



“Zensar Technologies Limited Q2 FY-26 Earnings Conference Call”

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MODERATOR: **MR. KEVAL BHAGAT – MOTILAL OSWAL**

Moderator: Ladies and gentlemen, good day, and welcome to Zensar Technologies Q2 FY '26 Earnings Conference Call, hosted by Motilal Oswal Financial Services Limited.

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

I now hand the conference over to Mr. Keval Bhagat from Motilal Oswal. Thank you and over to you, sir.

Keval Bhagat: Thank you. Good evening, everyone. On behalf of Motilal Oswal Securities, I welcome you all to Zensar Technologies Q2 FY '26 Earnings Call.

We have with us Mr. Manish Tandon – CEO and Managing Director, Mr. Pulkit Bhandari – Chief Financial Officer, and few other members of the Senior Management Team.

Before I hand over the call to Manish, I would like to highlight that the safe harbor statement on the 2nd Slide of the Earnings Presentation is assumed to be read and understood. Over to you, sir.

Manish Tandon: Thank you, Keval. And hello, good morning, good afternoon, good evening, everyone, and thank you for joining this call on a late Friday evening. Besides Pulkit and Vijay that Keval mentioned, we also have Vivek Ranjan – our Chief HR Officer, Chief People's Officer, also on this call.

This quarter, Zensar delivered steady revenue and margin growth through disciplined execution and a sharp focus on capability building. We continued to scale our AI talent and deepen our commitment to delivering meaningful experiences for our clients.

We are proud to announce the launch of ZenseAI, our next generation platform designed to elevate how we deliver on our core value proposition of Experience, Engineering, and Engagement. In a first-of-its-kind example, we have updated our website, zensar.com, to showcase our AI-led transformation.

I would encourage you to visit our AI chatbot on that website. These milestones reflect our drive to deliver secure, personalized, and enduring value to our clients. Our strategy remains clear, client-centricity, adopt to global shifts, and lead with AI.

Moving towards our quarter performance:

For Q2 FY '26, Zensar reported revenues of \$162.8 million, a year-over-year growth of 4.2% in reported currency, and 3.4% in constant currency. It translates into a sequential Q-o-Q growth of 0.5% in reported currency.

On a Q-o-Q reported currency basis, revenues rose 5.6% in Banking and Financial Services, 3.9% in Healthcare and Life Sciences, and 0.1% in Manufacturing and Consumer Services, while Telecommunication, Media, and Technology declined by 9.9%. This performance underscores our ability to drive momentum consistently, even in a dynamic market environment.

As we mentioned last time, effectively July 1st, we announced annual salary hikes for all our employees. Today, we are pleased to inform you that we have absorbed the impact of one-time bonuses and annual appraisals without compromising our operational pace and margins. Our gross profits improved to 31.0%, sequential growth of 50 bps quarter-on-quarter, EBITDA improved to 15.4%, sequential growth of 20 bps Q-o-Q, and with improved utilization. This coupled with 9.8% attrition demonstrates our commitment to employee recognition and financial discipline, while continuing to execute our strategic priorities.

With that, I will now invite Pulkit Bhandari- our Chief Financial Officer, to provide an update on critical financial data.

Pulkit Bhandari:

Thank you, Manish. Good day, everyone. Thank you for joining this call.

I will take you through some of the key business and financial metrics for the quarter ending September '25:

The overall macroeconomic environment remains unchanged. Evolving U.S. policies, particularly around trade tariffs and visa regulations are creating further challenges across businesses. However, cost optimization and productivity-linked programs are gaining traction, supported by cloud modernization, cybersecurity, and early generative AI initiatives. Clients are increasingly focused on vendor consolidation and outcome-based engagements, driving selective deal momentum. The reported revenue for the second quarter of financial year 2026 stood at \$162.8 million in U.S. dollar terms, reflecting a growth of 4.2% Y-o-Y and 0.5% sequentially in reported terms. In constant currency terms, Y-o-Y revenue grew by 3.4% and sequentially it remained flat.

Our EBITDA this quarter expanded by 20 bps sequentially, despite absorbing impact of wage hike, offset with favorable exchange gains. Additionally, operational improvements such as enhanced utilization, improved shore mix, and targeted cost control initiatives have contributed positively to our margin performance. Our PAT for the quarter stood at 12.8%.

Some other key highlights:

- We launched ZenseAI, agentic AI platform to drive enterprise-level innovation and intelligence.
- Zensar was named a challenger in Avasant Digital Masters Award in 2025.
- Our order book for the quarter stood at \$158.7 million.
- Our book-to-bill ratio for the first half of the year is 1.02, indicating a sustainable business momentum.

- Cash including investments, stood at \$293.0 million post-dividend payout declared in previous quarter.
- DSO increased by 3 days to 75, majorly due to exchange impact.
- Our attrition was constant at 9.8%.
- Our diluted EPS grew to INR 7.9 per share, which is 16.2% growth Y-o-Y.

On ESG front, Zensar received CRISIL ESG score of 71, up from 69, placing it in CRISIL's highest "Leadership" category for ESG ratings.

With that, I will now invite Vijay, our Chief Operating Officer, to comment further on Q2 FY '26 results.

Vijayasimha Alilughatta: Thank you, Manish and Pulkit. Greetings, everyone. I will share details about our operational efficacy, Service Line performance, and AI journey.

Our utilization for the quarter stood at 84.8%, which is 200 basis points higher Y-o-Y and 50 basis points higher Q-o-Q. The rigor associated with accelerated fulfillment and capability enrichment continued in Q2 FY '26.

We had a gross addition of 831 employees. Our voluntary attrition was 9.8%. This is the third successive quarter where our voluntary attrition has been below 10%.

The offerings from our service lines and industry services groups continue to resonate well with our clients.

- The share of revenues from our service lines increased to 68.0%, which is 150 basis points higher Y-o-Y.
- On a Y-o-Y reported currency basis:
 - Cloud Infrastructure and Security Services grew by 14.1%
 - Data Engineering and Analytics grew by 9.2%
 - Products and Platforms, including CMO Services, grew by 4.3%
 - Enterprise Application Services had a degrowth of 2.6%.

Our ZenseAI platform continues to find resonance among our clients. We have further enriched the agent library of our platform by creating many relevant industry-specific domain agents. We have also created agents that accelerate legacy modernization.

AI capability enrichment of our people has gained additional momentum. Over the last 4 months, more than 5,000 people have deepened their skills by leveraging the multi-tiered learning journeys in AI, Gen AI, and Agentic AI.

We have also intensified the focus on enhancing the leadership proficiency in emerging AI areas, thereby creating a pool of strong strategic consultants who guide clients on their AI first transformation journey.

We continue to deliver significant value to our clients in key AI engagements. Some examples of value delivered are:

- We executed an application modernization program for a global financial major as part of their customer experience improvement program, leveraging our innovative Gen AI solutions across the SDLC cycle, we were able to accelerate go-to-market by 25%.
- We have built a real-time AI-powered fraud analytics solution to process mobile claims. The model reduces the workload for claim processing by 40%, with an accuracy of 96%.
- We delivered a computer vision-based defect detection system that significantly enhances a leading client's quality control processes in industrial tube manufacturing.
- We are partnering with a large retailer to create an agentic AI-based ecosystem to build APIs in a factory model. This is driving cost efficiencies to the tune of 70%.

With that, we can now open the line for questions.

Moderator: Thank you very much.

We will now begin with the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Our first question comes from the line of Nitin Padmanabhan from Investec India. Please go ahead.

Nitin Padmanabhan: Yes. Hi, good evening, everyone. I think we had a good quarter from a BFSI and Healthcare perspective, but I think TMT has been a pain point again. And it appears, at least on the service line side, that this is on the experience services side. Could you give us some context there? And do you think this has sort of bottomed out from that perspective? Any color Top Client versus Experience Services alone? And do you think it's bottomed out? So, that's the first question.

Manish Tandon: Hi, Nitin. Thank you for your question. This is Manish. So, yes, we have seen a good amount of traction in all our other verticals except TMT. And what I would say is I see a more secular trend on TMT in terms of the amount of money that is being put in CapEx by some of our clients. And you would have seen a lot of announcements in terms of rationalization of workforce and RIFs that they have done and that they are planning to do.

As a very senior CEO said that you can have either GPUs or people, not both. So, we are seeing that a lot of OpEx is being rationalized in the TMT space to spend it on CapEx-related things. And we don't see this trend going away in a hurry, unfortunately.

The fortunate thing for us is that as we have been saying that our exposure to the TMT sector has been coming down successively. And hence, the impact on us will hopefully be less going forward as compared to others who have higher exposure to the sector.

Nitin Padmanabhan: Got it. Got it. So, we have 2 verticals which haven't been really firing, right? So, one is TMT and one is MCS. It's done maybe slightly better earlier, but this quarter has been soft. What do you think will sort of get a consolidated double digit growth for us? Because I think last year we did 2 large deals and anything on that front that could sort of help improve growth, anything from an acquisition perspective that could help sort of alter the portfolio in some form. How are you thinking about this?

Manish Tandon: So, Nitin, to be frank, except for this TMT headwind, I am feeling very, very positive about our business. Our pipeline is quite good, including our large deal pipeline.

From a pipeline perspective, we have one of the highest qualified pipelines that we have seen in our history, including a good large deal pipeline. It's just a matter of converting some of these things in the next couple of quarters.

And you know we are a company that is focused a lot on execution. So, I feel, except for this TMT headwind, I actually feel very good about our business. I feel good about, as I said, our pipeline. I feel very good about the fact that despite giving salary hikes and taking about a 2% EBITDA hit, we were still able to deliver mid-teen margins.

So, again, as I said, I feel very good about what we are doing on AI. And as I said, except for this TMT thing, feel pretty good about the business.

Nitin Padmanabhan: Got it. Got it. Very helpful. Any thoughts on the deal wins? This quarter has been soft. You think it's just a timing issue and it should start coming back? Because at least it looks like the pipeline is pretty strong and all of that. So, you think we should start seeing a bounce back from a deal win-closure perspective?

Manish Tandon: Yes, I think it's just a timing issue. Because of the Liberation Day, tariffs and all that, uncertainty was introduced in the market. So, a couple of deals got shifted to the next quarter. Also, when I looked at it, typically this quarter is low on renewals, because most of the renewals happen in Q4 or in Q1. And it's summertime in Europe, so again, business is a bit slow there. But when I go deeper into my order bookings, I see a reasonable amount of traction on Existing New and NN. And hence, I am not really too worried about what I am seeing there.

Nitin Padmanabhan: Perfect. Perfect. Thank you so much. I will come back for a follow-up. All the best.

Manish Tandon: Thank you, Nitin.

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

Sandeep Shah: Yes. Thanks for the opportunity. Manish, if I look at the book-to-bill in this quarter being 0.97x, which is one of the lowest in the last 11 quarters, and even if you need to report a flat TCV this year, the ask rate in the next second half would be about \$220 million. That looks like a tall task.

And business visibility in terms of growth beyond FY '26 will be dependent upon TCV growth happening in FY '26. So, in that scenario, are you worried that the billed TCV this year may hamper the growth in the next year outside TMT as a concern which you have highlighted?

Manish Tandon: So, Sandeep, again a great question. Look, am I worried? I am paranoid about everything. But this is not something that I am really worried about primarily, because I think the pipeline that we are dealing with is pretty good. It's a question of being able to convert a couple of them quickly. And we are hoping that we will be able to announce some of them soon enough.

So, I am not unduly worried about it overall. And again, it's a question of perspective. If that hit on TMT was not there, we would have grown something like 4% this quarter, right? So, it's a matter of perspective. And as I said, I feel good about our business.

Sandeep Shah: Okay. Manish, just further here, are you targeting TCV growth this year that will happen on \$775 million TCV booked in FY '25?

Manish Tandon: See Sandeep, there are only a few numbers that I track and worry about. And like you, I am most worried about top line and bottom line, and that is where the focus is.

Bottom line, as I said, we have been very focused and consistent in terms of mid-teens EBITDA delivery. In fact, our PAT, if you look at cash conversion of our EBITDA, it's one of the highest in the industry. Our PAT is 12.8%, close to 13% on an average. So, that is really, I feel, exceptional overall.

So, to answer your question, am I really looking at higher, lower TCV or am I really worried about it. I don't think so.

Sandeep Shah: Okay. And just last few things, 3Q generally has a furlough season for you and the industry. How do you see the performance in 3Q this time?

Manish Tandon: See Q3 is a weak quarter for everyone in the industry. The furlough impact will be there. It will happen to us also, like others. The only silver lining in the drop in TMT in Q3 is that the furlough impact will be perhaps less in Q3 than it would have been had TMT grown. So, I don't see any material change in the furlough situation overall for the industry. But since our exposure to TMT has successively reduced over the years, I am hopeful that we will not be impacted as much.

Sandeep Shah: Okay. And just last thing, offshore revenue mix has gone up. So, is it fair to assume the volume growth is higher than the headline growth?

Manish Tandon: Yes, we are. One of the reasons why we have been able to deliver better margins is that we have been able to get a lot more work done offshore, and that is a positive for us. And we are seeing some amount of volume growth. Obviously, although our headcount is not increasing, but our utilization is increasing. So, yes, there is perhaps more volume growth than what is being reflected in the revenues.

Sandeep Shah: Okay. Thanks. I have a question on margin. Will come in the follow-up. Thanks.

Manish Tandon: Thanks, Sandeep.

Moderator: Thank you. Our next question comes from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Hi, thank you for the opportunity, Manish. Just wanted to prod you with regards to a weakness that we have seen in the Hi-tech vertical. If you could help us understand, is this some particular customer specific as has been the case over the course of last several years? Or this will be probably more broad-based, and especially given over the course of last 2-2.5 years, you have focused in terms of diversifying the presence in this industry segment. That's question number one.

The second question is with regards to our performance in other verticals like Financial Services. If you could help us understand what are you seeing on the ground and how should we be thinking about possibly the furlough value? You did mention that the furlough impact will be much lesser, but it will be good to understand in terms of how you are thinking about furloughs compared to the July quarter, heading into the third quarter in the Hi-Tech world. Thanks.

Manish Tandon: I think I have answered the first question, but I will reiterate it that it doesn't matter whether it's 1 client or 2 clients or 3 clients. What we are seeing is that there is a secular trend in the technology, particularly in the technology space where they are investing heavily on CapEx, on GPUs, on data centers, and that money has to come from somewhere, and that money is currently being shifted from OpEx.

I am sure you are reading the same newspapers that I am. Almost everyone has announced a significant layoff in the tens of thousands, not in thousands. So, I would say it is more a secular trend than a client-specific trend that we are seeing.

On the other vertical, as I said I have been very positive about. We are doing really, really well, knock on wood, in Banking and Financial Services and Insurance. We are doing well in Healthcare and Life Sciences.

I think things are really picking up in Manufacturing and Consumer Services for us. And if you look at the other things, things are looking up for us in both Africa and in Europe. Almost all other parts of the business seem to be doing okay. And as I said, it's just a question of making sure that we can take the hits in TMT, and we can make up for those in the other verticals.

Manik Taneja: Sure. And one last question with regards to our non-delivery workforce. We have seen a significant increase in the first half compared to last year. Is this some reclass issue or there is significant investment around sales and account management that you have probably stepped up to this first half of the year?

Manish Tandon: I am sorry, can you explain what you mean by non-delivery workforce?

Manik Taneja: So, I was just referring to the non-delivery workforce. At least it appears to...

Manish Tandon: What do you mean by non-delivery?

Manik Taneja: So, the overall headcount minus the technical headcount.

Manish Tandon: Okay, just give us a minute.

Pulkit Bhandari: This is a minor increase of around 40 people. And this is across the board. It is not just basically sales. It will be across multiple other functions which are there. So, we don't really see this as any major deviation or major cost.

The workforce is basically on sales as well. But yes, this will be each and every headcount which may be there in multiple support functions.

Manik Taneja: Okay. And one last clarification question. You mentioned about confidence of closing certain large deals for you in the foreseeable future. If you could help us understand or provide us some color as to which industry segments are you essentially seeing some of these deals being in advanced stages. Thank you.

Manish Tandon: All I can say is that we are seeing these in sectors where we are doing well, and we are not seeing these in sectors where we are not doing well. Beyond that, I would not like to comment.

Manik Taneja: Thank you, Manish. Wish you all the best.

Moderator: Thank you. Our next question comes from the line of Keval Bhagat. Please go ahead.

Keval Bhagat: Thank you for the opportunity. Manish, so in the last quarter, you have highlighted that nearly 30% of active pipeline was AI-driven, right, and then 20% of bookings were AI-driven. So, has that proposal increased or decreased in Q2? What kind of client use cases are scaling faster? And in which vertical we are seeing a good amount of traction?

And also, could you share an early feedback on ZenseAI adoption? So, are clients moving from a pilot to production stage? Or are you beginning to monetize this platform beyond POC stage? Yes. Thank you.

Manish Tandon: So, I just wanted to share that good news with you and thank you for asking that question. 28% of our order bookings this quarter are AI-influenced order bookings. Now, I just want to clarify what AI-influenced means. AI-influenced means that we led with an AI-infused solution to the client. And from last quarter, as you said, 21%, this quarter, it is about 28% overall. Pulkit, do you want to add any more color?

Pulkit Bhandari: No, I think that's good enough. On this kind of solutions which...

- Manish Tandon:** Yes, solutions. Vijay, you want to give some color on all the interesting stuff that we are doing on AI? And hey guys, just go to our website and there is this beautiful chatbot, that AI-bot, not chatbot, AI-bot that we have created on our website. It even answers financial questions. So, you can ask the quarterly revenues for the last four quarters and all and it will give you some of those numbers. You can ask us about our capabilities, etc. I mean, this is true AI in action. Vijay, over to you.
- Vijayasimha Alilughatta:** Yes, I think on the ZenseAI platform, we are seeing a lot of traction and resonance with our clients. Broadly, there are 2-3 dimensions where the clients are leveraging it. The connected intelligence framework is helping our clients look at the overall, how to leverage their intelligence and then build applications on top of it. So, that is really working well. The agents associated with legacy modernization, that's finding a lot of traction. We've also built specific industry level agents that help in things like fraud detection, automation of testing and things like that. So, definitely there is a lot of traction and in the coming days, we expect that this will drive further growth on our AI space.
- Keval Bhagat:** Yes, that was helpful. Thank you.
- Moderator:** Thank you. Our next question comes from the line of Girish Pai from BOB Capital Markets Limited. Please go ahead.
- Girish Pai:** Thanks for the opportunity. Manish, you had mentioned that you would aspire for a double digit growth in FY'26. So, that would have meant a fairly decent quarter on a QOQ basis in 2Q. So, did this slow growth come as a surprise to you? And this CAPEX that you're talking about being done by the high tech customers has been happening for a while now. So, did something change? Was there some vendor consolidation exercise that you lost out on, stuff like that? If you can give some color on this?
- Manish Tandon:** There is no, as I said, this is a secular trend that we are observing. There is no vendor consolidation that has impacted us to the best of my knowledge. And I think my knowledge is pretty good on this front. So, that was on TMT. What was your first question, Girish, on double digits?
- Girish Pai:** Yes, you mentioned double digit growth. And did the quarter come as a surprise to you?
- Manish Tandon:** Yes, the quarter came as a surprise to us. But the industry growth rate of 4% to 6% or even less. NASSCOM's revision downwards of the industry growth rate also came as a surprise to me. And I think it's high time we recalibrate what we expect from the industry.
- Girish Pai:** Okay. Do you think FY'26 is going to be a better growth year compared to FY'25 now that we are facing, I mean, we are in Q3 with furlough situation and stuff like that?

- Manish Tandon:** Girish, see, I don't want to comment on future. We don't give guidance, as you know. So, I don't want to comment on growth rate for the rest of the year. So, I would guess that you have to make your own estimates based on the commentary that you are hearing.
- Girish Pai:** Okay. And just on the margin walk on a QOQ basis, you mentioned something like 200 basis point headwind from salary hike. So, what were the offsets for that?
- Pulkit Bhandari:** So, what we had called out, I think, last quarter as well, is that roughly around \$3.2 million is the cost of salary increase, which comes into this quarter. That has been offset largely by better utilization, improved shore mix and some targeted cost control initiatives that we had planned for. So, I would say all that came together to help us absorb this headwind on basically salary increase in a successful way.
- Girish Pai:** Was there any FOREX tailwind? And can you quantify how much that was?
- Pulkit Bhandari:** So, there is no quantification that we will give on the FOREX part. But was there some partial benefit on account of FOREX? Yes, there was partial benefit on account of FOREX as well.
- Girish Pai:** Okay. My last question is on margins. Do you think we are underinvesting either from wins perspective or from a capability building perspective or from an AI platform perspective? And has this come late or should we aspire for slightly lower margins?
- Pulkit Bhandari:** No. So, the short answer is that are we underinvesting? No, we are not. And one of the key reasons as to why we give broader guidance on margin, not specific, is because we want to keep the flexibility of investment at our end. So, no, we are not underinvesting. We are rightfully investing in all the areas that we should be focusing on.
- Girish Pai:** Okay. Thank you.
- Moderator:** Thank you. Our next question comes from the line of Shradha Agarwal from AMSEC. Please go ahead.
- Shradha Agrawal:** Hi. Two questions from my side. So, Pulkit, did we see any impact of the new ESOP scheme which got effective this quarter? And if yes, what was the impact and what should we build in for second half of the year?
- Pulkit Bhandari:** So, Shradha, basically the new ESOP scheme was approved mid of September. So, the impact that you saw is only for 18 days. That is point number one.
- Second, rather than basically building a specific impact or number on ESOP, what I would request you is to triangulate the margins in the mid-teen range that we have been talking about, which gives us the flexibility to invest not just in people but also in capabilities. So, I think that is where we will be for the next few quarters. And that is what we have been guiding as well.
- Shradha Agrawal:** But what should be the ballpark range of ESOP impact on margins?

- Pulkit Bhandari:** Whatever the impact...
- Shradha Agrawal:** Not 18 days, but I am saying for a full quarter impact.
- Pulkit Bhandari:** That is what I am saying. Even for the coming quarter, what you have to triangulate is roughly the same mid-teen guidance that you are seeing.. So, there is no real reason to give a specific number. But mid-teens is what you should be working with.
- Shradha Agrawal:** Got it. And if I look at your margin composition, actually on gross profit, we improved our margins by 100 bps despite the 200-bps impact of salary hike, one-time bonus, and 18 days impact of ESOP cost that you are talking of. So, I do understand that rupee depreciation would have helped margins. But apart from that, what was the lever that helped us sail through all these negatives and still show 100 bps gross profit margin expansion?
- Pulkit Bhandari:** So, as I said, rupee, utilization, mix, and there were certain targeted cost control initiatives as well. So, ASR is something that we knew is going to basically come, which we knew basically in Q1. And we at least had no plans to defer it like say some players would do. And to that extent, we planned around it. And to that extent, those cost actions helped us negate the ASR increase.
- Shradha Agrawal:** Got it. Thanks. And one question for you, Manish. I know there have been a lot of views around layoffs in tech companies. But when we look at the growth numbers reported by your peers in the same segment of high tech, broadly, to my best recall, most companies have reported sequential growth, despite the same industry headwinds impacting them as well. So, what was the specific reason that you would attribute to Zensar that has led to a very sharp decline for us in particular?
- Manish Tandon:** I would just say that don't look at a quarter, a single quarter in isolation. One swallow doesn't make a summer. So, look at the overall trend and see, for some of us it might hit us early. People with more discretionary spend as a part of the revenue mix will get impacted earlier. Those who have more annuity-based spend will get impacted later. And that's why I wanted to highlight that I am seeing this as a secular trend. And we should not be reading it as just an individual Zensar trend. As I said, for some, it will come now. For some, it will come later. And hopefully, things will improve. For some, it may not come at all, even in maybe Q4 or Q1. But that would be more related to nature of business and their client portfolios, rather than that this secular trend is not there.
- Shradha Agrawal:** Got it. And just one clarification, Manish, if I can. So, there was no preponement of furloughs that we had seen last year in 2Q that had an additional bearing?
- Manish Tandon:** No, there is no preponement of furloughs. And Shradha, you've been asking about margins. I just want you to know that as a management team, we are very committed to maintain margins. There will be things every quarter, up, down, etc. But again, we plan for it, we look at it, and we make sure that we try and stick to that range that we have guided for. Takes a lot of effort, and

it takes a lot of planning to get it done. So, I would say, I would advise that we all focus on the overall margin profiles rather than the individual elements of it.

Shradha Agrawal: Got it. This is helpful. Thanks, Manish. Thanks, Pulkit.

Moderator: Thank you. Our next question comes from the line of Jalaj from Swan. Please go ahead.

Jalaj: Thanks for the opportunity. Manish, apologies at the start for again harping on the TMT vertical. But just one question. So, should we consider this as the newer base in terms of the absolute numbers or there is more pain to see from here? Because what you called out looks like a structural change, then the priorities of the spends will change. And if we are not present in those areas, obviously in the CAPEX related, then the revenue streams would not flow to us. So, how should we understand this? And then maybe not just next quarter or broadly, so I am trying to understand.

Manish Tandon: See, the sector has been stressed for quite some time. So, I don't know and I don't really have a crystal ball to say that, okay, this is the worst and is behind us or the best is ahead of us or whatever. But the sector has been under stress, not only for us, but for others also across the board. And so this is not a one-time thing. And I would say something or the other keeps happening in this sector. Now, this time it is GPUs. Then last couple of years, they had overspent after COVID and they were trying to rationalize the cost. So, till now, I would say this is a sector under stress. I frankly don't know. And whoever says they know, maybe I should seek their advice because the way AI is evolving is changing pretty much every day. So, I am not sure how I can be certain as to what will happen next quarter or quarter after. But as I said, this sector has been under stress for quite some time.

Jalaj: Got it. Manish, just a follow up on that part. So, I get what you were saying and it makes logically sense. But considering the discussions you are having with the clients since you are the closest to them, what sort of discussions are you having as in there is more to come or in the near term, what sorts of discussions with the clients are you having?

Manish Tandon: Clients in this space only talk of one thing, AI. As simple as that. Rest, they are very keen on showing to the world that AI can drive productivity improvement. The best way of showing that is by showing that they can do the same with less number of people, period. So, that is the conversation that I am having with almost all the clients in this space. Everyone is very bullish about AI. Everyone wants to prove that they are at the bleeding edge of this and everyone wants to prove to the rest of the world that AI is delivering value and improving productivity. Now you can figure out how you want to interpret it. So, that is where you asked me truthfully. I am answering truthfully. This is what I am hearing.

Jalaj: Thank you. That was very helpful. And the second question was around that while you had started this journey at Zensar, there was an objective or an aspiration to start to move towards the top quartile or every year to move to the next quartile in terms of growth amongst our peers. So, where are we on that journey and has there been any change in that aspiration or that phase?

- Manish Tandon:** Last year we were number four in the industry performance and revenue growth in terms of INR terms. And this was when at least two of those three players ahead of us had done inorganic stuff and we had not done anything material inorganically. So, I think we are doing well on the overall target that we have set for ourselves. And again, I would say in terms of INR terms, if you see our year-over-year growth, we would still be somewhere in the top half of the range rather than in the bottom half of the range irrespective of this quarter.
- Jalaj:** Got it. My only point was as an investor or somebody who's involved with you guys, we would want that journey to accelerate. So, I just wanted to know your thoughts.
- Manish Tandon:** I also want that journey to accelerate. But again, we are part of the same market, right? So, if there are headwinds in the market, then it impacts all of us. I am still running at 100 miles an hour. But if the headwind is 50 miles an hour, then the average speed is 50 only, right?
- Jalaj:** Understood. So, what I wanted to understand is if there is any more investments you need to put in for any sorts of capability building that you are aspiring for or investing in, just some thoughts around that?
- Manish Tandon:** No, as Pulkit rightly said, we solve for our investments. As a management team, we are deeply committed to our shareholders. We use our cash judiciously. We invest in things judiciously. And believe me, if we have to invest for growth, that investment is being made. We are not shirking away from making that investment.
- Jalaj:** Understood. Got it. Thanks a lot and best of luck.
- Manish Tandon:** Thank you.
- Moderator:** Thank you. Our next question comes from the line of Sandeep Shah from Equirus Securities. Please go ahead.
- Sandeep Shah:** Thanks for the follow up. Manish, just in the 1Q earnings call, you said worst seems behind in TMT. But you also made a statement, will it lead to a Q-on-Q growth? You said you are not sure about the same. So, is it, that there is a sudden change which given you a negative surprise in 2Q versus 1Q? And on a longer term basis, as you are saying, it's a secular trend, what are the corrective measures we are taking in terms of diversification and making sure that the TMT journey does not impact the growth? Because that has been the cause in the last many years.
- Manish Tandon:** Yes, true. Thanks, Sandeep. I mean, you have been following us for very long. Our share of TMT has been progressively coming down year-over-year. And really, the only solution is to grow other parts of the business much faster than what TMT can decline. And as the share of TMT business has declined overall, we find that we are progressively improving our risk profile from TMT. So, just to put things in perspective, FY'24, 27.1% of our revenue was TMT. Now it is only 20% in this quarter. So, we have been and despite this decline, we have still been delivering revenue growth, right? So, that strategy still remains in play. As you can see, all other

verticals, we have seen growth. And we will continue to play on that strategy. I mean, there's no point in going after, if there is a secular decline in a vertical, then there's no point in investing excessive energy into that. The marginal rate of return is fairly limited.

Sandeep Shah: And just on manufacturing consumer service, you were expecting growth to come back in this quarter. Though the decline is lower, but still there is a constant currency decline of 0.6% in this quarter. So, how do you see growth prospects in this segment?

Manish Tandon: Good pipeline is all I can say. We have a fairly good pipeline in this thing. And good news is that in normal currency, it still grew 0.1%. MCS still grew 0.1%. And I think this quarter is also a quarter where there is a lot of spend in retail because of season time, and so on. So, we also have a decent pipeline in this sector. So, I am not too concerned about this sector.

Sandeep Shah: Okay. And just curiosity about how is the dependence on the H1B visa for us now? And how do we see to reduce that going forward?

Manish Tandon: See, we are not H1B dependent at all. Out of, I mean, there is some information that we have, we hardly have less than 3% of our people using H1Bs of the overall workforce, less than 3%. Also, as a company, we have been consciously trying to hire locally for a very long time. So, we are not as dependent on H1B as some of our peers. And anyway, Sandeep, this is going to impact only in November of next year. And because this new rules are applicable only in the new lottery. And one year is a long time in any business and it's a very long time in politics.

Sandeep Shah: Thanks and all the best.

Moderator: Thank you. Our next question comes from Dhanshree Jadhav from Choice Institutional Equities. Please go ahead.

Dhanshree Jadhav: Thanks for taking my question. My question is pertaining to discretionary spending. I would like to get your thoughts on how your client conversations have been this quarter regarding the discretionary spend. I mean, the discretionary spending is higher compared to peers, so on that front. And also on AI-led productivity gains, if you can share how that is infusing or improving our margins, some qualitative aspect would be helpful. Thanks.

Manish Tandon: So, on discretionary spend, any AI-related discretionary spend is very welcome by clients. Any non-AI-related discretionary spend is a tough call to take by clients. As you know, with Liberation Day tariffs and things changing every day, there are enough and more uncertainties. And in an uncertain environment, typically you will do mostly non-discretionary projects. But as I said, as far as AI is concerned, it's open season for discretionary projects also. Regarding the benefits of AI, productivity benefits of AI, it's too early to call it out. And what we are trying to do is making sure that the benefits of whatever are shared significantly with our clients. So, that is where we are using it more as a competitive lever rather than a productivity edge.

Dhanshree Jadhav: Thank you. That is helpful.

- Moderator:** Thank you. Our next question comes from the line of Kuber from Axis Securities. Please go ahead.
- Kuber:** Thank you for taking my question. Most of my questions have been answered. Just one question. In terms of demand, where we are witnessing growth in terms of geography?
- Manish Tandon:** As I said, except for TMT, we are seeing pretty good pipeline. In terms of geography, I mean, if you leave aside TMT, then we are seeing growth in US; we are seeing growth in UK and Europe; we are seeing growth in South Africa.
- Kuber:** And moving ahead, because we have seen a sequential decline in the US, so are we expecting any sequential decline further or is it going to get revived?
- Manish Tandon:** No. See, again you can't mix vertical. See, as I said, except for TMT as a vertical, which is concentrated primarily in the US, we are seeing positivity everywhere, at least in our business.
- Kuber:** Okay. That's it from my side.
- Manish Tandon:** All right, I think hopefully this was the last question. We are at the end of this time. So, first of all, again, I want to thank you all for spending your time on a Friday evening, and wish you all a great weekend ahead. And as we look ahead, we can see the uncertainty in today's global market landscape. But we see this not, we see this AI particularly as an opportunity. It is not a threat. It's a big opportunity for all of us. And as your management team responsible, we are very, very keen on making sure that we come out winners in this AI opportunity that is presented to us. We remain focused on delivering differentiated value through innovation, operational discipline and deep commitment to client success. So, road ahead is dynamic, we all know, but we are very confident of our strategy, our people and our ability to turn market shifts into momentum. Once again, thank you for being on this call on a Friday night, and have a good weekend, everyone. Thanks.
- Moderator:** Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.