"Zensar Technologies Limited Q4 FY18 Results Conference Call"

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MANAGEMENT: **MR. SANDEEP KISHORE-CHIEF EXECUTIVE OFFICER, ZENSAR TECHNOLOGIES LIMITED**
MR. NAVNEET KHANDELWAL-CHIEF FINANCIAL OFFICER, ZENSAR TECHNOLOGIES LIMITED
MR. AJAY BHANDARI-HEAD OF STRATEGY & CORPORATE DEVELOPMENT, ZENSAR TECHNOLOGIES LIMITED
MR. VIVEK RANJAN-GLOBAL HEAD OF HR, ZENSAR TECHNOLOGIES LIMITED
MR. SANJAY RAWA- GLOBAL FINANCIAL CONTROLLER, ZENSAR TECHNOLOGIES LIMITED

MODERATOR: **MR. VISHAL DESAI – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Zensar Technologies Q4 FY18 Earnings Conference Call hosted by Axis Capital 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 '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Vishal Desai, from Axis Capital Limited. Thank you and over to you sir.

Vishal Desai: Thanks Stanford, a very good afternoon to all the participants on this call. I welcome you to the Q4 FY18 earnings call for Zensar.

We have with us Mr. Sandeep Kishore-Chief Executive Officer, Mr. Navneet Khandelwal-Chief Financial Officer and other members of the leadership team.

Just to note, the call will begin with the brief Management discussion on the performance for a quarter which will be followed by a Q&A session.

I will now like to hand over the floor to Mr. Sandeep Kishore. Over to you Mr. Kishore.

Sandeep Kishore: Thank you Vishal. Hello and good afternoon everyone. Thank you for joining the Quarter 4 fiscal '18 analyst call. On the call today, I have with me the Zensar Management Team, Ajay Bhandari – Head of Strategy & Corporate Development, Navneet Khandelwal – Zensar's Chief Financial Officer, Vivek Ranjan – Global Head of HR and Sanjay Rawa – our Global Financial Controller.

As I always do I will give you an overview of Quarter 4, Fiscal '18 and follow it up with the commentary on the full financial year. This will then be followed up by an update on other financial matrices by Navneet, our CFO. After that we will open the floor for questions.

I trust all of you have had the chance to go through the detailed Q4 fiscal 18 financial results and the fact sheet that we released yesterday.

Let me take this opportunity to present some key pointers:

Quarter 4 kept up our sequential growth momentum, on an overall basis we delivered revenue growth of 3.2% sequentially and 14.2% year-on-year both on dollar terms. With this we have grown (+3%) sequentially in each of the four quarters of fiscal '18. Our Q4 gross margin had a modest sequential growth of 0.7% and EBITDA fell by 6% in US dollar term, largely affected by an increase because of provision for a doubtful debt from one of our clients in the US. Despite this both financial matrices saw significant YOY growth of 20.8% and 76.5% respectively. In Quarter 4 our PAT grew sequentially by 23.8% and on a year-on-year basis by 632.6%. In fourth quarter we won 79 million TCV network managed services deal at the city of San Diego in the US which is largest cloud and Infrastructure deal we have won to date. It will also as lighthouse for the transformation of our Cloud & Infrastructure business going forward.

Fourth quarter our Digital revenue accounted for 40.6% of the overall revenue, a growth of 8.2% sequentially and 34.6% year-on-year, on account of our digital engineering capability our proprietary Zensar Return on Digital platform and Foolproof. We crossed $50 million quarterly revenue in Digital for the first time and on the run rate basis we are on a (+200) million annually.

Foolproof grew at a commanding 25.9% sequentially and delivered the numbers on the strength of its major logo along with customers transformation related digital deals with the combined capabilities of Foolproof and Zensar creating a strong pipeline for opportunities and bolstered front end development further.

Keystone, the company we had acquired in March 2017, continues to perform well. It grew 5.6% sequentially. The synergistic capabilities of Zensar and Keystone is generating a lot of interest and traction within our client base and we see more businesses been booked for our combined capability set, particularly in the Retail and Consumer market. We are very pleased with the performance of Foolproof and Keystone post acquisition.

Last quarter we had also announced the acquisition of Cynosure a guidewire implementation partner in P&C insurance space. The acquisition is now closed and Cynosure is part of Zensars team from second week of April onwards. Zensar Application Services business delivered healthy growth this quarter, application services which includes Digital grew 4.7% quarter-on-quarter and 11.1% on constant currency basis on back of the strong Digital revenues.

Our overall Infrastructure business declined 15.3% sequentially and 18.5% year-on-year on constant currency. With a new leadership team in place, revised service catalog, focused sales strategy driven by account mining, cloud and autonomics, we feel that FY19 will see a turnaround of this business.

Our key market of US has continued its growth story by delivering 1.5% sequentially on a larger base on constant currency. We now have a solid and stable sales engine in place and we have started seeing results in deal and new pipeline. The Digital sales team has picked up significant momentum, both with existing as well as new client which will serve us well as we move into Fiscal 19.

Our Europe business did very well by growing at 3.2% sequentially and 24.4% year on year on constant currency. Africa also grew 12% year-on-year and had a marginal decline of 0.9% sequentially on constant currency.

We're executing well on our strategy to expand our business with the identified top tier clients. We are going to FY19 with a renewed focus on increasing business from our top clients considerably as well as increase our wallet share. Our Digital platforms and solutions are key pivots to expand our entrenched relationships with the top customers. We now have 17 clients in the (+) $5 million category, up from 13 over the last 12 months. Our top clients' revenue has been increasing steadily quarter-on-quarter. In Quarter 4 our revenue from top 5, 10 and 20 clients grew sequentially at 10.1%, 9.9% and 9.3% respectively.

We continue our emphasis on Digital and our entire business strategy pivots on our Digital capabilities and services. Zensars Return on Digital, our proprietary Solution that we launched in Quarter 2 of Fiscal 18 continues to gain acceptance from our clients and we have closed several deals over the last seven months. We had 2.5 million in revenues through Zensars ROD sales in Fiscal 18, we also closed (+) $20 million associated with ROD on the digital services business and directly influenced by ROD platform.

Our other digital platforms like Zen Analytica are driving growth of analytics in our company. Several large digital and traditional deals that we have closed have Zen Analytica embedded in them and have helped us close those deals. Our robotics process automation business has seen increased traction, particularly with the Financial Services customer. We have also revamped Vinci, our cloud orchestration platform through more autonomic-based service catalog. Most of our wins this quarter have been in the digital space, you can find all the details in our press release.

During FY18 our utilization increased by 480 basis points from 79.6% to 84.4%, our attrition dropped 50 basis points from 15.4% to 14.9%. At close of Fiscal 18 our global headcount stood at 8905, a net increase of approximately 400 Zensarians around the world. Zensar continues to be included across reports by reputed industry analysts for our capabilities. Some of the notable ones are Zensar was featured in Gartner Magic Quadrant for Oracle Application services worldwide 2018, Zensars Agile and DevOps services featured in Gartner Toolkit, Zensars mentioned in Gartner Guide for business outcome driven enterprise architecture consulting, Zensars mentioned in Gartner Magic Quadrant for managed workplace services, Zensar named in Everest Group cloud enablement peak metrics report.

I would also take this opportunity to speak to the changes that we have made in Zensar over the last two years. Most of you who have been tracking us closely would have seen these changes. But I would like to enumerate them for benefit of those who have recently started interacting with us. We have been steadily increasing our focus on core business, other than MVS which is part of our Cloud Infrastructure Services, and ROW region, all businesses are part of core. Over the last two years core business as a percentage of total revenue have steadily increased from 86.7% to 90.8% of revenue. The growth in our core business was at 9.6% against the company growth of 5.6% in US dollar terms in FY18. We will continue to focus on strengthening our core business. We have significantly stepped up our focus on Digital, both organically as well as through acquisitions. Digital now accounts for 42% of our core business and has been growing at the rate of over 35% year-on-year. This growth has been quite broad-based and encompasses all aspects of digital. We now having CXO facing ROD platforms solutions and services for all of our key verticals and are a large part of our growth are led by these services. We have our own platform from Analytic Agile customer and user experience, autonomic based cloud and Infrastructure management. We have significantly stepped up the positioning of Zensar in our customer ecosystem, most of Zensars platform solutions and services are now featured in the leading analyst research reports as we mentioned earlier, such as Gartner, Everest, IDC, Forrester. Earlier this month we were honored to feature at a new case study by Harvard business school. Harvard business school has written this case study on Zensar’s leadership transition and its Digital led strategy. We have upgraded our people capability significantly by training all 8900 Zensarians on Digital and most of them have been certified to up to 4 of the 5 levels of digital certification. Our focus on our key accounts has started paying off well. As I had mentioned earlier we now have 17 accounts with (+) $5 million in annual revenue, this has been through a combination of dedicated account delivery and digital specialist for each account and we have talked about this earlier in several of the analyst calls. We're also significantly upgrading now the digital and Infrastructure capabilities into these accounts.

We have completed three acquisitions in the last 18 months, of capabilities we felt were strategic for our company and would be a key aspect of driving future growth. Foolproof for customer experience and user experience and digital agency, Keystone for Omni-channel and digital supply chain and of-course the most recent Cynosure for platform implementation in P&C insurance sector to drive digital enablement of their businesses. All three acquisitions are a significant part of our growth story going forward.

You will also be pleased to know that Zensar has now filed 25 patents in the last two years, it was nil two years ago. Innovation is at the core of our investment into platforms. Zen Labs which is central of these innovations is now also engaged with several of our clients in the areas such as block-chain, AR-VR and MR, natural language processing, IoT and artificial intelligence machine learning. We are currently building an AI based recommendation platform which has applicability into both Retail and insurance in driving personalization and micro segmentation, an AI based horizontal conversational platform which has wide use in many B2B applications, augmented reality-based, computer vision solutions that use a combination of AI and IoT to create smarter factories and Retail stores. This has wide use also in the P&C insurance sector, Hyperledger based block-chain solutions for supply chain management in Retail and Manufacturing.

Over the last two years we have also significantly added to our leadership team around the world across business units and functions. Navneet, our CFO and Vivek our CHRO who are on the call with us today have joined 3 and 6 months back respectively. Our leadership team in the US also joined in the previous 2 to 6 quarters ago. We are very pleased with all of them settling in fast. I feel very good about our talent and capabilities that we are building in our company. So all the in all it has been an exciting two years and with that let me call Navneet, our CFO to provide update on key finance data, post which we will open the floor for questions.

Navneet Khandelwal: Thank you Sandeep. Good afternoon everyone, welcome to this call. In addition to Sandeep talking about the business, I will take you through key aspects of the financials. We have reported revenue for the quarter at Rs. 8147 million which reflects the sequential growth of 2.6% in rupee terms. In US dollar terms the reported revenue is $126.6 million which reflects a growth of 3.2% sequentially. Our annual revenue for financial year ended 31st March, 2018 is Rs. 31,077 million as against 30,556 million last financial year which reflects growth of 1.7%. The US dollar average exchange rate during this quarter has been 64.34 per dollar as against 64.72 in the quarter before and the year before in the same quarter it was 67. The effective tax rate for the quarter is at 28.8% versus 33% in the previous quarter. This is primarily on account of reduction in the US tax rate and increase in the proportion of exempt profit from the SEZ units in India. DSO as of 31st March, 2018 stood at 67 days as against 66 days in the Quarter 3. The total amount of outstanding hedges as of 31st March, 2018 was equivalent to US dollars 85 million against 47 million in the previous quarter.

With a view to increase in liquidity in our stock, the board of directors of the company have approved splitting up company's equity share of Rs.10 into five equity shares of face-value of Rs. 2 each subject to the approval of shareholders. The board has also recommended a final dividend of Rs.7 per share taking the total dividend for the financial year ended 31st March, 2018 to 120%. With this I come to the end of my presentation and open the house for questions and answers.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Couple of questions on the quarter, first of all in the presentation you mentioned mega order which you have won. So is it possible to share any details, who is the client, which region or segment it is from, whether the order was Digital, what is the duration and revenue impact of it?

Sandeep Kishore: Yes, we won quite a significant order from one of our top-most customers. We have not publicly declared the name of the customers, but it is from our top 5 clients. It is a combination of Digital plus traditional. It's a significant one and hence it's not just pure play digital. A lot of that almost 90% of that we have already started executing in and their revenues are already in, in the Quarter 4 of Fiscal 18. So, US-based client, it is a combination of analytics, campaign, data and asset management, not hand and field support but managing asset from a software led technology. We had to also deploy a lot of subcontractors for that particular contract because it has a lot of on-site based US component work.

Mukul Garg: Should we assume the profitability in this particular order to be little bit lower than what we usually see in the company level?

Sandeep Kishore: It will be in the Zensar average like when the normal ramp up happens you will see marginally lower which is very normal into executing programs like this. But as we get into steady-state in 2 to 3 quarters it should come back to the company average gross margins.

Mukul Garg: Second question was on South African market, it saw a bit of a dip this quarter, so how should we look at it going forward?

Ajay Bhandari: Mukul, In the case of South Africa, there is a very minor drop in just one of the clients just because there is a project ramp down. There is no change in any of our clients; the business in South Africa continues to look very good.

Mukul Garg: The final question is on the non-core business line you have given a breakup, what are the options which are in front of you, how you deal with it going forward and how should we look at it?

Sandeep Kishore: All options are open. The reason we have called it out and we have publicly been stating the MVS number and the ROW number for a while and you are actually seeing the trend. It's not a business area which is a revenue growth and a focus area for us and I have stated that for several quarters now. It's the profit improvement area but it is non-core. So we are exploring all options at this time for those businesses.

Moderator: The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: First on the insurance, I think with this acquisition we tried to plug-in another vertical gap I mean I know that we have two good large accounts in insurance, but this acquisition will again further add new clients. So how do we see the insurance vertical from here in terms of scalability?

Sandeep Kishore: You have called it out quite correctly, insurance as a sector obviously we report it as part of our Financial Services number which is roughly about 20%, 15% of that is actually insurance itself. We are quite well entrenched in all the 3 core regions, US, UK and in South Africa. Our traditional services have been a part of our offering which is traditional AMS and of late over the last several quarters we have of course been pushing a lot more digital. But we did not have the platform capability and unless you have platform capability such as Guidewire, you really are not going to be business critical for particularly the P&C category. So that was the business rationale. We have been looking to acquire a company for couple of quarters and we found a fantastic and great synergy in Cynosure. They are a Guidewire implementation partner. They are now roughly about (+150) Guidewire consultants across US and in India. And they have a set of newer customers. Their market segment focus however is different than what Zensar traditionally does. So Zensar would go into Tier-I which are large Fortune 500 P&C insurance whereas the standardization of operating platform which Cynosure has been focusing is largely in Tier-II, III and IV, mostly Tier-II and III which are between 1 billion to 2 billion or 3 billion kind of companies, annual license premium here. So we feel that there are great overlaps. We can take Guidewire capability into core Zensar customers around the world and we can take the digital as well as cloud capability and traditional AMS into the Tier-II and III customers. So you should see expansion into our insurance market presence with the combined offering, exactly the way we have done it with Keystone and Foolproof.

Madhu Babu: On the large deal I mean it's a unique deal thing for an Indian IT vendor, so how is it the timeline for the ramp up and would there be further these kind of deals which we will be able to win, the San Diego the government contract in US that's what I was talking?

Sandeep Kishore: We have announced two large deals in the last fiscal, one we publicly announced in the city of San Diego, the other we did not but it is an equally large deal. We have talked about it earlier as well that our focus is work with fewer customers, work deeper and you are now starting to see results particularly in the top 20 accounts because we have put a very focused client mining strategy which is a unique combination of sales delivery and digital consultant.

With the Infrastructure and Cloud Infrastructure services coming up you will see that also baked in into the top tier accounts. Large deal is the other focus also and these are the first two deals that we fought and won. There are fewer large deals of this nature in the market. Most of the deals are between 10 to 25-30-40 million. (+) $50 million there are not too many deals in the market, so you really have to work with the advisor network. We are in the market, we are still competing for a few large deals and we are pretty hopeful that some more wins will happen in Fiscal '19 of (+50) million.

Madhu Babu: But this particular deal, it's complete onsite execution, right, so how was the competition? Were there any Tier-I IT vendors and I mean the scope of work also if you can explain on the San Diego deal.

Sandeep Kishore: San Diego deal, the nature of the deal is it's a government client and you would have to execute it from the US. We're executing it and I have stated this earlier with 45 local US based resources between San Diego and Dallas. We are currently in the transition phase. We will get into steady states in about 4-5 months and yes, we competed with the global Tier-I, not with an Indian Tier-I in this case.

Madhu Babu: Just now that the Digital has become 40% of revenues and we have a good competency on the front-end user interface transformation, etc., can we pitch into newer verticals like travel or even other verticals where there is a digital capability you can go through with that capability and go to newer verticals?

Sandeep Kishore: It's tempting but no. It's not a part of our strategy. I think our strategy is focused on the existing market segment because we still think there is enough room for us to grow into Retail Consumer which is now 30% of our market, Financial Services, largely insurance 20 and in Manufacturing. So no I don't think at this time we are looking at adding any new vertical.

Moderator: The next question is from the line of Prakash Chellam from Marathon Edge. Please go ahead.

Prakash Chellam: If I were to look at your organic growth FY18 over FY17 by taking out the impact of both Keystone and Foolproof for each of the two years, could you comment on whether the growth would have been positive in the core business because on the reported number that looks little flattish that is one question? And the second with respect to the significant increase in your G&A expenditure by about $7 million to 49 million, could you just give us some color on that?

Sandeep Kishore: I will give some commentary and Ajay can add as well. The organic business if you take Foolproof and Keystone out, actually Foolproof was already a part of our numbers in Fiscal 17 as well, although part of the numbers. Keystone came in all into FY18 only. The core business particularly in the top 20 accounts actually has done quite well--so of the top 20 which has been a part of our focus growth strategy in any case and the number that I called out in my earlier commentary so of the top 20 which means Foolproof and Keystone I would think there are probably 5 or 6, the 14 or 15 are traditional core Zensar accounts. So that's done quite well. What has declined and hence you are not seeing the number in the organic is actually our

Infrastructure business, so Infrastructure business if we do the maths I think there is a decline of about $14 million year-on-year between '17 and '18 and hence the overall numbers on a pure organic basis looks the way it is currently. On SG&A side, the reason for that spike as we had mentioned earlier we have taken a write-down based on provision for one of our key Retail customers in the US which is going through Chapter-7 currently. There are still some buying discussions out there for them. But we have taken decision to write-down large part of that. Some part of it will still go into first quarter of Fiscal 19 as well.

Ajay Bhandari: I think Prakash your question on G&A was for the year as well and in the year, I think the two are strictly not comparable simply because there is a full impact of Keystone, G&A as well as Foolproofs more than 7 months G&A in that. But apart from the provision for doubtful debt that Sandeep just mentioned there is nothing extraordinary otherwise. It's just a regular G&A there.

Prakash Chellam: So SG&A at about 17% or something of revenues is broadly the number now? used to be around 15%.

Ajay Bhandari: You can take that as the new normal for us.

Prakash Chellam: I think you are free cash flow conversion do you see that going down, increasing because even if I exclude the M&A portion, it seems to have dropped year-on-year with the cash flow from operations after CAPEX excluding the amount that you're spending on acquisitions, could you just comment on that?

Navneet Khandelwal: As you will see our DSO has increased from last year to this year and part of it is due to as a result of the acquisitions coming in with a slightly higher DSO. Also there are certain winds in this year where there has been adverse DSO impact and hence the cash generation has gone down. We expect this to be in the similar range in the coming year and as this deal get into more steady-state, we will see a systemic improvement on this.

Prakash Chellam: The cash and cash equivalence which you currently show on your balance sheet do not factor in any payment that you have made for Cynosure yet, is that right and you might also have a contingent payment still linked to your earlier acquisitions, so any payment for Cynosure or any performance linked turn out for previous acquisitions are not factored in right now into that cash at this point, is that correct?

Navneet Khandelwal: Yes, you are right because as of 31st March 2018, the closing of Cynosure acquisition had not happened, so that cash does not factor in the payout which is a subsequent payout.

Prakash Chellam: So can we roughly factor in about 30 million odd for Cynosure and about 10 million odd for earn out payments in the previous acquisitions, is that something we can broadly use to look at cash reduced reductions?

Navneet Khandelwal: Yes, you can model on those lines.

Moderator: The next question is from the line of Sagar Lele from Motilal Oswal. Please go ahead.

Sagar Lele: I was saying that you have plugged a lot of gaps through acquisitions and modernized offerings in both Retail and Financial Services but what's your go to market like at the moment in the vertical of Manufacturing and what steps do you think you should take to improve the growth trajectory there?

Ajay Bhandari: So this has to a certain extent been a conscious thing we have done. In the sense we regard Manufacturing as a slightly slow growth vertical, so for us to beat NASSCOM average growth rate for the industry and any such we needed verticals which also were large spender which is why we had to correct the portfolio of services for Retail and we have done that for insurance as well. And one of the reasons for doing that is we also felt that Manufacturing portfolio was always in a way complete because we had a strong ERP offering, we now have a strong cloud offering as well both in Oracle as well as in SAP. We have a strong Infrastructure practice and typically in Manufacturing most of the spend happens in these three areas. We have two other capabilities for Manufacturing which we are now using to penetrate Manufacturing, first is we have a pretty strong IoT story especially for smart factories and we also have a strong B2B commerce story because if you take our e-commerce revenue roughly 50% of revenue is from B2B e-commerce. So we believe that this is complete if you look at Manufacturing for the last 4 quarters barring the first quarter there has been a steady growth in that quarter as well. So you will see the revenues from Manufacturing also getting back into a lot more positive growth going forward.

Sagar Lele: On the IMS bit, the services portion is something that's obviously not non-core, but I remember you talking about some license revenue there that needs to be pruned out and that's still not grown in FY18 growth if I look at over the last year it's still be in about 5%. So any highlights on or any plans that you would like to probably share on that particular piece?

Ajay Bhandari: There are two components to that, I think Sandeep already answered the question on leadership. So we now have a new leader for that business. He has revamped both his team as well as the strategy for that business. I think we should give it a couple of more quarters before you can see some very positive movements in that business. But coming specifically to your question on license revenues, which is basically what we used to call products. So the products business which used to be much higher it is now at a run rate of around between 10 to 15 million. We don't track it or so it separately anymore because we don't have a separate sales team anymore that sells products. But still it's incidental to our services business and we are at the moment tracking between 10 and 15 million in that business. There is not current strategy to significantly increase that business. We think it will basically remain in the neighborhood of 10 to 15. Our pure play services business though actually has shown increase quarter on quarter this year, so it has grown each quarter. I think it can do a lot more and we are waiting for Harjott and his team to revive that business but as far as product is concerned it's going to remain flattish or somewhere in between 10 million and 15 million next year.

Sagar Lele: How much would have been the pure play services business has grown in FY18 over the last year?

Ajay Bhandari: It's around 40 million to 45 million roughly and it would have grown around year-on-year around 6% to 7%.

Moderator: The next question is from the line of Vishal Desai from Axis Capital Limited. Please go ahead.

Vishal Desai: Just quickly to get a sense on the demand environment that we are foreseeing going into FY19, could you outlay to us in terms of what has been the deal pipeline overall and which are the areas where we are seeing traction and what kind of services that we are offering that's part one of my question?

Sandeep Kishore: Vishal I think the demand pipeline is quite good in our core market which is South Africa, US and UK, also that's the key reason on why we have started now focusing even more on the core sectors and the core market. What we are seeing quite clearly there are several deals which are in the range of $10-$35 million and there are few which are north of $50 million across the businesses, Financial Services, Retail and I would call out Hi-tech more into Manufacturing than the broader Manufacturing. The capability Ajay was talking earlier about from a Manufacturing point, there is a good potential for us to leverage the digital supply-chain capability of Keystone which currently is tailored more towards Retail and Consumer to also be aligned into the Hi-tech because the digital supply-chain efficiencies are equally relevant there and we are working on adopting to it. I think what's doing quite well for us and that's the reason you are seeing significant traction and growth particularly in the top 20 accounts is a digital led win. So, the return on digital framework there are 30 different platforms that we have built-in, our clear focus is to have that into every single opportunity because that's the uniqueness of our company. And wherever we are putting that in I think the conversion rate is quite high. We also started selling this as a platform and I mentioned to you earlier we have sold $2.5 million worth of platform revenue. I mean small compared to the overall size but it's a big shift and a big change that we are driving, and it also drives additional revenue and businesses on the digital engineering, digital services as well. So I think my commentary on the overall demand environment across these three markets is actually quite good right now.

Vishal Desai: Just to get one data point and we have earlier highlighted in our earlier Earnings Call around 700 million to 800 million being the pipeline, any kind of up-move in that given that the overall demand environment has been improving from what we have been hearing from other peers?

Sandeep Kishore: I think we should remember that when we mentioned 700-800 million at that time it included two of the deals that we consummated and won and currently in the execute phase, for now we are still in that range of $700-$750 million pipeline as on date.

Vishal Desai: Just to get a little heads-up in terms of the overall impact that one could why you have not quantified it, any chance that we can get some sense in terms of what could be the headwind on this in Q1 due to the client specific issue in Retail?

Sandeep Kishore: It's difficult to quantify for the single reason and this client is quite well-known. We don't of course name it out here because they have still not settled the Chapter-7 and there are still some buyers out there for this particular client. So, we have taken a good portion of that as our hit, we talked about it in Q4. There is I think in the range of probably a million and a half or so still remaining which we will take a call whether to take it in Q1, ideally we will probably take all of it in Q1 and be done with it.

Vishal Desai: If Q1 it is supposed to be around 1.5, how much was it in Q4 maybe I missed the number earlier?

Sandeep Kishore: We haven't called that out, but it was in the same range.

Vishal Desai: Just to get a sense in terms of FY19 we have exited FY18 at EBITDA margins of around 11.7, could you tell us what could be a key driver or a boost in terms of margin levers going into FY '19?

Ajay Bhandari: We are not really guiding anything Vishal but if you have seen as a management we have tried our best to show positive EBITDA growth quarter-on-quarter barring the fourth quarter where we had to do an unplanned kind of provision. In the quarter the growth has been pretty consistent. We are making all efforts to improve all margins, even the gross margins have a better leverage of our SG&A. So the endeavor of the management is to take the EBITDA over the current level though we are not guiding any number at the moment.

Vishal Desai: But in terms of lever would it be fair to assume that utilization is pretty much maxed out given that earlier you all had commented 83 is what we typically want to function at?

Ajay Bhandari: Yes, utilization which was at 83.8% yes, there is not too much room there, but the growth will be the biggest lever for improving the margins.

Vishal Desai: Just on the IMS piece, could you break out in terms of what could be the trajectory going in FY19, not necessarily some color in terms of what to expect in terms of momentum out there?

Sandeep Kishore: I think you're fair to assume it, it will do far better in FY19 than what we have done in FY18. We are still probably two quarters away, Harjott and team and we are completely redoing that is entire go to market team because that was an area of big focus for us. We have not done well in the Cloud Infrastructure in the last 12 to 18-24 months, so a huge market, particularly in our existing customers and we tested it out. We competed with the best out there for the City of San Diego and we won. So we feel pretty good that the new service catalog that we have built which is largely around public cloud and autonomics which has AI and automation built-in and cyber security. That's pretty significant demand out there. So early days to say the growth trajectory for Cloud Infrastructure business, give it about two quarters and we are tracking it quite closely. But it will do much better in '19 than '18.

Moderator: The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: The payout for Cynosure has been around $28 million as per the schedule which you have shown. So we have paid fixed up 31 million and earn out is around 28, so if I am right are the target very aggressive because if I take the total amount it is almost coming to $60 million which will be almost 3x the sales for the company.

Ajay Bhandari: It's a business that has the potential to grow pretty rapidly and the targets are in line with that potential so yes, they do have a good growth target and if they do achieve it yes, they will be paid by earn-outs. But the earn outs are paid only if they meet their numbers, so it's highly number dependent.

Madhu Babu: And the other one on the IMS as of now if we see this quarter revenue almost $18 million, so off that how much is the non-core MVS and rest of the world combined and the new management would try to revive it or would we look at exiting this after one year from now?

Sandeep Kishore: MVS business we have already called out Madhu that it is non-core. Harjott and team are not focused on MVS, they are focused on growing core, Cloud and Infrastructure business. We are certainly looking at doing some more profit improvement in the MVS and as I mentioned we are exploring all options on that business.

Ajay Bhandari: Madhu if your question was what does MVS plus ROW in terms of revenue contribute to Q4, its roughly $10 million.

Moderator: The next question is from the line of Ashish Chopra from Motilal Oswal. Please go ahead.

Ashish Chopra: Sandeep just one question, it was to get your sense on the progress in terms of the returns on the restructuring exercise within the US as to where do we stand currently? So we have seen some good early indicators in terms of some of these larger deals that seem to be coming along. But if you could just throw some light on the US excluding the impact of these defocused areas such as MVS and also excluding the impact from the acquisition like Cynosure next year as to how do you see this go along?

Sandeep Kishore: US has two components – one is cloud Infrastructure and the other is the application and digital businesses. The application and digital businesses are then further broken down into verticals and some client specific business units. All the business heads in the US have now been with us for as I said earlier between 2 to 6 quarters. Some businesses where the heads have been there for 4-5 quarters or 6 quarters have actually settled down and that's where you are seeing some of the large wins as which we have announced. So other than Infrastructure services business I think the application and Digital, Manufacturing, Retail, Financial Services, those teams have settled down. There are deals in the pipeline and it's a journey. But I think we are pretty much at the last phase of the leadership and the sales team there. More or less all the people are in, so we have got to start fighting and winning.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I now hand the conference over to Mr. Vishal Desai from Axis Capital Limited for closing comments.

Vishal Desai: Thank everyone for joining this call. On behalf of Axis Capital, I thank the Management Team of Zensar for giving us this opportunity to host the call. I would now like to hand it over to Mr. Kishore for the final remarks please.

Sandeep Kishore: Thank you Vishal. Thank you everyone for participating. There were some excellent questions and again looking forward to talking to all of you as in our next quarterly Earnings Call. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.