"Mphasis Limited Q4 & FY 2015 Earnings Conference Call"

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MANAGEMENT: **MR. GANESH AYYAR – CEO, MPHASIS LIMITED**
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Moderator: Ladies and gentlemen, good day and welcome to Mphasis Limited Q4 and FY 2015 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Diwadkar of CDR India. Thank you and over to you sir.

Varun Diwadkar: Good morning everyone and thank you for joining us on Mphasis' Q4 and FY 2015 results conference call. We have with us today Mr. Ganesh Ayyar – the CEO and Mr. Suryanarayanan – the CFO. Before we begin, I would like to state that some of the statements in today's discussion maybe forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q4 FY2015 results announcement release that has been sent to you earlier. This conference call will be archived and the transcript would be made available on Mphasis' Corporate Website www.mphasis.com. I now invite Mr. Ganesh Ayyar to begin the proceedings of the call.

Ganesh Ayyar: Good morning everyone. Thanks for joining the call. Let me share with you some key aspects of our results. I have split them into 3 buckets. First bucket being our Direct business, then I will go on and talk a little bit about Digital Risk and then I will cover HP and other businesses.

We have always stated that our focus is on growing our Direct business especially in new areas. When you look at Q4 results, you will see three data points which will make it interesting. Our Direct business including DR grew 6.9% quarter-on-quarter net of rupee appreciation. We added $82 million worth of TCV in the fourth quarter and we have increased our investments in sales and marketing by 16.4% over the previous quarter. When you connect these three dots, it tells you that we are focusing on growing our Direct International business which is a combination of traditional Mphasis Services, Digital Risk and our wins in newer areas. $82 million worth of TCV that we have won in Q4 gives us the confidence that in FY 2016 we will be able to continue the growth pattern around our Direct International business.

Digital Risk went through a very tough time during the year. Three quarters ago I mentioned that the whole mortgage industry was undergoing a massive downward trend. The number of residential mortgage transactions in the US had come down substantially and I had shared with you that we were working on a portfolio and on deals so that we could start winning. I am delighted to share with you that in Q4 we have grown by 37.4% sequentially which is clearly ahead of the recovery plan that we had designed for Digital Risk. We are very happy with the growth that we are seeing in Digital Risk.

HP business declined 9.1% quarter-on-quarter. While it is our responsibility to work with our customers to see how we can bring about growth, when the customers start declining it does impact the service providers. In the HP Q2 results, you would have seen Enterprise Services business decline by 16% and it is up to us as Mphasis to see if we can bring the value proposition and turn it around. For the last 16 quarters we have been declining. At this point of time I do not have any good news to report on HP but indeed that is an area where we have to figure out a way to crack the code.

That takes me to the last area which is about our operational performance. If you look at cash addition, we have added $27 million of operational cash which is very good and if you look at our DSO, it has been brought to 70 days. As a result of the growth in Direct business, you will see that our Direct business has become 69% of our revenue which also gives us confidence as we look ahead in the future.

Overall it has been a good quarter in terms of our strategy execution. The deals that we are winning includes newer areas which is a combination of Digital and Governance Risk and Compliance which tells us that as the market transforms we have the ability to win in that market place and with the investment that we are making in sales and marketing, we will go towards higher levels of specialization, winning in newer areas and continuing to build robust pipeline and converting the pipeline into wins and revenue.

I have not gone into specifics of deals and financial performance because you would have had the opportunity to look at our MD&A and on that note I thank you once again for your continued interest and I request the moderator to open up the line for questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Nitin Mohata of Macquarie. Please go ahead.

Nitin Mohata: Ganesh, my question is more of strategic in nature. If I look at the last 3 years, we have had some challenging times and profits have declined on an absolute basis. I understand that big part of it was because of the HP channel but now since that has come down to about 31% of your revenues, if you look at the next 3 years, could you be willing to comment to investors what kind of a profit growth or revenue growth you are looking for the company?

Ganesh Ayyar: You preface the question by stating that the profits must improve when HP business declines which I guess is based on the assumption that HP business was not so profitable. That may not be an appropriate assumption. Going forward, we have clients to grow our Direct International business at a rapid pace and at the same time grow in areas that are profit accretive. Right now when you look at our EBIT, it stands at about 12.5%. This is despite the fact that we have invested more in sales and marketing. What we intend doing is we will continue to stay invested at least for the first half of next year and we would have our profitability in and around the percentages that you have seen. HP's decline puts more pressure on our profitability. We have been managing this factor for the last four years and at some stage if we are able to have a breakthrough, certainly that will help our profitability. We are going to take measures in such a way that revenue per head count improves in time to come and we return to much better profitability after second quarter of FY 2016. We do not see dilution in profitability for the first half of 2016 but we would like to stay invested in sales and marketing so that we are able to go for higher growth. Hopefully that has addressed a part of the question without me giving specific guidance for profits and revenue growth for next 3 years.

Nitin Mohata: If I can just get a clarification, what I meant was the absolute profit numbers have obviously shrunk for the company given HP used to be such a big part of it. Given that it is now only 31% and I understand there is no clarity on that part, does that give us more flexibility to manage things because obviously as the Direct business is ramping up, is there something which the Board of the company thinks that they should be in this 13-14% range and there is less downside to that profitability number from here on?

Ganesh Ayyar: Predominantly our Direct business is outside India. If I look at that as a piece, the fact that we have won roughly about $264 million of TCV in FY 2015 and about $82 million in Q4 gives us a good runway for FY 2016. Our intention is to grow our Direct International business at a pace which is probably the market’s belief of growth rate but more importantly the fact that we are winning in Digital and GRC tells us that we are winning in the right areas. Coming back to your question of whether HP becoming roughly 31% of our revenue would help us to mitigate the decline on an overall result? Absolutely because that is the mathematical formula and as the weightage goes down the decline will show less and less on the overall number. Our biggest focus is Direct International which includes Digital Risk growing at a pace which is around NASSCOM prediction or maybe marginally more and to stay invested in sales and marketing area for first two quarters and to see improvement in profitability starting Q3 FY 2016.

Moderator: Thank you. Our next question is from Pinku Pappan of Nomura. Please go ahead.

Pinku Pappan: Ganesh, wanted to understand how far or how near are you to the point where you can probably give an assessment of when HP's bottom is going to be touched, some sense on that would be very helpful?

Ganesh Ayyar: Unfortunately I do not have the answer but what happens is when it becomes smaller and smaller, the resistance points starts reaching and it starts bottoming out. I do not know whether we have bottomed out or not. For the last 16 quarters we have been declining. I am not modeling my business on HP's growth as of now. That is all I can say but would love to figure out a way to arrest the decline.

Pinku Pappan: Sure understand and within HP, can you give us the breakup of ES and non-ES this quarter?

V. Suryanarayanan: Yes, the Non-ES revenue is around $11 million.

Pinku Pappan: Second question is on the India business. You have taken a provision for doubtful debts. Is this the end of it or do you think there could be more provisions and what is the status of the receivables that you are supposed to get?

Ganesh Ayyar: This is in relation to the Government business which we were doing. We were into a business transfer agreement and we could not conclude the agreement and we have taken the entire thing off our books as a result. There is nothing left for us to take. Anything positive we get from here on will flow straight to the bottom-line. We had to make that tough choice because we cannot wait forever for someone to conclude their business transfer agreement on the other side. We do not have anything more to be done on the Government business that we had. Absolutely everything has been provided for.

Pinky Pappan: Excluding that provision for doubtful debt your margin is somewhere closer to 14%? When you say you will stay invested in S&M for the next two quarters, you are talking from the 14% mark rather than 12.5% level right? I am trying to get a sense of how much of a dip should we see and should it be looked with respect to 14%?

Ganesh Ayyar: We will operate between 12-14% for the first half.

Pinky Pappan: That makes it clear, and probably in the second half you would be looking to see take that further?

Ganesh Ayyar: Yes.

Pinky Pappan: Lastly on the Direct channel. Vertical-wise, industry-wise can you give us a sense of where you are finding traction and what vertical do you see will probably take the growth higher in the coming year?

Ganesh Ayyar: I think that is a very insightful question and it makes for a slightly longer answer but let me share with you what we are seeing in the market. The pace at which the traditional IT market, where most of the offshore players have operated, is declining or in other words customers taking money out of that area is huge. The pace is very fast and the areas where they are investing are next generation solutions and everybody talks about Digital. The definition of Digital is not very clear. But for a minute, let us retain that definition to be ambiguous. The areas where they are investing include Digital. Financial Services Institutions and highly regulated industries have no choice but to continue to stay invested in Governance Risk and Compliance. So these are the two areas which are attracting huge amount of investment and when I say Digital, please remember Digital is not a support service, it is the business. In erstwhile world, IT service was seen as a business enabler or a business support function. In digital world, IT is the business. So that change is also happening and what we have done over the last 12 months is we have invested in domain expertise, we have changed our organizational structure, we have inducted different type of people and we have changed our methodology of account plan. Organizational restructuring has taken place, our process has changed, and our focus has changed. As a result, we are not only seeing the pipeline; we have wins in the area of Digital and Governance Risk and Compliance. We believe that as we look ahead for FY 2016 and beyond that, our strategy will pay-off and it also explains why we are investing more and more in sales and marketing. It is a very long answer to your question but it is probably the most important question that any investor should ask because the traditional definition, traditional success rates, traditional profit, traditional method of go-to-market, traditional offering, how offshoring used to be done, everything is changing, and changing at a pace that probably not many would be able to cope with.

Pinky Pappan: Great before I sign out could share how big your Digital practice is currently?

Ganesh Ayyar: Instead of Digital practice I can share with you that in the last 9 months in terms of new wins, Digital and GRC constituted roughly 45% of TCV that we have won.

Moderator: Thank you. Our next question is from Karan Taurani of Religare Capital Markets. Please go ahead.

Karan Taurani: I wanted to know about the salary hike cycle for this year?

Ganesh Ayyar: Our salary hike cycle is in October. We are a good 5 months away from it and we haven't closed our options of giving salary hike. When we come closer to it we will have a clear point of view on what percentage? As of now, we are not into a salary increment cycle.

Karan Taurani: What about the margin levers going ahead for next year?

Ganesh Ayyar: There is a three pronged approach towards this; strategy number one is to change the business model to enhance profitability which includes usage of automation and tools and methodologies, second area is take some tougher steps around businesses which do not fit into our rhythm, and third is accelerating the pace of growth which are margin accretive and we are growing those businesses by investing more in sales and marketing in those areas. We have all three actions in place and we have made some progress in all these areas.

Karan Taurani: Sir just one last question on Digital Risk, the growth was good this quarter but what would be the sustained growth for next year in Digital Risk only, if you see excluding Direct channel which you talked about?

Ganesh Ayyar: When I am talking about Direct International, I am including digital risk in that space as well because Digital Risk at some stage has to become a part and parcel of our main rhythm. When I describe that we are confident of our overall growth in Direct International, it includes both the Organic and Digital Risk in it. We are fairly confident that we will grow at what people are predicting as the growth rate despite the fact that I believe that the growth rates that industry veterans are talking about probably does not take into account these tectonic shifts which are taking place in the market but despite those tectonic shifts.

Karan Taurani: Will you be able to give a number only for Digital Risk?

Ganesh Ayyar: You should assume that it is the same percentage as rest of the business.

Karan Taurani: That is what the question was, you could not grow higher than the direct channel, it will grow in line with that, right, the 12-14% kind of growth rate?

Ganesh Ayyar: Yes, That is what we are modeling right now.

Moderator: Thank you. Our next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah: There is some news post HP announced its results that HP is looking for a huge cost-cutting in the Enterprise Services business. Were there any discussions where there could be more off-shoring which can happen from the HP enterprise or to some of their Indian entities including Mphasis to achieve that cost-cutting objective?

Ganesh Ayyar: I cannot reveal what discussions we are having because obviously it is customer confidential but it would be a huge failure on our part if we are not going to be looking at working on the priorities that they have articulated.

Sandeep Shah: Have any such directional discussions started? I am not asking the details of the discussion but it may to some extent give you some green shoots about the downside to capture the downside in the HP channel?

Ganesh Ayyar: To be honest we have been attempting to stem the decline. We have not succeeded and everyone within the organization is focused on our top accounts including HP as the number one account. Technically I am the chief sales person for HP in that sense because larger clients have to be managed at every level. We will put all attempts to bring greater value to our clients subject to it being a win-win which includes HP and we are spending time with all our clients including HP.

Sandeep Shah: In terms of the matured market Direct channel excluding the Digital Risk, even if we look at the four quarter run rate of FY 2015, the quarterly run rate is closer to around $102-$104 million. It has not improved despite all our efforts and has not been growing in line with peers on a Q-on-Q basis. Do you believe that with the deal wins in the kitty which has been happening in the last 3-4 quarters, the growth rates on a Q-on-Q could be better versus what we have achieved in FY 2015 starting from FY 2016?

Ganesh Ayyar: As I mentioned earlier, we are confident of growing both our organic business and Digital Risk. What you have seen in FY 2015 was good growth but we had some negativity in two of our customers which caused the growth rates to be what they are seen in overall financial results. The good news is that we have worked on those and it has been fixed. I am confident of growth in both organic and Digital Risk in FY 2016.

Sandeep Shah: So currently we are looking at closer to what the NASSCOM has said including Digital Risk at 12-14%?

Ganesh Ayyar: Yes, that is a fair assumption.

Sandeep Shah: On Digital Risk, the turnaround looks really strong and you mentioned that the turnaround has been earlier than what you had planned? What has led to this? Is there any one-time element in terms of a project execution and do you believe that, I am not saying the similar kind of a pace but the growth would be higher than the company average going forward in Digital Risk?

Ganesh Ayyar: We did a lot of work in Digital Risk. We have invested more in delivery leadership and we have invested more in sales and marketing. We have refreshed their strategy, their approach, and a whole lot has happened in the last nine months, credit to that team. Ultimately, when you sign a contract, at some point of time, the contract will come to an end and you have to replace it with a new one. We do not have anything which will rock the boat on a short-term basis as of now and we have not done any short-term business to answer your question.

Sandeep Shah: But will this volatility and lumpiness continue in the Digital Risk because of the nature of business it is?

V. Suryanarayanan: We have been mentioning that we are also looking at surround services around loan origination. Some of the wins which we have had were also from these surround services like QC or forensic type of work. We continue to look at various avenues for increasing the revenues on Digital Risk.

Sandeep Shah: At the earlier run-rate we were making a loss. Is it fair to say that it has reached a high single digit or double digit kind of EBIT level because we are almost similar to the acquisition run rate of $33-$34 million if I am not wrong?

V. Suryanarayanan: Yes, now it is around single digit but slowly inching towards the acquisition margin rates.

Sandeep Shah: Sir there was one non-routine cash payment of Rs. 1,072 million which has affected your cash and bank balance, what is the nature of this?

V. Suryanarayanan: Generally the Indian companies face this in March quarter with respect to tax payments and there were some annual insurance premiums which are paid up-front. These were some of the one-time payment we had in this quarter.

Sandeep Shah: So the tax payment is it more recoverable asset or this has just been on the demand we have paid and we have written-off against this also in our P&L?

V. Suryanarayanan: It is more of an advanced tax payment which is higher during this quarter.

Sandeep Shah: We said that in second half the margin should improve but starting from October we will have wage inflation headwinds. What gives us confidence that margin will start improving from Q3?

Ganesh Ayyar: We are giving bit more precise directional statements to all of you and hopefully that helps you with modeling. If you go back three quarters, I mentioned that in three quarters we will start recovering in Digital Risk and you can see the results speak for themselves. I also mentioned what will be our profitability and so far we are in the same zone. All of us would like us to be more profitable. When I look ahead, we have done a modeling and we have some actions in store which will result in margin improvement in second half of FY 2016. I articulated those three sets of actions to an earlier question and under each of the three sets of actions we have 20 odd steps that we are taking to reach where we want to reach.

Moderator: Thank you. Our next question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja: If you could give us some sense in terms of what would be the mix of growth in the current quarter, should one start to expect growth on the Digital Risk side? Secondly, if you could give us some sense in terms of the tenure of the deals that we have won in recent quarters.

V. Suryanarayanan: We are expecting the growth in both Direct organic and Digital Risk to be in line with the industry growth rate for FY 2016 and in terms of the TCV wins which we have had both in the Direct organic and Digital Risk, the tenures are between 2-3 years.

Moderator: Thank you and next question is from Srivatsan Ramachandran of Spark Capital. Please go ahead.

S. Ramachandran: I wanted to get some thoughts or more color on the nature of growth on the Digital Risk side. Would you say that this growth is mainly because the underlying market in US relating to mortgages bounced back or is it just that you added more customers or newer service offerings or entered newer geographies?

Ganesh Ayyar: Mortgage transactions have not picked up yet. This growth has predominantly come through 3 actions that we took. One is deeper mining of existing customers, which is basically growing the transaction volume with existing customers. Second action that we took which was a tougher action, was building surround services and getting into adjacent areas to the type of services that we are providing and which leveraged existing profits and existing talents and that really gave us the positive growth. Third one is that we have invested in sales and marketing and we are beginning to add more clients. All these 3 things are at play in the growth rate that you have seen. Certainly 37.4% for every quarter is not a sustainable growth but we believe that the actions that we have taken have built the foundation for us to grow at least at the projected market growth rate.

S. Ramachandran: Just one more question on the Governance Risk and Compliance space that you are focusing on. Is this more vertical specific Governance Risk and Compliance or you kind of sub-specialize in every vertical within each of the vertical that you apparently want to focus on this as a horizontal, just want to understand the plan for that offering and how do you position yourself in the client's place?

Ganesh Ayyar: Today predominantly our footprint is in banking, capital market, and insurance but Governance Risk and Compliance goes to other areas such as pharmaceuticals and we do not have expertise in that area as of yet. Our focus is in banking, capital market, and insurance where we have clients. Our strength lies in combination of Apps and BPO. We have won some deals in this area, we have done delivery in these areas and what it does is it also brings into focus the Digital Risk acquisition because Digital Risk is in risk and compliance area for mortgage services industry and if you take mortgage industry as a financial services industry, we have probably one of the best assets in the industry.

S. Ramachandran: One more question on the same space. You said most of your offerings are a combined Apps and BPO deal. In terms of platforms, have we gone ahead and built some platforms? What is the typical engagement model with the customer, would it be pay per use kind of model or is it just for the Apps you charge an IP kind of fee and then separately charge for the transaction processing? Will be helpful if you can just give more color on it?

Ganesh Ayyar: Some of the platforms which are built in Digital Risk are being leveraged and rehashed. We do have platforms. Secondly, we are also investing into some very bleeding edge of platforms which is likely to hit the market in next 3-6 months. Our commercial model is ranging between per transaction to the traditional fixed price model both. We do not charge separately for BPO and Apps because customer does not care whether you call it BPO or Apps.

Moderator: Thank you. Our next question is from Bharat Seth of Quest Investments. Please go ahead.

Bharat Seth: You mentioned surrounding services around Digital Risk. Can you elaborate on type and nature of services and how big is the opportunity or potential?

Ganesh Ayyar: There is a lot of work which is taking place in the QC area which is very adjacent to the type of work that we were doing in Forensics and Origination and Secondary. Similarly PLS area is growing. Last but not the least; what we are doing is we have looked at newer ways of delivering our mortgage transaction files. We have enhanced the productivity which has resulted in our capacity going up without necessarily increasing the headcount. When you do that, what it does is that you are able to take greater load of your clients. So they give you greater number of transactions per day which increases your revenue and it increases your profits because your productivity levels go up. These are just 3 examples of what we have done.

Bharat Seth: So do we see this opportunity increasing with more and more digitization happening?

Ganesh Ayyar: Yes, it has some connection to digitization but it has greater connection to mortgages, risk, and compliance area around mortgages and some of these platforms are lending themselves to other areas of banking, capital market, and insurance.

Bharat Seth: So over a period, do you see that it can replace the shrinking traditional IT Service business?

Ganesh Ayyar: You are now going from Digital Risk to Digital and if I read the market data, market data suggests that traditional IT Services are likely to decline between 9-10% per annum whereas if you look the new generation services which include Digital, they are likely to grow at about 12% per annum. Over the next 24-36 months in terms of size of the market, the new generation services will be as large as traditional IT Services.

Bharat Seth: And profitability-wise, how do you see?

Ganesh Ayyar: If you look at our profitability it is lower than some of the other players. So we do have headroom but I believe that if I look at the industry collectively, the high profits zones that people have operated in will start evaporating.

Bharat Seth: Sir are we now looking for some other verticals than our traditional ones where we are seeing any opportunity?

Ganesh Ayyar: We still have a lot of opportunity in Banking, Capital Market, Insurance, Digital, and GRC and the horizontal services that we bring through a combination of Infrastructure services and BPO. We do not have to rush to another vertical because if you look at our size, our size is still small and the way we have to compete is by specializing around select customers and select verticals and if we start spreading ourselves too thin, we may bring nothing to nobody and we will start losing out to new breed of competitors and existing larger competitors. Hence we believe that the way to grow is by being inch wide and mile deep. We are not about to rush into new vertical at least for the next 12 months.

Moderator: Thank you. Our next question is from Jay Doshi of Kotak Securities. Please go ahead.

Jay Doshi: Sir could you please provide the breakup of TCVs that you have won in FY 2015 between Digital Risk and rest of the business?

V. Suryanarayanan: Direct is around $125 million, Digital Risk is about $115 million and $25 million are others.

Jay Doshi: Your confidence on growth in Direct channel, is it based on the deal wins that you have in bag or is it also the function of the pipeline that you are seeing which is yet to convert into deal wins?

Ganesh Ayyar: Both. If I am just counting on pipelines then I am in trouble because new wins do not give you immediate revenue and if I am counting on backlog as the industry calls it, then you are dealing with melting ice under the hot sun. So I am counting on both while sharing my confidence with you.

Jay Doshi: When you mention about TCVs, is it fair to assume that these are all new deals and it does not include any renewals?

V. Suryanarayanan: Yes, they are all new deals and do not include renewals.

Jay Doshi: One last question. Your TCV wins have been quite good and your pipeline probably is very good as well. Your headcount has decreased in this quarter. Was it on expected lines and do you think that you can achieve the growth that you have without actually increase in head count in the next 2 or 3 quarters?

Ganesh Ayyar: Our focus is on increasing revenue per headcount and this is also linked to how the industry is changing and how to improve profitability. I think it is extremely important that the entire ecosystem gets to understand that the old game of more headcount means more business is over.

Moderator: Thank you. Our next question is from Gaurav Rateria of Morgan Stanley. Please go ahead.

Gaurav Rateria: One, how much of margin drag in FY 2015 was on account of Digital Risks margins declining? Secondly, on total deal wins of $264 million, how much came from Digital Risk and lastly to grow at the so called industry rate, what is the quarterly run-rate of new deal wins which you need to get through every quarter, is it $70-80 million which you already are doing or it has to step up to something much significantly higher level?

Ganesh Ayyar: I have to literally share with you my entire go-to-market strategy but I must admit that it is a very perceptive question. Let me first take the second question about Digital Risk breakdown. Digital Risk was about $115 million out of $264 million last year. You had a third question on how much do I have to generate as TCV to generate the growth for FY 2016. Actually, I need the TCV to partly grow in FY 2016 and partly secure FY 2017. Unfortunately, I will not be able to share with you how many million per quarter I need to generate because we do not publish the backlog numbers. One of the attempts which we are going to make starting FY 2017 is to start sharing some backlog numbers with you so that you are able to model it better because our objective is to help you to model it. So you know the reality and you are able to provide the right consulting to your clients or to yourself. I am a few steps away before I can put a robust system to share the backlog and thus I will not be able to answer your third question. Can you repeat the first question again so that I could answer your first question?

Gaurav Rateria: Sure, how much of margin drag in FY 2015 happened because of Digital Risk margins declining compared to last year?

Ganesh Ayyar: Digital Risk in a planned model was expected to grow because we did not anticipate the decline in transaction volume of mortgage. If I look at the way it has fallen off the cliff, the drag is anywhere between 200-250 basis points.

Moderator: Thank you. Our next question is from Madhu Babu of Centrum Broking. Please go ahead.

Madhu Babu: Sir ITO billing rates have been falling over the last 2 quarters for offshore, any specific reason for that?

Ganesh Ayyar: Majority of my footprint in ITO is with HP and when HP declines, these kinds of variations do take place but there is no specific reason why it has fallen. There is no systemic reason. It has got to do with the business mix and over time all of us collectively have to find a way so that we can help you to model it better. Per headcount billing and traditional way of modeling may become an elusive tool in time to come because of the level of automation. Some of the capital market players are introducing something called robo-advisor where literally young investors can use the robo-advisor to give them advice. There is no human being involved and the knowledge is built into robo-advisor. So that being the case, it is a challenge and not only do we have to be successful, we have to work with you to model it. At this point of time coming back to your original question, ITO does not have any systemic issues.

Madhu Babu: Secondly I think time and material is still around 86% of revenues whereas the whole industry is seeing a surge in fixed price projects. Are we taking any initiatives, because fixed price is just 14% of total revenues currently?

Ganesh Ayyar: Yes, it also has to do with how we are classifying some of the contracts but coming back to your question, as mentioned earlier, one of the levers that we are working on is the business model and business model means the commercial model and clearly we have ways to go in getting this balance right.

Madhu Babu: Sir lastly can you give us some detail about SMAC and what are the team sizes currently we have at least in delivery? How many are currently executing projects on SMAC technologies?

Ganesh Ayyar: We do not call it SMAC, we are more focused on Digital because some elements of SMAC are more relevant to hardware and we are not a hardware player. If I look at my wins in the newer areas specifically Digital and GRC in the last nine months, 45% of my wins have come from these areas in TCV terms.

Moderator: Thank you. Our next question is from Rahul Jain of Systematix. Please go ahead.

Rahul Jain: We used to break the HP revenue into HP as an end client, migration business and joint go-to-market. Basically what I am trying to understand is any sub component of HP revenue which has been stable and not been falling off at the same run rate as the total HP, like the non-ES component which is sort of flattish versus a sustained decline on the ES part?

Ganesh Ayyar: Rahul the models which you spoke about existed 3 years ago. They do not exist anymore but we can give you a breakdown between HP as a client and HP as a partner.

Rahul Jain: Secondly, I missed this INR170 million provision, if you have shared anything on that?

V. Suryanarayanan: This is with respect to the business transfer agreement which we were planning with one of the buyers with respect to Government of India contracts. We have provided for them more on a conservative basis. As and when it gets settled or decided, we can take it into our books.

Rahul Jain: So is this on some of the old contracts or recent ones?

V. Suryanarayanan: No, this is couple of years ago.

Rahul Jain: There were couple of provisions in 2013 and then we had some thoughts that it could be recovered over the period of time or we could get those receivables sold out to a factor kind of an arrangement. Has there been any progress or is everything accounted for as of today?

Ganesh Ayyar: There is nothing left in our books to provide for more. We are all waiting for payments to come directly or indirectly from the government. As and when it starts happening, it will straightaway flow into the bottom-line. As of now we do not have anything else more to provide in this area.

Rahul Jain: What is the number on our books right now, and what is a very conservative number which we can eventually get?

Ganesh Ayyar: Very hard for me to answer that question, Rahul.

Rahul Jain: Or maybe the receivable number which is the actual number which is due?

Ganesh Ayyar: May not be able to provide it Rahul because I do not want these numbers to get modeled. We have waited for two years for any money to come and if nothing comes, then your models will go wrong. So I will stay away from that question.

Rahul Jain: Taken, I also missed the indicative margin number which you have highlighted? What is the range you have said?

Ganesh Ayyar: I was just saying that we will continue to operate in the vicinity of 12-14% for first half and then you will see improvement in our EBIT margin.

Rahul Jain: The 3 levers, one you said is the business model or the commercial model and what are the other two?

Ganesh Ayyar: The other two levers, one of them which I articulated was the fact that we have to accelerate the growth of higher margin business and that is where we are investing our sales and marketing dollars and the third one is to make some choices in select businesses where it may be difficult to sustain the margin or to build the margin.

Moderator: Thank you. My next question is from Dipesh Mehta of SBICAP Securities. Please go ahead.

Dipesh Mehta: I have two questions. In broader terms, I think earlier you suggested that you aspire to grow 1.5 times of industry growth rate in our Direct business. Just want to get a reconfirmation from your side from 3-5 year kind of view, whether we still hold that view for Direct business and potential of that Direct business growing to that extent? Second question is about Infrastructure business. This quarter, it is showing some kind of muteness or weakness if you can help us understand reason for it?

Ganesh Ayyar: In 3-5 years certainly that is an objective and because we suffered due to Digital Risk decline, for the coming year I have shared with you what is my growth expectation. Coming to Infrastructure Services, majority of our Infrastructure business is still through HP. So when HP declines, that business looks muted.

Moderator: Thank you. Our next question is from Nitin Padmanaban of Investec**.** Please go ahead.

Nitin Padmanaban: I just wanted some sense in terms of those three broad parameters you had spoken about. One is changing the business model, looking at businesses that will not fit the rhythm, and the new investments that you are making. More specifically in terms of the businesses that do not fit the rhythm, if you could just expand on that and give us a better sense for that, that would be helpful.

Ganesh Ayyar: Our biggest footprint in Direct business is our International business. We are very strong in Banking, Capital Market, and Vertical Solution. We are very good in certain Horizontal Solutions which go beyond the industry. In new generation services, we have won some very good deals in Digital and GRC. In all these areas, we have to focus like a hawk and deliver superior service innovation to our clients and that requires tremendous amount of not just agility but creativity and innovation in the organization. All of us have to be consumed by that area. Hence whether we can do justice to all the businesses becomes a question. We have mapped certain businesses which we believe we will not be able to do justice and in select cases we are fixing it organically by bringing new leaders and two of those businesses have clearly shown positive traction in the last 2 quarters which is very good and there are other two businesses where we have to see whether we can get some traction. If not, we will have to make some hard choices.

Nitin Padmanaban: Sure and with reference to the change in business model that you are talking about, was it more to do with fixed price and T&M?

Ganesh Ayyar: Fixed price, transaction based versus time and material.

Moderator: Thank you. Our next question is a followup from Pinku Pappan of Nomura. Please go ahead.

Pinku Pappan: Ganesh, while you have given an outlook on your Direct Mature Business, how do you think the Direct Emerging business is going to grow in the coming year?

Ganesh Ayyar: Our focus would be margin improvement there.

Pinku Pappan: But not too much you see in terms of growth?

Ganesh Ayyar: Yes if it is margin dilutive, growing it is a bad strategy isn't it?

Pinku Pappan: Correct and lastly a bookkeeping question, what is the OCI gain you have right now and how much of this do you think will flow into the P&L over the next 12 months?

V. Suryanarayanan: The OCI balance as of March end is around Rs. 261 million. Based on the hedges which we have I think it will be positive going forward.

Moderator: Next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah: Yes sir, just a follow up on that. On the hedge side, what is the current outstanding, at what strike rate and is there any change in the policy?

V. Suryanarayanan: On the US dollar for FY 2016 we have a range between Rs. 64-67 and the hedge policy is around the same 50-60% of our exposure.

Sandeep Shah: Rs. 261 million is a positive number right?

V. Suryanarayanan: Yes.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to the management for closing comments.

Ganesh Ayyar: Once again I want to thank all of you for being our partners and sharing with us your perspective and travelling the journey together. A lot of transformation has taken place in the market and the type of business that we have won in FY 2015 gives us the confidence as we look ahead because this change is a very profound change unlike what the industry has seen in the last 25 years and the good news is as a small company, we have managed to turn the ship around the new range of services which gives us great confidence. Our focus is going to be doubling down around our Direct International business which includes Digital Risk. We are committed to working even more closely with you so that you are able to model your investment better and you are able to provide better quality of advice to your clients around Mphasis. We are confident of our growth in Direct International business. The challenge ahead of us is to see how we can arrest the decline of HP. We do not have a specific solution right now. As and when it happens we will certainly share it with you. We are also committed to margin improvement on a sustained basis going forward and more so in second half of FY 2016. Look forward to continuing the partnership and continuing the dialogue. Thank you so much and have a great day, bye for now.

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.