and all that? Do you think that the overall opportunity there can be reasonably large? And in which kind of modernization areas are you seeing a lot of traction?

And finally, on the Mphasis NeoCrux™, just wanted your thoughts on - how is this actually sold? Because there are 2 parts. One is for an FPP or a T&M, is this sold as an additional? And how much of the productivity benefit on existing projects are we able to retain? And can that be retained longer term?

And the last one is, I think as an industry, we have always talked about de-linking revenue growth with headcount growth. Do you think this time it looks like a little more of a realistic thing over a 4-year, 5-year period. So those are the broad questions on Gen AI.

Nitin Rakesh: So, Nitin, that's quite an exhaustive and good list of questions. We can probably spend an hour talking about these, but I'll take a very quick stab, and you will probably hear more on these over the next few quarters, especially as we plan to host the next Investor Day.

But starting with the question around infusion of Gen AI across service lines, I think the way to think about it is not so much service lines per se, but really to think about what service are you delivering. And that could be in applications or in infra. But for example, if you are in run the business, you're running production support, maintenance, service desk, remote infra, you're typically benchmarking your price to the customer to some widget or some outcome, and the outcome could be a ticket that you resolve or an incident that you handle.

I think the opportunity and the threat, which is kind of hand in hand there, is that you will actually move away from pricing per widget to taking on a different outcome, and it could be availability or reduction in ticket, for example. So, I think there is a potential for volume destruction in some of those service lines because you're eliminating people-based services that are capacity driven and are staffed based on a certain volume of tickets because if you eliminate half those tickets, you obviously don't need that many people. And that's kind of where the Agile IT Ops or remote infra is kind of headed.

I think that has been well understood by many customers. They're obviously figuring out what's the best way to implement some of those solutions, What's the stack needed? What's the tool chain needed? Where do you go from reactive to predictive, preventive, self-healing? Think of this in a very simple terms, think of this as instead of people running software, software running software. And we will be needed as an industry to actually build that orchestration and the software layer and then use that in an augmented manner with people to deliver that service.

So, again at a very high level, without going into too much technical detail, that's the way to think about it. That is definitely showing up in the pipeline. That is also opening up areas for us from an addressable market perspective, where we were not competitive before because we were not necessarily the lowest-cost provider of per-ticket pricing because that was a scale and volume play.

On your second question around Mphasis NeoCrux^{TM} and Mphasis NeoZeta^{TM}, these are definitely not meant to be starting small type of solutions. There are some estimates between 40% and 50% of the applications are on cloud today, but the other 50% are not. And the reason they are not on the cloud is not because the business case doesn't stack up from data center to cloud, but the bottleneck or the stumbling block is the complexity of these applications, the mission-critical nature of these applications, and most importantly, the effort required to rearchitect and restack them for them to be truly cloud native.

A lot of customers tried the migration factory approach using containers or some other technology to rehost. That turned out to be very expensive as they learned during '21-'22 time frame. So, they pulled back on that initiative.

This is actually an attempt to unlock the ability, to disentangle the complexity using Gen AI. So, in a way, we flipped the tables, and we are using Gen AI to relearn and extract rules. This has

been an initiative that was underway for the last 18 months. We obviously ran it in alpha and beta mode. And the reason to launch it really is to unlock those large deals that are modernization-driven deals. And potentially, if you bundle the Savings Led Transformation ™, then that gives you the opportunity to supersize the deals. That's probably one of the reasons why we are seeing a massive expansion in our TCV just on a quarter-over-quarter basis.

In terms of your question around how do you sell the platform, and potentially what that does to productivity and pricing and margins. Early days. Number 1 reason we are going down this road is because this is the best way for us to create value for customers. These are problems that need to be solved. There are potentially no straightforward solutions to some of these complex problems. Even on the engineering productivity side, SDLC transformation is not an easy task, especially because they've invested over the last 10 years in building their IDEs, adoption of copilot is a very complex job alongside the whole DevOps pipeline, CI/CD automation. So, our idea is to first find the best way to solve those problems and orchestrate the tech platforms that help them solve the problems.

We are definitely, at this point in time, looking to just to create a bundled service offering versus anything that is stand-alone and separate. And absolutely, if you play this right, and I think there is an element of change management, both internally and externally, then there's an opportunity for us to get some nonlinearity.

So I tried to cover all the questions you asked me in a very quick manner. As I mentioned, these are all complex subjects that we can spend a lot more time on, but hopefully, it gives you an idea.

Moderator: The next question is from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management Company.

Sudheer Guntupalli: So for December and March quarters, it looks like we are seeing some green shoots and building up on a steady recovery trajectory. However, this quarter performance, even in Direct business, even in Direct ex of DR sort of questions that hypothesis especially in the backdrop that many of our peers reported very strong performance in BFSI. And we have a BFSI-heavy portfolio. Should we think of it as a mere blip on a steady recovery path? Or is there any unanticipated headwinds that we are facing again which sort of resets that recovery trajectory?

Nitin Rakesh: Yes. We did call a bottom in December. We delivered 2-plus percent sequential growth across the business and in BFS last quarter. On top of that, we've delivered another 1%, 1.2%, 1.3% growth in BFS. I think the way to think about it is we are right now in a phase of recovery. We had 2 big headwinds last year, BFS and I'll come to that separately. BFS and mortgage and top accounts; within BFS - mortgage was another headwind for us for almost 4 quarters.

I think the way to think about it is that the direction of travel is definitely in the right direction. We have seen sequential growth for 2 quarters in a row in the overall business as well as BFS. I think the Direct business performance in Q1 was impacted primarily by the project completions I talked about in the other segment within the Healthcare vertical, which we do believe will come back to growth. All the other metrics around pipeline, TCV, large deals are all fairly green. So I

think with that backdrop, we do believe that if we continue to execute conversations to pipeline, pipeline to TCV, TCV to revenue, then I think we are on the right trajectory from an overall growth perspective.

Sudheer Guntupalli: So, when you say above-industry growth, post this quarter, the industry growth benchmark itself would have gone up. And with a comparatively modest June quarter, the ask rate for the subsequent 3 quarters to remain above industry growth also increases. What gives you that confidence? Of course, deal TCV this quarter was good, but I think previous couple of quarters, it was relatively modest. What gives you confidence in the overall backdrop that you will still be above-industry growth for the full year?

Nitin Rakesh: I think fair question. But again, if somebody declined 2.5% last quarter and grew 2% this quarter, you're kind of back to square one, right? So, our guidance is not based on Q-o-Q numbers, it's obviously based on CQGR and full year number. And much of the confidence is coming from visibility into a very short term as well as the lead indicators around pipeline that we broke out quite well in detail.

By the way, the other headwind that we had last year was top 10 accounts, which again, on an LTM basis, it looks more murky, and I've seen some commentary where there's confusion around what was the growth in top accounts, what was the growth in top 5 accounts and what was the growth in next 5 accounts. I'm very happy to confirm to you that all the 3 metrics grew on a Q-o-Q basis, top account, top 5, next 5.

Sudheer Guntupalli: Yes. So just since you are on the topic of top accounts, is it fair to assume that none of the top 5, top 10 accounts have any continued challenges in the June quarter? On an LTM basis, though it comes out with a different picture.

Nitin Rakesh: I mean it's hard for me to give you an individual account view because in the end, you have to look at the cohort that we report, and we are reporting top 10. Within that, we are breaking out top 5, next 5. And I'm additionally confirming because we break it out that top accounts, top 5 accounts, next 5 accounts all grew sequentially in the June quarter.

Do we expect any additional challenges on a go-forward basis in that segment? Answer is no. But that also doesn't mean that every account is going to grow at the same trajectory in the top 10. That's the reason I'm telling you it's a cohort or a group outlook versus an individual account outlook.

Moderator: The next question is from the line of Nitin Jain from Fairview Investments.

Nitin Jain: Yes. I have an observation as well as a question. So last quarter, the commentary was we should see above-industry average growth, in FY 25, and which we have said today as well. But the growth has been below-industry average, and it has been lower than last quarter's sequential growth as well. So my question is, in the remaining 3 quarters, should we see growth that is significantly above-industry average, so that by the end of the year, by FY 25, we end up falling in line with the guidance of above-industry growth?

Nitin Rakesh: So Nitin, I think the way to think about it is that what we are basing our guidance on is based on the forward-looking guidance that the industry has published. If you look at the weighted average guidance from the industry, we are looking at a full year number and saying, what do we need to do to get to that number? And at least, our math suggests that that's a goal that we will continue to forecast. So whether it is x percent in next quarter, y percent in third quarter and z percent in the fourth quarter, I think that's a little bit more nuanced that I cannot answer because I give full year guidance, not a quarterly guidance. That also necessarily doesn't mean that every quarter will be the same because remember, the run rate of Q4 does help in the full year of FY 25, which was a little bit different for peers versus us.

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

Sandeep Shah: Thanks for the opportunity. The first question is, Nitin, is it fair to say even first half deal TCV of FY '24 is not fully converted into revenue and it could be the trigger going forward? Or that base plus the new deal wins which are happening in the first quarter will also trigger a ramp up of growth in the coming quarters.

Nitin Rakesh: I think it's both, to be honest. Because we've been monetizing the $1.4 billion of deals from FY '24. Not all of them are fully ramped up. As we mentioned, ramp-ups were slow in 2023. Pace has improved, but there is still more to come.

Sandeep Shah: Okay. Okay. And what are the hurdles which you have seen in terms of lower pace because some of your peers had also seen these hurdles but that got behind starting from 1Q. So, do we expect even the hurdles to convert into revenue for us will get over by Q2 or coming quarters?

Nitin Rakesh: I think it's a gradual normalization phase that we are going through. To be honest, I don't think it's any one trigger event. Some deals have been fully ramped. Some are still not fully ramped. Some are still more to go from the basis of the second year of the deal because every deal doesn't flatline year-over-year. So, there is a different number for the second year. I think it's a mix of those nuances. But it's fair to say that out of the $1.4 billion, there is a fair amount to be consumed in FY 25.

Sandeep Shah: Okay. And second question in terms of margin. Is there any one-offs in this quarter margin and how margin will shape up in the coming quarters because there could be wage hikes quarter-after-quarter?

Manish Dugar: Sandeep, Manish here. There are some onetime upsides but not significant. The primary movement that you see across segments on Sales and G&A is because we had onetimes last quarter. There are quite a few tailwinds on the margin as we go forward and revenue growth being the biggest one. And we expect the margin to remain in the band, and we don't see any challenges in maintaining the margins as we go forward.

Sandeep Shah: Okay. Is it fair to assume, Manish, there would be an upward bias on the margin on quarter-after-quarter?

Manish Dugar: If the macro supports and if you get the revenue uplift, there could be northward bias. However, we are not calling that out, and which is why the guidance remains in that 14.6% to 16% range.

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

Dipesh Mehta: First question is on the AI, I think partly you alluded, but just want to get more sense about, what would be the client expectation as well as what we experience in our ongoing project? What kind of productivity improvement we have witnessed across segment, if you can give some sense? And so that is first question.

Second question is on about mortgage. You indicated early signs of pickup. If you can give more detail about whether it is a across segment, in terms of home equity origination and servicing, whichever bucket and whether the pipeline is also seeing some kind of improvement and whether it is volume-led, if you can give more detail.

Last question is about, if I look at your New gen deal, which you reported as a percentage. And if one calculates, obviously, last year, Q1 had some implication in some of these arithmetic. But on a TTM basis, it is still down, and it is not seeing any material acceleration. So, if I look from incremental growth perspective, what gives you confidence about growth recovery? And related to that is about BFSI, like say last couple of quarters, we are seeing some green shoots. Are you confident about growth acceleration playing out on BFS in coming quarters compared to where we are today?

Nitin Rakesh: So Dipesh, I think the BFS question, I answered. We called out for BFS to lead growth in December. I think we've delivered 2 quarters of growth, and we still believe that it has the potential to continue to lead the growth back, which is one of the reasons why we are relatively comfortable in talking about the next couple of quarters purely from that perspective.

In terms of your question around Gen AI and what level of productivity. The business case can be built with a 20%, 25%, 30% productivity depending on what you're trying to optimize. If you're trying to optimize a customer contact center operation by infusing Tech and CCaaS modernization embedded with Gen AI then, of course, the business case is large. Realizing that is time-consuming and a serial effort. We've seen uptick in many of those initiatives that is also leading to some client pipeline, both in existing clients as well as in new customers. I think it will be slow and gradual, but those business cases are getting more solidified.

We talked about Agile IT Operations where it is very much feasible to reduce 50% of the tickets and hence, you can see a 30% reduction in cost of ownership or the overall price and cost to the customer. So, it is very business case dependent on the exact application of Gen AI.

A little bit more foundational work will need to get done before some very significant gains can be forecasted or baked in. While we are very forward leaning on application of this tech, we are also trying not to add a level of risk that may be unknown at this time. So, in areas like modernization, I think there's a lot more confidence purely based on the relearn and the platform that we talked about. So I think it's a little bit more nuanced than in general what Gen AI can deliver because you would probably see a lot of analyst reports on the industry analysts talk about multiple different numbers ranging from 20% to 50% as well. But it is much more nuanced depending on the type of activity you're in.

Now again, as I mentioned earlier, it is definitely an opportunity, but you know that well ahead and take a forward-leaning stance than, for example, if you don't transform what you deliver to the customer than somebody else will. And hence, we are taking a very forward-leaning stance in going to the customers proactively in bundling these together with the current service lines.

Nitin Rakesh: New gen deal wins. Again, new gen deal wins typically are in the 75% to 80% range. It's more a reflection of the overall TCV. I think what you're referring to on an LTM basis probably holds true on a Y-o-Y basis. But as we mentioned, the expectation is that we will continue to deliver healthy TCV, and, an early indication of that is the data points I've given to you around pipeline expansion. And in Q1, that number is 84%. I think you've already done the math on that.

Your final question was around mortgage. I think it is too early to call. Calling a bottom on the macro has been a very risky endeavor last 2 years.

We are seeing some uptick in volumes. Mostly a combination of some origination volumes as the rates have come off by about 50 basis points, but they're not meaningful enough. The spring home buying season was a very dull season this year. But I think as the 30-year mortgage comes closer to 6% or 5.5%, that volume pickup will happen. Whether that happens in September or November, I don't really know because I don't have a good handle on what the Fed action will be to drive it.

In expectation of a cut rate later this year, the 10-year has obviously come off by about 50 bps. But that's the best indicator I have. Based on client conversations and expectations of volume ramp-ups, they're all waiting for some of these metrics to show up. And we do believe that we have visibility into those pipelines getting built up as soon as we hit some certain milestone that I talked about.

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

Mohit Jain: Sir, first is on revenue growth for the quarter. I think last quarter, we spoke about some impact from furloughs, which was continuing in Q4. I was expecting a little better growth assuming that furloughs would have got over by now. So that was one. Was there any benefit during the quarter or not?

And second was from TCV standpoint. It appears that our revenue growth could still be slow on the Direct business side. So your thoughts on the same?

Nitin Rakesh: I kind of guided to you that furlough is not necessarily a reversible event, which was the false assumption that everybody made last quarter, that furlough coming back, so growth coming back. Because furlough is an industry phenomenon. And you didn't quite see that kind of growth in many peers, purely based on just furlough going away. So, yes, there was some impact last quarter. I don't think Q1 or Q2 is a furlough discussion unless something extraordinary happens, like it happened with Hi-Tech in '22. But as such, I think most of this growth – we have broken it down by various parameters, by vertical, by geography, by business line. So, on the overall numbers, obviously, the decline came through DXC. On a Direct level, I think the decline came through the Healthcare segment in the others vertical. And that's really what I can call out in

terms of what dampened the growth. But again, we can control what we can, which is deal activity and pipeline and conversion, and that's what we are focused on, both at a pipeline level and a TCV to Revenue level.

Mohit Jain: Are you expecting a meaningful pickup in TCV like during the year? Or should we assume this is the new normal rate for us?

Nitin Rakesh: Very hard for me to give you a guidance on that. Again, I will guide you back to the lead indicators that we talked about in great detail in the presentation. Y-o-Y metrics, Q-o-Q metrics, top 10 metrics, BFS, non-BFS, geography. Canada has actually shown us a lot of growth in both TCV and in pipeline. I think that's another way to think about where we are headed with it.

Again, remember, we had a bumper Q1 last year in terms of TCV. It took us some time to build back up the deals through the various stages. Healthier conversion in Q1 is definitely a good sign for things to come.

Mohit Jain: Okay. And one for, Manish, our utilization went up sharply but there was practically no benefit on the margin front. And I think you spoke about no one-offs being there in Q1. So how should we see margin trajectory given utilization is inching up quite sharply?

Manish Dugar: So last quarter, we had called out, Mohit, that we had onetime, and after that onetime, we had delivered 14.9%. Because of operating leverage and utilization improvement and a little bit of benefit coming from reduced exchange gain losses, the margin has been at 15% and despite the last quarter onetime not being there. So, a large part of what you see in this quarter is a sustainable margin versus a lot of onetime that we had in the previous quarters.

Mohit Jain: Margin range does not change because some of the operating parameters are turning favorable, like growth coming back possibly and then utilization is going up a does not move the target margin range?

Manish Dugar: So, Mohit, with the stated philosophy for us is invest for growth while maintaining margin in a narrow band. And last quarter, we had called out that the range is 14.6% to 16%, while we delivered 14.9% because we had some onetime upsides. While we did not have those onetime upsides this quarter, we still delivered 15%. And I think this is after us being able to make the investments that we wanted to make. So, there is an upward trajectory.

And like Nitin called out in his speech, we had a 0.8% impact of Silverline acquisition. So if you combine the 2, we are effectively at 15.8% versus the 15.5% that we were at 2 quarters back. So there is definitely an expansion in the margin that has happened. For it to completely reflect in reported numbers, the acquisition charges has to go away, and that should happen over a period of time.

Mohit Jain: Directionally, we should expect it to be in the range going ahead?

Nitin Rakesh: Yes, I think at this time of the year, the range is a little bit broader than you would like it to be, but we are keeping the flexibility primarily because we want to be able to take those calls on a quarter-by-quarter basis in terms of how much leverage to take back in and how much to plough

back in the business. I think that's the reason why Manish is keeping the flexibility with a slightly broader range.

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

Manik Taneja: Looking a couple of clarification questions. First of all, Nitin, should one be linking the decline on the Healthcare side with the decline in BPS given you spoke about some volumes on the Healthcare enrollment cycle through the second half of the year? That's question number one. The second question was since we get your sense on the onsite, offshore mix, while I understand there is some element of the acquisitions that you've done over the course of the last 12 months. But we've seen our onsite revenue mix go up meaningfully over the course of last 12 months. And especially in the backdrop of the fact that mortgage business has continued to come off etc., so how should we be thinking about some of these internals?

Nitin Rakesh: I think the answer to your first question around Healthcare and BPS is yes. The second question was onsite, offshore. Remember, we talked about Savings Led Transformation ™ deals. Much like the digital projects or Agile Dev projects early phase design architecture, a lot of it is fairly onsite-centric. As we scale and ramp up teams to deploy, that will normalize as well.

I don't think the onsite, offshore ratio is an objective function for us. It's more an outcome of what's needed to be delivered. What's definitely an objective function is the profitability. So, if I can generate a level of profitability and that business needs to be onshore, we are very happy to support that. It's really what we call best shore to support it from where it's needed to be supported, time zone coverage, nearshore, Canada, Costa Rica, Mexico, Poland, India. Within the U.S., we have locations as well in multiple locations. I think it's not an objective function, it's more an outcome of the type of deals and the type of work that we do.

The third question was on the mortgage side. We talked about the fact that it's hard for us to predict the macro. We are really taking a micro, bottoms-up view on the accounts. What I can confirm is we've consolidated our wallet share and our market share because we want to make sure that as the market turns back, we are ready for gaining that share.

We've also made some early investments in Gen AI-led mortgage operations. We'll talk more about that in the coming quarters, but that's definitely an area; we already have a market-leading position as one of the providers for origination, refinance home equity and diligence services, and we think we can enable that through Gen AI. We'd probably unlock a lot bigger market that sits within the client's captive operations today.

Manik Taneja: Sure. And just clarification, some of the nearshore delivery in terms of Mexico, in terms of Canada, does that get accounted as part of our onshore proportion of business?

Nitin Rakesh: Yes. Offshore basically is only India in our disclosures.

Moderator: The next question is from the line of Girish Pai from BOB Capital Markets.

Girish Pai: Nitin, I just wanted to have your thoughts on the total incremental IT services spend of BFSI or non-BFSI customers considering the significant discussion on productivity gains being

passed back to customers. So in 2024, are you seeing the total IT service spend go up? Or are you seeing them flat or going down?

Nitin Rakesh: What you mean is total IT services, not just third-party spend because I know it's difficult for me to break down the third-party spend. I think the total IT services spend projection for the year is about 2.5% at a global level. That also means that there will be share of wallet gains and transfers, both in terms of market share and wallet share. Wallet share being within a customer, market share being if you have a market-leading solution, for example, in modernization, then you should be able to capture a large share of that addressable market as well. So I think there is both. Let's just take a look at banks. A lot of you asked me this question last quarter that most banks are showing increase in tech spends – "Why is that not flowing to you?"

And the short answer is - that is slightly starting to open up and flow in as they look for partners to deploy those solutions that they have budgeted for. So, it's a combination of what your portfolio is, how you're positioned with your tech stance and what segments you play in.

Girish Pai: Okay. And my second question is around GCCs. Obviously, in the past, they've waxed and waned in terms of impact on the IT service industry outsourcing. Are you seeing any difference on the GCC side because the seem to be more critical to clients today than they were in the past? So, is insourcing a more structural problem now compared to the past?

Nitin Rakesh: I think this is a little bit like the debate of return to office versus remote work. I think the right answer is hybrid. This approach we have learnt, not just how to survive alongside, but how to thrive alongside. Because the reality is that they're here to stay. They are an integral part of every customer's operation. But if the only thing we are taking to the customer is offshore delivery capability, then we really don't have a business to defend as an industry. If what we are taking to them is more than just offshore delivery capability, then there is no threat to us.

Girish Pai: Okay. My last question is regarding the others, which is your, I think Healthcare, Manufacturing and Retail. It declined about 8%, if I look from an INR perspective, why is that happening? Because I thought that goes to the growth sector because of these others vertical you're incubating?

Nitin Rakesh: I addressed that. It was one of our fastest-growing segments FY '24. We had certain projects that got completed. Some of them were linked to the enrollment season in Healthcare in Q4. That's really, I would say, kind of an outlier event that is causing that sharp decline you're seeing on a Q-o-Q number. Again, lead indicators, we closed one large deal in Healthcare this quarter and we have a bunch more in our pipeline that we expect to close in Q2, Q3. So I think there are early signs and pipeline activity-wise, it's pretty stable. We have a very differentiated offering with a platform-based approach in Healthcare player market, and that definitely is seeing good adoption.

Moderator: We have the next question from the line of Ashwin Mehta from Ambit Capital Private Limited.

Ashwin Mehta: Two questions. Manish, one question in terms of depreciation. We saw almost a 70-bps decline in this quarter. So, what was this related to? And is this the run rate that we are looking at going forward?

Manish Dugar: Ashwin, last quarter, we had some of the amortizations accelerated as the previous acquisitions are now got over. And we have called out that we had onetime pluses and minuses. So if you see, the adjustment is across sales expenses, G&A and depreciation and amortization. We had called out that 18.7% EBITDA was not the normal and there was onetime upside there. We are now back to our 18%, 18.1% EBITDA levels, which is what the normalized levels are.

Ashwin Mehta: Okay. Fair enough. So the second question is in terms your utilization, including and excluding trainees and offshore, it seems to have equalized. So given that we've had a 7% cut in headcount over the last 2 quarters, is it that the rationalization is happening more from a lower experience perspective?

Manish Dugar: From an operations perspective, Ashwin, what we do is we look at the demand and the supply. And obviously, there is a certain amount of attrition that is voluntary, and there is a certain amount of attrition that is performance based. So a combination of all of that determines what the final outgo will be. It's not a concerted effort to only let go junior people, means we would obviously make sure that the profile that is needed to service the demand is taken care of. And then there is investment in training, etc, so that we can fulfill the new-gen capabilities. So to your question, the outgo maybe junior or senior but it is not at the cost of what we need for service.

Nitin Rakesh: Yes, I think the only way I would close this, Ashwin, on this topic is the pyramid is actually fairly healthy compared to our last 3-4-year trends. And that's a very conscious effort to make sure that we have the right level of skilled folks across the pyramid. So the decision about reduction or addition is almost always based on right skill across the pyramid.

Ashwin Mehta: Okay. Fair enough. And then the last one. So given that we still have scope versus our peak in terms of utilization, do you think for our growth over the next 3 quarters, will we have to do any material hiring or the bench itself is sufficient?

Nitin Rakesh: I think we talked about it last quarter as well. We try to run a fairly; I wouldn't say just-in-time, but a fairly linked to pipeline, market view-facing, supply/demand projection. That gives us what kind of skills in what locations at what levels we will need. And utilization is actually not an objective function. Again, it's more an outcome of where we see demand and where we see supply. Is there opportunity for us to optimize utilization even more? The answer is yes, but that is going to depend on what we are seeing in terms of demand/supply trends in the pipeline as well.

Moderator: Ladies and gentlemen, we will now take the last question, which will be from the line of Nitin from Investec.

Nitin Padmanabhan: In the current quarter, I think at least for me, the negative surprise was on the Healthcare side because of the project completion and we not being able to replenish that. From that

perspective - 2 questions. So one is, do you see the deal wins that we have already done there immediately ramping up and we see no further headwinds from that particular segment? And second, are there any such large things from a project closure perspective that one should worry about near term, which is difficult to sort of replenish? So just 2 questions there.

Nitin Rakesh: Nitin, despite the best efforts, sometimes timing doesn't always work out in your favor, and this is one of those things. We do believe we will see sequential growth in the Healthcare business going forward, partly based on what we sold, partly based on what we will sell.

And to me, the effort will be to continue to focus on building longer term more sustainable programs. But of course, sometimes you need to stand up what clients need for help on a short-term basis as well. This is one of those cases. But broadly, I think the focus and the strategy is very clearly around platform-based services in the Healthcare side.

Moderator: I now hand the conference over to Mr. Nitin Rakesh for closing comments.

Nitin Rakesh: Thank you, moderator. I think one last update I want to give before I close. As always, we hold fast to our commitment to CSR, including helping create a stronger, more inclusive and greener world. I'm happy to announce that Morgan Stanley Capital International, MSCI, has recognized these efforts and upgraded Mphasis's ESG rating from 'BBB' to 'A'. This upgrade is due to considerable improvements in parameters like corporate governance practices and data security programs, notably the adoption of encryption protocols. The significant improvement reflects Mphasis commitment to sustainability and ethical business practices. You can find details of that on our website. And once again, thank you for your continued interest in Mphasis and your questions, and we look forward to seeing you all on the next quarter 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.