"Zensar Technologies Limited

Q1 FY '27 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Zensar Technologies Q1 FY '27 Earnings Conference Call hosted by Asian Market Securities Private 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shradha Agrawal from Asian Markets Securities. Thank you, and over to you, ma'am.

Shradha Agrawal: Thank you, Alriac. Good morning, everyone. On behalf of Asian Markets Securities, I welcome you all to Zensar Technologies Q1 FY '27 Earnings Call. We have with us today from the management team, Mr. Manish Tandon, CEO and Managing Director; Mr. Pulkit Bhandari, Chief Financial Officer; and a 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 second slide of the earnings presentation is assumed to be read and understood.

Over to you, sir. Thank you.

Manish Tandon: Thank you, Shradha. Hello, good morning, good afternoon and good evening, everyone. Thank you all for taking the time to join us today to discuss Zensar's financial results for the first quarter of financial year -'27. With me on this call are my colleagues:

- Pulkit Bhandari, Chief Financial Officer, and
- Vijayasimha, Chief Operating Officer.

Let me begin with a brief perspective on the broader environment first. The global macroeconomic backdrop remains uncertain. Geopolitical volatility, shifting trade dynamics, evolving policy framework continue to weigh on business sentiment and investment allocation.

Yet, the IT industry has shown remarkable resilience and beneath that resilience, we see a structural shift. Clients are moving past technology modernization towards AI native transformation, reimagining entire operating models to improve service quality, reduce complexity and unlock sustainable productivity gains.

This is one of the largest opportunities our industry has seen and Zensar is well positioned to leverage it. This quarter marked a significant milestone in our AI journey with the launch of the ZenseAI.AgentMesh, a universal enterprise platform for discovering, building, deploying and governing autonomous AI agents at scale.

Building on that foundation, we have moved decisively from strategy to adoption. We are actively introducing AI native offerings, expanding partnerships across the AI ecosystem and investing in AI certified talent. Together, we strengthen our ability to help clients adopt frontier and sovereign AI innovation and capture measurable value while upholding the highest standards of governance, security and enterprise-grade controls.

Turning to our financial performance for this quarter. The company registered a revenue of $159.5 million, representing a sequential quarter-on-quarter growth of 1.1% in constant currency. In INR terms, this equates to year-over-year growth of 8.9% and a sequential quarter growth of 4%, reflecting continued revenue momentum despite a dynamic demand environment.

Within our vertical portfolio, Banking, Financial Services and Insurance vertical remained a strong growth driver, delivering 8.3% sequential quarter growth in constant currency.

This was partially offset by softness in select markets, reflecting the stresses in the broader environment with revenues declining by:

- 3.8% in Healthcare & Life Sciences.
- 2.3% in Manufacturing & Consumer Services. and
- 9.1% in Telecom, Media & Technology.

Beyond revenue, our operational metrics underscores the strength of our execution.

- We expanded our workforce by 5.2% sequentially.
- We increased our $10 million+ client count by 4 as compared to the last quarter.
- Our utilization improved to 85.1%, up 80 basis points sequentially, while voluntary attrition remained in an industry-leading low at 9.6%.
- Additionally, we were ranked 6th in India's best companies to work for 2026 by Great Place to Work. And this converted into an overall rank of number 1 in IT services sector category.

Together, these metrics reflect our disciplined operational focus, enriching talent culture, and continued progress against our strategic priorities as we position the business for sustainable and long-term growth.

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

Pulkit Bhandari: Thank you, Manish. Good day, everyone. Thank you all for joining this call. I will take you through some of the key business and financial metrics for the quarter ending June '26.

The reported revenue for the first quarter of financial year '27 stood at $159.5 million, reflecting a growth of 1.1% sequentially in constant currency terms. In reported terms, sequentially, it grew by 0.7%.

Our EBITDA this quarter contracted by 150 bps sequentially driven by

- Pre-staffing and transition for large deal setup, which is around 2%.
- Increase in other costs, which is around 1.5%, which includes increase in travel, visa and training costs.

This was offset by

- Positive forex impact of 0.8%,
- Reversal of management bonuses of 1.3%.

Our PAT margin for the quarter stood at 12.2%, contracted by 220 bps.

Some other key financial highlights:

- Order book stood at $149.2 million for the quarter.
- Our DSO improved to 75 days.
- Cash, including investments, stood at $317.5 million.
- ETR for the quarter was 25.3%.
- Diluted EPS for the quarter stood at INR 8 per share, which is 0.9% growth Y-o-Y.
- Zensar published its integrated report and BRSR for FY '26. I would urge you to basically go through that.

With that, I will now invite Vijay, our Chief Operating Officer, to comment further on Q1 FY '27 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 85.1%, which is an improvement of 80 basis points quarter-on-quarter. The rigor associated with accelerated fulfilment and capability enrichment picked up a lot of momentum in Q1 of FY '27.

We had a gross addition of 1,451 employees in the quarter, which is 50% higher than the previous quarter. Our voluntary attrition was 9.6%, as Manish just talked about. This is the sixth 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 72.1% in Q1, which is an improvement of 325 basis points Y-o-Y.

On Y-o-Y reported currency basis:

- Data Engineering and Analytics service line grew by 10.9%.
- Cloud Infrastructure and Security Services grew by 5.7%.
- Products and Platforms, including CMO services grew by 1.3%.
- Enterprise Application Services declined by 3.3%.

We continue to deliver significant value to our clients, leveraging our pragmatic AI offerings.

Some examples are:

- We have productionized agent-based software development and testing life cycles across multiple global BFSI clients. With this, we were able to achieve 25+% productivity uplift with 44% of the code being AI generated and 50% - 60% acceleration on large-scale application migrations.
- We re-platformed legacy estates, including mainframe COBOL environments, to modern architectures through repeatable, technology-agnostic agentic workflows, achieving 40% - 60% effort savings.
- We have scaled the ZenseAI platform family across many accounts. These include ZenseAI.QI which is our quality engineering set of agents, the newly launched AssureAI for agent assurance, Agent Mesh that Manish talked about, which comprises of banking and risk assistant agents and ZenseAI.Guidewire, which is the insurance platform delivery acceleration suite.
- We had won multiple projects, leveraging AI native SDLC where we are using GHCP, Claude code, et cetera, as well as our agentic engineering methodologies, while simultaneously driving outcomes with ZenseAI-led managed services.
- Our content factory suite of agents is being leveraged to run marketing campaigns for many marquee clients.

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

Moderator: The first question comes from the line of Shradha Agrawal with Asian Markets Securities.

Shradha Agrawal: Two questions, Manish. First is on BFSI. We saw a sharp 8% growth in this quarter in BFSI. So how much of it is to do with the large $210 million deal ramp-up? And ex of that, how has BFSI performed? And then I'll ask the second one.

Manish Tandon: Yes. so we started executing this deal in mid-February. The transition is going on. But still, there was contribution from this. I don't think we would like to disclose the contribution. To your second question, even if we had not accounted for the large deal, BFSI still grew.

Shradha Agrawal: So I think earlier, the plan was that the deal would ramp up in a material way in 3Q. So are we running ahead of our initial plans and the deal has seen some good ramp-up in the first quarter itself?

Manish Tandon: As a company, we try to execute very well. First of all, it's half quarter only. So that is what you need to remember. Second is most of it was transition related. So it is not that we have been able to get all the revenues that we wanted in the first quarter itself. But again, it's a process. Q2 also, I think, will continue to ramp up. And the full weight of the revenue of this deal should start to appear in Q3, Q4.

Shradha Agrawal: Got it. And the other question is, Manish, that many of your larger peers have also called out that they are entering the small and midsized enterprises market by carving out a different business unit to focus on this segment. So if you could also talk about the competitive intensity that you've seen in the last few months given the higher focus of larger peers in this SME segment?

Manish Tandon: See, the competitive intensity has continued to increase because of the market conditions, you are aware, you have seen the results of other companies also. So the market conditions, the competitiveness of that has increased. We are not too worried about the large companies entering into this segment.

Because their operations, their processes, their overall structure, is not really designed for SMB overall. SMBs need different type of execution agility, when your client's number is 350 for a large company, there is limited amount of bandwidth, talent, leadership management capability that will focus on it. So that is, I think, going to be the primary issue for the larger players.

Shradha Agrawal: Right. And if last one question I can squeeze in. The fresh order intake at broadly $149 million is at a multi-quarter low number. So how do you look at the pipeline? And what should we expect in terms of TCV wins for the remaining quarters of the year?

Manish Tandon: Yes. So first of all, $150 million approximately is the number. But the interesting thing in this number is that proportion of new business, which is new business from existing clients and net new, is at an all-time high for us. And usually, Q1 usually is a seasonally weak quarter because most of the renewals either happen in Q3 or Q4, depending on when the budget cycles and the financial year cycles of our clients are.

So we are not unduly worried, because as I said, the proportion of EN and NN in this is much higher than what we have seen in the past. And Shradha, you should also remember that we were coming out of a bumper quarter with nearly $400 million or so in order bookings. So I wouldn't be too worried about it.

Moderator: The next question comes from the line of Nitin Padmanabhan with Investec India.

Nitin Padmanabhan: Nice to see the growth in BFSI beyond the deal. Just a few questions on how do you think the other verticals, which have been sort of declining, which includes MCS, HLS, TMT, do you think that should start moderating? Or do you think MCS or HLS should start sort of improving at some point? So that's the first one.

The second is that from a deal win perspective, do you believe that the book-to-bill should start increasing going forward? Because considering the leak that we are seeing with the other verticals, unless there's a 1.2x, 1.3x, it becomes slightly difficult. So I wanted your thoughts on how you're thinking about that and how that could sort of change.

And finally, just a question on how should we think about margins from a puts and takes perspective on a going forward basis?

Manish Tandon: All right. So first question is commentary on vertical. Again, what is past is past, but I can tell you that at this moment, I am less bullish about what we are seeing in Europe and what I'm seeing in MCS.

I think, Africa, we are doing well. I mean, one-off cases here and there is not the problem. BFSI, obviously, we are doing very well. And actually, in TMT, if you leave aside the largest client, we are doing quite well.

On HLS, when we started the year, we expected it to be much higher because of consolidation. And we have recovered there at least, 75% of the drop that we had. So HLS, I think we will continue to see growth in the subsequent quarter also. So that is the overall commentary.

On book-to-bill, you have to factor in the mega deal. Last quarter, we had a book-to-bill of 3x or something like that, correct? So the overall book-to-bill can be lower in subsequent quarters because there is a mega deal, which is where we booked $403 million total in that quarter. So if you look at that, I mean, you have to say that the book-to-bill metrics can be lower without us getting uncomfortable with it. But with that said, we would like to maintain our original thinking around 0.9 to 1.1x of projected revenue.

Nitin Padmanabhan: Yes, that's helpful. My only thought process was the 0.9 to 1x would have been great when we didn't have the leak from the top line and the others. So in that context, wouldn't you want to build on a larger funnel and drive higher book-to-bill was where I was coming from. And I think the question on margins was the last one.

Manish Tandon: Yes. I'll let Pulkit comment on the margin. The jury is still out there, but I feel that the slowdown in the largest client might be more muted going forward. Particularly, because there is not too much to go down from there. So that perhaps should mitigate your concerns. Pulkit, over to you on the margins.

Pulkit Bhandari: Sure. Nitin, on your question around margins. I think let me basically start with what our priorities are from an investment perspective. Priority one is, of course, building capabilities, investing in SG&A as and when needed. And third and most important is basically ramp-up of the large deals. And to that extent, at least for Q2 and Q3, we would expect the margins to be in the similar range as what we are seeing in Q1 because the ramp-up and growth are priority. And eventually, once we have achieved that, margins will follow from Q3 onwards.

So I would say, at least for next 1 to 2 quarters, the priority will be around investments in SG&A, capability building on AI and lastly, ramping up the large deal.

Moderator: The next question comes from the line of Sucrit Patil with Eyesight Fintrade.

Sucrit Patil: First question to Mr. Manish is with a forward-looking guidance on beyond the regular outlook, what are the top 2 to 3 execution priorities you're focusing on in the next 2 quarters? And alongside that, what do you see as the biggest risk in client demand shift or competitive pressures? And how are you planning to manage them while strengthening Zensar Solution in the IT services and digital space. That's the first question. I'll ask my second question after this.

Manish Tandon: Priority number 1 is making Zensar an AI-native organization. From a management perspective, a lot of effort, serious execution bandwidth is going there. And we don't want to just become AI native for ourselves. We want to become AI native for our clients. So that is the priority number 1 and 2.

Priority 3 is as Pulkit mentioned, making sure that the mega deal ramp-up goes smoothly, and we continue to invest in that and in our SG&A to get the ball rolling on revenue growth. Did I answer your first question?

Sucrit Patil: Yes. That was pretty good guidance. My second question to Mr. Pulkit is again, along the similar lines. From a financial point of view, what key risks or challenges do you anticipate in the coming quarters? And what specific measures are being taken to manage margin, cash flow and balance sheet strength especially in areas like currency volatility, receivables or any compliance?

Pulkit Bhandari: Yes, thank you. That's a very wide question, and I'll try and basically take every point. So on margins, as what we stated, the priorities and focus on growth that will drive our margins, at least for the next couple of quarters will be similar to what you see in Q1. We are investing and to that extent, we do not see any large expansion there as of now, yes. But on growth, the priority stays as strong as it was before.

Second, you said how is the balance sheet and any risks there. Our EBITDA to cash conversion is pretty good. OCF to EBITDA this quarter was somewhere close to 70%, a little more than 70%. Historically, our cash conversion has been pretty strong. I would like to believe that it has been higher than the industry average for the last 2 years. On anything on receivable side, it's business as usual, no major callouts.

Our DSO, when we ended FY '26, it was 78 days. which was, if I recall, number 2 in the industry, when we are closing in Q1, it is 75 days, which is again, pretty good as a number, and we are okay with that kind of a trajectory. What we are seeing as a trend is that the payment terms are getting stretched, and to that extent, anything which is between 74-79 is an okay number from our angle.

Moderator: The next question comes from the line of Sandeep Shah with Equirius Securities.

Sandeep Shah: Manish, just the first question is, this is the second quarter in a row where we had a broad-based decline outside BFSI. So you explained this to some extent, but just wanted to understand is there a portfolio specific or competitive risk, which is leading to this broad-based decline outside BFSI?

Manish Tandon: No, I don't think so. Structurally, one of the biggest risks was the client concentration risk that we were carrying. And as I mentioned in my comments, we have actually increased our $10 million+ accounts by 4. So that is a very healthy sign from reducing client concentration perspective. The environment is that there will be some ups and downs. It is to be expected sometimes there will be a small hiccup here and there. We are measuring things at a 3-month frequency. So I don't try and read too much into it, but continue to focus on building a good portfolio through net new and also by efficient farming. But I don't think there is anything structurally wrong or something that needs working on in the portfolio.

Sandeep Shah: Okay. And just further to what Nitin asked, sir, why the aspiration on book-to-bill being lower at 0.9 to 1.1x. I do agree sporadic large deal will take this number higher, but it continues to remain sporadic. Why I'm asking is, this could be a third year in a row where constant currency growth would be low single digit to mid-single digit. And to address that, we have to have more feet on the ground, more aggressive in terms of creation of deal pipeline, more aggression in terms of converting pipeline into revenue. So what is hampering us to compensate this?

Manish Tandon: So if you notice our SG&A, particularly our sales costs have gone up, and we are investing heavily in revamping and adding to our sales force, both. So there are lots of deletions happening and will continue to happen where there is non-performance. And the additions will be faster than the deletion, which you are seeing already.

The second thing I would say is, the jury is still out there, but the headwind from the large account has reduced a little bit. So that is another thing. And third is, we are not saying that the book-to-bill, our aspiration is lower. There is no way we are saying that. But you need to remember that the deal that we are talking about is not a large deal. It's a mega deal.

If the deal size is close to 1/3 of the company's revenue. To put it in perspective, if it was a Tier 1 and it was 1/3 of the revenue, it will be in the range of $5 billion to $6 billion. So you have to take that into account. The other way of thinking about it is if you take a book-to-bill of 0.9 to 1.1x, apply it to $403 million. And you'll get the number that you're looking for. So I won't read too much into it, as I said, on the order booking.

But as I said, we are focused on revenue growth, and we are focused on revamping our go-to-market to make it more aligned with the AI story that is going on. And the consequent changes that we need to do in our sales force to make that newer go-to-market more effective.

Sandeep Shah: Fair enough. Just a couple of last questions. Can you give some color in terms of large deal pipeline or mega deal pipeline. And how do you see the growth on a quarter-on-quarter basis in the coming quarters, may be a qualitative aspect rather than the guidance.

And just in terms of margins, there has been close to 300 bps decline in gross margin this quarter. This is more to do with the large deal ramp up and once it is ramped up, we can go back to normalized gross margin?

Manish Tandon: Yes, that is true. On the margin, the primary thing is decline in the gross margin, and that is primarily because of the mega deal. On pipeline, close to 23%, I think of our pipeline is large deal. There are no mega deals. Just to be clear, large deal definition is about anything greater than $25 million TCV.

So that is where things stand from a pipeline perspective. I think pipeline is good. On prognosis for the rest of the year, things are changing so rapidly in this new AI world that it is difficult to give a long-term or 3-4 quarters prognosis. But from where I stand, I think Q2 will be better than Q1 is all I can say.

Moderator: The next question comes from the line of Amit Chandra with HDFC Securities.

Amit Chandra: Yes. So on the Healthcare and Life Sciences vertical apart from BFSI, this vertical was the one where we have invested. And we're seeing last 3 quarters, it has been declining. So how much of this declining attribute to the macros versus the portfolio issue? Or are there any client-specific issues here?

Manish Tandon: Mostly portfolio issues and client-specific issues. We are too small to really worry about macro actually. The slowdown in FDA decision-making and some adverse FDA decision did not help our clients because our focus is on biotech quite a lot. So some of those adverse decision for our clients did not help us. But I would say Healthcare and Life Sciences, the primary issues have been consolidation in 1 or 2 clients where we have been consolidated out.

Amit Chandra: Okay. And in terms of the headcount addition that we had in this quarter in terms of gross also, how much of that is related to the large deal and in terms of the re-badging exercise and headcount addition, is it all in the base? Or we can see some more addition there?

Manish Tandon: I would request Vijay to answer that question. I don't know whether we can answer the question or not or we are allowed to answer that question or not. But anyway, over to you, Vijay.

Vijayasimha Alilughatta: Yes. So I think without getting into too much specifics of how much was it, large deal was obviously a fairly significant component of the headcount addition. But I am happy to note that outside of large deal also, there were quite a bit of additions as compared to the previous quarter. So it has been largely aided by the large deal, but good additions elsewhere as well.

Amit Chandra: Okay. And sir, the last question, we have healthy cash on the balance sheet. So what are the plans to deploy that and whether to fill some gaps in the portfolio, some geographical expansion entering into new areas and what's the plan?

Manish Tandon: So we are actively looking at scaled assets. We are not looking at tuck-in acquisitions. We are looking at scaled assets in the north of $200 million range of revenue or maybe $150 million at least. I believe that this is the right time, at least the pricing is not absurd on some of these assets. I believe that it is the right time to look at some of these assets seriously, and we are looking at 2 or 3 assets even as we speak.

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

Sandeep Shah: Yes, sir. Just one question. Of the total pipeline, you mentioned 23% is the component, which relates to the large deal. Can you give a same number one quarter back and a full quarter back?

Manish Tandon: So, for example, the megadeal that we did was when we had put it in, it was 1/3 the size in the system. Okay. So I know where you're going with it, Sandeep. But look at it as a qualitative answer rather than a quantitative one. And I would say that the large deal composition as a percentage of our overall pipeline has been pretty much in this 20% to 30% range.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Manish Tandon for the closing remarks.

Manish Tandon: Right. Thank you, everyone, for joining this call. I want to reiterate my gratitude to our clients for their continued trust, to all Zensarians for their unwavering dedication and of course, to all of you and our shareholders for their confidence and support.

In summary, while the demand environment remains mixed, our revenue growth, broad-based volume growth and robust cash position collectively reinforces our confidence in the path we have chosen. As we move into Q2, our priorities remain clear: maintain the growth momentum, disciplined execution, and deepen the value to deliver to clients and continue advancing our AI native capabilities. Thank you once again for taking the time to join Zensar's quarterly earnings call. Those of you in India, have a good day and in other geographies, have a good evening.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of Asian Market Securities, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.