Mphasis
The Next Applied

29 April 2025

The Manager, Listing
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

The Manager, Listing
National Stock Exchange of India Ltd
Exchange Plaza, Plot No. c/1,
G-Block, Bandra-Kurla Complex,
MUMBAI – 400 051

Dear Sir/Madam,

Sub: Transcript of the Investor(s)/Analyst(s) call

Further to our intimation dated 3 April 2025, please find enclosed the transcript of the Investor(s)/Analyst(s) call which is hosted on the website of the Company at https://www.mphasis.com/content/dam/mphasis-com/global/en/investors/financial-results/2025/transcript-of-earnings-call-q4-2025.pdf

We request you to kindly take the above on record as required under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking you,

Yours faithfully,

For Mphasis Limited

MAYANK VERMA Digitally signed by MAYANK VERMA

Mphasis Limited BANGALORE

Mayank Verma
Senior Vice President and Company Secretary

Encl: As above

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"Mphasis Limited

Q4 FY 2025 Earnings Conference Call"

April 25, 2025

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

MR. ARAVIND VISWANATHAN – CHIEF FINANCIAL OFFICER – MPHASIS LIMITED

MR. VINAY KALINGARA – HEAD INVESTOR RELATIONS – MPHASIS LIMITED

Moderator: Good morning, ladies and gentlemen, and thanks for joining the Mphasis Q4 FY 2025 Earnings Conference Call. I'm Neerav, your moderator for the day. We have with us today Mr. Nitin Rakesh, Chief Executive Officer, Mphasis; Mr. Aravind Viswanathan, Chief Financial Officer; and Mr. Vinay Kalingara, Head of Investor Relations.

As a reminder, there is a webcast link in the call invite mail that the Mphasis management team will be referring to today. The same presentation is also available on the Mphasis website, www.mphasis.com, in the Investors section under Financial and Filing, as well as both the BSE and NSE websites. Request you to have the presentation handy.

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

Before we begin, I would like to state that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available on the Q4 results release that was sent out to all of you earlier.

I now hand the floor over to Mr. Nitin to begin the proceedings of this call. Thank you, and over to you, Nitin.

Nitin Rakesh: Thank you, Neerav. Good morning, everyone. I'm glad to have you all on the call again.

We are truly in interesting times. And as always, we continue to focus on the micro in an uncertain macro. As we close out FY25, let me recap a few areas that we've been calling out over the course of the year.

We called out that our growth would be led by BFS and TMT verticals, that we would be laser-focused on growing the pipeline and TCV, and with AI-led deals playing a bigger role, that we would continue to originate and close large deals led by our Savings-Led Transformation™ thesis to capture modernization and consolidation opportunities, we would continue to invest in our AI platforms and solutions, and all the while staying within our target margin band.

I'm pleased to report that we have executed on this strategy and have delivered on all these parameters in FY25. We'll double click on these in the subsequent sections of this discussion.

In the Q3FY25 call in January, we indicated a few paradigm shifts on how AI was driving and redefining both opportunities as well as the nature of how services are being delivered, namely by, Supersizing deals with Savings-Led Transformation™ driving wins, Unlocking opportunities through reimagining legacy modernization, Expanding the target addressable market and driving pipeline growth, Infusing our platforms NeoZeta™ and NeoCrux™ creating tremendous efficiency, cost savings and minimizing project risk outcomes.

While our stakeholders continue to assess the potential impact of the recent macro uncertainties, there are certain tech imperatives that they're concentrating on Self-funding investments in their transformation, Modernizing, consolidating and simplifying their tech stack, Investing in AI to enhance client experience while maintaining a low cost to serve, Integrating AI directly into business operations to improve client experience, and Continuing their investments in AI regardless of the macro environment.

This is evident in our performance in Q4FY25 as we step into a new year, with AI-led transformation deals driving record growth in pipeline, especially large deals, Strong TCV wins across core modernization, AIOps, SDLC transformation, experience transformation, data strategy, and IT Value Stream transformation offerings gaining traction across the portfolio.

Our commitment to innovation as well as our long-term focus on investments in AI are paying off and driving success for the company and for our customers. We are uniquely positioned to lead in this era, because of our differentiated full stack approach to AI innovation, and we are now seeing this operate at scale.

We have a very structured, well-defined, four phase approach as per our AI strategy. (1) Building a strong data foundation, (2) Build enterprise-grade identity and access management for data security and privacy, (3) Build AI technology foundation and finally, (4) Develop an AI strategic roadmap based on the following design principles - LLM agnostic architecture, secure data orchestration and use of prebuild connectors.

Earlier this week, we were listed as the leader in the DABStep challenge, further validating our ability to design AI agents that perform complex data analysis using multi-step reasoning on real-world data.

I am also incredibly proud of the work we have done and the impact we are making. You may have read the news that Mphasis has been granted a U.S. patent for our innovative solution called 'System and method for optimized processing of information on quantum systems'. The newly issued patent outlines a pipeline to improve the scalability and performance of quantum machine learning (QML) on near-term quantum computing systems including quantum simulators. This technology and the associated patent stand as a testament to our commitment to innovation and the advancement of next-generation technologies.

AI is becoming table stakes for us, whether it's in the context of new deals that are AI-led or AI-infused, existing clients or to increase their own employee productivity. This is both vertical centric, like for instance, insurance broker or for compliance management solutions. In terms of tech platforms that run horizontally, the Mphasis NeoZeta™ platform is an intelligent GenAI-enabled platform that enhances the process of relearn, and through this platform, we can help enterprises extract context-specific information from code and documents regardless of their format or layout and integrate it with downstream actions for IT Value Stream modernization systems to generate actionable insights.

Our AI-led deal pipeline is significantly up from 25% in Q4FY24 to 55% in Q3FY25 to 65% now in Q4FY25. AI levers continue to help create proactive deals, maintain competitiveness, especially on Run-the-Business spend and underscore our differentiation through the use of our platform-led approach.

Our overall pipeline grew 86% YoY and 26% sequentially at the end of fourth quarter. BFS pipeline is up 70% YoY and non-BFS pipeline is up 99% YoY. Our large deals pipeline is up 40% sequentially and 154% YoY, aligned to the efforts we've been making in that segment. Notably, planned priorities to repurpose and modernize the existing tech estate are reflected in the biggest growth vector in our pipeline, the IT Value Stream propositions. These include our Value stream acceleration, Agile IT Ops and Modernization tribe-led solutions.

We continue to see a higher share of proactive deal wins as we stay focused on deal making. As our AI themes are reflecting in our deal wins, we're happy to report that 59% of the TCV in Q4 is AI-led. New TCV wins for the quarter were $390 million, the highest in the past 7 quarters. We won two large deals in Q4 taking the total tally to 13 deals in the full year and we have cumulatively won 75 large deals since FY18 from the time we started reporting it. We had broad-based TCV wins across verticals, our client pyramid and archetypes.

TCV to revenue conversion pace remains steady. We continue to make investments in the right areas where we expect demand. To give you a sense of kind of deals we won, a large North America-based bank has chosen Mphasis for its data center modernization. Mphasis is helping them simplify their operations by consolidation, rationalization and modernization of platforms to reduce operational risk, increase resiliency and accelerate growth and profitability.

Mphasis is partnering with a North American Logistics and Transportation major in its transformation journey into a data-driven enterprise. We will be involved in multiple initiatives aimed at enhancing the data strategy, governance, analytics and operational effectiveness.

Mphasis also won a deal with a large Healthcare services enterprise that will utilize the capabilities of the Mphasis Javelina® platform, and the integrated Health Experience Framework to transform the user experience and back-end processing of enrolment in their products. We will deliver an evidence-based solution for evaluating customer acquisition, streamlining back-end processing and lowering the demand for contact center interaction.

In another example, a North American banking client has chosen Mphasis as a strategic partner for the modernization of its wealth services platform. The services will enhance growth, modernization and regulatory remediation priorities.

Coming to performance by segment. We continue to push for revenue growth, which is anchored in our strong client mining model and tech-led offerings. Our Q4FY25 revenue came in at $430 million, a growth of 2.9% sequentially and 5.4% YoY in constant currency terms. This is our highest sequential growth in the past 3 years despite the impact of a decrease in revenue from our non-strategic ATM business which is reflected in the 'Others' secondary market segment in our MD&A.

Our Direct business accounts for 97% of our overall revenue in the quarter. We expect the pace of revenue and deal conversion to remain strong, propelled by our Savings-led Transformation™ theme. Our Direct revenue for the quarter increased by 3.8% sequentially and 6.8% YoY in Q4 in constant currency terms. Growth momentum in Direct continues to be strong and in our anchor geography, the US, we grew 3.7% sequentially and 7.1% YoY in the Direct business. EMEA region grew at 0.9% sequentially and the rest of the world grew at 8.7% sequentially and 24.4% YoY in constant currency terms in Direct business.

Our core service line, Enterprise Apps, constitutes about 72% of revenue, and the revenue contribution continues to inch upwards. We grew 3.3% sequentially in constant currency terms in the Direct apps business. BPO service line declined by 3.8% sequentially and the ITO service line grew approximately 21%, both sequentially and YoY, driven by transformation programs around IT Value Stream modernization that we won in recent quarters. Our mortgage business remained stable.

Moving to our vertical performance. Both the BFS and TMT verticals continue the growth momentum. At an overall company level, BFS was up 5.6% sequentially and 11.8% YoY in Q4 FY25 in constant currency terms. Specifically in the direct business, BFS was up 7.2% sequentially. BFS growth has largely been driven by wallet share gains in existing accounts and continued strong execution in new account wins, including large deals. The Direct TMT vertical grew 9.6% sequentially and 22.1% year-over-year, driven by continued deal wins and conversion from recent large deal wins to revenue.

Insurance is also a growth engine now with an increase of 0.3% sequentially but approximately 9% increase in the Direct business YoY. The vertical is poised for strong growth in FY26 as well, on the back of strong TCV and pipeline as well as recently won deals.

Logistics and Transportation and Others verticals declined sequentially by 7.7% and 3.4%, respectively. These verticals have an outsized impact by the macro environment. Nonetheless we see significant opportunities in the pipeline for both Logistics and Transportation and Healthcare.

Our client pyramid continues to improve across the board. YoY, we added 1 client in the $75 million+ category, 1 client in the $20 million+ category and 3 clients in the $5 million+ categories, respectively. A couple of new accounts we signed recently have already grown to over $60 million on a quarterly annualized basis.

You will note that we have seen robust growth across all customer bands. Top 10 accounts grew 5.8% sequentially, 11 to 30 grew 5.7% sequentially. On an LTM basis, Top 10 accounts grew 4.1% YoY, and the next 20 accounts grew 5.1% YoY.

Looking at quarterly financial metrics, we delivered to our philosophy of maintaining margin in the stated band while making investments for growth. EBIT margin remained stable at 15.3%, despite the macro uncertainties. We reported that operating profit for the quarter grew 3.9% sequentially and 11.7% YoY.

EPS for the quarter was INR 23.5, the highest ever EPS in a single quarter and 4.1% sequential and a 12.9% YoY growth. Operating cash flow generation continues to be strong at USD 52 million for the quarter; 100% of the net income. DSO of 75 days increased 3 days over the last quarter.

In summary, what we have witnessed is the highest quarterly growth in 12 quarters, with growth led by BFS and TMT; Our highest ever quarterly and full year EPS, Pipeline growth at record levels with 26% sequential and 86% YoY growth, $390 million in TCV wins in Q4; the highest TCV wins in the past 7 quarters, and our execution rigor has continued to deliver stable margins. To this effect, the board of directors has also recommended a dividend of INR 57 per share for the full year FY25.

Coming to our outlook, we'll continue to focus on executing on the micro despite the uncertain macro. As we focus on investing in growth initiatives, we continue to strengthen and expand our AI-led offerings and propositions. We are sustaining our efforts on conversion of pipeline to TCV and TCV to revenue as evidenced in Q4 as well.

For the full year FY26, we do expect to be above industry growth on our revenue front, gaining from strong TCV wins and a steady conversion of TCV to revenue across the portfolio. Our target EBIT operating margin would be within the band of 14.75% to 15.75%.

With this, I would like to open it up for questions, please.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Sudheer Guntupalli from Kotak Mahindra AMC.

Sudheer Guntupalli: Congrats on great performance. Just a couple of questions. Firstly, towards the end of the quarter, in March and April month. Have you seen any major drop off in the client conversation rate or deal bookings, pipeline conversion or clients trying to push out ramp-ups, so on and so forth, reacting to the tariff volatility?

Nitin Rakesh: Sudheer, I think the answer is a little bit nuanced because if I look at the impact of tariffs or other uncertainties that came into fore in the last 30 days, there are certain industries that are in the direct line of fire, so they have the direct impact. For example, all global trade, logistics, supply chain, manufacturing, automotive, energy, railroads, fairly direct impact because there's a pretty significant impact of what happens across global trade flows, the flip-flop on tariffs hasn't helped them either because they've suddenly gotten frozen in some of their decision-making, not just on our businesses, but in their own business, right?

How do you make capex decisions, how do you make supply chain decisions, not knowing what's going to happen either on April 2nd or 90-day pause after that. So that's the first segment of customers where the impact of indecision is a little bit higher.

Then there is a segment of customers like banks, insurance companies, healthcare companies, where the impact is not direct impact because they're not in the direct line of fire of tariffs. The impact is a second order of impact because there the questions are more around economic outlook, interest rate outlook, health of the consumer, provisioning for customer credit losses and so on. What happens to deal making to Wall Street firms. On one hand, they're making higher trading revenues. On the other hand, deals have dried up, IPOs have dried up again. I think in those segments, the impact hasn't quite shown up yet.

In the first category, the impact obviously is visible. And we've seen a significant, I would say, nervousness, not to a point where deals are getting cancelled but definitely decisions are getting pushed out because a 90-day pause really doesn't mean much until we know what happens after 90 days. I would kind of break it down into a nuanced, customer by customer, segment by segment impact. And uncertainty definitely creates indecision, but it varies by which industry, and which segments you play in.

Given that 60% of our business is BFSI and another 7%-8% comes from Healthcare and Others and if you include some of the other businesses that are not in the direct line of fire we are actually not in a bad place, on balance, relatively speaking.

Sudheer Guntupalli: Got it. And the decline in Logistics this time, is it more broad based or led by 1 or 2 accounts?

Nitin Rakesh: Yes, I think it's a little bit broader than just 1 account. So, linked in part to what I just answered. And I think clients, obviously, will have to go through their own journey of where they are in that global macro environment as well as in their own journey of where they are with what they're trying to accomplish with their own transformation agenda.

So, impacts are not just single customer based. But the good news is, if you look at the pipeline that we shared on the overall split of deals by vertical, you'll see a pretty healthy pipeline showing up in Logistics and Travel. And that's the one that we will absolutely focus on when it comes to the non-BFS jump of 99%, significant portion of that comes from that segment as well. So again, we are very focused on making sure that we get through this phase, and we bring that vertical back to growth through the year.

Sudheer Guntupalli: Got it, Nitin. And just one last question. There is no further update on any large accounts within this segment, right? I'm assuming.

Nitin Rakesh: Nothing more to call out, to be honest, at this point.

Moderator: Next question is from the line of Vibhor Singhal from Nuvama.

Vibhor Singhal: Congrats on the solid performance of both growth and the wins. Nitin, two questions from my side. I think our TMT vertical saw very good growth in this quarter. You alluded to a bit about it in your opening remarks. But what is exactly the driving force behind the revenue growth this year? And how do you see this getting impacted given the overall macro uncertainty that we are facing, especially with the tech companies also kind of under the hammer?

Nitin Rakesh: So, I think we've talked about this in the last couple of quarters as well when you guys had some questions around some large deals that we signed using consolidation. This is an outcome of the deals actually ramping up for revenue. And then we are actually further expanding the wallet share using those deals that we signed.

So, this is effectively consuming the TCV that we signed in the last 2 quarters and effectively growing a segment of the TMT customers into, as I mentioned in my remarks as well, the $60 million annualized quarterly run rate. One of those customers happens to be in TMT. So, it's, again, while the growth is not one-customer driven, but that definitely helps when you have a customer that grows exponentially in the last 3 or 4 quarters.

We have obviously more opportunities in that segment. While there is some uncertainty that comes into the manufacturing part of the Hi-Tech segment, but I think our client base is broader than just being dependent on a manufacturing Hi-Tech business because of the combination of tech devices, med devices, ISVs and telecom in there.

So, we feel very good about where we are. We think we will see further growth through the recent times as we get through Q1, Q2. And then, of course, as I mentioned, pipeline is pretty broad-based and that we should continue to convert those over the course of FY26 as well.

Vibhor Singhal: Got it. Which part of TMT are we growing, apart from the exceptional growth in the client? Which part of the TMT do you think we are more well placed, both from our own capability perspective and also from a macro point of view, which is where you'll see more opportunities in the coming quarters?

Nitin Rakesh: I think enterprise tech, engineering services, R&D services, cybersecurity, the whole IT Value Stream modernization I talked about using SDLC transformation. So, it's a combination of 4 or 5 things.

Vibhor Singhal: Got it. That's very helpful. Secondly, on the deal win front, another very solid quarter of deal wins. I think it's the second highest deal wins that's been done. Have the conversations around the deal closures changed in the last 10, 15 days? Do you see the momentum of deal wins continuing in Q1? Or do you think the tariff uncertainty is basically leading to delayed deal closures and clients kind of holding back the decision making, from what we see?

Nitin Rakesh: Again, as I said, in some of our big verticals, the impact is more second order, hasn't quite trickled down into saying, okay, we don't want to make a decision because of what's going on with tariffs. Because they're not in the direct line of fire. But there are segments where we have seen some hesitation in committing to a program. not knowing what happens to US - Canada or what happens to global trade. So, I think the answer is a little bit mixed. But on balance, as I mentioned, given the spread of our business coming out of second order industries being a much bigger portion, the second order impact segments, I think we feel good about the fact that we should at to see this momentum carry through in Q1 and Q2 as well.

Vibhor Singhal: Got it. Just one last question, if I could squeeze in on the mortgage business. I think we are at that crossroad again where there are talks about interest rate cuts potentially trickling in. Do you see any uptick in the mortgage business leading to that? I know our refinancing business is probably going to take time. But in terms of at least the origination part, do you see some uptick happening maybe over the next couple of quarters?

Nitin Rakesh: Very hard to call. I think what I can tell you, what we are seeing definitely is a deep desire by customers to say, is there an opportunity to induce AI into my operation and reduce cost of loan servicing or loan origination. That's one play that's definitely giving us some expanded wallet share.

I don't think volumes have gone up, and I don't know when they will go up because it's very hard for me to tell you whether the 10-year will be 4.3 or 3.8 in the next 30 days. And who knows if inflationary impact comes through, you might actually even see interest rates go up, right? It's very hard for me to call that.

So, I think really a more a consolidation and an AI-infusion play right now that is driving the marginal growth or the stability in that segment. And we are pleased that segment actually grew quite well through FY25 despite having a very difficult FY24.

Moderator: Next question is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: Nitin, a couple of questions. One is - even in the last quarter, you mentioned that there's an improvement in pipeline for Logistics, Transportation, etc. And are you seeing that the conversion for those will be a little delayed considering the uncertainties and conversion could take time. Or do you think that these are specific areas which actually help them in the current context and thereby you could see closures? So that's one.

The second is, directionally, considering that we are not in the direct line of fire, is it fair to sort of assume that from a revenue trajectory perspective, at least in the near term, it's unlikely that we see any specific headwinds for a large part of our portfolio and thereby, from a momentum perspective, it could sort of continue considering the deal wins? Or is it that there is a risk to ramp ups being delayed a bit?

And finally, just your thoughts on margin. So, you still do have a lower band margin at 14.75% despite an exit at 15.3%. So just sort of curious about what are you worried about from a margin perspective broadly?

Nitin Rakesh: So, let me take the first one. We did announce a deal win in the current quarter in the Logistics, Travel, and Transportation segment. That definitely will help as we get through Q1 and Q2 as we convert that deal. So, it's not like decisions aren't getting done. That definitely is a stress segment because the level of impact on them is actually pretty high.

Will that lead to further decisions being delayed? I think it's a combination. It's very much an account-specific conversation versus a sector-specific conversation when it comes to a deal because there may be a deal that actually lines up to the value prop where the uncertainty actually gives a trigger to the customer to make a decision or there may be a deal where they have do an outlay of spend that may get deferred because they want to see certainty of capital outlays.

So, I think it depends on what type of deal it is, what the value prop is. We use this concept of a client value framework. It all depends on what's the value framework with which we are going with that deal. So, again, going back to the comment I made around focusing on the micro, I think we are taking a very nuanced deal level, client level, conversation level approach versus a macro segment, industry vertical or geography level approach. So, it's a bit of both.

And I actually do feel good about the fact that there are a few deals in there that might actually give us a lift in Q1 itself, but we'll report on that as we come back to you in July. Finally, on the question around margins. I'll give you a very high-level answer, and I'll have Aravind elaborate.

I think the reason to keep that flex with us, and just like we kept 14.75%, we also kept 15.75% out there for a simple reason that as we get into some of these large deals, let's say, we end up signing a mega deal, that requires us to actually make some investment in up-front ramp-ups, or technology, or orchestrating and working with the client for the first 30 to 60 days where we may need to make that investment, or if, anyway, we've actually made a pretty decent investment in building these AI platforms. That's just the reason we want to keep that flex with us.

But Aravind, maybe you can give a little bit more color.

Aravind Viswanathan: Yes. So, Nitin, we've kind of narrowed the range from before, right? It was 14.6% to 16%. We've reduced the range to 14.75% to 15.75%. I mean not much to elaborate beyond what Nitin has said. It just when you give a range, there is a reason that there are things that can happen in an uncertain environment, right?

Obviously, we've not really demonstrated a margin drop or a lack of focus on execution on margins. But there are circumstances where we will make investments. And if those come to it, then we would still be within the range. So that's the purpose of the range. On a status quo basis, we don't expect to significantly deviate from where we are. But there are circumstances where either an investment or a deal may necessitate that, then we would still operate within this range. So that's how you should look at the range.

Nitin Padmanabhan: Sure, perfect. That's helpful. And I think the only thing you missed is, from a deal ramp perspective, are you quite comfortable? Or are you seeing customer behaviour in terms of delayed ramps or anything despite the strong wins?

Nitin Rakesh: The spectrum is pretty wide. For example, we announced a deal in the last January call, that deal actually ramped up pretty nicely because there was a sense of urgency and a time window for the customer to execute the transformation thesis. There's another deal in the same industry where it's taken us many quarters to actually get to the run rate that we wanted to get to.

So, it's, again, a little bit of a specific client-centric issue. But I think it's fair to assume, Nitin, that when there is this level of volatility in the environment, and when the stock prices are swinging between 3% and 5% at an index level, it's just very hard for many of our customers to stay focused on what may seem important to us, but may not be in their top 3 things to do given the environment, the volatility they're dealing with. So not that becomes an excuse for us or our field force, but that's the reality that we have to deal with as well.

So I think it is a tough environment when it comes to getting clients to commit and put pen on paper, but I think the approach of being very focused on what value you're taking to the customer what problem are you solving, how you are aligning to the outcome of the business and how you're even sometimes able to repurpose what they may be doing today into a much more efficient and transformative approach, I think it's really what, in a way, stood out to us as a winning formula.

Moderator: Next question is from the line of Abhishek Gupta from Axis Asset Management.

Abhishek Gupta: Sir, just wanted to check on the levers of margin. As I see for the full year basis, the subcon seems to have increased overall…

Moderator: Abhishek, sorry to interrupt. Your audio is not clear. Can you speak through the handset, please?

Abhishek Gupta: So, the headcount for the last 4 years seems to have been decreasing. And that seems to be like switching to the subcon expenses as well as our utilization seems to at 86%. So, are we like kind of uncertain about the demand environment where we are like hiring, as per the deal basis? And will we continue to see in the FY26 also? Like will be not a margin lever going forward?

Nitin Rakesh: I don't think that's the way to think about the headcount metrics. I think sometimes what happens is, especially in the larger deals or transformation deals, you start with a certain headcount, or you take over a certain book of body and then you transform it. If you look at Q4, the offshore headcount actually went up. And I think that's natural when you take on a large deal and you start transforming it, you will also try to offshore higher component of it. The reason you may see a subcon expense go up is because you don't want to hire the employee because you may only need them for 6 months or 9 months as you transition that work out.

So, the way we are running supply chain is on a very dynamic basis given the level of uncertainty that exists in the business. We are not, we haven't, and we don't intend to build a large bench. We will obviously onboard based on what we need on a rolling 90-day basis, and I think I explained that in a couple of calls ago.

We are running a fairly dynamic process of what we call a rolling 90-day forecast based on deal wins, availability of people internally, as well as the ability to onboard people quickly. So again, a headcount or utilization is a good outcome of the way we run the supply chain and the operations. We don't target a certain utilization level or a certain hiring level. I think it's all linked to what sits in the pipeline and the linkage between pipeline and headcount supply chain.

Abhishek Gupta: Got it. And sir, at the lower end of the margin, does it build any deterioration or some revenue decline for the next year too? Or is it just because of investments or the incremental headcount increase will be impacting that margin?

Aravind Viswanathan: So let me take that. We've seen over the past couple of years, we have had a year where revenue has declined, and we have had a year where revenue has gone up, and our margin profiles hasn't changed too much, right? So, I think from an industry standpoint and from Mphasis standpoint, we've done a good job of managing our costs when we see a revenue headwind.

So, I don't think a simplistic revenue drop would require us to operate at lower levels of margin. Nitin talked about it from a customer standpoint, saying whatever the macro, there are certain spends that customers will do and Mphasis or enterprises will also make certain investments, no matter what the macro environment is, right?

So, to that extent, we do not compromise on critical investments which have longer value because there is a near-term shortfall on revenue. I think you have to look at it from that perspective, I don't think a simplistic assumption that revenue decline will necessitate margin drop, that would not be a fair assumption.

Nitin Rakesh: I think the counterpoint to that also is that sometimes you may actually see an impact on the short-term margin because of revenue growth because that means you're investing in a deal, and I explained that a few minutes ago as well. So, I don't think that there's a direct correlation that we are keeping the lower end because we expect revenue to decline. I think the implicit message here is that we are keeping flexibility with us to continue to invest for growth.

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

Sandeep Shah: Congrats on a good execution in a difficult macro. Just wanted to understand, Nitin, is there any large client-specific issue in any of the verticals when you are entering and FY 2026 outside of macro issues?

Nitin Rakesh: So, Sandeep, firstly, thank you for the comments. I think, as I mentioned, right, depending on which segment of customer you look at, and even within the segment, it's not like every top client in banking is operating in the same trajectory for us. Similarly, not every client in every other vertical is going to operate at the same trajectory. There may be client-specific issues, there may be clients' own journeys. So, I think the right thing to do is to focus on the portfolio, the growth guidance on the portfolio, the outlook on the business based on the early indicators like pipeline and pipeline to TCV.

So, I think to me, the right conversation to have is, what's the plan for us to continue to convert at a clip that we've seen pick up in the recent couple of quarters. Can we increase the pace of conversion of pipeline to TCV and given the massive expansion we've seen in our large deal pipeline YoY, and again, it's very early days - we only set up that group 5 months ago. I think that's really what the focus of the business is. We will have to manage client-specific issues in every vertical, and that's no different from what we've been doing for years as well.

Sandeep Shah: Perfect. And just we are also entering 1QFY26 with a very healthy order intake, which was similar when we entered 4QFY25. So, if I'm not wrong, you are trying to say the growth momentum of 4QFY25 can be sustained in 1Q and 2Q, is it the right way of looking at it?

Aravind Viswanathan: You are trying to draw us into giving a Q1 guidance, Sandeep, that's really not what we are looking to do, right? Nitin kind of explained how the market and the macro is playing out, and we are watching, staying close to customers and trying to execute on the deal closures. I believe we will grow in Q1 as we stand, and that's what I would like to talk about from a Q1 standpoint.

Sandeep Shah: Okay. And just on the GenAI and the agentic AI, as clients are scaling up the investments and we are also helping them to adopt the same, is there any increased instances where we have to pass on the productivity gains? Or are we in the phase where the demand is accretive rather than deflationary?

Nitin Rakesh: I think it's a bit of both, to be honest, Sandeep, because there are certain segments of what the client does today, where they think that they can gain significant efficiency by introducing not just GenAI, but any other AI playbook as well. GenAI will be part of it, LLM can be used to train agents. I mean we talked about the Quantum machine learning model that we just announced and the rating we got.

So there is one segment of the client business, especially on the run the business side, whether it is Ops, IT operations, customer service, business operations, claims, underwriting; all of those areas which require heavy human intervention can actually benefit from creating an AI or agent-assist to work alongside the humans in taking away the manual tasks and increasing the efficiency. There is definitely an element of AI-infused efficiency that the client will expect to get from that operation. Good news is that they may be doing their operation themselves today. So that becomes a target addressable market for you to go in and implement the solution and sometimes take over the operation as well.

Then there is a segment where they're actually building out the GenAI or the AI infrastructure. We actually call it the AI superhighway, and we've talked about it in the past. That's a net new opportunity because new spend is getting diverted there. The trick to playing in that spend is actually to have the right set of propositions.

And the value framework there is more around helping the client, build the chassis for AI adoption, data governance, data pipelines, data privacy. So, there's a big data element, right? Then there's a big AI infrastructure element, a big FinOps element. And of course, the ability to orchestrate all of this in a manner that you can actually do ethical AI and governance of AI and traceability of AI because many industries are regulated in that manner, is a net new opportunity.

Having said all of this, if you then look at the tech spends of most customers, we are not in an environment where the tech spend is going to go up by 8% or 9% or 10%. We are in an environment that the tech spend may only go by 2% or 3%, if at all including cost of inflation, whether it's people inflation or equipment inflation or the inflationary prices they get from software and hardware providers. So, in that environment, I think spends will get repurposed.

So yes, clients will expect to see benefits of AI in their services and providers will have to find a way to make money, by making sure that there is enough and more left on the table for the client to get and for the service provider to be able to actually make money in that transaction. This is nothing different than what I called out earlier, which is Savings-led transformation™.

So, the ability to bend the cost and quality and time curve using AI has to justify that Savings-led transformation™. That's the way I would summarize the playbook of AI. And it's not unfathomable to see the industry slowly pivoting away from providing people-based services to actually providing us solution to a customer that drives a certain outcome and then getting rewarded for it.

Sandeep Shah: Thanks for the detailed answer. And the last question, if I can squeeze. On deal TCV and looking at your comments on the pipeline, is it fair to assume the earlier quarterly run rate of $350 million plus or minus, in terms of TCV can be maintained in FY26 unless the macro issues are really causing the concern?

Nitin Rakesh: I think that is a reasonable assumption at this stage. Again, we don't know what happens over the next 90 days or 180 days. But at this stage, given the strength of the pipeline, large deals, that's a reasonable assumption.

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

Girish Pai: Nitin, do you think FY26 would be a better growth year compared to FY25?

Nitin Rakesh: For Mphasis, given where we sit today, we definitely feel that we have the opportunity and the potential to better the growth over last year. The only caveat I'll make is if the environment gets worse, whether it's macro or geopolitics or something else, then, of course, we'll have to come and tell you again. But at this point in time, as we stand today, we do feel like we are in a place to beat our own performance from last year.

Girish Pai: You also mentioned that you have a greater exposure to verticals which are probably susceptible to second order impact of the macro. So, would you say that the visibility on 2HFY26 is a little weaker as things stand today?

Nitin Rakesh: I'm not sure I can make that correlation between second order impact and second half of FY26 at this point. I don't know maybe if I'm missing something, you want to elaborate?

Girish Pai: No. The second order impact is going to come a little later and then the cost cutting or the postponement is going to happen a little later down the road.

Nitin Rakesh: Yes. You're assuming that the second order impact means that the US goes into a big recession. I don't know if we know that yet. And that's why I said as things stand today. I think if that second order impact has to play out, then we have to see the macro deteriorate a lot more, which I don't know as we stand today. So very difficult to answer that question. Based on where things stand today, I think there's a bit of time and environment watching has to happen for us to get to that determination. Again, having said that, what we're really trying very hard to do is make sure that we go deal by deal, client by client, value framework by value framework and get those deals done.

So as much as possible, we decouple from the impact of either first or second order macro. Not easy to achieve, but that's what we are trying to do because that's the only way we can run a business with a forward-leaning approach. And effectively, it keeps us honest. It's hard work, but that's exactly what we're trying to do right now.

Girish Pai: Okay. My last question is regarding consistency of performance because the last many quarters, we've seen a strong quarter and you have a succeeding quarter, which is weak. Do you think we've reached a stage where we can deliver consistently strong performance quarter-after-quarter from here on because you said that we now have a large deal organization in place and stuff like that? So, do you think we are going to get into a certain level of consistency from here on from a growth perspective?

Nitin Rakesh: Yes. I think I hear you. As I said, right, we've obviously taken many knocks on the chin based on what we've dealt with in the last 3 years, portfolio-wise, macro-wise, direct versus non-direct, all of that put together. So, our attempt is to get a lot more consistent.

Again, what we are doing what we can control, which is, as I mentioned, deal focus, drive account action client by client. So that's definitely one of the reasons why we are focusing on driving FY26 to be better than FY25. And if you do the math, you'll see that we'll probably need a lot more consistent sequential growth through the year for us to get there.

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

Manik Taneja: Congratulations on a steady performance. My question is with regards to our segmental margins. So even while our logistics revenues have been declining for the last couple of quarters, we've seen a bump up in margins. If you could talk about what's driving that?

And the second question was with regards to the strong growth that we've seen in top customers despite the decline in the single largest customer. If you can talk about how do you see growth outlook within some of your major customers that would have to be helpful.

Aravind Viswanathan: Sure. So Manik, maybe I will talk about both of these, right? So, I think one of the earlier questions was exactly this, right? When revenue were to go down, will your margins range kind of give you a cushion on that. And my point was that we have an ability to offset revenue drops by taking out cost, and that's exactly what has happened here, right? So, there is a certain amount of variability on cost as well from a margin standpoint. And this vertical historically has operated at different levels of margins. So, we've kind of tightened the utilization and did a good job of allocating the bench and managing supply chain holistically to protect the margins.

That is something that we will continue to be focused on, and we'll continue to do. So that is one element. On clients, again, it's a complicated correlation that you're doing to say the top account has degrown, etc., because it's an LTM-to-LTM comparison, the way we report it. So, in this quarter, all I can say is we have strong QoQ growth in top 10, and we had a strong QoQ growth in 11 to 30 also. So, it's been a holistic growth driven across. Obviously, some customers would not have grown, and some customers would have grown. But I think it's important to look at it at a basket, right? So, we can't really micromanage metrics like that.

Manik Taneja: Sure. And if I can chip in with one more question. If I look at your longer-term performance on margins and Nitin has been at the helm for almost now 7 or 8 years, in the initial years when the transformation at Mphasis was playing out, we did see an improvement in profitability as the growth began to improve. And in the more recent past, through periods of high demand or stress that we've gone through in the last couple of years, our margins have been maintained. So would it be fair to assume that for us, margins will not benefit from any operating leverage even if growth improves. Is that the way to think about it?

Aravind Viswanathan: Not really, right? There is a range where we have given, and we think that we have an ability to improve. I think there are a lot of puts and takes, right? There are too much of variability from a demand environment standpoint.

I would rather reframe this question like this. I think our priority right now is to convert on our pipeline that we built, right, and convert the wins to revenue. And that's the biggest focus right now. We continue to stay focused and disciplined on margin. But if you ask me, margin improvement is not an independent drive that we are running as much as, let us say, driving the growth trajectory to be a lot more consistent in terms of our revenue growth.

Nitin Rakesh: Manik, if I can just add there, right? Just to add one last bit to that comment. I think the ability to drive margin growth is very much in our hands. We decide not to make a certain degree of investments. Operating leverage will definitely come into play as we convert some of these large deals because that's how you actually build long-term, sticky annuity platform-based revenue.

So, I think we are very aware of the opportunities that come with it. But in the current phase, with the environment and the competitive intensity and the shift in landscape with AI, the prudent thing to do is to focus on growth and not try to do growth and margin expansion at the same time.

Moderator: Next question is from the line of Dipesh from Emkay Global Financial Services.

Dipesh: Nitin, just want to understand, earlier, we've seen pipeline to closure, and closure to a revenue conversion was impacted. Considering in the last 1, 1.5 months, whether you find any challenges to some of those conversions? Second thing is about deal wins. Now if I look, let's say, our deal pipeline, very strong growth over the last many quarters we have reported in terms of the way pipeline is shaping up. Partly, it also starts getting reflected into deal closure. If I look at the last few quarters, deal closure also was very strong.

Considering some of the earlier deal to revenue conversion kind of narrative, the way you answered, do you expect this revenue growth momentum what we have started building is more sustainable, more durable, barring 1 or 2 quarter year as well, but it will be more durable and sustainable. But in your overall narrative purpose, it doesn't come out. So, you just want to get overall thought process, how you see these things to play out?

Nitin Rakesh: Again, good question. I mean I answered parts of that already, Dipesh. So let me just give you a quick summary answer again. You're absolutely right, the deal conversion pace picked up, that obviously is translated to some revenue conversion pace that we've seen in Q4.

I think at this point; we just want to make sure that we continue to get the trajectory of bringing growth back and be a little bit more sustained and consistent about it. Not every quarter will be the same. There will be things that we can see, and there will be things that we can't see. But having said that, that's exactly the direction of travel.

But instead of coming out of the gates and telling you all our challenges are behind us, and now we're going to grow consistently every quarter at a healthy clip, we're just taking an approach where we want to just make sure that we have enough and more momentum built in and early indicators of our pipeline, which is very healthy, indicators of recent TCV wins also healthy. So, let's just give it a quarter or 2 for us to make sure that we have the ability to get consistency in our own execution, because we're dealing with a lot of moving parts here. So, I think that's the way I would ask you to think about it. I don't think there is any debate in the objective or the direction of travel, which is consistent QoQ growth from an organic standpoint.

Dipesh: Understood. And last question is on the win rate side, let's say, in last 6 to 8 quarters, can you comment - because pipeline is very strong. I just want to understand how win rate is changing or playing out for us?

Nitin Rakesh: Yes. I don't think we give that metric out per se. But I think, again, if you see the metrics around new gen deals, now we started talking about AI-infused or AI-led deals or even the proactive deals. The win rate has actually been pretty steady. We have work to do in certain segments. And in those segments, we do expect the strategic engagement team to come in and play a role, and that's how they started to do it. That's what they started to do. So, if anything, I think we would expect the win rate to improve. The pipeline has already improved. And hence, we gave the confidence that the TCV number, at least for the foreseeable couple of quarters should be healthy.

Moderator: Next question is from Ashwin Mehta from Ambit Capital.

Ashwin Mehta: Congrats on decent set of numbers. One question, Nitin, in terms of, say, if I look at your onsite contributions, it's up almost 8% over the last 6 quarters. And in absolute terms, your offshore revenues have fallen. So, one, I wanted to get a sense in terms of nature of these deals and when do we start to see say, the savings being given out to the clients in terms of moving them offshore? Or is it different?

And secondly, we managed margins pretty well despite the fact that there has been such a high bump up in terms of onsite. So, as you go forward and try and give savings to clients, why shouldn't the margins improve?

Nitin Rakesh: The way I will answer that question is I think there are a couple of assumptions in your thesis that I would like you to revisit, because that's the shift we are going through in the industry. I talked briefly about it, but we are moving from a people-based services model to a tech-based solutions model.

That doesn't mean that cost-to-serve at our end is not important or location is not important. But that definitely gives us an opportunity to not be tied to a rate card that may have a lower margin for onshore and higher margin for offshore. That's the first assumption that is starting to get challenged, questioned, addressed, monetized. If we're going to infuse the tech platform, we have to find a way to actually make sure that the tech platform is giving us something more than just a differentiation, right? And hence, the assumption that higher onshore revenue means lower margin, I don't think holds true, especially because of this migration from services to solutions.

Second, I'll just give you a data point. If you look at Q4 numbers, the offshore headcount has actually ticked up, which means the model today is right shoring, right solution, right tech stack, right tech infusion and then you continue to optimize and find ways to not only expand what you can offer back to the customer but also try to keep some back with you.

In the longer term, and I'm not going to put a time frame on what longer term means, if the thesis and the migration plays out well, then you're right. You potentially have an opportunity to expand the margin. Now whether you keep it in your P&L or where you put it back in the business, it's a call we'll take if we get to that happy place.

Moderator: Ladies and gentlemen, we'll take that as our last question. Now I hand the call back to Mr. Nitin for closing comments.

Nitin Rakesh: Thank you, guys, for giving us the time. I know it was early in the day. And I'm energized by our progress on the opportunities ahead. We have a lot of work to do given that we are dealing with a certain set of variables that we necessarily cannot control, but we continue to be laser-focused on execution and growth, and our tech leadership and AI portfolios are helping us attract new customers, grow existing customers and win larger deals. On that note, we look forward to speaking to you guys again at the end of our Q1 earnings. Thank you again.

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