



“Zensar Technologies Limited
Q2 FY2020 Earnings Conference Call”

October 22, 2019



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Moderator: Ladies and gentlemen, good day, and welcome to the Zensar Technologies Q2 FY2020 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 presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Santosh Sinha from Axis Capital. Thank you, and over to you, Sir!

Santosh Sinha: Thank you, Raymond. Good evening to everyone. On behalf of Axis Capital, I welcome all the participants to the conference call. Today, we have with us, Mr. Sandeep Kishore, CEO and Managing Director of Zensar; Mr. Navneet Khandelwal, CFO; and other leadership team members.

They will start with overview of the company performance for Q2 FY2020 and then we can switch to Q&A session. Thank you, and over to you, Sir!

Sandeep Kishore: Hello, and good afternoon, everyone. Thank you for joining us today to discuss Zensar financial results for Q2 fiscal 2020.

On the call, I have with me from the Zensar management team Ajay Bhandari, Head of Strategy and Corporate Development; Navneet Khandelwal, CFO; Vivek Ranjan, CHRO; Prameela Kalive, COO; Harjott Atrii, Global Head of Cloud and Infrastructure Services; Venky Ramanan, EVP and Head of Hi-Tech and Manufacturing; and Shirshendu Deb, Global Financial Controller.

I will give you a brief overview on Q2 fiscal 2020, which will then be followed by an update on other financial metrics from Navneet, post which we will open the floor for questions.

I trust all of you have had a chance to go through the detailed Q2 fiscal 2020 financial results and the factsheet that we released yesterday. Let me take the opportunity to present some details. We delivered \$152.3 million in overall revenue in Q2 fiscal 2020. In constant currency, the Q-on-Q revenue growth was 0.3%, Y-o-Y growth was 14.1%. In U.S. dollar terms, the revenue de-grew by 0.7% sequentially and grew by 12.8% Y-o-Y.

Q2 revenue was impacted due to few large projects completion with two of our top clients. Our revenues CQGR over the last 10 quarters, including Q2 fiscal 2020, remains in the top quartile for the industry at 3.7% in constant currency and 3.6% in U.S. dollar terms.

Our revenue for the core business remained stable on Q-on-Q and posted a healthy growth of 15.5% on a Y-o-Y basis in constant currency. Our core business is now 95.8% of our overall Q2 fiscal 2020 in U.S. dollar terms.



Both gross margin and EBITDA witnessed a healthy increase on Y-o-Y. Gross margin grew by 11.9%, while EBITDA grew by 17.2% in USD. Q2 EBITDA stood at 14% of revenue. On a Q-on-Q basis, GM and EBITDA de-grew by 1.7% and 2.3%, respectively.

In Q2 fiscal 2020, EBITDA for the core business is at 14%. Our PAT grew by 0.2% on a Q-on-Q basis and declined by 16.4% yearly largely due to higher forex gain that we had in Q2 of fiscal 2019.

Our digital revenue continued to follow great momentum and have crossed the 50% mark for the first time with a growth of 3.5% sequentially in constant currency terms. Digital now accounts for 50.1% of our overall revenue.

Most of Zensar platforms, solutions and services are now featured in leading advisers and analyst reports such as ISG, Avasant, Gartner, Everest, IDC, Forrester and more.

Our Application and Digital Services business witnessed a healthy Q-on-Q increase of 3.6% in constant currency, rising at the back of our digital services revenue, which grew by 7% sequentially in constant currency.

Core application, traditional services grew by 0.1% sequentially in constant currency. On account of a large transformation project completion in a key client, our cloud infrastructure business declined by 15.8% sequentially in constant currency. We, however, continue to remain very positive about our cloud and infrastructure business that has a strong pipeline, and we expect to convert that in the medium term.

In regional business units, the growth was led by South Africa market, followed by Europe. South Africa grew by 23.4%, while Europe grew by 5.1% sequentially on constant currency.

U.S. declined by 3.3%, primarily due to the impact of our retail and cloud and infrastructure business. All regions posted good yearly Y-o-Y growth. In terms of vertical, financial services led by insurance grew sequentially by 15.2%, followed by Hi-Tech at 1.1%.

Retail and Consumer Services declined by 7.7%, owing to project completions in large accounts and delays in start of some key engagements, all in constant currency terms.

We continue to remain committed to winning at scale as we maintained our large deal momentum into Q2 by winning deals across regions from existing and new clients.

In Q2 fiscal 2020, we have booked deals worth more than \$120 billion TCV, including renewals. Our overall pipeline continued to remain healthy at over a billion-dollar mark.



We continue to put focused effort to scale up strategically into our top-tier high-growth accounts, and we have continued to invest in enhancing the business value we provide to these clients through our, cross-spectrum services in applications, digital and cloud and infrastructure.

As we have mentioned earlier, our focus is to mine the high-growth top-tier accounts with multiple services and win net new deals with our differentiated proposition in digital, AI, human experience and secure cloud and infrastructure services.

Our revenue from top 20 clients remained strong with the Q-o-Q and Y-o-Y growth of 1.5% and 24.8%, respectively. However, as mentioned earlier, due to project completion with key clients, Q2 fiscal 2020 from top 5 and top 10 clients witnessed a sequential decline of 1.8% and 3.2%, respectively, while maintaining strong Y-o-Y growth of 15.4% and 19.1% in dollar terms.

Our effective mining strategy has also yielded very good results as three new clients joined the \$5-plus million cadres and 2 new clients were added to \$1-plus million category this quarter.

As of Q2, we now have 93 \$1 million-plus accounts, 23 \$5-plus million and 9 accounts of \$10-plus million per annum.

In terms of innovation and intellectual property, our total patent filing now stands at 96, with 11 patents having been granted.

Zensar continues to get included across reports this quarter by reputed industry analysts for our capabilities. Challenger in Digital Masters Avasant RadarView 2019; niche in Gartner Magic Quadrant for Oracle Cloud Application Services, Worldwide 2019; Gartner Critical Capabilities for Oracle Application Services, Worldwide 2019; HFS mentions Zensar as a rising mid-tier company; Global data covered Zensar's Return on Digital Conclave Advisers and Analyst Day; challenger in Avasant Blockchain RadarView; innovator category in Applied AI and Advanced Analytic Services RadarView; major contender in Digital Interactive Services Peak Matrix by Everest; mentioned in Gartner Market Guide for Blockchain Implementation Services; mentioned in Blockchain Service Providers Toolkit; niche player in Gartner 2019 Magic Quadrant for Data Center Outsourcing and Hybrid Infrastructure Managed Services, North America. Zensar listed in Gartner Critical Capabilities for Data Center Outsourcing and Hybrid Cloud Managed Services in North America; Zensar's Smart Autonomics Platform was featured in a 451 Research report in September 2019.

Our global headcount has now reached 10219 as of Q2 fiscal 2020, net addition of 1081 associates on a yearly basis. Our attrition rate stood at 17% as of Q2. We have been enabling business process transformation for our clients by perfecting the processes ourselves. Zensar, for the past 3 years lives the commitment to help organizations in their digital transformation. In the process, Zensar itself became a 100% digital organization.



Our Return on Digital NeXT platform and solutions have been integral part of all our deal wins so far, and more and more clients are benefiting from this platform.

The next step in the journey is to enable transformation through our AI-driven solutions. We have committed to this promise as Living AI, where we will make 100% of all Zensar platforms driven by AI. We have also started taking these solutions now to our clients. In H1 fiscal 2020, we have had a total order booking of \$280-plus million, which includes multiple large wins from our existing and new clients.

Overall, we see a stable demand-side environment from a strategic point of view, and we continue to keep investing in business to ensure sustained growth.

With that, I will now invite Navneet, our CFO, to provide update on key finance data, after which we will open the floor for questions.

Navneet?

Navneet Khandelwal:

Yes. Thank you, Sandeep. Good day, everyone. Welcome to this call. In addition to Sandeep talking about the business, I will take you through some of the details on financials.

In the Q2 of FY2020, we have reported revenue at 10723 million which reflects a sequential growth of 0.6% and Y-o-Y growth of 13.3% in rupee terms. This is our 10th successive quarter of positive sequential growth in INR terms. In U.S. dollar terms, the reported revenue is \$152.3 million, reflecting a decline by 0.7% sequentially and an increase of 12.8% annually.

In constant currency terms, for the quarter, company grew by 0.3% sequentially and 14.1% Y-o-Y.

For H1, our operating cash flow stands at \$27.5 million, which is a Y-o-Y growth of 164%. Operating cash flow stood at 119.2% of PAT for H1 of this year as against 40.9% of PAT in corresponding H1 of the previous financial year. The U.S. dollar realization during the quarter has been Rs.70.4 per dollar against Rs.69.5 in the previous quarter. The year before in the same quarter, it was Rs.70.1. Our gross margin for the quarter was 29.1% as against 29.4% of previous quarter. The effective tax rate for the quarter is at 28.5% as against 28.4% in the previous quarter.

For the current quarter, billed DSO stood at 57 days against 68 days in the previous quarter, while DSO, including unbilled, stood at 102 days against 104 days in the previous quarter.

The total amount of outstanding hedges as of September 30, 2019, was equivalent to \$170 million against \$145 million in Q1 of FY20.

As of end of this quarter, our cash and cash equivalent balance was \$60.6 million against \$72.9 million in Q1 FY20.

With that, I come to the end of my presentation and open the house for questions and answers.

Moderator: Sure, thank you very much. We will now begin with the question and answer session. The first question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: A tepid quarter on revenue, so how much was led by offshore shift and lower hardware and pass-through revenues?

Sandeep Kishore: Sorry, Madhu Babu, can you repeat it, please?

Madhu Babu: Yes, so this was a tepid quarter on the revenue front, how much was led by the offshore shift in the effort mix and lower hardware and pass-through revenues because I see your cost of material declining Q-on-Q?

Sandeep Kishore: Yes. So Madhu, the overall services mix is positive in the sense that the number of products that we sold declined fairly substantially this quarter. So more services got sold, so there is a positive shift towards services in this quarter.

Madhu Babu: Sir, would there be any furlough impact in Q3 or Q4 or are we expecting growth rate to accelerate from Q3 onwards?

Sandeep Kishore: No, furlough is normally into Q3, Madhu Babu. It is not there in Q2. So you would see, it is pretty standard in our industry. You would see the normal furlough impact in Q3.

Madhu Babu: Sir, that is what I was asking, whether we will have a seasonally soft quarter in Q3 also or we will see some acceleration in growth front?

Sandeep Kishore: We, of course, do not give any guidance. There are projects. You see roughly half of our business is time and material projects here, and our endeavor is to convert the pipeline that we talked about and make sure that we win in the front half of the quarter, and depending on that, we certainly have to make sure that we deliver the growth.

Madhu Babu: And last one, Sir. This \$1 billion pipeline we are saying, so does that include the renewals part also or is it net new which we are pursuing?

Sandeep Kishore: It includes the larger renewals, not the smaller one. So every time, we announce the deal wins, the deal wins include the larger renewal, the \$10-plus million deals renewal are included in that because it goes through a fairly rigorous vendor procurement process. That is included in those deal tracks.

Madhu Babu: Okay, and margin execution has been steady this quarter, I think. So should we see margin stabilizing or improving from here on?

Sandeep Kishore: Our guidance has always been on the core operating business. We have said that we are working towards getting to 15%. We are at 14% now, and in the management team, we are all very focused and committed to get that 15% in the next quarter.

Madhu Babu: Okay Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Sandeep, to start with on the retail side, it has been steadily declining for almost five to six quarters now, what is your sense given that macro commentary in U.S., Europe still is quite weak and there is still a lot of Amazon impact, do you think retail will remain weak for some more time or are we reaching close to the bottom?

Sandeep Kishore: Mukul, our sense is when you called it out from the industry commentary, retail is soft, the whole Amazon effect, which certainly is adding to it, and I do believe that retail will remain soft for some more time to come. Our focus clearly is if you see, to really shift the pivot towards the financial services and our technology businesses, which is what we have been doing. At the same time, within retail, also, we are doing micro sector, so that we do not just focus on the big-box retailers. Traditionally, the business and what gets directly impacted by Amazon and Walmart are the big-box retailers. So there are specific sector growth opportunities available, particularly in retail technology and somewhat in CPG as well and we have been pivoting towards that. But macro situation in retail, from where I see, I do believe it will remain soft for some more time.

Mukul Garg: Understood. Also, if you look at the deal win TCV number for this quarter, it was a bit lower than your recent history of about \$150 million to \$200 million quarterly run rate. Are you seeing delays in deal decisions coming in and as we have heard from larger peers? If yes, then how are you compensating for the longer distance cycles? Are there any adjacencies which you guys can start tapping into besides your core areas of operations to kind of makeup for this gap?

Sandeep Kishore: So there are multiple questions in that. Number one is, yes, \$120 million was at the lower end of what we normally do in the deal booking itself, and that happened because some of the deals that we are fighting, we are in very advanced and mature stages, where their decisions have been delayed by the clients. So that is one, that caused, that issue of why is \$120 million compared to anywhere north of \$150 million that we normally do.

The second is our Cloud and Infrastructure Services business, which has been an exceptional performance for us for several quarters now. We completed a project, as I called out in the early

phase, and that is a good growth driver for us in both our existing accounts as well as in our new accounts, and we have a unique differentiated proposition there. So we feel quite confident that based on our existing account, the top 20 accounts, as I called out, actually grew quite well on a quarterly basis as well as on a yearly basis, and we today only have close to less than 20% penetration of Cloud and Infrastructure Services into those top 20 accounts. So it looks quite good from where I see that our growth opportunity with that and also into the technology sector. It is still quite robust. Those are sectors where the decisions are not as much delayed and impacted as you see in the retail sector and in some part of financial services.

Mukul Garg: Understood, and are there any adjacent areas which are easy for Zensar to enter? I know you guys have a very tight area of operation. But do you think it is maybe physically viable to tap into newer areas to make up for any gap in the retail and client-specific issues?

Sandeep Kishore: The new market segments, we are not going in right now. I think we have enough opportunity, I believe, into hi-tech manufacturing, into financial services, and some sectors of retail. What we are definitely focused on is to bring new service offerings to our customers. So digital consulting is a new service offering, which we have launched close to two quarters ago, and it has done quite well. It is effectively the wedge that helps us get into large scale digital transformation program enterprise-wide. So that is one area. Automation particularly the whole autonomics and automation into the ITSM space in cloud and infrastructure is the other area where I think we have enough room to grow into the new age next-gen cloud infrastructure services, and I will call Harjott to maybe add some commentary from his side. So those are the two big call-outs that I can do. Harjott, you want to add a couple of quick comments from your side?

Harjott Atri: Yes. In terms of the deal pipeline in the adjacent areas, we consistently see a lot of technology transformation that is going on in the customers' data centers as well as the digital platforms. So that continues to be growth areas and our value propositions, and our services catalogue is aligned to where the customer spend is, which is primarily with regard to cloud transformation, cloud migration, digital experience management.

Mukul Garg: Got it.

Sandeep Kishore: That Mukul, are the areas. I will just take maybe a quick minute to also bring the human experience-led adjacency area in the whole CDO/CMO space. The two acquisitions that we have done, they are now completely integrated as part of our service offering now for a couple of quarters. The Indigo Slate acquisition in the U.S, and Foolproof in the U.K. They are part of our core offerings, and with that, we have also opened as part of our digital proposition itself into the existing accounts. So they are now actually well interested into over half of our existing business.

Mukul Garg: Got it. One final question if I may ask was, you specifically mentioned that part of the weakness this quarter was because of a large project going into execution. So was that something which is baked into the numbers and we will not see any further correction because of that particular deal? How should we read and look at that? Is that something which was a pretty big deal, which you guys have implemented and then the execution at higher margins will be steady-state now?

Sandeep Kishore: So it is a cloud and infrastructure deal, which got completed, and that is the reason why you saw that impact into our CIS business, which de-grew by 15.8% sequentially in constant currency. Very large transformation projects into 1 of our top 10 clients. So on one hand, we have delivered it almost probably 30 days ahead of schedule, and we are very hopeful that we are going to win additional business on account of that. It is just that, the additional business actually did not come into Q2. So to that extent, yes, there is always this misalignment in terms of the deal closure and the project completion, but it will come back. These are project completion issues, which you always face, but I am pretty confident that it is going to come back up pretty soon.

Mukul Garg: Got it. Thanks for answering my question and best of luck for the rest of the year.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from Axis Capital. Please go ahead.

Shashi Bhushan: In terms of deal pipeline, how is this new micro-vertical of retail speciality retail kind of stuff that we are trying to get into looks like as of now? And can we expect this new sub-vertical to drive the turnaround in retail?

Sandeep Kishore: Ajay?

Ajay Bhandari: Shashi, we have been concentrating on this micro-vertical now for two, three quarters. If you look at the history, we were traditionally focused on big-box but that is where bulk of the decline is happening, so we have started focusing on smaller and niche retailers which is not really being impacted by Amazon. We are taking both our e-commerce as well as our supply chain offering to them. We are getting good traction. It has partially mitigated the decline, which has happened in some of the big-box retailers. But it is not, at the moment, reached a stage where it can completely mitigate the decline. So it is buffering of the decline, but it is not still a big business, which can result in a reversal of the decline in retail. So it is still kind of wait and watch for us.

The other thing we have been doing also has been focusing on other adjacent areas in retail like retail tech, etc., which has less seasonality, which is not really impacted by Amazon for further decline in the traditional retail business. It has been a good trend. I mean we have added a few retail tech clients. We have added a few micro-specialized retailers, and it is, right now, even more so, we are, in a way, focused on building our pipeline there.

Shashi Bhushan: So this weakness is likely to persist for a couple of more quarters. So in that context, Sir, in terms of resource, if there is weakness in retail vertical, how fungible are our resources from one vertical to another?

Ajay Bhandari: Fairly fungible, Shashi. Because if you look at our utilization, it has gone up 170 basis points, partially because of the fungibility. So we have a supply chain business in retail, which came out of our Keystone acquisition that actually is continuing to do well. So there, we do not really have a challenge of decline.

The e-commerce business, which was declining, shifted from ATG to full-stack micro services development almost four quarters ago, and that skill set is basically fungible across finance, hi-tech, anywhere, which is one of the reasons why the utilization has gone up. So we do not really have a challenge of redundant skill. At the moment, it is a question of identifying new areas of retail, which are in demand, which are growing and focusing our growth and pipeline there.

Shashi Bhushan: And just one on macro stuff. Are we seeing slowdown decision-making, especially in UK because of the Brexit uncertainty?

Sandeep Kishore: So Shashi, no. My answer, so far, has been no. Our UK business, as you have seen, even last quarter, grew by 5.1%, some of it is Europe but 90% of that is actually UK. So no, we have not seen it. Although, in client conversation, it does now. Now as we all wait-and-watch, as to what actually happens on the law and the policymakers, how they decide. But so far, we have not seen any such impact.

Shashi Bhushan: Sure Sir, thanks a lot and all the very best for the years.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: Sir, what is the outlook on the top accounts because of the trade war issue, which is going on?

Sandeep Kishore: So I think the tariff decision by the US Government has been pushed out by 90 days. Our exposure to the tech sector is 50% of our business. So if the tariff decision does come in, I do believe there will be some impact. We have to really find some methods of mitigating it.

The second is, I do also believe that there will be shift between capex and opex spends because some clients that we talked to have started to anticipate that some tariffs will be impacted, and hence, they may prepone their capex now and push the opex to a later stage. So it is difficult to comment, but should the tariff increase happen, we will need to bake that into our whole business plan itself. Clients are talking about it. That I can tell you.

- Madhu Babu:** Yes, because the top account alone is 25% of total revenue, so do we see any adverse...?
- Sandeep Kishore:** Yes. So let me call out just that specific answer is no. There is no impact on the top account, if you follow the commentary that the top account has also been giving, they have a very diversified global supply chain, and that risk is mitigated. However, the exposure that we have, we have another 25% exposure outside of that into the technology sector. So I was actually giving you a broader commentary, not on the account of top 25. Let me also call on Venky who heads our Global Hi-tech Manufacturing business to add to comments that he has.
- Venky Raman:** No. Adding to what Sandeep just mentioned, overall, as much as that conversation with the clients include that specifically to the question on top account, like Sandeep mentioned, the answer is no. At this point of time, at least for the immediate quarter that we are seeing into because of the pipeline discussion, because of also the mitigation plans that we have in terms of being as much global and distributed as the client is. So to that extent, we are pretty positive that we will not see any impact in the top line in the upcoming quarter.
- Madhu Babu:** Sir, and one more thing on IMS, I think there has been quite some time we invested on the platforms, and we have approached the consulting firms. So is that like we are getting more of a project-based work that once we complete there is a pause and all that. Or, how is the traction in the overall IMS after that platform business?
- Sandeep Kishore:** Yes. So let Harjott answer that specific question, Madhu Babu, but I do believe that traction is actually quite good. We are now featured in almost every single industry analyst research report and the deal advisers, getting invited to the deals. The deal pipelines are close to 25% of our total deal is the cloud and infrastructure. Harjott, do you want to add any specific comment, particularly on the autonomics and automation platform that we have built?
- Harjott Atrii:** So the smart autonomics platform we have built is one of the differentiated value proposition we have for the CIS business, and that also serves as a wedge play. So we go into the customers' data center and digital platforms and implement the technology transformation, and once we complete that transformation, we will also do the run and operate value proposition for them. So we are leading with change and transform and then doing the annuity business with run and operate and giving a total cost of value proposition to the customers.
- Madhu Babu:** Okay, and Sir, lastly, on the cash flow. Net cash has declined Q-on-Q. So what is the capex and the payout for the earlier acquisitions this year?
- Navneet Khandelwal:** So the capex for this year what we have done currently about \$6.5 million, which is disclosed in our factsheet. The Q-on-Q decline in cash is on account of primarily two reasons. Number one is, we paid the final dividend of about \$6 million during this quarter. Number two is, we have paid an earnout of about \$5 million in the current quarter, pertaining to our acquisitions. We do have further estimated

payouts totaling up to \$5 million in the balance of the year for acquisition earnouts depending upon they meeting the target.

Madhu Babu: Okay. So \$10 million in the earnout and \$12 million in capex for the full year, can we take that as a border figure, 22?

Navneet Khandelwal: Yes, again, I will not make a forward-looking statement on that because capex will continue as based on our needs. So I will not straightway extrapolate it that way. Because all the earnouts are also based on achieving the targets in those acquisitions.

Madhu Babu: Okay Sir. Thanks.

Moderator: Thank you. The next question is from the line of Suraj Subramaniam from Airavat Capital. Please go ahead.

Suraj Subramaniam: I have two questions. The first one is, what is the organic Y-o-Y growth rate for your core business, which, as you said earlier, is now about 95%, 96% of sales. So what was the organic growth of that bigger business deal for this quarter?

And the second question is, you mentioned a few quarters ago, about trading out the noncore sort of businesses and now we had let us say the last acquisition it is about 5% of sales, could you give an update on that, how should we think about how this 5% of sales be put out over the time?

Sandeep Kishore: Suraj, let me call on, Ajay, but to give update on our third-party maintenance business, which is clearly called out by us as the noncore, and we have been working towards making sure that we find a profitable home for that business. To answer the first part of the question, I think all of our business in this fiscal, this quarter, is all organic. The last acquisition that we did was over 14 months ago. So for every business now, its baseline is same, is apple-to-apple now. Ajay, you want to put some color on TPM?

Ajay Bhandari: Yes. Suraj, you would have seen as part of our disclosures that we are currently going through a reorganization of our US entity structure where we are making certain changes to ensure that the MVS business, which we have identified as noncore is housed in an entity and the rest of the businesses are basically housed in another entity, so that procedure is on, which we expect to conclude in another 60, 70 days. The focus right now is to revive the revenues and profits of that business, and if you have noticed, there has been a slight improvement in the revenue of that business in this quarter, and so once the business is in a revenue as well as profit cadence, we will take a call on when to divest, though at the moment, the focus is on ensuring that the business grows steadily and is profitable.

Suraj Subramaniam: Alright. Thank you Sir.

- Moderator:** Thank you. The next question is from the line of Abhishek S from Elara Capital. Please go ahead.
- Abhishek S:** Just one quick question. Was the quarterly performance in line with what you were anticipating at the start of the quarter or the performance changed during the quarter? Thank you.
- Sandeep Kishore:** Abhishek, the short answer is no. As we mentioned earlier, we did expect in the quarter, the project completion to be going as per schedule, but we were also expecting the clients to provide the next transformation project, which got delayed. So no, we did not expect that the quarter will be tepid and soft. We were expecting a better quarter.
- Abhishek S:** Okay and the cost of repeating it, what were the reasons for the delay in the project, as you highlighted in the answer? Thank you.
- Sandeep Kishore:** These are large, complex transformation programs for the client. And this is a client which is in public sector and their decision-making processes are quite a lot, and there are unforeseen delays, which happened in the decision-making process, and that is exactly what happened.
- Abhishek S:** Thank you for taking my question.
- Moderator:** Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.
- Amit Chandra:** Sir, my question is a little to the BFSI vertical, we have been seeing that the performance of the vertical is pretty strong in the last two quarters led by Cynosure and the deals that we have won, and if I see the incremental revenue Y-o-Y. Around 70% of the incremental revenue is coming from the BFSI vertical and this vertical has been doing well? So what is the outlook here? So have we seen some moderation here? Or still it is just that we expected are still to ramp up in this?
- Ajay Bhandari:** So Amit, this is Ajay. In the BFSI vertical, most of the growth is led largely by the insurance business, predominantly the property and casualty business, which has come out of our acquisition of Cynosure and the Guidewire capability. Growth has been relatively broad-based. So I would say, it is more US than I would say a bit of South Africa. You are aware that, in South Africa, we do have a large percentage of the insurance clients there, and so the growth has come on the back of some very good farming that we have done, which is reflecting in the top 20 growth as well, and a lot of new ones in the Guidewire business predominantly in the US. While we do not guide, we are fairly confident that the capability that we have built whether it is in Guidewire or in property and casualty. In general, an extended life and annuity is strong enough to sustain healthy growth over the next few years.
- Amit Chandra:** Okay, and Sir, as we have reached 15% revenues in the retail, so now it is a substantial chunk of our business, can you give some suggestions that if you can provide additional breakup of the retail,

which can help us to understand. So some of the peers have started doing it. So if you can do it, then it will be better for us to understand. So that is one suggestion.

And now, on the margin front that we have been saying that you do want to scale up the margins in the core business to 15%, but we have been saying this since last many quarters and the actual progress on that has been pretty slow. So how do you see it and with the margin levers being very, very limited with the utilization at 84%, 85%. So what are the additional margin levers that we have and also so that we can scale these margins higher from here?

Sandeep Kishore: So Amit, this is Sandeep here. There are two pointers I can give. Number one is (a) we are very, very focused and committed of that 15%. This was a wage hike quarter for us, and in spite of tepid revenue, I think we did a pretty good job in terms of managing the operating margin, also all the way up to the PAT level in spite of the fact that we had wage hike and we had much less Forex gain to play on a Y-o-Y basis.

Second is, if you have seen our movement of onsite to offshore, it actually went up this quarter, and I still think there is room for us to do more.

Third is our cloud and infrastructure business as we have called this out earlier also, when we start to deliver this at scale, the level of automation and nonlinearity of business will drive additional margin lever. So yes, we have reached out 84-plus percentage on utilization but I do believe that there are levers available as well. The other point, I also want to call out, which we had mentioned on this forum several quarters ago that we are constantly working on reducing our subcontractor cost as a percentage of revenue, which, again, you would have noticed, we have worked all the way every single quarter to bring it into a manageable level, and I still think that the room is there also for us. So I do believe there are reasonable levers available for us in the midterm to actually get to that 15%.

Sandeep Kishore: Okay Sir. Thanks and best of luck for the future.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Sandeep Kishore: Well, thank you very much for being with us on the call and look forward to talking to you again in next quarter. Thank you for joining us.

Moderator: Thank you. On behalf of Axis Capital we concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.