“Zensar Technologies Limited
Q3 FY2022 Earnings Conference Call

January 25, 2022

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Moderator: Ladies and gentlemen, good day, and welcome to the Zensar Technologies Limited Q3 FY2022 Earnings Conference call hosted by Edelweiss Securities 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 touch tone phone. I would now like to hand the conference over to Mr. Sandip Agarwal from Edelweiss Securities. Thank you and over to you, sir.

Sandip Agarwal: Thank you, Janice. Good morning, everyone. On behalf of Edelweiss Securities, I welcome you all to Zensar Q3 FY2022 earnings call. We have with us today Mr. Ajay S. Bhutoria, CEO and Managing Director of Zensar Technologies, Mr. Navneet Khandelwal, CFO and few other members from the senior management team. Before I hand over the floor to Ajay, I would like to highlight that the safe-harbor statement on the second slide of the analyst presentation is assumed to be read and understood. With this, Ajay over to you. Thanks.

Ajay S. Bhutoria: Thank you, Sandip. Hello, and good morning, everyone. First, I'd like to wish you a Happy New Year. Given the recent rise in COVID cases around the world, I want to express my sincere hope that you are all safe and healthy. Thank you for joining us today to discuss Zensar's financial results for third quarter of fiscal year 2022. With me on this call are a few others from the Zensar leadership team. We have Navneet Khandelwal, our CFO, Vivek Ranjan, our CHRO, Harjott Atrii, Global Head of High-Tech Manufacturing and Emerging Vertical, Samir Gosavi, Global Head of our Consumer Services Vertical, Shirsendu Deb, Global Finance Controller and Arjun Warty, Head of Corporate Development.

I'm pleased to announce that we registered yet another strong quarter with revenues of $147.1 million, representing a quarterly year-on-year growth of 19.8% in reported currency. This translates into a sequential quarter-on-quarter growth of 4.7% in constant currency, and 3.7% in reported currency. Even in a seasonally weak quarter, this continued growth in our revenues reflects our client's confidence in us.

Our growth in Q3 FY2022 was broad based. The U.S. region posted a 20.8% quarterly year-on-year growth and a 4.4% sequential quarter-on-quarter growth primarily driven by the banking, financial services and insurance, and consumer services vertical. The European region registered a quarterly year-on-year growth of 23.7% and a sequential Q-on-Q growth of 6.1%, resulting in six consecutive quarters of growth. The South Africa region saw a slightly muted performance with a quarterly year-on-year growth of 8.3% and sequential quarter-on-quarter decline of 3.8%, primarily due to currency impact.

Moving on to our verticals. BFSI exhibited consistent performance, registering a quarterly year-on-year growth of 31.3% and a sequential quarter-on-quarter growth of 6.1%, with multiple wins this quarter. Consumer Services registered quarterly year-on-year growth of 26% and sequential quarter-on-quarter growth of 8.5%. We are seeing traction for our various offerings in existing and new customers. Hi-Tech and Manufacturing registered a quarterly year-on-year growth of 7.1% and a sequential quarter-on-quarter decline of 3.4%, primarily due to the impact of furloughs and some project closures. Emerging vertical, on the other hand, registered a year-on-year growth of 78.6% and a sequential quarter-on-quarter growth of 57.1%.

Our gross margins stood at 29.6% in Q3 FY2022, representing a sequential quarter-on-quarter decline of 100 basis points. The quarter-on-quarter decline in gross margin was primarily due to cross currency impact to the tune of 0.4%, furlough and utilization to the tune of 1.2% and was partially offset by reduced cost of delivery to the tune of 0.6%. Our

EBITDA margin for for Q3 FY2022 was 14.3%, a sequential quarter-on-quarter decline of 110 basis points. PAT for the quarter stood at 8.2%, down by 80 basis points quarter-on-quarter sequentially. We ended the quarter with a net cash position of $168 million compared $160.8 million last quarter.

Order book for this quarter stood at $125.2 million. We have scaled one additional client to the $20 million plus bracket and another to the $10 million plus bracket, bringing the total number of clients in these categories to 4 and 11 respectively. We are now a company of 10,641 employees. We have expanded and elevated our fresher hiring program substantially with plans to triple our fresher intake over the course of next 12 months. Our voluntary, last 12 months attrition stands that 26.7%. To meet the increasing demand for talent, we are establishing satellite centers outside of our 3 key locations. We are also expanding our footprint and setting up nearshore delivery centers to widen the availability of skilled talent.

We are a people centric company committed to enhancing our employee value proposition through initiatives like hackathons, gamified learnings, communities of practice and proactive internal rotations. We are reengineering critical touch points to enhance our associates' experience from recruitment to retirement. Further, we have expanded the scope of continuous learning program to encourage our associates to upskill and train themselves in niche and evolving technologies to stay ahead of the curve.

Since our strategy reset in May '21, our identified strategic growth opportunities have been evolving steadily, allowing us to customize offerings for our clients as they undergo digital transformation with renewed urgency. Our experience services SGO, led by Foolproof and Indigo Slate continues to spearhead our experience to engineering story.

Similarly, we have made notable strides with advanced engineering services, bringing integrated experience led solutions to the markets. We continue to strengthen our Data Engineering and Analytics Service line with expanded capabilities and partnerships., Our growing salesforce practice has generated momentum for application services, resulting in multiple wins in the quarter. Lastly, our enhanced partnerships with hyperscalers have augmented the important cloud transformation capabilities in our foundation services SGO.

Let me share a few examples of the work we have undertaken for our clients.

We have signed a multi-SGO deal with one of the largest financial institutions in Africa. The scope of work includes mainframe to cloud migration, customer experience in conjunction with salesforce, application support and maintenance and data engineering for our client’s business platforms.

We are modernizing a large U.S. retailer’s supply chain by developing cloud native applications hosted on Google Cloud, that reduce warehousing spend and improve time to delivery.

We continue to grow our wallet share with one of the largest retailers in South Africa, acting as a strategic partner for the company's AWS, data engineering and cloud architecture programs.

We have been selected to partner with a global nonprofit organization to transform, optimize and improve its stakeholder’s customer experience. Zensar and Foolproof are jointly leading this experience and design engagement.

We have re-engineered the customer experience of an entertainment industry client’s web and mobile platforms, supporting and enabling the launch of an innovative new service.

We transformed the associate experience for large U.S. Drug wholesale company by reengineering digital workplace operations, and digital security, driving identity and access management.

We are implementing the Guidewire platform for a large P&C insurance company.

We continue to develop multi-service line offerings to deliver integrated solutions to our clients.

Before I hand it over to Navneet, I would like to highlight an important aspect of who we are as a company, which is our commitment to environmental, social, and governance initiatives. We are focused on becoming a greener enterprise. We have launched several initiatives that include maximizing the use of renewable energy, energy usage tracking and reduction programs and afforestation drives. Another area that we hold close to, is serving our communities. We engage closely with the marginalized constituents in our communities, to foster self-reliance, empowerment, and dignity. Finally, our associates are integral to who we are as Zensar. We are committed to their health, safety and well-being. We measure their work satisfaction and act on the feedback we receive. We encourage their learning and professional development, and we actively promote an open culture of equality, diversity, and inclusion in everything we do. Last, but not the least, we will continue to provide technology solutions that are foundational, resilient, and scalable with robust governance, and long-lasting benefits to our customers, shareholders, associates, and partners.

With that, I will now invite the Navneet Khandelwal, our Chief Financial Officer to provide updates on critical financial data after which we will open the floor for questions.

Navneet Khandelwal: Thank you, Ajay. Good day everyone and welcome to this call. In addition to Ajay talking about the business, I will take you through some of the details on the financials. In the third quarter of FY'22 we have reported revenue of INR11,025 million, which reflects a sequential growth by 4.9% in rupee terms.

In U.S. dollar terms, the reported revenue is $147.1 million, reflecting a growth of 3.7% sequentially and 19.8% year-on-year. In constant currency terms, revenue growth for the quarter is 4.7% sequentially and 19.9% year-on-year. The U.S. dollar realization during the quarter has been INR74.9 per dollar against INR74.1 in the previous quarter. The year before in the same quarter it was INR73.8.

Our gross margin declined to 29.6% as against 30.6% in the previous quarter. This decline in gross margin is because of exchange impact by 0.4%, furlough and utilization impact of about 1.2%, which has been partially offset by our improved cost of delivery by 0.6%. The effective tax rate for the quarter has increased to 26.9% as against 25.5% in the previous quarter. This increase in ETR is a result of certain onetime hits, excluding which the ETR would have been 26.0%.

For the quarter ended 31st December, 2021, DSO including unbilled decreased by four days compared to the previous quarter and stood at 78 days. On a Y-o-Y basis DSO including unbilled, increased by five days from 73 days in the quarter year before to 78 days in the third quarter of FY'22.

Cash and cash equivalents, including investments in mutual funds, net of borrowings increased from $160.8 million in the previous quarter to $168 million in the quarter ended 31st December, 2021, reflecting an increase of $7.2 million. Cash flows generated from operations during this quarter were utilized in the final dividend payout for FY'21 amounting to $7.2

million and contingent consideration payouts for one of the acquisitions made during this quarter.

The total amount of outstanding hedges as of December 31, 2021, was equivalent to $124.5 million against $126.4 million in Q2 FY'22. The Board of Directors have recommended payment of interim dividends at the rate of INR1.5 per equity share for the financial year FY'22.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now be in the question-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touch tone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Thank you. First of all, Navneet, best of luck for your future endeavors. It was great learning from you about the company. Ajay, just wanted to kind of start with the demand outlook which is out there. The commentary which we're hearing from your peers is that the deal momentum and deal pipeline continues to remain very strong. If you can just provide some overview on that and how that will convert to the deal TCV? If we look at your deal TCV this quarter and take out one last deal last quarter. it has remained fairly range bound. You have been increasing your SG&A spend over last one year. How do you – when do you see that increase spend in Sales team translating into larger deal wins coming through?

Ajay S. Bhutoria: Sure Mukul, good morning, let me start with the demand environment. The demand environment, Mukul, continues to be rich and healthy. And at the same time, while the demand environment is rich and healthy, the supply situation continues to be highly constrained. That is the first observation I'd like to share.

In terms of our deal and wins, this is in line with what we had the previous quarters and you're right, if you take off that one large deal that we had last quarter then it is in line with what we have had the last couple of quarters. The third thing is that, we see a large number of small and midsize deals in the market and especially within our pipeline and within our deal wins. What we have seen is that the number of very large deals in the market have diminished a little bit, but then the clients are giving out a lot of mid and small sized deals and we are well positioned to capture them.

From a perspective of how we are structured, , we put the strategy refresh out about a year ago, actually May of ‘21 and now we are firing really well and we are steadily progressing on that strategy and the four pillars that we have of our execution, and that is reflecting in the client conversations that we are having. And that is also reflecting in terms of the wins we are having, as well as the overall pipeline and momentum. So, that is generally what is happening, that is the color I can provide you, Mukul.

Mukul Garg: Sure. But just to follow up on that, do you expect the smaller deals to kind of grow and help your overall TCV or do you see at least for the near-term given that deal sizes are small, for overall TCV number to remain stagnant?

Ajay S. Bhutoria: Yeah. So, we will continue to see momentum derived out of these deals. These are mid and small size but the number is significantly larger in terms of the number of deals that’s what we have been doing. And my view is that, my belief is that, this current momentum, both in terms of market, as well as deal convergence for Zensar will continue the way we have in terms of what we have done the last couple of quarters, I don't see that momentum seizing.

Mukul Garg: Sure. Thanks. The second question was on profitability. You have taken quite a bit of margin dip over last few quarters because of business investments. Is this the bottom of profitability for you? And what are the levers you will have over the next few quarters to kind of take it back up to high teens?

Ajay S. Bhutoria: Sure., Mukul. if you see what's happened with our margins the last few quarters, the adverse impact of margin has come largely through increased cost of delivery, and that is because of two reasons. One is increased cost of hires to support our growth and to backfill attrition, and also some unprecedented wage hikes that we have given in the last 12 months. And that has impacted our gross margin in the last few quarters to the extent of 500 basis points. And then, Mukul, you mentioned that we have increased, as I have mentioned and indicated from the beginning, from the time I've come on board, that we will increase our investment into the business. And growth is a priority for us, is the priority for us. And that investment took out about 1.2%.

As we go forward, for the time being, and then I'll share the margin improvement measures that we put in place in a minute. But effectively where we are going to be in the next three to five quarters is going to be, our margin is going to hover around teens. So let me explain what is going on. So, first of all, is that we are implementing several measures to address this softness.

The first one is, a massive effort to crank up our organic talent engine. We have significantly enhanced our fresher hiring program. And that goes from the time we hire to the time we deploy, right. So that has undergone significant expansion. The second thing is, we have continually focused on right shoring. Third thing is, also to address this big point of our attrition is, we are trying to work towards expanding our talent catchment. And we are doing two things towards that, which is, one is that we are expanding delivery locations within India into satellite centers and second thing is we are also expanding into nearshore locations, both Latin and South America and Eastern Europe. And then finally, we are also working with our clients for selective rate hikes. And where this will lead us is that when the whole thing will play out over the course of next three to four quarters, margin will hover around mid-teens, and then over a course of time, as our margin levers kick in, we look to get to high-teens. And while we do this, we are in a good place with growth and we don't want to sacrifice that and growth will continue to remain our top priority.

Mukul Garg: Sure. Thanks for answering my questions.

Ajay S. Bhutoria: Sure, Mukul.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirius Securities. Please go ahead.

Sandeep Shah: Yeah. Thanks for the opportunity. Just wanted to understand this quarter's deal TCV of $125 million, does it include even the M3bi deal wins? Because if I'm not wrong, it has not included in the second quarter deal win as well.

Ajay S. Bhutoria: Yes, Sandeep. So first, good morning, M3bi is now well integrated within the firm. And we see the impact of both M3bi business and the synergy is coming together with Zensar and this includes the overall company, that includes M3bi.

Sandeep Shah: Okay. Okay. So, Ajay, just how have you measure these strategies working in a right fashion because if we look at the active client, excluding M3bi, it has been hovering at the same number in the earlier years. The deal TCV numbers on organic basis, excluding M3bi is not showing any major improvement as a whole. So how do you measure that the strategy is working in a right fashion as a whole, because our growth on organic basis despite on a lower base is not coming to in line with the growth companies which we see in the peers of yours as a whole?

Ajay S. Bhutoria: So, Sandeep, this typically is a seasonally weak quarter for us. This is a quarter where we encounter fairly substantial furloughs. Right. Despite the furloughs, we have had growth of 4.7% in constant currency, 3.7% in reported currency. We've had three straight quarters of growth, right. So, this is testament to the fact that the firm is tuned for growth.

So let me give you a few additional comments, right. So, we launched our strategy in March of --- in May of ’21, right and that revolved around five SGOs, 21 playbooks, four pillars of SGOs. We are currently, strongly in execution phase. We have worked to strengthen the team around key functions such as sales, delivery, client partners, subject matter experts. So, we've been working very, very diligently to build out this, what we believe is a formidable team. Our crystallized services, the strong value proposition, the significant first one to go to market is bearing fruit. Right. And then in the course of the year, we also did a very substantial brand refresh. Right.

Now, all of this has resulted into, what we believe is a strengthened franchise, and it has made us more competitive. And it is driving us towards substantial momentum, towards our goal of achieving predictable, sustainable and profitable growth. Right. So, that is broadly speaking. And in terms of new logo wins, specifically coming out, to address, one of the questions, right. So, we have our new logo win rate, in the quarter has been in line with what we have been winning the last couple of quarters. Right. Now, while we did that, of course, we are also constantly looking at working on the tail, etc. In terms of ability to, looking at clients and then evaluating our ability to mine the clients, to farm them and to grow with them, right.

And what we have today is a situation where the number of $20 plus million clients has grown by one, the number of $10 plus million clients has grown by one, the revenue coming from top 20 clients has increased. And this is despite the fact that, we in South Africa, which is considerable a material part of our business, we've had headwinds coming because of currency, as well as because of COVID related, third wave related softness. So overall, we feel very confident of where we are with growth, and we feel confident of how the pipeline is building out within the firm.

Sandeep Shah: Okay. And just to follow up, is it fair to say now we are on a sustainable, predictable growth path, or we still, we will have to wait for a couple of more quarters to call that trend out?

Ajay S. Bhutoria: . Yeah. So, we are in third quarter of implementation of strategy. I think there is work that still remains to be done. We have built a formidable team; we continue to focus on that. So, we did the strategy reset, we build the team, we are working very significantly on the talent side of the house, right. We did the brand reset. We are well on the path of executing on the strategy and but as I had mentioned the last time and the previous couple of calls is, it will take four to eight quarters for the strategy to fire and take root completely. And we are on track with that. It will take the four to eight quarters. So, we are a couple of quarters out, two to four quarters out, towards achieving our goal of predictable, sustainable and profitable growth.

Sandeep Shah: Okay. Okay. And Navneet, all the best for your future endeavors. We'll miss you. Thanks.

Navneet Khandelwal: Yeah. Thanks. Thanks, Mukul.

Moderator: Thank you. The next question is from the nine of Nitin Padmanabhan from Investec. Please go ahead. Mr. Nitin Padmanabhan your line is un-muted. You may please go ahead with your question. As there's no response from the current participant, we move on to the next question from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Yeah. Thank you for your opportunity, sir. So, my first question is on your data point regarding reduction in delivery cost. While I do understand that you are making full efforts to enhance your fresher hiring significantly, I just want to understand what are we doing to reduce our subcontracting costs? Because if I were to look at those, they are probably at the upper end of the industry, if I were to see it in terms of the percentage of revenue. So just wanted to get a sense as to whether reducing subcontracting costs is also part of your mandate to reduce your delivery costs? So that is my first question.

The second question is on again on the growth strategy. As an earlier participant highlighted that some of the midsize IT companies are growing at significantly faster pace. What are we trying to leverage? Are we trying to leverage margins? Or probably, while you have put out, you have gotten a lot of senior executives on board. And do they bring in very large relationships with them? So if you could just take us through the steps to sort of change or rather improve the growth trajectory here? Thanks. Those are my two questions. Thank you.

Ajay S. Bhutoria: Sure, Thank you for the questions. So first of all, yes, our subcontracting expenses increased. It went up from 14.9% in last quarter to 15.2% of revenue this quarter. If you see what's happening is that, look, we are in an environment that, as I mentioned, is extremely demand rich, but at the same time, very, very supply constrained. The supply situation is very inelastic, right. And the direct result of that, for us is, that our cost of hires for growth, as well as our cost of hires for replacement of attrition has gone up. Our wage hikes have been very substantial. We gave two in the last 12 months. And then in order to support growth, the subcontracting costs have also gone up. And then this, by the way, is an industry wide trend. It's not just us, it's an industry wide trend.

So, we expect this subcontracting cost to remain high until the supply situation remains inelastic. As the supply pressures ease, and there are various things, there's internal and external. Internally, as you rightly pointed out, one is our, there's this massive expansion of our fresher intake program, moving on to additional locations within the country, setup of nearshore capabilities in Eastern Europe and Latin and South America, and the overall trend of demand supply mismatch within the industry, as some of these take effect and as this pressure increases, one of our primary levers will be to double down on the subcontracting costs. So that's the answer to your first question.

In answer to your second question is, look yes, again, about four quarters back when I came onboard, right, we had made a very clear statement of intent, that we are going to take out some money from our EBITDA and we are going to reinvest it back into business, to drive our new strategy, to continue to strengthen the team, and to drive a very structured and crystallized set of services based on our five strategic focus areas.

Towards that we have strengthened the team, we have brought in new salespeople, we have brought in new delivery leaders, we brought in client partners, we brought in subject matter experts, we brought a new leadership for our verticals, right. and this is beginning to yield results, this is bearing fruit. After a long time, you know, we saw the turn-around, we have had three straight quarters of growth. The first two of those quarters were the best quarters that we had in the last six years. The third quarter, which typically is a very seasonably weak quarter for us, this time we have delivered good results, right. So, it gives us a lot of confidence and reinforces our belief that we are on the right path and the kind of team that we have put together, the kind of services that we are now offering to the market and the focus that we have in terms of bringing value to our customers through these services and through the other pillars of executions as they have identified, is bearing results and gives us confidence, reinforces it that we are on the right track.

Vimal Gohil: Right.. So, just one clarification on the first answer you provided on the subcontractors and the overall supply situation. While I do agree that the situation remains a bit tight, and it is an industry wide problem, most of our peers in the industry have managed to sort of maintain their profitability in the current scenario and their view is also that over the next couple of quarters attrition should stabilize and we should see a better supply side scenario. Are we consistent in that view and do we also agree that you know since the new team has come in, there were some low hanging fruits or improvements, or scope of improvement in the overall hiring process that needed to be done and are still work in progress for us, which is why the supply situation probably could impact us slightly more than industry?

Ajay S. Bhutoria: So, to reiterate, I mean, we are in a very supply inelastic situation and attrition remains an industry wide phenomenon, and we have also been quite adversely impacted by it and the way we are addressing it is multifold: significant expansion of our freshers program, much more so than in the prior years, expansion of our delivery locations, looking at nearshore, continuously working on our employee value proposition. As these levers kick in, and I mentioned it the last time and I maintain it this quarterly meet up with you folks is that, it will take three to five quarters for these levers to take root and to deliver us the margin benefits. Now, all of these are very strong margin levers and most of these take between three to five quarters for firms such as us to take root. So, I maintain that, in the interim, we will hover around mid-teens and as these levers take root, we will go back to our original objective of delivering EBITDA in the range of mid to high-teens.

Moderator: A reminder to the participants, if you have a question, please press "*" then "1". The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Thank you for the opportunity. Ajay just wanted to prod you further on a couple of your comments in terms of the expectation that we should probably be seeing a predictable, profitable growth in about four to eight quarters and that's the roadmap that you laid out when you joined about a year back. We are almost four quarters in that journey, do you think we should probably expect our growth rates to be on par with Tier 2 peers into second half of FY'23 to FY'24? That's question number one.

The second question was in terms of margins. So, we've seen some amount of normalization in terms of our profitability to mid-teens now. Do we expect further dilution in the near term because of some of the investments that you're making in terms of supply chain? Or do you think you probably hit the bottom in terms of margins and margin should at least be stable in the near to medium-term at current levels?

Ajay S. Bhutoria: Sure. Good morning, Manik. So let me answer the first question first. We had published our strategy refresh in May of '21. Right. So that is when we had published and at that time, we had indicated that it will take us four to eight quarters to achieve our objective to drive predictable, sustainable, profitable growth. Where we are right now is strongly in the execution phase. We have seen initial signs of success. We have seen our SGOs fire very well. We've seen the strategy taking shape the way we had intended and we still maintain that it will be four to eight quarters for the strategy to completely take root. What we have is now three quarters worth of data points, three quarters worth of business performance, and it gives us solid confidence that we are on right track. So that's the first thing. Now the second thing, Manik, can you repeat the question again please?

Moderator: Mr. Taneja, your line is unmuted. You may please go ahead, sir, with your question.

Manik Taneja: Thank you. So, I had already had a question around margins.

Ajay S Bhutoria: The second question. Yeah, yeah. So, the margins will remain will hover around mid-teens, like I mentioned. So, we ran into the adverse situation because of items mentioned in response to the previous questions, cost of delivery went up, that gave us a hit of 500 basis points in the last three quarters and then investments into business, which is about 1.2%. Now, in the short-term, we will continue to hover around mid-teens and our objective is, as our margin levers start taking hold, which is going to be three to five quarters, we will at that point in time start heading towards our long-term objective of mid to high-teens for EDITDA.

Manik Taneja: Sure. Thank you and all the best for the future.

Ajay S. Bhutoria: Thanks.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Crescita Investment. Please go ahead.

Ashish Agarwal: Hi, thank you. Thank you for the opportunity. Sir, I had one key question because on your Hi-Tech vertical, I have been noticing that the Hi-Tech vertical has been decelerating in revenues and it has been growing slightly despite it having a very large revenue contribution. And we also understand that Hi-Tech vertical has been showing good amount of growth for various companies of your size and stature in the industry. So, if could throw some light as to what are your thoughts and your strategy and outlook for that vertical? Thank you.

Ajay S. Bhutoria: Yeah. Thanks, Ashish. Good morning to you. I would request Harjott to answer that question. Harjott?

Harjott Atrii: Sure, Ajay. Thank you. So, Ashish, our Hi-Tech vertical strategy in combination with our SGO playbooks is very well aligned with where the customer spend is, with regard to servitization, as a service model, and software based development in the Hi-Tech and Manufacturing. Apart from the furlough impact, we believe that we are very well suited for the growth. We have also signed up new logos, where we expect to grow in the next few quarters and at the same time, a sudden dip you saw in the Manufacturing was primarily driven by some of our customers were concentrated in the COVID economy, which was funded by U.S. government with regard to manufacturing of breathing equipment, respiratory equipment and other COVID related supplies. So though that funding has dried out, hence, they are going through their own budget realignment and optimization. So, as we kind of transition from that to the next new logos, with a new vertical strategy, we feel very confident of delivering growth in Hi-Tech and Manufacturing.

Ashish Agarwal: Sure. Thanks. So just a follow up of this. This vertical is to have a similar revenue share as you had earlier and a similar growth rate as rest of the verticals? That is from my side.

Harjott Atrii: So, you are saying what the growth rate of as compared to other verticals?

Ashish Agarwal: Yes.

Harjott Atrii: Yes. We expect a positive outlook. As I said, our strategy of verticalizing the SGO playbooks in line with the Hi-Tech spend has been validated. We have signed up some large new logos with a lot of room for growth. So, there's a lot of validations for strategy and so, we expect a very positive outlook of demand from our customers in the segment.

Ashish Agarwal: Okay. Sure. Thank you so much and wish you all the best.

Harjott Atrii: Thanks, Ashish.

Moderator: Thank you. Reminder to the participants, if you wish to ask a question, please press “*” then “1”. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Hi, sir and thanks for the opportunity. So, my question is on the BFSI vertical. So, we have seen an overall good recovery in the BFS vertical but still some work has to be done in the insurance side and if you can update what's happening on the insurance vertical and in terms of BFS vertical, what kind of size we are looking at and also in terms of deal wins there. If you can highlight what kinds of deals we are winning in the BFS verticals?

Ajay S. Bhutoria: Sure. Sure. So, in banking, the focus strategy that we've had, so let me divide it between banking and insurance. So, banking, focus strategy in banking has started paying off. And the vertical has registered 19.4% sequential QoQ. The growth is broad based in existing clients, as well as there is a lot of success in new logo acquisition. Third thing playing very positively out there is, traction because of convergence and synergies through M3bi, the acquisition that we made last quarter. So overall, banking continues to shape well, winning lot of new logos, expanding in existing logos and set for steady growth.

Insurance registered a 2.9% sequential quarter-on-quarter decline and the primary reason was that this came from decline in certain South Africa accounts. Overall, the business is stable and overall, we will continue to grow steadily in the coming quarters. So overall, BFSI together, we will be stable and steady.

Amit Chandra: Okay and Sir in the Africa geography, so, I know, it has been a strategic geography for us, but has there been any change in terms of focus in the Africa geography because we are seeing some kind of slowdown there? So, now we have seen some like headwinds there in this quarter as well.

But in terms of profitability, how different the Africa geography is versus the company average, in terms of margin and profitability?

Ajay S. Bhutoria: So, South Africa for us continues to be an integral part of our overall company's structure and strategy. And it's a portfolio that has traditionally done very well. It has done very well, the last several quarters for several years. Now, what we see this quarter is, two things. One is, that there has been significantly adverse currency impact, South Africa Rand versus U.S. dollars. And the second thing that has happened is, because of the third wave of COVID, there has been business impact in the geography. Because of these two reasons, we have seen a sequential quarter-on-quarter decline. Now in constant currency, if you see, South Africa is actually positive. But because of negative currency, the adverse currency impact, it has shown a decline. But overall, our franchise in South Africa remains to be strong. We have great clients, the team is very solid, and there is no change in our focus, as well as in terms of how we go to market in that geography.

Amit Chandra: Okay. And sir, on the margins. So, obviously, you have said that, we, we are actually moving towards a stable margin kind of scenario, but seeing the performance in the last two quarters, it has been pretty volatile. And also, in terms of levers, we have traditional levers with us, but in terms of the deal wins that we're seeing, now, are we seeing more on-site specific deal wins or as like if you see for the peers, it's more offshore driven deals that are that are being won. So, are we also seeing that kind of scenario in which we're seeing more offshore deals?

Ajay S. Bhutoria: Right, Fair. See, overall margin like I had mentioned a little while back, in the short-term, we will hover around mid-teens. In terms of the projects that we are winning, the deals we are winning, it is in line with overall company's portfolio, is what I would say. So yes, deals like city of San Diego etc, are largely onsite driven, but that's one of multiple deals that we have. Now even in city of San Diego and the other deals which are more mix of stateside and offshore, the margin profile remains to be consistent. So, we don't see a big change in margin profile of the deals we are doing, be it on-site heavy or offshore centric.

Amit Chandra: Okay. Okay, sir. Thanks, and all the best for the future.

Ajay S. Bhutoria: Thank you.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirius Securities. Please go ahead.

Sandeep Shah: Thanks for the opportunity for follow up. Just a bookkeeping question. Can you throw some light in terms of out of $125million of TCV, what could be renewal and what could be the new business? Because I think last quarter, we said it's almost 50-50.

Ajay S. Bhutoria: So, Sandeep, hi again. This quarter, and please take note that this is a holiday quarter and we usually suffer from furloughs, etc. This quarter, it has been more in the range of 68%-32%.

Sandeep Shah: So, 32% would be new business or 68?

Ajay S. Bhutoria: Yeah. 32% is new and 68% is renewal.

Sandeep Shah: Okay. Okay. That's great. Thanks for the clarity. And just on M3bi, I think the last quarter deal TCV does not include M3bi. We have we have started including deal TCV with M3bi from Q3. Correct?

Ajay S. Bhutoria: Navneet, can you answer that question, please?

Navneet Khandelwal: Yeah. That's right. Deal TCV for M3bi are included from the current quarter onwards.

Sandeep Shah: Okay. Okay. And just Navneet, can you help us this quarter what could be the M3bi revenue numbers? Would have contributed more close to 1.3%-1.5% to the total growth in terms of incremental, inorganic?

Navneet Khandelwal: So, I think we had called out sometime last quarter. Last quarter, while M3bi reported numbers of $7.8 million,

Sandeep Shah: Right.

Navneet Khandelwal: But their run rate was about $9 million at that point in time. So, with that, you can get a fair idea of what will be the inorganic element which has got added.

Sandeep Shah: Okay. Okay. And just a short-term question. We are coming out of a furlough quarter and our commentary for Hi-Tech vertical looks like positive. So, is it fair to say that the growth momentum in the fourth quarter can bounce back both in terms of dollar revenue, as well as in terms of margins, because even margin had a headwind through furloughs because of Q3, which may not repeat in Q4?

Navneet Khandelwal: Ajay, you want to take that?

Ajay S. Bhutoria: Yeah, Sandeep, I'll take that question. So, while we would refrain from making forward guidance, what I can tell you is that, the business is stable, the progress on our SGOs is steady and we have confidence that, the team is in place, the strategy that we have in place, the services that we are offering to the client, continue to resonate well. And we feel generally very positive about business. So, steady and stable.

Sandeep Shah: Okay. Okay. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Sandip Agarwal from Edelweiss Securities. Please go ahead.

Sandip Agarwal: Yeah. Hi. Good morning to the whole team. Happy New Year, and congrats on a good execution. So, Ajay, I will not ask you any quantitative question and all those things. I just want to know a little bit on the strategic side. So today, when you see this journey of eight quarters which you have charted out, we are three, four quarters into it, maybe two quarters according to some calculation. But broadly, we have started that journey and we are somewhere between two to four quarters in that journey. And we have probably another two to four quarters to achieve what we have chalked out. But when you see this industry, technology is also a cyclical industry, where cyclicity, is driven by disruption, rather than an economist maybe. So, my question is that if we take another four quarters from here, then, from a cycle perspective, we will be in third year of cycle and you may get another two, three years of good growth. But will we not be at a big disadvantage, compared to peers, if we don't ramp up our capabilities on supply side and build our team quickly from here, because eventually it is all about cycles, right? And if we are in the best cycle of maybe last two decades, and if we invest, which we don't have an option, but before a lot of our time goes into investing, to get the things right in this cycle, then maybe our benefits will flow in the next cycle. Do you see it like that? Or you do think, with what you're doing right now, there will be a long period of good growth. So how do you see that, that is number one?

And a related question is that, financial intervention, in my view, has hardly made big differences in returning manpower, when this kind of demand-supply gaps are there. But what actually happens is that, when the big players like who are recruiting 40,000-50,000 people a year, and they start seeing some cool off, which they are indicating, then by that cool off, the industry cool off starts and we are natural beneficiary of that. So, do you also think in that way or you think that no, it is more to do with us, and we have to do very strong interventions to retain people? So those are two questions. Please, if you can answer them. Thank you.

Ajay S. Bhutoria: Sure. Sure. Sandip, now two very good question. So, let me give you an answer to the first one. The first thing is that, the new structure that we put in place, in terms of the five focus areas, 21 playbooks, four pillars of execution, what we have seen in the last two, a little over two quarters of execution is that, that is firing very well for us. So, while it will take four to eight quarters for it to properly take root, we will continue to see incremental benefits coming out of it. We've seen early signs of success, and the success grows from quarter-to-quarter. So, we will continue to see incremental benefits. That is one.

Second thing is, you're right. We are in a demand super cycle which, I believe the last at least 36 months. We are probably in the 12th month of that cycle. I think we will continue to benefit from it and we will continue because of the way we are structured now and the way we are going to market from experience, advanced engineering all the way to foundation services, and the kind of playbooks that we have, we will continue to benefit by that over the period of next four to eight quarters. The benefit for us is going to be incremental, until we hit our overall objective to get onto that steady state path of delivering predictable, sustainable and profitable growth.

So, overall bottom line is that we have seen strong early signs of success, and we will continue to incrementally deliver because of this renewed strategy, as well as the renewed strength in our leadership team, as well as down the chain of command within the company to realize benefits coming out of the market, as well as putting ourselves in a favorable position once this demand super cycle starts to cool down, because of the market penetration that we hope to achieve and that we will achieve, in terms of logos, in terms of service line penetration, in terms of setting ourselves up across what will be the core of the future investment areas within the industry. So, that's the answer to the first question.

Second question Sandip is, it is both. The interventions that we are taking internally will start easing the pressures that we have seen on margins, especially, this very expanded fresher program that we are driving internally within Zensar. We are going to triple our intake of freshers between last year and this year, between FY’22 and FY’23 and then focus on nearshore, focus on expanding our talent catchment within India to move to satellite centers, where the demand-supply mismatch maybe is a little less than what we see in Pune and Bangalore. So, that is going to make an impact on our margin.

Now, on the other side, there are macro factors, which will benefit us over a period of time. And then you have also mentioned in some of your reports, I've seen that, is that, even without demand cooling off, what is happening in the industry is that, across board, all companies are putting massive focus in terms of expanding supply chain to overcome this demand supply mismatch, to overcome this supply inelasticity. And that, even with demand super cycle still being in place, as the industry focuses on generating disproportionately high amount of additional talent, that is also going to, in my view, positively impact the current situation where supply is so inelastic.

Sandip Agarwal: Yes. Thanks, Ajay for that detailed answer, and best of luck for the current quarter. And I wish we execute very strongly; build a strong team and we deliver great returns to the investors as well. Thank you.

Ajay S Bhutoria: Thank you. Yeah. Thanks, Sandip.

Moderator: Thank you very much. Ladies and gentlemen, due to paucity of time we take that as the last question for today. I would now like to hand the conference over to Mr. Ajay S. Bhutoria for closing comments. Over to you, sir.

Ajay S Bhutoria: Thank you. Thank you so much for giving us the opportunity to present our Q3 FY'22 results. Thank you very much for the very insightful questions. And I look forward to seeing you all in the next quarterly earnings review, if not in the interim, on one-on-one conversation. So, look forward to keeping in touch. Thank you, folks. Good morning to all of you.

Moderator: Thank you very much. On behalf of Edelweiss Securities, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.