"Mphasis Limited Q4 FY 2021 Earnings Conference Call"

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Moderator: Good morning, ladies, and gentlemen. Thank you for joining the Mphasis' Q4 FY 2021 Earnings Conference Call. I am Lizzan, 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 call invite mail that the Mphasis management team would be referring to today. The same presentation is also available on the Mphasis website, i.e., www.mphasis.com, in the Investor Section under Financial and Filing, as well as both the BSE and NSE websites. Request you to please have the presentation handy.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Shiv Muttoo: Thank you, Lizzan. Good morning, everyone. And thank you for joining us on Mphasis Q4 FY 2021 Results Conference Call. We have with us today Mr. Nitin Rakesh – CEO; Mr. Manish Dugar – CFO, and Mr. Viju George – Head Investor Relations.

Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q4 FY 2021 Results Release that has been sent out to all of you earlier. I now invite Nitin to begin the proceedings of this call. Over to you, Nitin.

Nitin Rakesh: Thank you, Shiv. Good morning, everyone. Thank you for joining the call early this morning. As we together face the mounting unprecedented challenge and a shared concern over the spread and growing impact of the COVID pandemic, I hope all of you, your family and friends are doing well. Our thoughts are with those who are affected.

Our key priority is ensuring the health and well-being of our employees, their families, and all those within the communities where we live and work. We have initiated various Global business continuity protocols and other measures to ensure we maintain safe working environments and seamless operations. We are confident that when this pandemic is over, we will emerge stronger and more prepared to tackles any and all challenges.

Let me open our earnings call this morning with a view of our performance in FY 2021:

Our fourth quarter performance rounds up a satisfying 2021, wherein we recorded an overall revenue growth of 5% in constant currency and US dollar revenue growth at 5.6%, which places us well above the industry average in FY 2021. Our core market, the US, and our investment market, Europe, have both grown well, with the latter in particular exhibiting strong growth. Growth in Direct Business is accelerating with FY 2021 growth of 17.2% in constant currency, well ahead of the prior two-year CAGR over FY 2018 to FY 2020 of 12.3%. We believe that our Direct growth for FY 2021 is industry leading. Direct now accounts for 86% of our overall revenue as of fourth quarter 2021.

In terms of growth by geography: US and Europe have fared well with overall growth of 8.5% and 16.7% respectively on a three-year CAGR basis. Excluding DXC, the growth numbers are significantly higher at 13% and 20% respectively. As mentioned in our earlier calls, Europe is a focus area for us, and we are pleased with the fact that our increased sales efforts and investments in this region are yielding good results. Direct in Europe has grown 25% year-over-year in constant currency in FY 2021. Our pipeline in Europe is strong, especially with new clients and expect this region to continue to be a growth driver for FY 2022 and beyond.

From a vertical standpoint: We are pleased with the growth in our anchor vertical of Banking and Capital Markets, which grew 26% in FY 2021 in US dollar terms. Fourth quarter marks the third straight quarter of (+20%) year-over-year revenue growth in BCM. On a full year basis, we believe this is the best-in-class growth in that industry segment. We continue to enjoy market share gains with our key BCM clients and expect sequential growth in this segment in first quarter, and to sustain our annual growth trajectory through FY 2022.

Our investments in Hi-Tech, a focus vertical for us, are also delivering dividends with growth of over 50% in FY 21.

Our Insurance business has registered three successive quarters of sequential growth over second to fourth quarter FY 2021, having bottomed out in first quarter. We have built a robust TCV and pipeline in Insurance, including large deals, and expect to convert this into revenue in the coming quarters as well.

We have seen improving client mining clearly in FY 2021. And as we said before, we are consolidating our standing with our key clients resulting in continuing market share which is borne out by our client metrics. The upper chart on the slide shows that our top five and top 10 clients have grown consistently, registering 13% and 19% growth respectively in FY 2021 in USD terms.

The average contribution of our top five clients exceeds $100 million and all our top five clients are greater than $75 million, which we believe is quite unique for a company in our size category. Our FY 2021 top 6 to 10 client growth at 42% was more than twice the overall Direct growth, indicating strong growth, down the 6 to 10 category as well. Our top 11 to 20 clients grew 16% for the year, indicating the increasingly wholesome nature of our growth.

Several factors support our robust performance in Direct, namely:

1. Our personalized customer engagement model with key clients that includes a client partner, delivery leader for the account, and a dedicated account CTO, as well as customer being the center of our go-to-market and resource allocation, allows for a high degree of account specific innovations.
2. Our ability to build ever-growing pipeline on the back of our effective “Tribes and Squads” model, which gives us future visibility.
3. Our capacity to stitch large integrated deals using our proven transformation model such as Front2Back, and Zero-Cost Transformation, which we have discussed with you in the past. The $250 million engagement that we announced today is a good example. I will cover that separately in a few minutes.
4. Finally, scaling up the digital competencies of our talent and well-established key learning resource platform “Talent Next” has seen a rapid adoption since its inception less than three years ago. It has provided Mphasis the skill muscle to enable execution on the next-gen positioning at scale.

On the TCV front: We recorded a TCV of $245 million of the deals won in fourth quarter 2021, making it the fifth straight quarter of over $200 million of net new TCV, not including renewal deals. Our FY 2021 net new TCV at $1.1 billion is up 51% over FY 2020. In addition to the TCV signings, separately, I am pleased to announce the closing of a landmark deal for $250 million in the UK. A few words about this.

Mphasis agreed into a deal with a client in the UK to set up a shared services entity that will service middle and back-office functions, while applying digital transformation using the Mphasis Front2Back construct. Given the expertise and the capability being built in this partnership, we also expect to be able to capture additional opportunities through this program. We expect the deal to generate revenue by Q2 FY 2022, as we are currently in active transition with a gradual ramp up that will run through FY 2022 beyond.

The initial term of this agreement is 10 years, with an expected TCV in the range of about $250 million, and even beyond as we potentially migrate to other LoBs within the client and scale of the operation. We see this deal as a solid evidence of our ability to construct end-to-end digital transformation-led complex and longer-tenure deals, even as deals of such nature and longevity are not common in our industry.

We believe that our firmly rising TCV trends and our track record of large deal wins are a testament to our ability to scale and create larger longer tenure deals consistently. Specifically, I would like to make two points about our TCV composition that continues to shape our deals on an ongoing basis:

- Firstly, there is an increasing component of larger and longer tenure deals. These large deals are transformation-led, integrated, and leverage our deal archetype and tribes.
- Second, there is a heavy new-gen services portion in our net new TCV thanks to the tribes, with a contribution at 73% of our FY 2021 deals in new-gen areas.

As we have stated before, our “Tribes and Squad” model focusing on high-demand contemporary themes continue to define our positioning in the market, enabling us to play opportunities aligned along these identified approaches. We also continue to look across horizons and the agile org design lends itself to extension into these new offering areas that continue to drive differentiation and increased pipeline and large deal motions with higher value deals on an average. Our tribes-led deals account for three quarters of our FY 2021 TCV. We have accelerated adoption of the tribe construct across a larger organization to align with the transformation that was started in the GTM org in FY 2019.

Secondly, the strength of these tribes is not just the expertise in high-demand tech areas, but also in how multiple tribes collaborate to structure and execute on higher order deal archetypes favoring increased deal sizes. As an example of a large deal archetype in motion, a leading BFSI client that has substantially grown through acquisitions is beset with legacy issues plaguing its tech architecture. Disjointed system architecture, inefficiencies due to duplication of applications, absence of relevant SOPs and poor governance of SLAs resulted in higher running costs and poor customer advisory experience. We are engaged in fundamentally transforming the middle and back-office of this client. This will allow the client to free up capacity, focus on new customer acquisition, and enhance customer experience in addition to the benefits of greater workflow efficiencies and accelerated cost savings. Mphasis services include, but not limited to, client administration, payment processing, claims processing, procurement, data management and storage, software management, network, and security solutions. Multiple tribes are at play here for this engagement, namely Data, DevOps, NextOps, customer experience, and digital.

Coming to our client metrics: Our track record in migrating clients from one revenue bucket to the next continues to be healthy, as we have called out in the previous quarters. Specifically, our conversion ratio of clients in one revenue year to the next is approximately 50%. Specifically, slightly more than half of our $10 million plus clients are $20 million plus clients, and the same holds true for the conversion ratio from $20 million to $50 million band and so on.

We are especially pleased with the strengthening position with several top clients post vendor consolidation. We continue to believe that our wallet-share gains emanate from our competency-driven positioning. The average size of our large deals is showing an increasing trend. As the slide indicates on the right, the average large deal size on an LTM basis at $79 million is 2.5x from that two years ago. With the inclusion of the new $250 million engagement that we just referred to for Q1, this metric will trend up. As mentioned, our large deals are increasingly multi-tower, transformation-based and longer tenure. The growing size reflects in its capability evolution.

Why are we seeing this good momentum? As per an NPS survey that we constituted, using an independent third-party Big 3 consulting firm, Mphasis gets significantly high NPS from its top 15 clients. The NPS survey covers our top 15 clients which contributes 60% of our Direct revenue. At 50% NPS, our score is well ahead of peers' performance with the same set of clients. Based on the client feedback, factors that contribute to such high score include:

- Strong pool of domain experts
- Strong digital capabilities on cloud native app development and legacy modernization

- Flexible engagement models to drive client relationship
- Robust account management practices with on-site delivery leads
- And finally, quality of delivery with delivery tightly embedded in sales and account management

We are organized around accounts and not by verticals or horizontals. Mphasis does not have the traditional matrix structure of vertical, horizontal, geos that can weigh down decision making. This means our GTM is aligned along with the customer as the basic unit and resource allocation is done at a granular level of the customer. This creates improved customer centricity, agility, and responsiveness. It also aligns well with our agile org design around "Tribes and Squads", which also provides a strong technology-led design architecture and engineering competency, with the domain contextualized solution set targeted towards each chosen industry vertical. The Voice of Customer measures are strongly aligned with our best-in-class performance, with our key clients reflecting robust market share gains and strong FY 2021 Direct growth.

We have seen operating leverage in our business play out over the last three years. The three-year EBIT growth slightly ahead of our revenue growth, EPS growth ahead of the EBIT growth, and cash flow growth ahead of the EPS growth. Our philosophy of operating in a stated EBIT margin band lends predictability, and as we have been steady in our margin performance through 2021, we have also generated cash of $180 million in FY 2021, which represents a growth of 7% Y-o-Y and it is 74% of EBITDA.

Our free cash flow generation as a percentage of EBITDA continues to rise. Excluding one-time income tax benefit of Rs 424 million in FY 2020, FY 2021 net profit grew 6.5% to Rs. 12,168 million, while EPS grew 6.3% to Rs. 65.18. Our improving cash flow situation is enabling more shareholder friendly cash return actions.

For FY 2021, Mphasis Board of Directors recommended a dividend of Rs. 65, including a Rs. 27 special dividend, subject to shareholder approval. This translates to 100% of payout in net profit terms.

In keeping with our theme of continuity and acceleration, to build a sustainable, scalable organization, we are constantly at work on along four axes:

First, continually augmenting our capability:

Both from go-to-market as well as delivery perspective. This broadly consists of "Tribes and Squad" expansion, specialist resource buildup in our cloud unit which is structured as a guild cutting across the tribes, and domain experts.

Second, geographic expansion of sales and delivery:

We are expanding our sales presence in the UK and Canada. You may have seen the recent press release with the UK PMO Office endorsing our expansion in the UK. We also continue to make early inroads into other markets in Europe, with cornerstone clients established in many of these markets. And one large deal in Q4 2021 came from one of those non-U.K. markets in Europe.

We will shortly make a detailed announcement on our investment plans in Canada as we expand our existing footprint in that market. We have added a geography leader already in Canada and continue to invest in the market, both for wallet-share expansion, new client acquisition, as well as other proximity and technology enhancement opportunities.

Furthermore, we are building our delivery centers in Mexico, Costa Rica, Taiwan, and Estonia, to add further diversity to our talent pool and supply chain, as well as to provide credible global delivery options to our clients. Over FY 2021 we have scaled up Taiwan, as well as adding new centers in other locations, with additional plans in both Latin America and Eastern Europe.

Third, deepening and broadening of the leadership pool:

We promoted tenured leaders while also bringing in new management talent. The Executive Council (ExCo) constitutes of the highest leadership group in the company. And to increase the focus and scalability, we expanded the ExCo group with three new members recently, as they have been added to this group as part of the FY 2022 expansion plans.

Finally, we have also expanded our portfolio of IP-driven AI/ML innovations:

Mphasis is working on several disruptive innovations enabled by technologies such as AI/ML, quantum computing, etc. We have also been granted several patents for these innovations, and they are deployed across several of our global clients. We continue to be a market leader in offering our AI/ML and quantum computing solutions through some of the leading technology marketplaces. NEXT Labs is at the forefront of building these innovations.

A key component of our continuity and acceleration strategy is the new client acquisition program. We have reinvigorated this program over the last few months with dedicated leadership. We have carved out five well-considered select verticals to focus on for NCAs, namely: BFS and Insurance, in both of which our positioning and track record is already solid. These two verticals are large enough to continue to provide growth runway in the long-term. Logistics, Hi-Tech and Healthcare form the other three verticals on the NCA level. Each of these five verticals has its respective client acquisition strategies, led by dedicated sales, delivery, and domain NCA leadership. We have an elaborate operating model in place to transition clients to strategic status with the client engagement structure and investments defined through the phases of the transition. As clients move through the transition phase and become strategic clients, we progressively bring the full force of our secret sauce and dedicated client resources and GTM motions in engaging with such accounts. Our strong growth in Hi-Tech as a result, the NCA investment program is encouraging. We see this becoming the next $100 million vertical.

Our cloud guild running across tribes is also a pivotal element in our tribe offerings. With our tribe-led cloud wins up 49% year-over-year, constituting 20% of our FY 2021 TCV. 40% of our pipeline is cloud-led versus 27% a year ago, and there has been a 38% growth in the cloud-led pipeline alone.

We are ranked number one in the AWS machine learning marketplace, leveraging our advanced consulting partner status in the Amazon Web Services partner network. The Mphasis-AWS collaboration provides 140-plus machine learning and deep learning algorithms and pre-trained machine learning models applicable across a diverse set of data types and industry use cases. We are also fortifying a dedicated partner strategy around each channel partner such as AWS, Azure, GCP, Snowflake, ServiceNow, as well as VMware.

We are also building out a partner-based structure that adds value to our sales, GTM, technology and delivery by hiring partner specialists for each of these roles as part of the org especially carved out for each partner. Very recently, ISG in its latest mainframe services and solutions assessment recognized us as a leader in mainframe modernization using the cloud architecture.

To sum up, I would leave you with three points:

- One, we rounded off a good FY 2021 with well above average industry growth overall and industry leading growth in digital and Direct. Direct grew 17.2% year-over-year in constant currency. Our Direct growth will continue to be supported by robust TCV that we have added across verticals. Our TCV on a trailing 12-month basis is 51% higher than that recorded over the prior period. Direct performance has helped us mitigating the declines in DXC, the contribution of which is now reduced to 12% revenue on a Q4'21 basis.
- Two, multiple KPIs are moving in the right direction namely:

  Track record in winning large deals is consistently improving with $100 million, $200 million, and now $250 million deals in less than a year. The nature of our deal is increasingly translation-led and longer tenure based.

  Two, our growth is getting broad-based with Europe, Hi-Tech aiding growth in addition to the anchor verticals of BCM and anchor geography of the US. We continue to drive market share gains with our key clients.

  And finally, our client mining metrics across revenue buckets is improving. As referenced, our top 6 to 10 clients are now growing well above our Direct revenue growth, while the top 11 to 20 clients have kept up pace with the overall Direct growth.

- Three, investing for growth by using operating leverage, operating in a stated target operating margin band, we believe that our margin stability ensures that revenue growth translates into sustainable EPS and PAT growth, and consistently rising free cash flow generation, with cash flow growth exceeding revenue and profit growth.

Coming to our outlook for FY 2022:

Given our TCV, strong positioning with anchor clients and robust pipeline, productivity of our multi-pronged investments, we see good and continuing growth visibility for FY 2022. We expect to build on our industry-leading Direct growth in FY 2022. Share of Direct at 86% of fourth quarter 2021 revenue will continue to increase. We fortify the investment muscle through 2021 and we believe that this reflects our growth bias and will serve us well in FY 2022 as well.

Our guided operating margin band for FY 2022 is 15.5% to 17%, with the band extended by 50 bps at the upper end. While the low end of the band is unchanged, the band is wider than usual to accommodate for existing uncertainties in the environment and as the situation improves, especially in India, we expect to tighten the band through FY 2022. We believe that our margin stance enables us to make the varied investments in tune with our continuity and acceleration team, to sustain our industry leading Direct growth, while also absorbing rising costs associated with the supply side.

On that note, I would like to have the operator open up the line for questions.

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

Mukul Garg: Nitin, just wanted to start with the views on banking and capital markets vertical. If you see this quarter, obviously, there was a decline. Is this a combination of weakness at top client and DR? And specifically, on the top client side, the revenues are down almost high double-digit on a Y-o-Y basis despite the commentary on wallet-share gains. So, if you can help us understand what is happening there and is this some kind of a near-term pause and it will rebound? And if you can give us some view on DR growth as well.

Nitin Rakesh: Sure. So, Mukul, if you look at the full year basis, the growth in BCM is actually very, very healthy 26%. Of course, we have seen some very strong growth at the back of those three strong quarters, I think this is nothing but a little bit of a ramp-up pause. Yes, there is always going to be some volume fluctuation on a sequential basis, but we already called out in the commentary, if you remember, the fact that this will be a sequential growth quarter for the BCM business.

In terms of the top client, again, every client has a different trajectory. Given that all the vendor consolidation items have been stabilized, without necessarily going into too much detail on what is happening in a particular client, we actually expect all of our top five clients to be growth accounts this year. And we already have witnessed trajectory related to that. So, from that standpoint, the confidence that we are having in the Direct growth being market leading, is stemming from the fact that all of our top five clients actually are well positioned for absolute revenue growth, not just wallet-share gains.

Manish Dugar: Just to add to that, Mukul, on the Digital Risk question that you had. I do not think you should draw a conclusion on Digital Risk. We talked about the fact that Digital Risk is now a composite service with multiple other services. And I do not think that assumption that Digital Risk actually had a decline is supported by the numbers that we have given. Obviously, last year we had some benefit of additional services getting added and the benefit of interest rate movements. So, we will probably not have Digital Risk grow as much as it grew last year, nothing in the traditional sense. But we are very confident about our new portfolio of services under that business, and we do not think it will be volatile as it was before, if that is what your question is.

Mukul Garg: Understood. That was very clear. And Nitin, the second question obviously comes back to your usual commentary around DXC. You now have one quarter left in the MRC, and given the run rate, which is there, you will have almost $40 million plus left after that is over. There was supposed to be some clarity in terms of how DXC relation will pan out in FY 2022, whether this will lead to an extension of MRC, or whether there are other means which will come in your direction, if you can just help us understand how to look at DXC going forward?

Nitin Rakesh: So, Mukul, again, I stated in my commentary, it is very clear that the contribution of the DXC revenue will continue to decline and we think it will settle somewhere in the mid-single digits as a percentage of revenue as we go through the next few quarters. Again, I think it is not usual for any client to renew or give MRC in a set of circumstances like the one we had at the buyout five years ago. So, I think we do have a strategic relationship, we are a strategic partner, at DXC we are a provider. We continue to be very much in the mix of all of their clients. We do not believe that necessarily means that they have to actually recommit an MRC to us. But at the same time, we also believe that we have long-term visibility beyond September 2021 and actually maintaining a relationship. The way to think about it, as I said, is, on a longer-term basis we think we will settle to mid-to-single-digits of percentage of revenue. On what happens to the MRC post September, we will give you more visibility, because it is not fair for us to comment, given that we still have about four or five months to go through that process. And given that we will only know the final numbers after the consumption numbers come out at the end of September.

Moderator: Thank you. We will move on to the next question that is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Nitin, just wanted to pick your brains on a couple of things. Number one is, given the kind of devastation that the current wave of COVID is leading to in India, do you see any near-term impact from a delivery standpoint? That is question number one. The second thing is, we have heard commentary from some of the global peers around the possibility of pushing for price increases, given the tight supply side dynamics. So, I just wanted to get your thoughts on this. Thank you.

Nitin Rakesh: So, the first answer is, as of now, based on the current status, there is not an impact on operations or delivery. We have really worked hard, and I am very thankful for the effort that the teams have done despite personal stress and having affected people in their families and the extended families. And we have obviously had many employees affected as well, personally. So, I think so far so good. Obviously, we are trying to maintain not just continued operations, we are also trying to maintain the fact that we have record TCV wins and order book to execute on. So, the second aspect of that also is can we continue to execute on the pipeline and conversion, which I think so far seems to be going well, as well. But of course, we will continue to watch the situation as it evolves. We believe the worst should be behind us, but it is not done till we get to the other side of that curve. But so far, I think we are fairly stable.

On the second question around price increases, I think there is some truth to the fact that there is a little bit of pricing leverage available given the demand supply dynamics, and a lot of our clients see that, because many of them actually have their own operations in India as well. And the same thing applies in developed markets, especially in the US there is a fairly rapidly tightening labor market, especially in tech. So, yes, there is some leverage on the pricing front. But from our standpoint, given that we have seen that a majority of our deals are generated proactively, even though they may get competitive, pricing is not really the only thing that we worry about, but there is definitely a move towards price-to-value versus a key price or discounting discussion. So, as the next two or three quarters play out, we will get a better sense. Right now, it is all hands-on deck to just deal with the current crisis and make sure that we are able to service the growth that we signed up for.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Nitin, just one question on the margins front. The kind of margins I think that we have given for next year, so just wanted to pick your brains not just for the next year but from a long-term perspective in terms of, I mean, we have had the benefits of reduced travel expenses and other factors in this year, but I believe most of that benefits which other companies have kind of thrown in their margins, we have chosen to reinvest them into the business. So, over let us say more longer term, let us say, maybe two to three years perspective, what is the kind of sustainable margins that we are looking at? Are we looking at a similar kind of base that we have right now, or are we looking at some sort of post stabilization of DXC revenues, some sort of margin up-tick or down-tick, some guidance in terms of let us say the direction that we could versus looking at from a medium-term perspective?

Nitin Rakesh: Sure, again, you actually answered your own question. We guided for a stable margin band, and we chose to reinvest in every possible dollar that we will find from an investment standpoint, because we saw the opportunity to actually get to industry leading growth in Direct, which we did. As we get into FY 2022, some of those costs will definitely come back. But we also have the ability to dial up and down some of the other investments, because most of our investments are operating in nature. We are not making five-year investment decisions with capital investment. So, I think we have the ability to balance out some of those increased level of investments through operating leverage, through cost containment measures, through G&A controls, and of course, through other levers such as even pricing. So, from that standpoint, the guidance given this year already shows you there is an upward bias to the EBIT number, compared to last year. We are still being little bit measured, given the level of uncertainty. But from a medium to long-term perspective, I have always said, our stated goal is to grow above market and to have an upward bias in the operating margin profile. And we still believe that’s deliverable over the next two to three years.

Vibhor Singhal: Right. And as you mentioned that, probably DXC will sit at somewhere around the mid-single digit share of revenues, but do you believe it will have some positive impact on our margins? Or is it probably going to be a similar kind of a profile?

Nitin Rakesh: No, there definitely will be some positive impact, then that also becomes a little bit of our, you talked about the fact that some cost will come back so we can always counter some of those costs with the fact that we have a little bit better off margin profile with the current book of business.

Manish Dugar: Just to add to what Nitin said, Vibhor, I think the most important thing to note is that we are not trying to push the margins and the margins are not getting up. This is our conscious choice, any upward movement in margin gives us an opportunity to kind of figure out what investments can be made. And like Nitin mentioned, the increased investment is reflected in industry leading growth in Direct and we have guided that this year as well, Direct should repeat the performance despite already a good year of growth from a base effect perspective. So, I think the TCV wins, the confidence on being able to deliver on the Direct growth, all of those are reflective of our investment philosophy paying off. And as they say, some of these things are understood only when you look at it a little long-term. So, two-three years down the line this should reflect in us being able to demonstrate a significantly better performance on Direct growth, which eventually will mean a healthier business mix and probably higher value creation.

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

Dipesh Mehta: A couple of questions. First about, Nitin, can you share some detail on the $250 million deal, industry perspective, in which industry we are winning, what kind of competition we faced and what helped Mphasis to get the deal?

Second question is about the DXC business, you indicated about mid-single-digit kind of sustainable trajectory of that business. So, you expect it to be quick or it would be gradual over period kind of thing? And on that DXC business, now revenue run rate is lower than MRC, so how we will get compensated and how one should understand that from accounting perspective?

Third question is about the dividend. Now we have declared Rs. 65, including special dividend. Whether the existing shareholders promoter, BCP, we will receive it, or it will be the new stakeholders? Thanks.

Nitin Rakesh: Dipesh, I will take the third question first. I think the timing of the dividend payout depends on the shareholder approval and the AGM. So, this is the annual dividend cycle, and we are following that cycle. As we get to the AGM and depending on where the deal is on the approval process, whoever is the shareholder will actually receive the dividend. On the other two questions, let me get the DXC question out of the way, and then I will get to the $250 million deal.

I am guiding based on the fact that we think over a medium-term, we should get to that mid-single-digit number, not immediately, I am not guiding you that that will be the number next quarter. But I think from a long-term sustainability standpoint, that is where we think we will settle in that business. I already answered earlier on to Mukul that as we get past September, we will give you a little bit more breakup of what will happen to the shortfall. Because at this point in time, it is not fair to comment, we are still a few months away from that timeline. And as you can imagine, when you are in a client situation you do not want to show your hand or get into a situation where your position in a contractual discussion is compromised. From that perspective we would like not to talk about the details of what that means, because we are still actively engaged with the customer in being a service provider.

The first question that you asked me around $250 million deal. I am glad somebody asked me that question because the highlight of the quarterly announcement should be the deal. It is the largest deal that we have ever signed or announced. We have obviously announced a $200 plus million deal earlier in FY 2021, we did $100 plus million deal as well in FY 2021. So, this is very satisfying to us. The deal is with a client in the UK, it is in the BFSI segment. We competed with the best and the brightest names in the industry. The names were from global SIs to global consulting firms to global digital-only players. Something that helped us was the fact that we were early engaged, we understood the client really well, we had a strong combination of multiple tribes coming together, and we were able to establish a decent level of credibility with the executive suite of the client to be able for them to actually take a bet on us for a long duration for a very strategic transformation program. And in many cases, their future strategy depends on this program.

So, very satisfied. I think this is the first lot of that wins, there is much more potential at that client alone, forget what this will mean for us in the market, both in UK and Europe, and of course in the US, because this is a very global industry.

Dipesh Mehta: Understand. And if I can squeeze last one, do you think changing deal tenure, because you are signing now larger deals and longer tenure, would have any implication on your correlation with revenue conversion?

Nitin Rakesh: So, far, actually, if you see this quarter, the correlation has actually improved, to 0.91. So, of course this is a portfolio of a number of deals. But I am glad that we are also able to construct deals that go long-term, five, seven, now this was a 10-year deal. And the reason is that it actually gives you a sustainable outlook on long-term relationships, and gives you the ability to invest and, of course, monetize those relationships. So, having a good mix of deals, now every deal will not be 10 years, every deal will not be one year, but having a good mix of deals that cut across the time horizons, will definitely continue to give us good revenue correlation. And given that we are only announcing net new TCV, you should be very confident that the correlation will stay high.

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

Nitin Padmanabhan: Congratulations on a very solid deal win. My first question was on margin and I will probably layer it into two parts. One is for this quarter, we have had a very strong improvement in utilization, both onsite offshore, and we have also seen a decent offshore shift. Despite that, our margins are actually slightly dropped. So, just wanted to understand what is going on there within that, is it a timing difference?

The second bit is more from an annual basis. And if you look at last year, possibly initial part of the year, there were discounts given to customers, all those have come back. And we have won a couple of large deals which will go into steady state, possibly next year. And on the reverse, you also have this large deal which is coming through. And we also have headwinds wages and so on and so forth. So, relatively from a margin standpoint if you think about it, the lower end of the band, are you more worried or more comfortable at the lower end versus the top end, considering the concept of whatever you see in terms of the tailwinds and headwinds? Those will be two questions on margins.

Nitin Rakesh: I'll take a quick stab at it, Nitin, and then I will have Manish and Viju maybe chime in. Firstly, the Q4 margin question, it is linked directly to a couple of deals that are in transition and conversion. So, we were to actually carry the team, but we were not still able to convert to revenues, that should correct in itself in Q1. If you look at the billable headcount that we have added in Q4, it is actually the record number, it is 1,350 people that have been added, of which over 1,200 are actually in the IT side. So, that should give you an idea of what the propensity of revenue acquisition will be, given just the addition we have done in Q4, from a billable headcount perspective. It is the highest we have ever done in any quarter in the history of the company. So, of course, we are now sitting at record revenue numbers from a quarterly standpoint. But given that we were already sitting on a fairly strong sequential growth number, remember, Q2 of our FY 2021 was our biggest sequential growth ever. On top of that, we had another sequential growth quarter in December. And then we were announcing we have added a record number of billable headcount in Q4. So, some of that margin pressure that we are seeing in Q4 is because of the extreme ramp up that we went through, as we had to convert some of those deals into revenue.

I think the longer-term question on margin, the reason we have given the band a little bit longer is because we have actually, as a team, agreed to be a little bit more flexible in providing our operations teams and our delivery teams a slightly relaxed bench and buffer requirement, given just the fact that we are dealing with significant disruption in the employee base in India. And we do not know whether that is required for a month, two months or three months or four months. As that normalizes, as we revert back to some of the normal supply chains situations, we will probably be able to give you a little bit tighter band. I do not think the comfort is at the lower end or the upper end, I think we will not give you the range if we were only comfortable at the lower end of the band. We are just keeping a little bit of operating flexibility, so we do not surprise you as we come back and look at the situation in case the situation does not improve in the short run. Manish, Viju, you guys want to add anything to that?

Manish Dugar: Yes. To give a bit more nuanced picture of that, Nitin, from a numbers' perspective. You would see that while our onsite headcount and offshore headcount have grown equally, you will see that the offshore revenues have actually grown higher than the onsite revenue, because some of those people who are in transition are marked as billable, and are shown as utilized, but we have not been able to get revenues for them. Because it is typically the nature of the transition from an accounting perspective. And like Nitin mentioned, as they come into billability next quarter, those margins should be recovered. So, this cost of people that we are carrying in transition got compensated by the benefit we got because of movement offshore and improved utilization, which is why you see the gross margin to remain at the same level of 29.1%. The reason why you see the EBIT margin move from 16.4% to 16.1% is because we also invested in some of these proof-of-concepts and large deal winnings, because of which the sales and marketing expenses actually show an expansion from 7.2% to 7.6%. So, overall, while there are a lot of puts and takes, at a very broad level the puts and takes within the gross margin netted off themselves. And the investment that we made should reflect in TCV wins, including the large deal that we just announced for quarter one.

Nitin Padmanabhan: Sure. Just one more if I may. So, you spoke about Digital Risk, and you said that growth this year would be similar to last year, correct me if I am wrong. And basically, if I picked this number wrong, I think somebody said 26% growth in the past year and this year would be similar. Have I understood correct or is there a mistake?

Manish Dugar: No, I do not think we gave a number for Digital Risk. And what we said is, when you look at Y-o-Y, last year Digital Risk had multiple advantages because it started with a low base, we added complementary services and the interest rate also helped. So, this year, we do not think Digital Risk will repeat the performance of last year in terms of Y-o-Y growth, but we think it will remain stable, it will be at a company average and it will not be an outperformer

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

Mohit Jain: Sir, I have two questions, one is a follow-up of the previous one. So, the Direct Business growth, I think somewhere I heard that the Direct Business growth for 2022 is likely to be similar to 2021. Is that correct or that was also misread?

Nitin Rakesh: No, that was not misread. We said it will continue to be market leading.

Mohit Jain: And on the Y-o-Y basis similar to what we have done in the past?

Nitin Rakesh: Yes. It was market leading, right.

Mohit Jain: Okay, second was on the average tenure of net new TCV. Now, while correlation is something which will take time to come up, given the large number of statistics involved there, in terms of average tenure, can you give us some trend on FY 2021 versus FY 2019? Or on a quarterly basis how the average tenure of new TCV has moved over the last few quarters?

Nitin Rakesh: I do not have the data handy. I do not know if maybe we can provide the statistic from the next quarter. But I can tell you that there is an upward bias, but it is not by a big number. It is just that instead of just doing, if you look at three years ago, we were probably doing relatively shorter-term deals doing up to a year, in some cases they were two or three years. Now we started to see deals between three and five years. I would say the average will probably be between two and three years at this point in time, which has improved from being about a year and a half, I would say two years ago. But we can give some more color on that as we go through the next quarter or so. I do not know, Viju, if that is something you want to talk about from a correlation standpoint, because we run those numbers.

Mohit Jain: Right. So, from a fourth quarter perspective, you are saying that the average is going to be in a ballpark of three years?

Nitin Rakesh: Yes. I would say it is pretty consistent with what it was in the last quarter. Of course, the 10-year deal is not a Q4 number yet. So, I do not think that has skewed the number in a big way.

Moderator: And on Y-o-Y basis?

Nitin Rakesh: I would say it probably has inched up a little bit, but not by a lot.

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

Sandeep Shah: Just the related question is, this year FY 2021 we have done a very good performance despite the pressure in the DXC, and the growth rates have been industry leading. But that should have also helped by a growth in the ACV, not talking about TCV, where TCV growth being 51%, ACV growth would have been also good. So, Nitin, just wanted to understand looking at the pipeline, because DXC pressure may continue in FY 2022, it is very requirement that the ACV growth should continue at a very healthy pace for you to have, again, an industry leading growth, including DXC in FY 2022. So, looking at pipeline, are you confident that even the ACV growth in FY 2022 could be robust?

Nitin Rakesh: Short answer is, yes, otherwise it would not dial to the fact that the Direct Business growth will be industry leading in FY 2022. And of course, I give you another very strong data point, which is the billable headcount addition in Q4 at 1,300 is the record number ever. And all of that translates to run rate gains on revenue, that of course will have the full four quarter benefit for FY 2022. And that is the reason why we are guiding to the fact that the Direct Business growth will be industry leading as now a different industry growth rate. Industry leading in FY 2021 was a different number, of course, we beat that by a mile with FY 2021 Direct growth of 17% plus. But to sustain our industry leading growth status for Direct in FY 2022 has to be higher than what we delivered in FY 2021.

Sandeep Shah: This is helpful. Just in terms of the DXC. So, should we model that the minimum revenue guarantee can still be achieved maybe by a one quarter extension? So, how should we model DXC? And your comment of mid-single digit over next four to five quarters or maybe even longer than that in terms of contribution of DXC?

Nitin Rakesh: The way I would recommend you think about it is that there will be a shortfall, the key question will be, how do we treat the shortfall? That is difficult for me to give you that answer right now, given what I just explained. Having said that, I think modelling it to the guidance I gave in terms of where it might settle is probably the best way to do it over the next few quarters.

Sandeep Shah: Okay. So, if there is a shortfall, we may not trigger or may trigger the penalty clause, that we will update for the September as a whole, that is what we are trying to say?

Nitin Rakesh: Correct.

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

Ashwin Mehta: So, Nitin, just want to get a sense in terms of the pipeline post the conversion of the $250 million deal flow and the deal wins this quarter. How does that look in terms of distribution on size of deals and the quantum versus earlier?

Nitin Rakesh: Ashwin, I mentioned that despite record conversion, if you look at all the four quarters are over $200 million net TCV. In addition to that, we announced another $250 million deal. But despite all of that conversion of almost $1.4 billion over the last four and a half quarters, we actually are still sitting on a record pipeline. Which means the ability to bring new deals, originate new deals, construct them, stitch them together using the deal archetypes, is actually fairly good. And I believe that now it is getting institutionalized as a muscle. And we will continue to expand that into additional accounts that we have opened, as well as we run the accounts through the maturity model. So, I think that workflow cycle is actually working quite well. So, we are still sitting on a record pipeline despite record conversion. And we are also seeing an increasing bias towards cloud and transformation in that pipeline. And it is actually across verticals. So, the health of the pipeline is still fairly good, and it has a pretty solid mix of large deals, as defined by the category of large deal wins by us.

Ashwin Mehta: Okay, fair enough. And the second question was in terms of the fact that we have done pretty well with our top 20 clients, in terms of initiatives to replicate that same template over the next 20, 30 clients of ours, what are we doing on that side to build sustainability over a much longer period of time?

Nitin Rakesh: Yes, we are doing exactly what you just said. But except that we first had to do it to the non-top-five. So, we did that to 6 to 10, that is why you see the growth rate of 6 to 10 at 42%. We are then obviously doing the same with accounts in the next category, 11 to 20. So, I think we have a very strong solid runway ahead of us within the top 20 itself. But having said that, if you see the NCA book, that has actually grown very healthy 40% plus as well. And the fact that we have created these five distinct NCA units within hunting, focused on Banking, Insurance, Hi-Tech and so on, it should give you the sense that we have a pretty strong account mining principle, combined now with the hunting muscle. So, I think the key question will be, we will always have emerging accounts that we will continue to put in, we actually call them cathedral accounts because we want to build them as cathedrals with strong foundations. And it is a continuous process that we follow through our account mining principles. And the reason we did the NPS survey was to actually get a voice of the customer as a feedback loop back into that program. So, a very strong focus on top five, top 10, top 20 and, of course, bringing new logos of high-quality in. And you will see that we are probably bringing five to six new clients every quarter. But these are clients that we have very chosen, very targeted, very named account strategy in hunting as well.

Ashwin Mehta: Okay, that is good to hear. And just last question in terms of the BPO business. Approximately what proportion of our business, given that we have launched new age services, we have launched adjacencies, and we have also launched counter cyclical offerings. What proportion of our business would be kind of linked to the mortgage volumes?

Nitin Rakesh: I think Manish answered that question. So, we did see an uptick last year given just the interest rate cycle, that I think peaked by December, or even before December. At this point in time, I would say that after the 26% BPO business that you are seeing in the overall book of business, the bulk of the growth right now is actually broad-based, not just dedicated to one unit or one client or one service client. It has actually been fairly consistent, I would say, even over the last three or four quarters. So, the issue is, the cyclicality that used to bother everybody is something that we have really worked hard at. And we have integrated much more services, we have added new service lines, besides just refinance and origination. We have added servicing, we have added quality control, and bunch of other things at an integrated level. So, I think the fair way to think about it is that, as a portfolio mortgages is very much part of our value chain, we have actually combined tech and ops in many clients. And we do believe that we are at a point where the interest rate sensitivity may not be such a big issue. And at a portfolio level, we still believe that BCM will actually see robust growth this year.

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

Nitin Jain: So, just a question on DXC. So, last quarter the management had clarified that the rate of decline in DXC would be contained. But we do not see that playing out, at least in this quarter. So, any comments on that?

Nitin Rakesh: I have given you the guidance based on where we think it will settle at. I think it is 12% of revenue and Q4, down from 24% four quarters ago. This is a strategy we are playing out very consciously, it is something that we will continue to manage, based on the prospects and the ability to continue to grow the Direct Business. So, I think if you follow that guidance, we will probably come out on the right side of the growth profile, and, of course, the client metrics. And yes, we do have the comfort of the MRC, but clearly we are below that. At this point in time, what we have to do is to continue to find growth areas around that. And we will also continue to look for additional levers of growth, using some inorganic levers just to make sure that we stay in the top quartile category anyways. So, the additional levers are available in case we need to continue to deploy those. But at this point, we are very, very pleased with the fact that we have managed the Direct. The Direct growth is actually managed to mitigate any downside. And at this point, we are sitting on some very, very strong healthy pipeline. And of course, deals and conversion into the right business.

Nitin Jain: Okay. And just wanted to clarify that the EBIT guidance that the management has given, is inclusive of the Datalytyx acquisition last quarter, right?

Nitin Rakesh: It is a consolidated EBIT guidance.

Moderator: Thank you. Ladies and gentlemen, we will be taking the last question from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar: Congrats on a good execution. My question is on the headcount. Now, if I look at the tech services and BPO headcount over the last four quarters, it seems that both on onsite and offshore basis we have kind of let go tech services employees and added BPO employees. So, I just wanted to understand, while the Q4 addition looks very robust, on a Y-o-Y basis we are still down on a tech services business. So, just wanted to understand the strategy here. And also, what is the implication of this on the revenue mix for FY 2022 that we are talking of?

And the second is, is it possible for you to kind of give us the vertical mix on a pure Direct core basis? Because you have given some data points in the presentation. But including DXC the data gets distorted. So, would it be possible? If yes, that would be really helpful. Thank you for taking my questions.

Nitin Rakesh: Yes. So, I think the first question is very simple. I think what is happening is you are confusing the fact that there is DXC in decline, and DXC business is virtually zero BPO business. And that is why you are seeing that the tech services business is not showing the significant headcount growth. It is not fair to reason that way for the Direct Business. The second question on the vertical breakout ex- DXC, I think if you reverse calculate from the growth rate, you will be able to actually get a pretty good number. Maybe we can provide that as additional information in the MD&A next time, but at this point in time I think the disclosure is what it is. But you should be able to reverse calculate that based on the last four quarters of growth.

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

Nitin Rakesh: Thank you guys for joining the call today. I think our engineering-led DNA and the client centricity helped us to stay consistent with our performance and we continue to invest in strengthening our targeted go-to-market and delivery gains. I think the accelerated digital transformation journey for businesses globally has translated to a continued growth for us during FY 2021, and it has been a breakout year in terms of growth and TCV wins, especially in the Direct Business. Thanks again for joining us today. Stay safe. Take care. And we will see you at the next quarter call.

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