

MANAGEMENT DISCUSSION AND ANALYSIS OF RISKS AND CONCERNS

A truly Black Swan event, unparalleled in the recent history, COVID-19 impacted every sphere of activity across the globe and slammed the brakes on all economic activity. It is yet to reveal its full impact. COVID-19 has accentuated the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) factors in the business environment, making planning for the future difficult. It might be months before we get back to what we may well be calling a New Abnormal. In addition to disturbing the fragile business equilibrium, it has accentuated the possibility of a global economic recession manifold. As businesses shrink, discretionary spending on IT initiatives may come down and will be selective. Given the dismal economic outlook, risks related to growth and profitability are likely to increase.

With the new approach to risk management - Being Agile to Become Anti-fragile –uniquely positions your company to assist its clients with many of the relevant challenges posed by COVID-19. The following paragraphs provide a view of how risk is managed at Mphasis and the status of the important enterprise level risks.

Your Company has implemented an Enterprise Risk Management (ERM) program, benchmarked to COSO ERM framework, adhering to ISO 31000 Risk Management Standard and complying with the Indian Companies Act, 2013 / Companies (Amendment) Act, 2019.

Enterprise risk management (ERM) at Mphasis assists the company in identification, assessment, monitoring, mitigation and reporting of strategic, operations, financial, compliance and information risks. The program is aligned to the business strategy of the Company and has the following objectives:

The ERM program is aligned to the business strategy of the Company and helps to proactively identify, assess, mitigate, monitor and report risks across the enterprise that have the potential to prevent the Company from achieving its business objectives. Broadly, enterprise risks are classified and managed under the following categories:

- I. **Strategy Risks** - These have the potential to impact the entity's mission which arises out of strategic decisions and IT Investments, resource allocation, delivery models, geographical expansion and other activities. These risks are generally non-routine in nature and have high impact on the Company.
- II. **Operational Risks** - These have the potential to impact the efficiency and effectiveness of the business operations.
- III. **Cyber and Privacy Risks** - These have the potential to adversely impact security of information assets and information processing systems and have assumed paramount importance in the current order as the cyber threats have continued to grow both in terms of numbers and in sophistication.
- IV. **Financial & Reporting Risks** - These have the potential to adversely impact the profitability of the Company. These also have the potential to impact the statutory financial statements and transmission of timely and accurate information to stakeholders.
- V. **Compliance Risks** - These have the potential to expose the Company to regulatory, statutory and legal risks.

To provide the appropriate Governance and Oversight, given the criticality of risk management, and to comply with the regulatory requirements, the Company has formed a Risk Governance and Management Committee (RGMC) comprising of Board Members and company executives to assist the Board in discharging its risk oversight responsibilities. This committee reviews the details of Risk Assessments undertaken by the management.

At the management level, the Mphasis Risk Management Committee (MRMC) chaired by the CEO, provides the required oversight for the ERM program and monitors the progress on various identified enterprise risks and periodically reviews the mitigation efforts. MRMC comprises of 6 members and met 8 times during the year ended 31 March 2020. There is a dedicated risk management function headed by Chief Risk Officer to coordinate all risk related activities across the enterprise and who periodically provides status updates on enterprise risks to the Board/RGMC/Audit Committee/MRMC.

During the year, ERM annual risk refresh program was conducted to revalidate and identify new risks which has resulted in increased rigor in monitoring the risks.

In order to assist the business leaders in making informed decisions and to avoid surprises, the Chief Risk Office has undertaken a new initiative of providing "Risk Intelligence" to evaluate and assess the impact of macro risks using G.R.I.C (Global, Regional, Industry & Client) model. This covers macro and global developments that are likely to have impact on the industry as a whole and Company's business strategy.

New risk appetite statements were also embedded as part of the ERM Policy with a view towards improving the maturity of ERM Program based on the industry best practices.

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Global Business Environment– A Contemporary & Perspective View

The world is facing an unprecedented situation across generations with the ongoing COVID-19 crisis which has paralyzed the global business environment and reduced the margin for error. With most organizations lacking the required ammunition, this Black Swan event is demanding a multilateral response, bringing a transformational time for the organizations to reflect, reimagine, reform and build necessary resilience for the future. By the end of it, a “New normal” could be defined for business operating models and it might be a long haul before businesses find their equilibrium. COVID-19 is likely to impact businesses in specific and global economy in several ways, important impacts that can be seen on the horizon are captured below:

1. COVID-19 has accelerated the global economic recession leading to a contraction of major economies especially that of China, US, UK and India. The impact of recession is generally far reaching and lasts for few months before economies start witnessing growth. While Travel & Tourism is likely to face high impact, other sectors in the order of impact may include Auto, Manufacturing, Real Estate, Retail, Financial Services.
2. Absence of a vaccine and medicinal cure will mean that the outbreaks may recur in different intensities in different geographies. Hence there is a risk of continuing and / or intermittent business disruption. This disruption risk coupled with recession is likely to slow down investment and cause companies to rethink some of their large spend projects to conserve cash.
3. Given the above developing scenarios, your Company may face the risk of disruption which may include project termination, delay in renewals and closure of new project. This will impact the topline and bottom line of the Company. However, the Company has plans to mitigate these risks some of which are explained in the subsequent paragraphs.

In addition to the above arising out of COVID-19, the Company’s operating environment is largely influenced by several macro factors – political, economic, social, technological, legal and environmental which pose interconnected risks. Some of the important macro and global factors that pose challenges to the business are captured below:

1. The global geo-political landscape is shifting in the multipolar world, creating new threats to the long-standing vulnerabilities. The unsettled geo-political landscape intertwined with economic tensions may manifest in the form of trade barriers, rules imposing restriction in offshoring, visa/ travel restrictions, and its adverse fallout are macro factors which may impede growth, impact margins, increase cost of operations, pose challenges in free movement of human resources across the globe and our ability to offshore.
2. Technological advancements (such as RPA, AI) are growing and creating new opportunities and reducing the need for human resources to deliver certain services and at the same time posing new cyber security threats.
3. The global legal and regulatory environment is now characterized by national interest on the one hand and protection of data privacy on the other. We have witnessed several countries and regional groups coming up with stringent privacy laws, trade sanctions, compliance requirements for foreign and domestic companies which expose companies to risk of non-compliance, sanctions and penalties thereby increasing the cost of operations significantly.
4. Repercussions of climate change, environmental degradation are no longer a far-sighted risk on the horizon faced by organizations. Availability of resources, natural or man-made disasters could impede clients or sectors and have a ripple effect on the business.

Some of the important enterprise risks/concerns specific to the Company and steps taken by the Company to mitigate these risks are given below:

Strategy Risks

Concentration Risk

Client Concentration Risk: This risk arises when higher percentage of revenue is received from very few clients. The Company has addressed this risk by focusing on four engines of growth – The Direct International Business, the HPE/DXC Channel, Blackstone Portfolio companies and New Business. This strategy of the Company has helped to mitigate this risk to a large extent. The Company also monitors concentration risk within the Direct International business and ensures that this is mitigated. Several other initiatives have also been implemented to de-risk the Company from these risks which includes, programs to develop high stickiness with existing clients, closely monitor the customer satisfaction (CSAT) score of the top clients, grow wallet share of other existing clients and acquisition of new logos.

Geographical Concentration Risk: This risk was identified for mitigation as a high percentage of our revenues came from North America. To ensure this risk is mitigated, the Company has put plans to grow other regions, in particular, Europe. Company has taken several measures during the year and focused efforts are afoot to grow Europe which should address this risk.

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Risk of Capability Obsolescence

Continued growth and success of the Company depends upon its ability to cater to growing customer demands. To ensure consistent and competitive growth, the Company has implemented a Tribe model GTM strategy covering 8 technology plays (Modernization, Next Gen Data, Enterprise Automation, AMS, Next Gen App Dev, DevOps, Cyber Security Services, IMS) thereby mitigating this risk.

The Company has continued to win more new-gen services as compared to the traditional.

Profitability risk:

To ensure safety and continue operations due to COVID-19 your Company has taken several programs and initiatives which involved additional unplanned expenditures which are likely to impact the overall profitability. In addition to this, the cost of human resources has been steadily going up impacting the profitability. Your Company has taken several initiatives to contain cost.

Operational Risks

Risk of Attrition

In the knowledge industry, human resource plays an important and critical role in a company's success. They continue to remain the critical differentiators and loss of these critical resources will pose risk to the Company in delivering the contractual commitments.

The Company has taken several measures to ensure that this risk is adequately managed. Various initiatives have been rolled out to identify risk profiles of employees, to reduce attrition and manage potential market variables. Assessing risk by categorizing employees into Critical Risk, High Risk and Low Risk profiles and providing mitigation plans like role / project change, onsite assignments, salary increase, and promotions have helped in maintaining the right workforce. The Company also ensures that HR interventions such as job enrichment and job rotations are used to retain critical employee talent. Over and above this, skill enhancement, building focus groups, internal job postings and rewards and recognition through various platforms are other initiatives taken by the Company to mitigate this risk. TalentNext program continues to focus on up-skilling and cross-skilling the Company's workforce on next-gen skills technologies. It helps in workforce development and effective deployment of the certified pool.

Risk of non-fulfilment of resources

Fulfilment of resources on a time basis is key to organizational growth. Company has resorted to accurate demand forecasting and leveraging network of specialized partners for fulfilling specialized talents. Various platforms are created and continuous efforts are on with a view to re-engineer the internal skills. Collectively, these initiatives are resulting in positive directional movement of fulfillment percentage.

Contract Management Risk

This was identified as an important risk, as contractual terms legally bind the Company and can adversely affect it in many ways. To ensure that the terms of engagement are not vague, unachievable representations are not made and implementation is possible, a robust function has been created with adequate checks and balances to ensure that this risk is well mitigated. The Company has put in place a robust contract management system, ensuring legal and financial compliance, tracks implementation of contract clauses and manages commercial risks effectively.

Solution risk review and monthly project review are some of the important processes that have helped the Company in ensuring that we accept proposals commensurate to our competencies and the SLAs are properly identified and scope of projects are clearly documented without any ambiguity.

A tool that helps in automating the Contract Management process from initiation through award, compliance and renewal went live during the year. The coverage of the same will be extended in a phased manner.

Risk of not meeting Service Level Agreements

A subset of the above risk is the risk of not meeting the Service Level Agreements (SLA) made by the Company with its global clients. To manage risk the Company has implemented elaborate programs to ensure compliance both quantitative and qualitative in nature. The program includes the entire lifecycle of SLA management from identification of SLAs, monitoring delivery of them and reporting them to the right stakeholders.

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Risk of Fraud

To foster an ethical climate devoid of misconduct at all levels, the Company has implemented a comprehensive Fraud Risk Management System consisting of policies and procedures that provide direction for ensuring antifraud mechanisms as a part of the fabric of the organization. In addition, the Company through various governance structures, such as internal audits, whistle blower mechanisms and an independent investigation team has built a strong framework to detect and mitigate fraud risk. The Company has spent significant time and effort in promoting Fraud Risk Awareness to ensure that the Company has a workforce which is aware of the right conduct and can prevent and detect frauds.

Being a Company operating across the globe, the Company has to comply with several country specific regulations such as Foreign Corrupt Practices Act in the USA and the UK Anti-Bribery Act. The Company has established appropriate mechanisms to ensure compliance to these laws, including guidelines and training. Necessary amendments to the policy structure have been made during the year to bring in additional control rigor.

Risk of Key Client Loss

Today's market is one of compelling competitiveness. Winning new customers is difficult but retaining them is much more difficult as clients are continuously bombarded with options. Unless one can consistently delight the customer, there is always the risk of losing them to competition. The Company has recognized this and has put in place proactive measuring mechanisms to gauge the levels of customer satisfaction from various perspectives, including, satisfaction of customer with the present work, growth of the account and innovative and cost-effective solutions offered by the Company. The CSAT surveys are conducted regularly by an independent team and the scores are monitored closely by the MRMC and reported to the RGMCA/Audit Committee of the Board.

Financial & Reporting Risks

To ensure that this risk is addressed adequately, a separate function is established to oversee and ensure all Regulatory Compliances. This function, in coordination with other functions, ensures that the compliances are executed as per the requirements of the applicable laws and regulations, ensures that the Financial Statements are duly audited by the Statutory Auditors and is reported in a timely manner to the applicable regulatory authorities. In addition, the Company has engaged an external independent audit firm for undertaking internal audits which reports to the Audit Committee and has a robust Internal Financial Control (IFC) framework.

Cyber and Privacy Risks

Continuity and Disaster Recovery Risk

Increased disruptions due to manmade and natural calamities pose a risk to the enterprise Information Technology infrastructure and in turn to the business operations. Recovery and availability of enterprise applications and infrastructure, post any such disruptions, have become critical for uninterrupted service delivery. In addition to implementing Disaster Recovery for the identified critical enterprise applications, the Company is certified on ISO 22301 which is an international standard for Business Continuity Management System (BCMS) and which provides reasonable assurance of continuity of service to clients. The Company has been able to deliver services despite several city level disruptions due to manmade and natural calamities during last year.

COVID-19 caused severe disruption of operations and posed a huge threat to the continuity of operations. While the company was able to manage the disruption risk with minimal adverse impact because of its preparedness, the disruption risk due to COVID-19 is likely to continue for several more months.

Data and Information Security Risk

The information and cyber security threats are growing in types and magnitude and the Company is exposed to different types of risks related to information assets and data breaches. These threats have become highly sophisticated and demands high end technology and process solutions to manage them. To mitigate these risks, the Company has implemented several measures including robust IT security frameworks, a Cyber Security Strategy and is also certified on ISO 27001. This is an international standard on Information Security Management System (ISMS). This certification provides a reasonable assurance to all concerned stakeholders that the Company has implemented adequate data protection and information security measures. The Company implemented certain highly sophisticated technology security solutions to deftly ward off the threat of data breaches and cyber-attacks. Considering that many of our BPO projects process credit card data, the company decided to certify against PCI DSS (Payment Card Industry Data Security Standard) global standard. The first certification was awarded to one of the processes by a Qualified Security Assessor (QSA) from PCI Security Standards Council (PCI SSC). This certification is a very stringent and coveted certification. To provide high order of assurance to clients, the Company undergoes SOC 1 Type 2 audits annually which is undertaken by an independent third-party auditor. In addition to the above measures your Company also hires services of professionals to test the Cyber Preparedness in the form of mock attacks to identify gaps and mitigate them. Despite several major global cyber incidents, the Company did not face any cyber incidents that impacted business operations during this period because of the measures that have been taken.

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Privacy Risk Management

Protection of personal information is becoming a major issue and most clients are concerned about this as they are being scrutinized by regulatory authorities. Governments across the globe are enacting stringent privacy laws and the Company is exposed to the risk of privacy breaches and lawsuits as the nature of the Company's operation involves handling and processing such personal information of clients. To mitigate this risk, the Company has implemented a Privacy Risk Management Framework to ensure that the Company complies with the stringent privacy law requirements in the countries it operates. The Company has implemented measures to comply with stringent requirements of General Data Protection Regulation and these measures are periodically audited and reported to the Audit Committee of the Board. To ensure full compliance to GDPR the company has rolled out a tool during the year for Privacy Risk Assessment. The new California Consumer Privacy Act (CCPA) has come in effect since Jan 2020 and your Company has identified steps to be taken to comply with it.

Compliance Risks

Non-compliance with statutory requirements

With presence across multiple geographies, the Company is subjected to a plethora of legislations. There is a risk of non-compliance or delay in compliance with statutory and regulatory requirements. The Company uses enterprise and global legal compliance tools to track compliance across major geographies. The Company also uses services of professional consultants to ensure compliance with domestic and overseas laws and regulations. The Company has implemented the processes to ensure internal stakeholders of the Company are aware of statutory requirements and maintain required evidence to demonstrate that due care has been taken by the Company to ensure compliance.

Risk of non-compliance to sanctions regulations

Company has implemented a comprehensive Trade Sanctions Compliance framework to ensure compliance to sanctions regulations. The Company has established a 'screening' protocol for potential vendors and clients to ensure that the Company does not deal with blacklisted entities or countries.

Different countries periodically announce sanctions regulations against entities or countries and non-compliance to such sanctions can lead to serious risks and penalties.

Non-Compliance with Immigration Laws

Being in a human resource intensive industry, movement of human resources to various countries for execution of client projects is a necessity. However there have been changes to visa regimes in countries where the Company is operating, including, in the form of increased scrutiny or rejections of visa request. This poses a risk of increased cost of the operations. The Company has put in place several measures such as local campus hiring, offshoring of onsite work and rework rate cards where possible with clients to reduce the impact on margins.

The Industry has seen increased scrutiny by various governments for non-compliance with immigration laws and have levied penalties on non-compliant companies. The Company is equipped with the expertise to handle the complex immigration laws of different countries it operates and has processes to ensure compliance. In addition to a specialist internal team, the Company has enlisted external consultants, wherever necessary, to ensure proper compliance with these laws. Periodic immigration compliance reviews, training and awareness programs are facilitated to ensure compliance with immigration requirements.

Intellectual Property Violation

Intellectual Property is one of the factors that can act as a multiplier in a company's valuation. On the other hand, infringement of trademarks and copyrights of others can lead to severe penalties. The geographies the Company works in and the clients the Company serves give a lot of importance to protection of intellectual property. Any violation in this space will negatively impact the Company's reputation, brand image and can expose it to legal liabilities. The Company has put in place mechanisms to detect and mitigate any probable or inadvertent breach of intellectual property rights. To ensure this the Company has implemented technology-based solutions and has taken several steps to hone the awareness level of the employees to ensure that the Company's IPs are well guarded. Mandatory trainings, knowledge sharing sessions and discussions on best practices are conducted to ensure that this risk is well mitigated.

During the year, the Company implemented an enterprise wide Open Source Software (OSS) Policy and conducted training, with the objective to provide governance around harnessing the OSS regime and ensure compliance with OSS Licenses and Client contracts.