



“Mphasis Limited
Q2 FY 2026 Earnings Conference Call”
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Moderator

Good morning, ladies and gentlemen, and thank you for joining the Mphasis Q2 FY 2026 Earnings Conference Call. I am Nirav, your moderator for the day. We have with us today Mr. Nitin Rakesh, CEO of Mphasis; Mr. Aravind Viswanathan, CFO, and Mr. Vinay Kalingara, Head of Investor Relations.

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 under 'Financial & Filing' as well as on both 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. 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 Q2 results release that was sent out to all of you earlier.

I now hand over the floor to Mr. Nitin Rakesh to begin the proceedings on this call. Thank you. And over to you, Nitin.

Nitin Rakesh

Thank you, Nirav. Thanks everyone for joining today. Hope you have had a great festive season.

We had another strong quarter, and our business continues to perform very well. However, before we get to the financials, I would like to walk you through our journey of how we got here, and what enables our sustained success.

While AI is the buzzword since ChatGPT, at Mphasis we made a few strategic choices over the past 10 years, and decided to go all in on them, consistently. While you may have heard me talk about these in the past few years, let me reconnect the dots.

The three big strategic choices that set the stage for our AI journey back in the day were: the first big one was that 'Every enterprise, every business is a consumer business. Some don't know it yet'. As we started executing on this, our conviction was that AI will change every customer's experience. Back in 2014-15 timeframe, we set up NEXT Labs as the Mphasis R&D hub, began experimenting with AI, and early evolution of GPT well before AI became mainstream. This was our Gen-1 initiative around AI.

The second big bet was 'How do we enable agility required by Enterprises' in a way that they want to launch products at ease and speed, adopting every asset of tech as a service, think DevOps revolution, legacy modernization, cloud migration, data on cloud, cybersecurity, transformation, etc. We pivoted a large portion of our business on this construct, a tech-led pivot, and my favourite phrase from 17-18 that we used to rally our troops was 'Bring the T back into IT'.

Extending this into Gen-2, we built over 250 AI/ML models on the cloud marketplaces, including platforms such as DeepInsights™, PACE-ML, HyperGraf™ and AI integrated into InfraGenie™. In the past two years, with the rapid consumerization of AI, we

accelerated our AI-first digital native model, also focusing on AI arbitrage and unlocking new growth opportunities.

These efforts matured into proprietary platforms like Mphasis NeoZeta™, NeoCrux™, NeoSaBa™ etc. that were designed to boost human performance. Earlier this week, we launched Mphasis NeoIP™, a breakthrough AI platform integrating multiple Mphasis.ai innovative solutions designed for continuous enterprise transformation and differentiating competitive advantage.

NeoIP™ perpetually rewires core systems, turning enterprise knowledge across legacy systems, data and operations, enabling us to drive intelligent engineering. At the core of NeoIP™ is this living, breathing layer of connected enterprise understanding that unifies data, systems and processes to proactively optimize, modernize, and transform business and IT operations. It empowers CIOs and business leaders to shift left, embedding data-powered intelligence early in the software and operations lifecycle to create self-healing, resource-efficient systems that learn and improve over time. The platform creates a connected data-centric environment where AI and human teams collaborate to plan, build and manage transformation.

Key component of NeoIP™ is Ontosphere that, in collection with various AI agents, constructs and sustains the intelligence through dynamic knowledge graphs using enterprise domain context. It ensures AI-driven transformation is fast, accurate, and strategically aligned with long-term business goals.

NeoIP™ includes solutions grouped under four categories namely Modernization, Application Development, IT Ops and Business Ops. These capabilities are delivered via specialized AI agents and frameworks that you see on the slide.

Let me give you a quick summary. Essentially, NeoIP™ natively connects with third-party AI agents through recent, though still evolving market standards such as Model Context Protocol (MCP) and Agent2Agent (A2A) standards, expanding the agent fabric for unified cross-enterprise orchestration.

NeoIP™, thus, introduces a new era of continuous transformation that continuously learns, adapts, and grows into our client's business, powered by the Ontosphere. Our AI strategy centres on intelligent orchestration through composable platforms, integrating multiple LLMs, proprietary solutions, third-party assets, and partner ecosystems to build multidimensional solutions tailored to business outcomes powered by our own IP.

Many enterprises today struggle to achieve consistent progress in their digital and AI journeys due to legacy systems and applications, fragmented tools, siloed teams, and limited visibility across programs. This platform addresses these challenges by providing a connected, data driven environment where humans and AI systems can work together to plan, build, and manage transformation.

This slide showcases the examples of implementation across verticals and clients in those verticals and their challenges. Let me double-click on one of these. An Insurance, Annuities and Wealth management firm that had challenges in their current operating model. They wanted to transform to modern and digital application portfolio to drive

efficiencies, speed of resolution and time to market, improve security, resiliency and operational excellence. Mphasis proposed a solution of an integrated ADMS, modern target operating model using key transformation and technology levers that I just talked about to advance service performance, quality, efficiency, and speed in an outcome-based model through our own modern engineering platforms, including components of NeoIP™ and especially Mphasis NeoCrux™.

NeoCrux™ is natively available as a plugin to the IDE, which is a plugin to developer environment that integrates the tool chains along with the AI-powered coding assistant tools like GitHub Copilot, AWS Q and Cody. Mphasis partnered with the client to implement critical applications using GenAI tools to improve developer productivity making delivery faster, better, and more efficient while maintaining quality standards. This increases SDLC productivity by 20% to 30% while reducing technical debt by about 60%. This initiative, along with NeoIP™, is a result of many ongoing investments we've been making, including some that were recently enhanced earlier this year.

Since the launch of Mphasis.ai, our pipeline has grown by 2.4 times. We currently have the largest ever pipeline driven by a number of these propositions that are being embedded into our offerings.

Another quarter of strong TCV wins with \$528Mn of TCV won this quarter, we continue to see additional opportunities to embed our shift left thinking and suite of these solutions into every customer proposition. As you can see, we've seen the increasing build-up of the AI-led pipeline as well as the overall increase in qualified pipeline. This has also been ably complemented and supported by our recent GTM investments such as increased sales and solution coverage at an account, vertical and geography levels as well as setting up of our Strategic Engagements team; the Large Deals team that we announced late last year.

Looking at the pipeline, it's increasing across multiple dimensions and is fairly broad-based across client segments, verticals, as well as tribe-led archetypes. Our BFS pipeline is up 45% YoY and non-BFS pipeline is up 139% YoY. Significantly, our large deals pipeline is up 180% YoY, referencing back to my comments around setting up the Large Deals team this time last year.

We've also had solid traction in our AI archetypes, including AI Ops, Modernization and Data, especially to call out a few. We continue to stay focused on deal-making, and as referenced earlier, the investments in large deals teams are bringing to yield results, even though we are still in early phases of institutionalization of the same.

Our proactive share of deal wins remains steady and healthy. Our AI investments are reflected in our pipeline and deal wins. 42% of TCV wins in Q2 are AI-led, with further room to expand this metric in the rest of the TCV that we won this quarter as well.

This is our second successive quarter at \$528Mn in TCV, more than \$0.5Bn in TCV for the quarter. In the first half of FY26, we won approximately \$1.3Bn of TCV, which is more than the full year TCV wins in FY25. On a last 12-month basis, we've now closed over \$2Bn in TCV.

H1 TCV wins have been broad-based across all our major verticals. We won six large deals in Q2 for a total of 10 large deal wins in the first half of FY26. Of the six large deals, one deal is over \$100Mn, and two deals are over \$50Mn. TCV to revenue conversion pace has remained steady with further room to improve the pace of conversion, owing to the transformation nature of some of these deals.

Moving to performance by segment, we continue to push for revenue growth, which is anchored in our strong client mining model and tech-led offerings. Second quarter FY26 revenue came in at \$445Mn, growing 2% sequentially and 6% YoY in constant currency terms. This is the highest quarterly revenue recorded for the company, surpassing the \$440 Mn recorded in Q2 of FY23.

Our direct business contributed 97.5% to our overall revenue for the quarter. We expect the pace of revenue and deal conversion to remain strong, propelled by the Savings-Led Transformation™ theme. Our direct revenue for the quarter increased 2.2% sequentially and 7.9% YoY in Q2 FY26 in constant currency terms.

Growth momentum in Direct continues to be strong. Anchor geography US grew 2.1% sequentially and 10% YoY in Direct, driven by ramp-ups increase in deal wins. EMEA region reported robust sequential growth of 7.5% in constant currency terms. Rest of the world grew 15.5% YoY in constant currency terms for our Direct business as well.

Our core service line of Enterprise Apps, which contribute 73% of overall revenue, increased 9% YoY this quarter. Direct Apps growth is driven by AI-led modernization deals, and our ITO service line for Direct also delivered a strong sequential growth of 7% and YoY growth of 18% in constant currency terms. Growth is led by continued ramp-up of integrated build plus run deals.

Moving to our vertical performance: BFS, Insurance and TMT verticals continue the growth momentum. At an overall company level, BFS grew 13.8% YoY in Q2. YoY growth in BFS was impacted by the ramp-down of the ATM business. Direct BFS grew 17.3% YoY, largely driven by wallet share gains in existing accounts and continued strong execution in new account wins. Insurance and TMT verticals continue the growth momentum, both registering a YoY growth of 25% plus. Insurance vertical for direct grew 4.5% sequentially and 32% YoY in constant currency terms. Combined BFSI vertical has grown at a CQGR of 4.7% in past four quarters, which we consider to be market leading. We continue the strong deal wins momentum and revenue conversion in the TMT vertical, which has grown 10% sequentially and 26.7% YoY in constant currency terms in Direct. We expect the Logistics and Transportation vertical to start delivering sequential growth from Q3.

I'm also pleased to announce that we recently brought on board a new leader to head our Healthcare vertical go-to-market where we will be laser focused on building pipeline, closing deals and sustaining growth in the coming quarters, especially leveraging the Mphasis Javelina® healthcare platform as we have recently seen gains in market share not only in the traditional TPA market for Javelina®, but also upstream enterprise payers

including national players. Overall, at a portfolio level, our performance is very much in line with our expectations.

Our client pyramid continues to improve, especially across the middle of the pyramid. YoY, we've added one client in the \$100Mn+ category, two clients in \$75Mn+ category, two clients in \$50Mn+ category, two clients in \$20Mn+ category, and three clients in \$10Mn+ categories. Client pyramid improvement is driven by wallet share gains in existing accounts and successful ramp-up in new accounts. On an LTM basis, top 10 accounts grew 10.8% YoY, and the next 20 accounts grew 10.7% YoY.

In our quarterly financial metrics, we delivered to our philosophy of maintaining margin in the stated band while making investments for growth. Our EBIT margin remained stable at 15.3%. Reported operating profit for the quarter grew 4.4% sequentially and 9.5% YoY to INR 5,959 Mn. Our EPS grew 10.2% YoY to INR 24.7. Our operating cash flow generation was at \$54Mn for the quarter.

DSO for the Quarter was at 89 days an increase by 5 days QoQ due to an increase in Debtors relating to milestone contracts and movement from Contract Assets of last quarter and contract assets decreasing QoQ due to movement of the same to Debtors partially offset by new contracts. You should also note that the fixed price contribution to revenue has gone up by more than 50% YoY, and this change of business has seen an increase in DSO. We do expect normalization over the course of next three to four quarters.

In summary, we had our highest ever revenue and EPS, growth led by insurance and TMT verticals as well as BFS growth on a YoY basis with 13.8% growth YoY. We launched Mphasis NeoIP™, as I mentioned, a unified AI platform with purpose-built agents, and continued our investments in AI-driven growth initiatives, driving pipeline and TCV wins. Pipeline is at record levels, growing 9% sequentially and 97% YoY with 69% of the pipeline being AI-led.

We sustained second quarter of strong TCV wins with \$528Mn in this quarter, and as I mentioned, one deal of over \$100Mn with a new BFS client and two deals over \$50Mn. Our first half TCV wins were more than our full year TCV wins of FY25 with last 12 months TCV at \$2Bn+ - all while we delivered stable margins.

Coming to outlook, we will continue to focus on pursuing, winning and executing at the account level, while making investments in scaling our AI-led proposition and expanding our footprint in the NeoIP™ suite of agents. We continue to stay focused on conversion of pipeline to TCV and TCV to revenue and expect growth to be greater than 2x of industry growth on the back of our H1 performance and steady conversion of strong TCV wins to revenue with steady ramp-up of large deals in the ongoing quarters. We will continue to target operating EBIT margin in the stated band of 14.75% to 15.75%.

With that, let's open the call for questions, moderator.

Moderator

Certainly, sir. Thank you very much. We have the first question from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management. Please go ahead.

Sudheer Guntupalli Hi, Nitin. Thanks for the opportunity. So last quarter we were talking about 3Q seeing a good impact of the deal ramp-ups that we had won in the June quarter, and we were expecting very strong growth in 3Q and second half in general. Now that we might be having a little bit more clarity on the furlough front, so any update on that, how we expect the next two quarters to pan out? That is my first question. Second is on BFS this quarter sequentially looks a bit soft. Is that also impacted by the ATM business on a sequential basis or you were just referring to the year-on-year impact on ATM business? That would be from me. Thanks.

Nitin Rakesh Sudheer, sure. Let me answer the second question. That's straightforward. I think the impact of ATM business was more YoY. I think on a sequential basis, the impact is actually a lot more muted, but in general, on a CQGR basis, over the last four quarters, our BFS business has grown at about 4% in Direct. What that means is we've seen some significant growth already in the last three to four quarters and probably were the first ones to call for a bottoming in the business in terms of headwinds in BFS, and I think we are overall very pleased with the YoY performance there. I think sequentially, sometimes there will be puts and takes primarily driven by project deliverables and realization of those. So, nothing more to call out. I think it continues to be growth outlook intact for the second half of the year in BFS.

Coming to your question on Q3 ramp-ups driven by large deals in Q1, I think a number of those deals already converted, will continue to convert through the remainder of the year as well. I think the conversion of deals is a little bit more nuanced based on nature. Some deals where there may be quick conversion opportunity because you may be taking over an existing operation or a set of employees or you may have a rebadge opportunity will have converted quicker, and some where you're consolidating out a bunch of other providers and taking over, refer to the example I gave on the Insurance client, that's typically a three to six-month ramp that effectively needs to go through that level of transition period. And in some cases, where we are infusing tech, it also requires us to spend time on hardening the environments, going through the cybersecurity tests before we can actually deploy new tech in the customer environment. So broadly, I think we are aligned on track with conversion of not just Q1 deals, but also Q2 deals.

And in terms of seasonality and furlough, I think it's too early to say whether it'll be same as last year or not but given that the mix has changed a little bit more in favour of fixed price, we may have the opportunity to optimize compared to where we were last year. So, net-net, again, if you extrapolate what we are guiding for the remainder of the year, at least at a gross level, you can see that we should have decent growth in the second half of the year. Whether the growth is more lopsided in favour of Q4 versus Q3 is something we have to optimize based on where we end up with seasonality.

Sudheer Guntupalli Sure, Nitin. Thanks. All the very best.

Moderator Next question is from line of Nitin Padmanabhan from Investec India. Please go ahead.

Nitin Padmanabhan Hi, good morning. Congrats on another strong quarter. Couple of questions. So, one is on the Logistics vertical, you've announced a deal, but you have earlier alluded to a

potential large deal there as well. Is this that large deal? And when do you think this really starts getting back into double-digit growth trajectory like the rest of the business? The second is on BFS. One, we have seen interest rates coming down. And do you see the refinance business really picking up and adding volumes? And should that be a stronger contributor to the back half of the year? And the last one is on the weakness in the top customer. When do you see that sort of ending? And then just had one more, which I missed, which is, there's been a lot of noise around regional banks and thing in the US. I know you don't have much of an exposure, but any concerns that you see within your clients or any new uncertainty that could sort of unfold there? What's your read on that? Thank you.

Nitin Rakesh

I think I forgot your question number one by now but let me take them in the order I remember. I think regional banks, doesn't seem to be a systemic concern. At least we are not hearing that from our large banking customers. Neither are we hearing it from sponsors who are very active in the private credit market, which is where a couple of those incidents were reported a couple of weeks ago. So again, nothing to call out. Given our portfolio, we are fairly comfortable and confident that this should not be any concern to us. Systemic risk hasn't really showed up at this point. This is a market where people are actually looking for bubbles, so we'll see how that plays out, but so far, nothing to call out.

On your question around growth in largest customer, happy to tell you that on a sequential basis, it has grown far in excess of the company growth, and we do expect that growth trend to continue for the rest of the year. How long that takes for the trailing 12 months to wash out is a matter of just arithmetic, but as long as sequentially we've started to grow, which we have, and we have visibility to that growth over the second half of the year, I think we should be quite okay there.

On your question around Logistics and Transportation and the deal win, we've already called out in my commentary that we will see growth in Q3 on a sequential basis. Double-digit growth, whether it's sequential, your question was sequential or YoY, is a difficult question to answer because, again, given the ramp-down we've seen in some segments of that vertical, it might take us a while to get to double-digit growth on a YoY basis because, again, the last three or four quarters have to wash through that arithmetic. And if you don't mind, just remind me your fourth question.

Nitin Padmanabhan

Was on the mortgage refinance.

Nitin Rakesh

Again, Nitin, I don't want to sound the whistle when we've already had a couple of false starts in the last 12 months. We saw the first interest rate cut from the Fed in September of 2024. After the 25-basis point cut, the 10-year went up by 100 basis points. So very complex and difficult to say based on the preceding, in the following three cuts earlier this year, whether we will see any meaningful pickup in volumes. All I can tell you is that in expectation of volumes going up, we've seen some clients reach out proactively and asked us to create capacity. But it's difficult to say whether it will pick up in December or February or how the seasonality will play out from an uncertainty standpoint, because now the December cut is under question given the lack of data, given

the government shutdown. So very difficult to pinpoint. Hence, we are not calling for that. If that happens, that will definitely be a nice tailwind that we will welcome with both arms. Meanwhile, we've already seen healthy sequential growth in that business this quarter on the back of new deal wins, where our ability to go in and take out operations from a customer, based on the work we've done, even in deploying AI into that business is really what's driving the growth there. So base case, we'll continue to see wallet share gains. We will continue to stay more competitive compared to our own client operations as well as our competitors. And if there is a second vector that gets added, that will only be accretive to growth.

Nitin Padmanabhan

Perfect. That's very helpful. Thanks a ton, and all the very best.

Moderator

Next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah

Yeah. Thanks for the opportunity and congrats on a good execution. The first question is in terms of Travel and Logistics, you have answered the question on the revenue, but on the segment margin, it has turned into losses in this quarter from a mid-single-digit margin last quarter. So, is there a further investment that has happened in this vertical, which has led to gross margin losses in this quarter? So how to read about this and how do you see, with the growth, margin in this segment to change?

Aravind Viswanathan

Sandeep, this is Aravind. Let me take that. You're right, there was a specific investment we had made with respect to this vertical, which has contributed to the swing in the gross margin that you've seen in Q2. I think you will see a complete return to normalcy on margins from Q3 onwards. You will see a sharp uptick because this is more of a one-time in nature, and like Nitin already covered, you will see a pickup in revenue, and that is backed on new deals that we are winning. So, I think you will see a trend up from what you've seen in Q2.

Sandeep Shah

Okay. Thanks. And despite closure of strong deal wins, the pipeline commentary is very robust, which is encouraging. So, is it fair to assume the deal TCV numbers can continue above \$300Mn, \$350Mn, \$400Mn as a new normal going forward?

Nitin Rakesh

Yeah. I think that's a great question, but unfortunately or fortunately, the large deals will continue to be lumpy in nature. So, while we are quite confident that our trajectory and run rate has increased over the last three or four quarters, I think the best thing will be to look at maybe a trailing 12-month metric versus just one quarter or two-quarter metric. Also, keep in mind the long-term trend here. We've actually seen quite a robust jump in our long-term trend in terms of what quarterly TCV average we would declare, increasingly pretty much over the last six or seven years. So directionally, we do believe that there is an opportunity to uptick that to the next level. We're very happy we've done that in the last three quarters, and hopefully we'll continue to do that given the strength of the pipeline and the conversion rates.

Sandeep Shah

Okay. And just last couple of questions, Nitin. Looks like on the commentary, the revenue exit run rate in the fourth quarter could be much better this year, which can set a platform for even a higher growth in FY26 if macro-led concerns do not elevate further. So, is it a right way of looking at it? And the last question on margins. Aravind, this

quarter, if we exclude the hedge, the margin improvement has been really good. So how to model, where do you expect these revenue line hedge losses to settle going forward? Because rupee has been depreciating and above INR 88, one can assume these losses may still continue.

Nitin Rakesh

So let me take the question around FY26 exit run rate, and I think, again, arithmetically what you're saying is right, but the big "IF" there is what happens to the environment and the situation when it comes to executing those. So, I think that, again, go back to what I said earlier that directionally we are headed there. We do expect the growth rate will continue to have an uptick as we build the run rate over Q3 and Q4, and how that sets us up for FY27, it's a little bit premature. We'll probably be in a better position to talk about that in Q4.

Aravind Viswanathan

Sandeep, on the hedging, you're right, there is a hedge loss and we kind of report our OCI also on a designated hedge policy. We have somewhat similar number expected in a couple of quarters going by because we have a conservative hedging policy where we hedge about 80% of our exposure. And we do it irrespective of the volatility. We don't do a tactical approach to currency, that never works. So, in that sense, it will take some time before the full effects of the currency depreciation flow in. But at a larger point, I think currency has become one of the integral factors of our P&L. So, one doesn't look at margins ex-currency. So, it is something that we bake in. We protect our hedging policies to protect from sudden volatility, which is what we've done, but I think it's ingrained into the business dynamics right now.

Sandeep Shah

Okay. Thanks, and all the best.

Moderator

Next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja

Hi, thank you for the opportunity. Nitin, just wanted to pick your thoughts on two things. Some of your larger global peers seem to be suggesting about significant improvement in short-term discretionary projects in Banking, and something that you were quite early to essentially suggest a few months back. Just wanted to understand if you are seeing further acceleration on that trend. That's question number one. The second thing is that with regards to some of our internals around headcount addition, around utilization metrics. Just wanted to understand how one should be looking at the fact that our offshore utilization essentially jumped up sharply, probably the best in over five years. How are those trends playing out? And the last one would be the services and software construct which you and some of the industry peers have pointed out. While it is translating into revenue per headcount going up, when does this essentially start showing up in terms of at an overall margin profile level? Those would be my questions.

Nitin Rakesh

I think on the question around discretionary spend pickup in short-term for Banking, again, I think I mentioned, we were probably the first ones in the industry to call for this dynamic almost three or four quarters ago. Of course, there was a lot of disbelief and questioning at that point whether on what basis are we seeing this, but we've delivered on the numbers, and if recent trends are anything given by, then definitely the demand environment for Banking, especially around adoption of AI and new spends being diverted to AI, seems to be the narrative that we are also continuing to see play out.

Again, this is already in our numbers for the last few quarters. That's why I confidently told you that second half of the year, we will continue to see some of that trend play out as well. Not only across the whole sector, but even some of our top clients.

Let me address the platform IP question first, and then we'll get to the operating metrics that you referred around utilization of headcount. I think we're at a stage where, over the last two years, things are evolving really rapidly, not just with regards to development of our own platforms, but even with regards to market standards and the amount of activity that's in the market in terms of evolution and new announcements and new launches. Our focus for the last 12-18 months really has been on strengthening our propositions, creating this repeatable construct through the IP platform, embedding it into our propositions, running multiple MVPs with customers to validate this thinking, making sure we understand the enterprise adoption life cycle, hardening our own platforms when it comes to meeting things like cybersecurity standards and certification standards, and we made some announcements earlier this week around the ISO certifications. That's very much aligned to the execution of that strategy. And eventually, immediate focus right now is on creating in every industry vertical, in every large client segment, what we are calling 'Lighthouse' programs. I think that will give us a lot of learnings around what the opportunity is from a commercialization standpoint, how that plays into the pricing constructs, how much leverage do we have on margin, what's the client maturity in accepting this model, where we are embedding not just people, but people plus software into the service and how the market responds to it, even from a competitive standpoint. The good news though is that because we have this approach, we are at least not playing the pricing game alone when it comes to winning business. We are playing the Savings-Led Transformation™ game, and while we win business, we don't have to sacrifice profitability of those deals because we are using this as a leverage. This naturally means that there is certain amount of de-linkage between revenue growth and headcount growth, which, again, we've been seeing for the last few quarters. How much of that correlation we stabilize at, I think, it's a little too early to say.

So instead of trying to run our supply chain with the old-school mode of onboarding a certain number of people, keeping them on the bench and then consuming the bench, we are being a little bit more dynamic. I think I mentioned this in the last quarter or two as well. We are running a rolling 90-day forecast and trying to meet that supply chain. So, utilization is not an input metric, but it's an outcome of where we end up. And that's the model you can expect us to follow over the next two or three quarters for sure.

Manik Taneja

Thank you, Nitin, and wish you all the best.

Moderator

Next question is from the line of Vibhor Singhal from Nuvama Institutional Equities. Please go ahead.

Vibhor Singhal

Hi. Thanks for taking my question, and congrats, Nitin, on a very strong deal win yet again in this quarter. So, Nitin, my first question was on the overall demand environment, on which you just alluded to in the last couple of questions. We've continued to win very strong deals, but overall, at the macro level are there any positive or negative changes in the macro environment in the overall business environment from when we spoke last

time in July? And secondly, we know that the H1B visa is not going to impact our business much because of the very limited dependency that we have on them, but did that event actually create another layer of uncertainty into the system, which might have or might in future lead to some more, let's say, delay in deals or some more uncertainty that is already there. Your thoughts on that would be really helpful.

Nitin Rakesh

Sure. So, I think on the macro, it's kind of the new normal. There is volatility based on events that come out of the left field. H1B is a good example of that, which wasn't expected, but eventually became an issue about a month or so ago. Client behaviour at this point is less macro dependent, but more dependent on what is the proposition that they're trying to drive. Efficiency and savings are still very much a theme that is driving a lot of conversations, but it's not in isolation of the transformation needs. So if you can bundle a construct where the client spend, let's say, at the very least is stable, but with a slight marginal growth bias on overall tech spend, but the nature of the spend, the shape of the spend, is undergoing a big change because they're moving -- they're wanting to move a lot more spend into new technology areas and continue to find efficiency in the way they run their operations. So, I think if you align to that macro theme, there's a lot of business to be done.

In terms of overall geopolitics and macroeconomics, it's very, very hard to call. So, we are still very much in the mode where we will run the business on a micro basis and not worry about what the macro leads us to. And if the macro changes and becomes tail-winded, then that's a risk that we'll all be happy to take as the upside shows up.

On the specific question around H1B, I think there are two ways to think about it. Firstly, does it impact the business short term, the answer is not really. It's also not what it was feared to be when it was announced. So, there's been a fairly significant slimming down of that proclamation, which is obviously good news, at least from an operations level. Not so sure about the sentiments amongst the Street, but at least at an operational level, seems to be good news. We haven't really seen much activity from clients on this because they're all, again, mature buyers. They have their own centres; they have their own H1B workforce. I think it will result in one of three things or maybe many of these three things. Firstly, it means that we have to make our supply chain more resilient to H1B over the next 24 months, which, I think, at our scale is far easier for us to do, given especially the supply environment in the US for white collar and tech talent is fairly tail-winded. So, we don't have a supply constraint, so to speak, given the number of available people, not necessarily with exact skill matches, but at least the STEM talent is pretty fairly available both local and H1B. Second, we can also make a case that this is likely to globalize the work even more. So, we don't have to be dependent on mobility of people. We'll have to depend on mobility of work. Third, which, I think, is my very strong belief, this will also pull forward, faster automation and application of AI, so you can eliminate dependence on local resident workforces in client geographies. So that's the way we are thinking about it, and that's the way we're executing to it.

Vibhor Singhal

Got it. That was really helpful. My second question was on the deal pipeline. You mentioned the deal pipeline remains very strong, and that is despite the very strong deal wins that we have reported. Is the deal pipeline strong across the verticals? And

specifically, in BFSI also, are we seeing a very good deal pipeline which might lead us to good deal wins and thereafter maybe good revenue conversion in the coming quarters?

Nitin Rakesh

Yeah. I think we gave a detailed breakdown of the pipeline across BFS and non-BFS. So, if you look at the earnings deck that we just referenced to, the deal pipeline has actually grown quite broad-based. There are two cuts available. One is BFS, non-BFS. Just to give you data points, BFS pipeline growth is 45% YoY, and non-BFS pipeline growth is 139% YoY. If I look at top 10 clients, pipeline growth is 122% YoY and non-top 10 clients is 89% YoY. So, I think it's pretty broad-based across geographies, verticals, client segments as well as across all the tribe archetypes. So, I think it's a pretty healthy place to be from a pipeline standpoint, and we are very, very pleased with that, but of course, the focus is on converting it.

Vibhor Singhal

Got it. That's great to hear. Just one last question. Aravind, could I just maybe pick your brain a little bit more on the negative margin for the Logistics vertical? So, this investment that you spoke about, which led to this negative margin, is it some kind of a delivery capability investment, which is built to enhance our capabilities across the vertical? Is it a client-specific investment? Any colour on the nature of investment, and by when do you expect it to reverse? You mentioned next quarter, we should be back to the positive territory, but will we be back just to the single-digit positive territory or will we be back to the normal gross margins of 20%+ that we used to report in the vertical? That would be really helpful.

Aravind Viswanathan

It's client-specific, to answer your question. It is about offering some transformational capabilities to the client. That's the nature of the investment. I don't want to get into a guidance of margins at a vertical level. We've kind of given a view in terms of where we will operate at a company level, and I think that should give you comfort in terms of where we will be.

Vibhor Singhal

Got it. But the investment phase is over, or the investment phase might continue in coming quarters also?

Aravind Viswanathan

No, like I told in one of the earlier questions, so you will see it get back closer to normalcy. The specific investment was timely, and that is kind of done.

Vibhor Singhal

Got it. Great. Thank you so much for taking my questions and wish you all the best.

Moderator

Next question is from line of Girish Pai from BOB Capital Markets. Please go ahead.

Girish Pai

Yeah. Thanks for the opportunity. Just wanted to ask a question on AI. How much of the work that you do is cost optimization related versus innovation or growth-related on the AI side?

Nitin Rakesh

Again, I think I mentioned this earlier that given the nature of our client base, which is the top end of the enterprise segment, for the most part, there is a fairly high degree of maturity in clients when it comes to identifying the levers for efficiency and cost optimization. If I go to a customer with a proposition in Banking or Insurance or Travel, and that has an efficiency play, it's unlikely that the efficiency play can be delineated from the transformation play. So that's why the North Star for almost all of our deals is what we are calling Savings-Led Transformation™ where we will find efficiency, but

we will also find the ability to change the way they are operating and potentially help them operate better, faster time to market, time to resolution, availability, velocity, throughput, sprint volume, error rates etc. All of these metrics are important metrics, and clients are looking at in an efficiency discussions. And the best lever we have today is to embed some form of technology, AI or not, in driving that efficiency. So, it's very uniform across the board. Now, when it comes to use of AI for innovation versus efficiency, I think, again, they are two sides of the same coin because, if I'm giving you the ability to drop code 30%, 40%, 50% faster than you used to, that is innovation in itself because we are deploying a whole new tool chain with CI/CD pipelines embedded into IDEs. I talked about the NeoCrux™ platform that is embedded into the IDE and helps you accelerate the SDLC transformation process. So, I think it's two sides of the same coin. It's unlikely unless you're using something from a very tactical standpoint where you want to eliminate use of paper or automate controls, where it is much more operating efficiency, less innovation, but for the most part, I think that they're quite well bundled together.

Girish Pai

The next question I have is still on AI. Everybody seems to have a platform strategy now. So how does one vendor differentiate versus the other or how do customers differentiate one vendor from the other?

Nitin Rakesh

Great question. Again, going back to the segments we are operating in, I think the way of selling is definitely changing. It is not only about changing the proposition nature where you have to bundle a solution that has elements of tech. Clients are also asking us to not just show me on a PPT or tell me but actually show me in a live sandbox environment in many cases. So, think of this as 'RFPs are turning into hackathons', and that's their yardstick of who can deliver on what they're promising versus not. So, it has in a way become a lot more about the ability to showcase through execution. MVPs, forward deployed engineers, seed teams, proof of architectures are all becoming part of sophisticated client RFPs. I think this trend will percolate to almost all verticals and all clients, but many clients have already started adopting these approaches and techniques. That's the best way to differentiate.

The other way to differentiate is through the strength of the platform itself. Taking a broader view, thinking of problems that clients may or may not have thought of, creating assets for them that they can use in perpetuity like the intelligence platform that I just talked about in my comments are things that differentiate you because clients are, at this point, also very willing to listen to new ideas and new ways of doing business. So, I don't think there's one thing that differentiates you, but it's a combination of these things. And of course, when you're in an RFP process or when they use third-party advisors or when they're looking at specialist people to help them, big providers, we go through a benchmarking process that is also a good input to us in our own platform development cycle.

Girish Pai

Okay. My last question is regarding AI-related hallucinations, and how do vendors protect themselves in contracts where there could potentially be problems that could come up? And do you commercially protect yourself when customer contracts are signed?

- Nitin Rakesh** Again, we use a pretty market standard process. Since we are not providing base LLMs, in a way, there is a pass-through assumption that the choice of platform or LLM is what the customer is making, but the biggest protection for us always is a human in the loop. None of these are out-of-the-box, black box solutions. They will always require intelligent engineering to be accompanied. They will always have experts that will actually curate the process. Even if a process is 60%, 70% automated, there are definitely checks and balances that have been built into it, but contractually, yes, we do protect ourselves.
- Girish Pai** Okay. Thank you.
- Moderator** Thank you. Next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.
- Abhishek Kumar** Hi, good morning. My question is for Aravind. Aravind, I again wanted to understand the interplay between contract acquisition cost, contract assets and liabilities. Seems like despite very strong deal wins, the other non-current assets are kind of stable while current assets actually declined. So maybe if you can just again explain, this is still new for us, so please bear with us, why the other non-current assets have not increased. Is it simply because this time the acquisition cost was low for the deals that we have won, or is it that the amortization that happened of the previous contract acquisition cost, that offset the increase, and then how has the other things moved? Any colour on those things will be helpful, thank you.
- Aravind Viswanathan** Sure. So just to be clear, not all deals come with a contract acquisition cost. And you are right, the deals that we had won in the current quarter do not come with the kind of structures that we saw for the deals in Q1. So, this is very specific to the deal, specific to the customer. And there are multiple dimensions that go into it. So, to presume that a direct linear equation between contract acquisition cost and TCV may not play out that way. So that is one element on contract acquisition cost. So, the deals that we kind of won in the current quarter do not have a meaningful kind of investment from a CAC standpoint. From a contract asset standpoint, that, to me, is just the nature of projects. As you know, our fixed price has gone up substantially and certain fixed price unbilled goes into contract assets, T&M unbilled goes into debtors. So that's more a change of mix, and that is what is reflected in the financials.
- Abhishek Kumar** So maybe one quick follow-up. The DSOs, the debtor days that we have shown of 82 days, does that also include unbilled or this is just billed days?
- Aravind Viswanathan** So, the DSO that we showed on the deck is 89 days. It's gone up by five days. That includes a combination of debtors, unbilled, and contract assets. So, it includes everything.
- Abhishek Kumar** Okay. Sure. Thank you and all the best.
- Moderator** Next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.
- Dipesh Mehta** Thanks for the opportunity and congrats on strong execution. First question is about the new AI platform. So, I just want to understand, let's say, adoption curve. How many

clients we have seen, let's say, adopting our platform, how it is changing, whether it changes stickiness with the relationships and whether it also leads to multi-tower deal construct compared to, let's say, one or two services which we provide to clients? And any implication on revenue conversion, the way the platform gets constructed in the overall deal structure kind of thing. That is question one. Second question is on deal pipeline to deal intake to revenue conversion. Are we seeing any changes because of the way AI is getting embedded, so AI-led transformation and all those things, whether any changes to it? Third question, which is slightly related, but we still focus on relative performance. I think considering the H1 deal intake, by when you expect our absolute performance commentary to be made absolute rather than relative? Because macro is unknown, but deal intake is known, pipeline is known. So, if you can provide some colour about absolute performance, how you expect H2 versus H1 kind of commentary. And last question is about two investments: Locate and Aokah minority investment. If you can provide some detail around it. Thanks.

Nitin Rakesh

Why don't you start with the last question, and then I will address the first three.

Aravind Viswanathan

So, on the minority investment we have done a press release, we did a small minority stake in a company called Aokah, which is part of our GCC strategy. So, we've given out a press release on that. That is one element to it. The other one, Locate, is, again, part of a customer consolidation deal. We've done a couple of these structures in the past, and they've been quite good for us. So that's something which we are getting a deal where we are consolidating this vendor and getting the business from the client. So that's the nature of Locate and Aokah.

Nitin Rakesh

Let me address the question on absolute versus relative. I think until we make a structural shift from giving relative guidance to absolute guidance, I think we'll continue to give you directional guidance on relative performance. It's just the philosophy we've followed for the last many years, and we'll stay with that for now. I think there is enough and more availability of information both to you and the rest of the Street to be able to extrapolate some of this. I think it should be pretty comforting to you to see all the details - both on pipeline as well as order book.

The question around NeoIP™ and the cycle of the deal, in general, it has given us pretty strong confidence in our ability to construct those propositions and then take them to market. And that's very much embedded into the increase in pipeline and increasing deal wins, which gives us increased competitiveness, sharpens our messaging to customers, aligns us to outcomes that they want us to drive for them, and creates an element of risk sharing where we potentially have the opportunity to even see some upsides. Like any other change, this will be an evolution process, much as much we would like it to be a revolution, only because there is an element of change management on both client side, client buying behaviour, client contracts, client sourcing as well as our own people adoption, both at a GTM level and an execution level. Part of the reason why we are standardizing the whole approach through the launch of the NeoIP™ platform, and we standardize these multiple agents is because we want to make sure that we are able to accelerate this and do it at scale. We have multiple clients where we've already incorporated this. In many cases, it's live inside of the client environment. In many cases,

it's live in a sandbox environment, and we will scale it across the enterprises. Part of the commentary I gave around TCV to deal conversion, sometimes it does take anywhere from one to two quarters to actually get this up and running, but then it's a seven-year deal, six-year deal, five-year deal. I think that's time worth spending in getting the pipelines right, especially around data. So even the example I gave on Insurance, we are very much in the phase where it's a two-quarter cycle for us to actually get this up and running inside of the client environment.

But in general, it is definitely increasing our competitiveness, sharpening our message, and giving us the propensity to win larger deals that are definitely multi-tower because that's what you also asked as well. So, it's not just across applications and infra, but even within applications, multiple services around, not just app dev or maintenance, but application refactoring, application modernization, cloud operations, finops operations, and so on and so forth. I think it's a pretty comprehensive set of opportunities that we are trying to drive. Obviously, deal-making gets more complex because now you have more variables to deal with, but that's very much, as I mentioned, part of the journey that we are on.

Dipesh Mehta

Thank you.

Moderator

Ladies and gentlemen, we'll take that as the last question. I now hand the floor to Mr. Nitin Rakesh for closing comments.

Nitin Rakesh

Thank you, Nirav. Again, in closing, all I would like to say is we appreciate your time and your interest in the company. We are very excited about the launch of NeoIP™ because it sets the stage for our next phase of innovation, both within our company as well as with our clients. Happy with our early investments even in quantum that we announced earlier this week as well. So, thank you again to all our teams who are working hard to deliver this, and to all of you for being an integral part of this transformation journey with us.

Moderator

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