

Transcript

Conference Call of Zensar Technologies

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Pavithra, the moderator for your conference call. Welcome to the Zensar Technologies 1Q FY19 earnings conference hosted by HDFC Securities. As a reminder, all participants will be in the listen only mode; hence there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchstone telephone. I would now like to handover the conference over to Mr. Apurva Prasad from HDFC Securities. Thank you and over to you sir.

Apurva Prasad: Thank you Pavithra. Good evening everyone. On behalf of HDFC Securities I welcome you all to the Zensar Technologies 1Q FY19 earnings call. We have with us the senior management team of Zensar, Mr. Sandeep Kishore, MD and CEO, Mr. Navneet Khandelwal, CFO. So, without any further delay I handover the call to Mr. Sandeep Kishore to start the proceedings. Thank you and over to you sir.

Sandeep Kishore: Thank you Apurva. Hello and good afternoon everyone. Thank you for joining us on the Q1 fiscal 2019 analysts call. On the call today, I have with me from the Zensar management team Ajay Bhandari, Head of Strategy and Corporate Development; Navneet Khandelwal, our Chief Financial Officer; Vivek Ranjan, our CHRO and Sanjay Rawa, our Global Financial Controller. I will give you a brief overview on Q1 fiscal 2019, showcasing a strong start to this financial year. And it 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 Q1 fiscal 2019 financial results and the fact sheet that we released yesterday. Let me take this opportunity to present some key pointers. We had a great Q1 fiscal 2019. On an overall basis, we delivered revenue growth of 6.6% sequentially and 18.1% year on year, both in dollar terms. On constant currency, the Q-o-Q growth was 7.5% and Y-o-Y was 16.6%. Our Q1 gross margin and EBITDA, both picked up the growth with GM increasing sequentially by 11.7% and EBITDA by 18.4% in USD terms. Both these financial metrics saw significant Y-o-Y growth of 31.7% and 56.4% respectively. Our Q1 fiscal 2019 PAT grew sequentially by 8.6% and by 67.5% Y-o-Y.

We have continued the large deal momentum in Q1 winning three such deals with largest net new multi-million, multi-year dollar win at Zensar, where our digital solution positioning helped us win. This was a very large diversified brand for applications management and digital services. We have also won an application and cloud infrastructure services deal at another Fortune 500 manufacturing company. In Q1 fiscal

2019 our digital revenue accounted for 43% of our overall business, a growth of 12.8% sequentially and 40.1% on a year on year basis, largely on account of our customer experience, user experience, front-end development capabilities, cloud and mobility work and our proprietary ZenROD, which is our return on digital platform.

Our acquisitions continue to do well. Foolproof, Keystone and Cynosure are all successfully integrated into the mainstream. Keystone continues to perform well. It grew 4.8% sequentially and 38% year on year. The synergistic capabilities of the Zensar and Keystone is generating good traction within our client base, creating new partnerships with selling as one Zensar in omni-channel space. Cynosure, the company which we acquired in April 2018 has made a good start adding Guidewire capabilities to our P&C insurance business. It has achieved a revenue of 5.9 million in Q1 and it will continue to strengthen the core of our key insurance offering to the combined clients. Foolproof is doing very well to win and position us differently in the CDO and CMO space across both existing as well as new clients. We have as you know, recently announced the acquisition of Indigo Slate, our fourth acquisition in the last twenty-one months, further strengthening our commitment to invest and grow the digital business. This will strengthen Zensar's customer experience and digital transformation capabilities, particularly in the United States, with access to some marquee Fortune 500 clients as well.

Zensar's application service business delivered a healthy growth this quarter. Digital and application services earlier called application management services grew sequentially by 6.6% in constant currency on the back of our digital services growth, which grew 13.5% sequentially. Our overall cloud and infrastructure business also had a very good growth of 13% sequentially on constant currency, with cloud, digital-led next gen CIS services increasing by 16.7% sequentially. With new go to market team in place, revitalized service catalogues, focused sales strategy, driven by account mining, cloud and autonomics, we have started the turnaround in fiscal 2019 and will continue to see increase in this business during the fiscal. We have also given a detailed view on both our application infrastructure businesses in the fact sheet, providing next level details on digital and core.

Our key market of US has continued its growth by delivering a strong 9.3% sequential growth on constant currency basis. With the two new acquisitions and robust business pipeline, US have been a major reason in the overall business performance. We now have a solid and stable sales engine in place and we have started seeing the results in deals and new pipeline. The digital sales team has picked up significant momentum both with the existing as well as new clients, which will serve us well as we move ahead into the remainder of the fiscal. Our Europe and Africa business continues to do very well by growing at 5.3% sequentially and 5.7% sequentially respectively on constant currency, achieving strong growth across the market.

All focus verticals have achieved significant growth over the last few quarters. Hi-tech is at 36.1% of revenue, retail and consumer services at 24.7%, insurance now at 19.4% of revenue in this quarter, hi-tech and insurance delivering 4.7% and 37.3% sequential growth. As mentioned in our last quarterly call, we did have a client specific Chapter 7 issue in our retail and consumer business and this impacted sequentially the performance with a negative 2.5% on constant currency in this particular business.

Overall, we are executing quite well on our strategy to expand our businesses with the identified top tier clients. We are going to fiscal 2019 with the renewed focus on increasing businesses from top clients considerably well, as we increase our wallet share. Our digital platform and solutions are key pivots to expand our relationships with the top and high growth customers. We now have nineteen clients in the 5 plus million dollars per annum category, up from thirteen, 12 months ago. Our unique three-in-a-box model is executing quite well. Our top client revenue has been increasing steadily sequentially. In Q1 fiscal 2019, our revenue from top five, top ten and top twenty clients will sequentially add 3.8%, 2.1% and 2.7% respectively.

We continue our emphasis on digital as our business strategy pivots on our digital capabilities and services. ZenROD, our proprietary solution that we launched in Q2 of fiscal 2018 continues to gain acceptance from our clients helping us win new deals. We have sold multiple platforms across clients with various deals being influenced by the competitive differentiation that this platform delivers. Our other digital solution platforms like ZenAnalytica are driving the growth of predictive analytics across our customers. Several large digital and traditional deals that we have closed have ZenAnalytica embedded in them.

Other growing areas include frontend development work, our auto management and warehouse management capabilities in retail and cloud migration and transformation business in the CIS sector that we have built. We have some good wins in the quarter in the digital space. You can find all of those details in the press release. During Q1 fiscal 2019, our utilization increased by 200 basis points, from 83.8% to 85.8%. At the close of Q1, our global head count stood at 9122.

Zensar continues to get included across reports by reputed industry analysts for our capabilities. Some of our recent and notable ones are, Zensar was mentioned in Gartner Market Guide of May 2018 for Blockchain capabilities. Zensar was recognized in ISG Cloud Services Archetype Report as Next-Gen Leader. Zensar was recognized in Gartner 2018 edition of Market Guide for Sales Force Implementation Services. Zensar received Skillsoft Innovation Award, creating an impact on IT skills for its digital academy initiative for training 100% of our associates. Zensar named in ISG Archetype Report, Infrastructure and Data Center for Private Cloud. Zensar is recognized in Forrester for commerce services providers in Q2 of 2018. Zensar named in Everest Enterprise QA services PEAK Matrix Assessment.

Q1 also saw the opening of Zenlabs at Hyderabad, showcasing our commitment to developing next generation technological solution. In May of 2018, we had also opened our first US delivery center at RTP, North Carolina. We have also expanded our Bangalore presence by adding two brand new centers at RMZ.

Most of you who have been tracking us closely would have seen the changes made by us and are now delivering well. We have been steadily increasing the focus on what we call core business, as we have clearly called out in the earlier quarters. Our core organic business delivered 3.1% on constant currency sequentially and 14.5% on a year on year basis. We have significantly stepped up our focus on digital, both organically as well as through acquisitions. Digital, as we called out earlier, now accounts for 43% of our total revenue, and has been growing at 40% year on year. This growth has been quite broad based and encompasses all aspects of digital. We now have a CXO facing ROD, return on digital platform, solution sets for all our key verticals. And a large part of

our growth is led by these services. We have our own platforms for AI based predictive analytics DevOps and Agile development, CX, UX, Autonomics with Cloud and Infrastructure Management and multiple alliance partnerships.

We continued our focus on key accounts and as I had mentioned, we have now increased 5 plus million dollars accounts to nineteen and we will continue to make more investments to grow this even more. This has been through a combination of dedicated account, delivery and digital specialists in each such account, but also through an upgrade of our digital and cloud infrastructure capabilities. A concentrated effort is to mine new opportunities in a robust demand-oriented environment in chosen set of clients that we believe can get into this 5 plus million dollars category. We have completed four acquisitions in the last twenty-one months, which are very strategic for our company, as we build differentiated capabilities. Foolproof for CX, UX and digital agency, Keystone for omni-channel and digital supply chain, Cynosure adding Guidewire capabilities in P&C insurance sector, to drive digital enablement of their businesses and of course most recently Indigo Slate strengthening customer experience and digital transformation capabilities in the United States. All four acquisitions are significant part of our growth story going forward.

So, all in all it has been an exciting start to the new fiscal. And with that let me call Navneet, who is our CFO to provide update on key finance data, after which we will open the floor for questions. Navneet?

Navneet Khandelwal: Yeah. 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. We have reported revenue for the quarter at Rs.9047 million, which reflects a sequential growth of 11% in rupee terms. In US dollar terms, the reported revenue is dollar 135 million, reflecting a growth of 6.6% sequentially. The reported numbers include INR 395 million or US dollar 5.9 million of Cynosure for the quarter. Revenue without Cynosure in rupee terms is Rs.8651 million, reflecting sequential growth of 6.2% and dollar 129.1 million, reflecting growth of 2%. The US dollar realization during the quarter has been 67, as against 64.34 in the quarter before. And the year before in the same quarter, it was 64.5. The gross margin for the quarter improved by 138 basis points, with improvement in our AMS and IMS business coupled with a favorable exchange rate movement.

The effective tax rate is at 27.8% as against 28.8% in the previous quarter. DSO stood at 71 days as against 67 days in Q4. The total amount of outstanding hedges as on 30th June 2018 was equivalent to US dollar 116.4 million against dollar 85.6 million in the previous quarter. As of end June, our cash and cash equivalent balance was 64.4 million as against 68.3 million at the end of last quarter. During Q1, we have availed loan of dollar 33 million, which has been utilized in the acquisition of Cynosure. The record date for split of Zensar stock in the ratio 1:5 as declared in the previous quarter has been decided as 10th September 2018.

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

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the questions. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Mukul Garg from Haitong Securities. Please go-ahead sir.

Mukul Garg: Thank you. Thanks for taking my question. And to start with Sandeep, thanks a lot for providing the breakup of service offerings that is very useful. To start just with a clarification on that, is it possible to break up the impact of Cynosure on the digital application services and the core application services? It seems that core application services declined on the organic basis during the quarter. Is that a correct assumption?

Ajay Bhandari: Mukul, firstly both our digital and legacy business grew. So, there has been a no real decline. The Cynosure business of 5.9 million, roughly 2.8 or 2.9, is counted as digital, because a lot of the work that we do in Guidewire is on cloud platforms and with a lot of mobility built in. So, it is roughly 50% of 5.9 million.

Mukul Garg: Understood. And just a follow up on this, is it possible to throw some light on how the growth in both these segments have been in recent past, especially on the core services, which as everybody knows has been weak across the industry. So, how has it been growing in the last few quarters and what is your expectation going forward?

Ajay Bhandari: I am assuming you are asking about the growth in legacy.

Mukul Garg: Yes.

Ajay Bhandari: This quarter we have shown a growth in legacy, with around 2% growth in legacy as well, though in previous quarters there was a decline. And I think a large part of that has been helped by some of the large deal wins that we have recorded over the last three quarters. We have had three quarters where we have recorded large wins, 200 million plus wins with one win over 75 million. Lot of them, even though there was digital content in those projects, there was a lot of legacy there as well. I think going forward, as long as we sustain the large wins, Sandeep did announce that there were couple of wins in other clients. They were not as big as 100 million, but they were still much higher than the average ticket size of Zensar, having a fair bit of legacy as well. So, as we have improved our teams, both in the infra space and the app space, we have strengthened onsite teams and we have built capabilities to close larger deals, we see legacy also keeping pace, and maybe not as much as digital, but definitely not declining.

Mukul Garg: Got it. And on the large deal portion, you have been winning multiple large deals in last few quarters. Can we see this as a new normal for, is it possible to quantify the incremental impact which we can see from them in FY19 or FY20 versus what we used to see from the earlier deal size?

Sandeep Kishore: A part of our strategy is to fight bigger deals. The question also is, how many such bigger deals are in the market. And as the industry knows, you

don't have too many of those 100 plus million dollars deals in the market. We have fought very hard and won two such deals in the last nine months. And you are seeing the results of that now being shown in the volume growth here. Our pipeline continues to be very good. We had mentioned in the last quarter of the strong pipeline, and even now our pipeline is north of 600 million dollars. Last quarter in Q1 we announced 140 million dollars worth of 10 plus million-dollar deal. So, our deal wins are quite good. They are a combination at that scale. You just don't have everything as digital. We for the first time, now as you called out, have given the next level of detail into applications, as well as the infrastructure managed services, because that is how the investments are being aligned, both from our side, as well as the client's budget. The client's budget on legacy will continue to decline. And that money is getting put of course into creating new businesses for them, which largely is driven from digital transformation programs for those customers. And hence it was important for us that we take the next step forward into bringing those details out to all of you, so that you can start to track this and build a model as the new normal going forward. Whether significant amount of 100 plus million dollars deal will be there, it is very difficult to predict, but the pipeline that we have of large deal is consistent. We have won several of them and of course there are several new large deals also which we are fighting as we speak. I should also take the opportunity, as I called out earlier that our revitalization of Cloud and infrastructure services, which was not doing well in the last twenty-four months, we have got a completely new team, a new set of service catalogue and we have started winning, that is why you have seen the growth. And we feel pretty good with all the deal pipelines that are there, which is, (a) standalone cloud infrastructure services, largely built around the next gen cloud services and integrated services of digital transformation and cloud. So overall, I think we have a robust deal pipeline, which is a combination of all service offerings.

Mukul Garg: And just a minute to, just bookkeeping numbers if you can share, what is the impact of the bankruptcy on the retail business this quarter and the organic operating margin, excluding the Cynosure impact?

Ajay Bhandari: The Cynosure was 5.9 million in revenue and 28% EBITDA. So, the net of the Cynosure EBITDA I think we have reported 13% EBITDA. We made a provision of roughly a million dollars for the Chapter 7 incident in this quarter. So, this is the last quarter in which we made it, so there is nothing left on this for the upcoming quarters.

Mukul Garg: Got it. That is all from my side. Thank you for answering my question.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

The next question comes from Mr. Ashish Chopra from Motilal Oswal Securities Limited. Please go-ahead sir.

Ashish Chopra: Hi, thanks for the opportunity. Sandeep, firstly if you could just maybe spend some more time on the large deals and help us just understand so as to what really has helped turn a corner on the large deals in the last couple of quarters, maybe more elaborating on the side of the GTM strategy and if anything on the sales incentivization, that would be helpful.

Sandeep Kishore: Our focus is to fight fewer deals, work with fewer customers, win larger deals and grow those fewer customers. So, I will address both aspect of it. There is a reason we had mentioned several quarters ago also that our alignment is to expand 5 plus million dollars per annum customers. And on a twelve months basis, we have seen that going up from thirteen to nineteen and we feel pretty good, we have enough head room to grow even more. On Large deals, we have put together a team almost eighteen months ago now. And for the first time in our company we have started working with the advisors and the influencer community. We are now getting invited, because we have shown the power of fighting and winning mega deals. These are 50 plus million dollars deals and we have won three such deals in the last nine months. And our winning strategy is built around platform plus services. It is no longer just pure services play and that is exactly where return on digital platform that we have built both for our application businesses, which we have talked about, as well as a new version of Vinci which we have launched, which is for the cloud orchestration and autonomies businesses for the next generation infrastructure deals that are being formed. You don't have enough of those mega old-style core network centers and network operations in the market, because most of the customers are quite aggressively moving into cloud, both private as well as hybrid cloud. So, you really have to go to market with a unique and a differentiated set of offerings. And as we have mentioned earlier we changed the team completely, almost nine months ago now. And that team is settled. It takes one or two quarters for the team to settle. So, the large deal focus, working with third party advisors, bringing the new set of capabilities which is unique and differentiated, new set of talent, particularly in the sales and client relationship team and the US region team, which has now been there for close to eighteen months have also started winning some reasonable size deal between 15 million to 30 million dollars. There are several such deals that we have won. One thing which is common, for us to position us differently in the new Zensar with reference to all the clients and all the deal is our sharp focus on digital. And every deal that we have fought, we have fought against either Indian tier-1's or global tier-1's. So, we are going head to head with all the large companies out there. And we are wining, and we still have a pretty robust pipeline.

Ashish Chopra: Right. That is helpful color. And secondly on the banking vertical, so I think that has been quite weak for the past couple of quarters now and I am just looking at banking excluding insurance. If you could just share what is happening there and is it likely to continue?

Ajay Bhandari: It is just that our manufacturing, hi-tech manufacturing, insurance, all these verticals are doing fairly well. So, in terms of our focus, it has been hi-tech manufacturing, retail and insurance. So, there is a lot more energy, effort, investment being put there. I think the banking growth or lack of it is just reflecting the fact that our priorities are in these three verticals. Additionally, most of our banking business is in South Africa, where there is some currency impact on those revenues as well, so that's the reason why you are seeing some decline.

Ashish Chopra: Okay. And on Cynosure I just wanted to know is there any cyclicity or seasonality in the business or is it sort of uncertain, volatile nature because of the project centric revenue characteristic of the business or do we expect this 5.9 to grow steadily considering the momentum and guide wire?

Ajay Bhandari: There is no cyclicity. The whole legacy modernization phenomenon that we are seeing in US and UK, we expect that momentum to continue. So, you are right, the project business as they come to an end is moving to manage services. But these are typically two-to-three-year projects as they go through the entire lifecycle of policy administration, billing, customer analytics, and claims. So, as they complete the entire cycle, it is a two-to three-year cycle and after that it goes into support. So, at the moment, there is no cyclicity.

Ashish Chopra: And lastly from my side, so I think the manufacturing vertical last year was a bit soft, this year it seems to have started on a stronger footing, so should we expect that vertical to kind of continue seeing growth?

Ajay Bhandari: In manufacturing, our focus is largely on hi-tech. We do have some very strong hi-tech relationships. With the acquisition of Indigo Slate which did a fair bit of work in the hi-tech vertical, we have got a new set of clients as well. So, we expect that the hi-tech manufacturing as opposed to the typical industrial discrete manufacturing, we did earlier, to do much better.

Ashish Chopra: Got it. That's helpful. Thanks for answering my questions and all the best.

Moderator: Thank you, sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. The next question comes from Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Hello, sir. Congrats on the strong turnaround on the business performance. Sir, we have done four acquisitions till date, the most recent one is Indigo, so how have been the synergies of the first three which we have done and how they have scaled and what was the new client additions we've got because of those three acquisitions?

Sandeep Kishore: Thank you for your compliment. Yes, I think we've had a fantastic beginning. The first three acquisitions, as I said in my opening comments as well, are totally integrated into the mainstream of Zensar. They are still running as independent brands because they are known much more in their market segment for the customers that have come along with it. We have also combined go to market for Foolproof, particularly into the UK market, so Foolproof is now part of our UK business for over a year, a year and a half now. Keystone is a part of our retail and consumer businesses from the time we acquired it and of course Cynosure is part of our insurance business.

So, we have a very well laid out and quite detailed integration steps and integration plan, both for backend integration of all enabling function and more important go to market alignment as well. All clients that we have in retail and consumer, largely we work with the CTOs of those enterprise customers, large retailers, and CTOs are responsible for shipment into the online and the digital world. Earlier we were only doing commerce so, of course, Keystone brought in the omnichannel, OMS and WMS capability, so it is completely contiguous.

Cynosure on the other hand we never had any platform capability. We were into the front-end digital development and experience led work or in the legacy maintenance, so

this kind of bridged the gap into what we call the ROD stack and as Ajay called out half of Cynosure business is digital, the other half is what we could call core application. So, it fits in beautifully with our tier one P&C customers. Cynosure doesn't have any tier 1 customers. They normally work with tier two, three and four, for which the policy premiums are the revenue of those customers. We have taken the platform capabilities into tier one and of course our digital and cloud capability into Cynosure customers.

Foolproof has brought in tremendous capabilities for us to differentiate, particularly in the front end and the customer research and customer insight and all the large deals that we have fought and won Foolproof has been an integral part & helping us position differently into those large deals around the world and we do hope that, with Indigo Slate now coming in and fulfilling that capability which we didn't have in the United States, we will see the deal momentum actually continuing. Indigo Slate focuses currently only on hi-tech as a sector. Also, geographically they are in the west coast of the United States. They are based in Bellevue in the Seattle region and their clients are as of now only hi-tech customers.

So as we integrate them, we just closed that acquisition a couple of days ago, we will take them into financial services in US and also into retail, but our first focus would be to stabilize the integration, expand the current businesses, bring Zensar services into the existing account, expand the core Indigo Slate business and then in phase two, which will be two quarters down we are going to take them into existing retail and financial services in the United States.

Madhu Babu: Yes, sir. Understood. And, sir, in terms of the capital allocation, the first three acquisitions we have the fixed component, I just want the earn-out component for Indigo Slate and for the Cynosure acquisition. What would be the earn-out payments which would be left for both these acquisitions, Cynosure and the recent one, Indigo Slate?

Ajay Bhandari: The Cynosure deal we paid \$33 million upfront and there is a \$28 million earn-out associated with it. As far as Indigo Slate is concerned, we have paid \$18 million upfront and there is a \$27 million earn-out associated with that transaction.

Sandeep Kishore: And both have steep financial goals to meet for any of the earn-out to be considered.

Madhu Babu: Because these two is \$60 million kind of earn-out payment in the next two years approximately. It would have an impact on the free cash flow generation, if at all it comes out in a full payment.

Ajay Bhandari: Both Indigo Slate and Cynosure have steep targets - both as far as revenue as well as EBITDA is concerned. So, while there is cash outflow there will be healthy generation of cash from their businesses as well. So, at the moment it is not a big concern for us.

Madhu Babu: And just last one, sir, I think as we see a higher share of digital and more of a value led offering, on-site has also been steadily trending upwards, so how should we see on-site and the margin trajectory and what about the wage hikes which are coming up in Q2? Thanks.

Sandeep Kishore: Our wage hike period is 1st of July, so you will see the impact of wage hike in this quarter, in Q2, and there will be some impact, but we are confident that during the remainder of the year we have enough levers to bring back the margin profile pretty much in the range that we've been operating. On-site business is by design; also, because all the four acquisitions that we have done have reasonable number of people are on site because they work on transformation program.

Cynosure, as Ajay explained, is guide wire implementation. So, it is working very closely with business. Foolproof is 100% on site. Indigo Slate is 100% on site. Keystone is almost 50-50, 50% on-site because they do all the engineering work with the CTOs of large retailers. So that's the reason why you have seen the on-site number go up. On the core organic side we have seen on-site number go up because of the large programs and large deals that we have won and that's the reason. Plus of course, the US delivery center that we have opened, adds to it as well.

This is aligned to our strategy to work closely with the businesses of the customers rather than just the IT of the customer. In addition, I think it will stabilize. Currently it is like two-third, one-third and I do think it will continue to be in the range. There may be some seasonality, you will see depending on large programs that we win or some tuck-in acquisition, but we have enough levers available in the off-shore module and our solutions model, these ROD platforms that we built, to manage the margin profile.

Madhu Babu: Okay, sir, thanks.

Moderator: Thank you, sir. The next question comes from Sharath Jutur from Karvy. Please go ahead, sir.

Sharath Jutur: Thanks for taking my question. I just wanted a couple of confirmations. First one is I just wanted to confirm if Q2 would also include a hit of one million towards chapter seven bankruptcy?

Ajay Bhandari: No.

Sharath Jutur: You are done with it then?

Ajay Bhandari: Yeah. Those are provided for.

Sharath Jutur: And the second one is I just wanted to know if Q2 numbers would also include Indigo's numbers?

Ajay Bhandari: Yes. Indigo's numbers will be with effect from 1st of August. So, yes, Q2 would include two months of Indigo.

Sharath Jutur: Okay. And I just wanted to enquire on the rest of world business. Can you please give some color to it?

Ajay Bhandari: As mentioned earlier, the rest of the world is not core for us. It is a business that has been declining. We are focused on the three core regions of US, UK and South Africa. Therefore, most of the investments are in these three regions and the growth as well as their share in our overall revenue is reflecting that. We will

continue to be focused only on these three regions and we have also mentioned in the earlier calls that rest of the world as a business in some shape or form will cease to exist maybe in the next eight to 12 months.

Sharath Jutur: Okay. And I just wanted to understand if there would be really any implications of the new GDPR rules in EU?

Ajay Bhandari: We have implemented GDPR as per the deadline by May of this year. The insistence of GDPR is only so far done by clients based in EU; While in US, there are some data privacy norms that clients are insisting through their MSAs. But there is no real GDPR kind of legislation which is still prevalent. However, the same philosophy of the GDPR, clients are insisting in some shape or form through their MSAs.

In UK we have not seen any impact. If anything, we do feel that it may have a positive impact on business because some of the changes people must make because of GDPR have an IT impact and some of that work may come to us. We saw the same trend when SOX compliance was very popular in the US.

There are some changes we need to make in the way we do marketing in the UK but by and large no impact.

Sharath Jutur: Okay. Thank you. That's it from me.

Moderator: Thank you, sir. The next question comes from Mr. Vishal Desai from Axis Capital. Please go ahead.

Vishal Desai: Thanks for the opportunity and congrats to the management on a good quarter. Most of my questions have been answered. I just wanted some sense in terms of the margin movement that has happened between this quarter and the previous one. I'll follow that up with another bit on the margin levers as well, so if you could help me on that.

Sandeep Kishore: First, thank you for the question. I'll respond and then, Navneet can add. If you look at the margin between the two quarters, it is largely driven from the volume growth. The 140-basis point on gross margin which went up is predominantly because of the volume growth and because of the utilization - the efficiency and the utilization gain. And that has flown through - I mean there is a 2.9 million increase at the EBITDA level. So, off the 4 million, 2.9 went straight to EBITDA and that has gone all the way into close to a million dollar into the PAT level. I don't think there was any Forex impact, Navneet, right? It probably was negative.

Navneet Khandelwal: No, no, we had some Forex impact. But that explains the margin movement.

Vishal Desai: Sure. And secondly, as you said in Q2 we will have our salary hikes kicking in. So is it safe to assume that it will be similar to last year in terms of the impact of around 100-150 basis points, gross level.

Navneet Khandelwal: Yes, it should be similar.

Ajay Bhandari: Yes, it will be in the same range.

Vishal Desai: Sure. And could you just spell out some of the margin levers that are at play given that utilization is probably trending at the top end of what we are comfortable with. We've called out around 83% in terms of our comfort level. So could you give us some sense in terms of what are the other margin levers at play that could shape up for the rest of the year, please?

Ajay Bhandari: We do have a few margin levers in play. One of the questions that was asked right at the beginning was - is your legacy business declining or growing? As we close more large deals - legacy large deals, managed services, etc there is an opportunity to flatten the pyramids and so on. So as those large deals stabilize, I think you will see, some impact on margins as well. A lot of them have transition cost, etc. in the initial stages, so that must be considered too.

Second, as Sandeep mentioned earlier, as we sell more platforms in digital, we have the ROD stack, we have ZenAnalytica and all these are in-built in most of our digital deliveries and as our platforms are getting richer it is having a more positive impact on margins because the last part of the digital delivery happens through our platform and that has a decent impact on margins. So, I would say these are the two big levers. Apart from the fact that our non-core business which is our maintenance business and the rest of the world business which has, like, really low-margin, they will in some form cease to exist in the next eight to nine months and that will overall lift the EBITDA margins for the company.

Vishal Desai: Sure. That's it from my side. Thanks, and all the best guys.

Moderator: Thank you, sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. The next question comes from Mr. Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Thank you. Sandeep, I wanted to come back on the large deals front. While you have articulated the internal efforts and steps, can you throw some more light on what is the external demand environment? We are hearing positive commentary from your peer groups as well on deal size and if you can help us with where do you see more interest currently - on the application side or the infra side?

Sandeep Kishore: So, Mukul, I do echo the commentary you heard from others. I do believe that the demand environment in the core market and the core business that we are in is quite strong across the board. I talk to clients every day, meet them. Most of their investments are aligned to their own mega transformation programs. However, what is changing is that clients are looking for faster implementation, better business impact, more measurable outcome rather than doing large scale transformation which has no outcome associated with it. So that's the change which has happened. That also aligns well with the platform strategy that we talked about because the only way we believe you can positively impact the business outcome and competitively differentiate ourselves is through the platform that we have built.

So that's the reason why when we started the change journey at Zensar two and a half years ago, we invested heavily in building these platforms and we have started seeing the result; so that's one aspect of it. The second aspect of it is the service line. So initially of course we did not have a great and up to date infrastructure offering. We have

now plugged that hole. So, we are now going together as a much more business aligned offering - outcome combined with application and infrastructure than just doing it with single service line, which was just application and digital alignment. So that's the second change which is going on.

The third track is largely focused on the infrastructure stack itself. Because of this huge movement towards cloud, the customer's demand environment on the cloud side has changed. Because of the Amazon, Azure, IBM, Google, Sales Force and so on, who are doing large-scale cloud migration, our offering has to align and must change and there has to be much more edge offering than the core of lift and shift of data center. So, we have changed that, and we have driven far more analytics, orchestration, provisioning, onboarding, modernization, cyber security, and AI-led. The next version of Vinci which we have launched is an autonomics, AI-led Vinci platform.

So, I would basically call out these three. The vertical cut is consistent for us. Insurance as Ajay explained earlier, is 90% of our financial services business and we are very focused here. We first want to get that to scale before we onboard something else in insurance or banking into the core US and UK market.

Retail is quarter of our business and we are very focused into leading through digital and omnichannel there.

In high tech, with the Indigo Slate acquisition I think you will see us do even more of that sector.

So, if you take a three by three vector - that's the demand environment which I see. The deal size if you overlay all of this – you don't have too many of the \$100 million deals in the market. You must really work with the customers. They don't come necessarily in 100-million packs, sometimes they may come in 60-70 million and you have to work with them to make sure that you up sell, cross sell and add different business dimensions to scale it up. And many a times there are several deals that are between 15 million to 50 million because the clients want to do it in much more manageable size deals than bulky and large transactions because it is very difficult for them to measure the outcome in a defined timeline.

Mukul Garg: Sure. And coming towards the IMS business, that has been an area where margins have been a bit low. Now that cloud portion or digital portion of that has been ramping up quite rapidly it is almost at the same size of the legacy, do you think that can also be a margin driver going forward or are the margins in the digital business still lower?

Sandeep Kishore: So, the answer to the first question, Mukul, is absolute yes. You will see higher margins from infrastructure business as we go forward. Infrastructure - cloud infrastructure business - had declined from close to 23-24% to 14% last quarter. We are now up to about 15% and I feel confident and you will see higher momentum on this with all the things that we have talked. So, yes, as you grow volume there will be margin play there as well.

Mukul Garg: Sure. And, just again on book-keeping side can you just help us with the status of the ramp up on the mega deals, both mega deals which you had late last year?

Ajay Bhandari: So, the first deal which we announced, which we signed in last December, that is 100% ramped up and you are seeing its full impact in this quarter. The second one which we signed in Q4 of last year is still in the middle of transition and you will see some impact in Q2 and full impact in Q3.

Mukul Garg: Got it. And, again, there was strong growth in the MVS business or the third-party support business this quarter. So how should we see that in the near-term and any update on the hiving off there?

Ajay Bhandari: The maintenance business has done well, both in terms of revenue and margin. Well, that's simply because, as long as they continue to be a business with Zensar we will continue to drive them to grow faster and better in terms of margin. But that does not change our outlook of the business. It still remains non-core – we will either diminish it in size or exit that business completely in some form by the end of the financial year. So, the fact that they have done well doesn't change our outlook of that business.

Mukul Garg: Understood. Thanks again for answering my questions.

Moderator: Thank you, sir. The next question comes from Mr. Apurva Prasad from HDFC Securities. Please go ahead, sir.

Apurva Prasad: Thanks for taking my question and congrats again on a strong set of numbers. Most of my questions are answered, but I just wanted your views on the attrition numbers. I know there is a seasonality part to it but how should we really see that?

Sandeep Kishore: Sure. Thank you, Apurva. I am glad you asked that question. Vivek was just sitting here, our CHRO. So, Vivek, this is all yours.

Vivek Ranjan: Yes, absolutely. The seasonality aspect which you have mentioned is a very pertinent point. Around this time in industry there is a trend towards high attrition and if you see year-on-year also in the first quarter the attrition numbers were higher. We are conscious of this and we are working towards many initiatives to ensure that this is reigned in and it is completely in control, but seasonality is a very important aspect here. In the first quarter the increases are high.

Apurva Prasad: Right. And, Sandeep, on the retail side, I mean, with all the puts and takes how should we really look at it vis-à-vis the overall the company average growth?

Sandeep Kishore: Retail and consumer segment actually suffered as we called out 2.5% de-growth sequentially on constant currency. This is largely driven by that one client-specific situation. It was a very large client and hence it was quite significant – both on our top line and the provision we had to take. It was a unique situation but that's just a part of that business. I think strategically, in retail we are aligned to where there is client demand environment which is quite good because most of the investments in retail is happening online and on digital. It is happening on omnichannel. It is happening on customer experience. It is happening on analytics.

So, 90% of our business in retail, it is quite a large business - 25% of half plus million dollar that we do is, you know, is retail. It is very significant for us and we constantly keep adjusting our go-to-market to make sure that we are aligned to where there is a demand environment of further investments with the customer. So, we still think we have a lot of room to grow in retail. The other dimension of retail is that it has largely been an US centric business and hence in Europe and in South Africa, which are our two other growth market, we have hardly penetrated in retail. We are now working towards the strategy to also take retail into the other two core markets and you will see us maintain that market share.

Apurva Prasad: Right. That's helpful. Thanks, and all the best.

Moderator: Thank you, sir. The last question for the day comes from Mr. Madhu Babu from Prabhudas Lilladher. Please go ahead, sir.

Madhu Babu: Sir, just one thing on the DSO including unbilled, I think it has touched a new high, 107 days, any reason for that?

Navneet Khandelwal: Yeah, there are a couple of reasons for that, Madhu. Number one is we report our DSO based on Indian rupee terms and our DSO is based on LTM basis. So, while our closing data is restated at a closing rate which is much higher, the average revenue used for the computation is based on the 12-month average rate, which is relatively lower. So that has had an impact on the DSO and that's number one. Number two is some of the large programs that we have started on come with an impact wherein initially there is some amount of investment which we have to get into which will impact the DSO initially but over a period we will claw it back.

Madhu Babu: Okay. Okay, sir. Thanks.

Moderator: Thank you, sir. That will be the last question for the day. Now I hand over the floor to Mr. Sandeep Kishore for closing comments. Please go ahead, sir.

Sandeep Kishore: Thank you so much all for joining the call. As we said we have a great liftoff for the first quarter and the overall fiscal 19. I look forward to talking to all of you again when we announce our Q2 results. Thank you all for joining.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of HDFC Securities we conclude today's conference. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.