“Zensar Technologies Q4 FY 2016 Earning Conference Call”

April 25, 2016

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Moderator: Ladies and gentlemen, good day and welcome to the Zensar Technologies Q4 FY2016 Earning conference call hosted by IIFL Capital Limited. As a reminder, all participants' 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 any assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference over to Mr. Sandeep Muthangi. Thank you and over to you Sir!

Sandeep Muthangi: Thanks Lisann. Good afternoon everyone. On behalf of IIFL Capital I welcome you to the Zensar Technologies Q4 FY 2016 earnings call. We have the senior management of Zensar with us today. We have with us Mr. Sandeep Kishore. He is the CEO and Managing Director. We have Mr. S. Balasubramaniam, the Chief Financial Officer and other senior members of the team. Mr. Sandeep and Bala will give a quick update, which will be followed by a Q&A. Let me hand the call over to Mr. Sandeep to start the proceedings. Over to you Sir!

Sandeep Kishore: Thank you Sandeep. Hello and good afternoon to everyone. Thank you for joining the call. My first analyst call as the CEO and MD of Zensar technologies. As Sandeep mentioned I have with me the Zensar Executive team, Bala our CFO, Azfar, our Global Head of HR, Ajay Bhandari – Head of our Strategy and Corporate Development and Sanjay Rawa our Financial Controller. I will give you a brief overview on how the last fiscal and last quarter went for Zensar. This will then be followed by a brief note by Bala on other financial details that he usually shares with you, post that we will open the floor for questions. I trust all of you have had the chance to go through the detailed financial results and the fact sheet that we released last Friday on April 22. Let me take the opportunity to present some key details from our results and business performance. First, our FY 2016 performance: Year-on-year revenue growth of 12.8% in INR terms from 2628 Crores to 2964 Crores, In constant currency term the revenue growth was 8.5% for the fiscal 2016, In reported currency FY 2016 growth was 5.4% from 430 million USD to 453 million USD. Our gross margin expanded over the fiscal by 170 basis points from 29.6% to 31.3%. Our profit after tax for FY 2016 also increased by 9.4% in USD terms from 43.2 million to 47.3 million and 16.8% in INR terms from 265 Crores to 309 Crores. Broad based growth in digital revenue, our digital business grew to become 27% on the FY 2016 revenue. Core services which are the application and infrastructure services business actually grew at 11.3% on constant currency. The application grew by 14.3% and infrastructure services part of the business grew by 5%. Q4 performance: Q4, the last quarter of fiscal 2016 saw a dip, the revenue declined sequentially 2.5% in constant currency predominantly on account of the drop in our MVS business, the multivendor support maintenance that we do dropped by 8.9% on constant currency and that lowers the growth for the last quarter. From a geography perspective, business actually grew across all of our key territories in the fiscal 2016. Revenue from US grew 6.9% on constant currency. Revenue from Africa grew by 29.8%; however in dollar terms the Africa growth was 5%. On constant currency Europe grew by 10%. Retail and consumer services were clearly the star vertical for us in fiscal 2016 with a revenue growth of over 50% year-on-year on constant currency term. This predominantly was led by strong growth in application and e-commerce space and increased number of digital conversations. For fiscal 2016 digital and e-commerce now account for 27% of our overall business. Our Zensar Digital Commerce Service did exceptionally well this year with a growth of 25.2% in USD terms. In the beginning of the year we had launched PARADE, a rapid application deployment tool for Oracle commerce solution and we continue to see increased customer traction and we have won several key deals in this space throughout the year and that led to a massive growth in our retail market segment. We have also won deals on Oracle commerce on cloud space which is key for us given Oracle's focus on cloud and Zensar's focus on digital. I should also add that we are constantly trying to improve the quality of our revenue and I will give you a few data points which illustrate why quality of revenue now, and even going forward, is going to be a key metric that we are going to measure. On a full year basis from fiscal 2015-2016 the MVS business actually reduced from 11% to 8% of revenue. The onsite offshore mix also changed from 66% and 34% to 64% and 36%. So basically a 2% increase in the offshore mix of our revenue. We are also very focused on mining the accounts which have high room to grow and do away with accounts which are the traditional long tail, low growth, low margin accounts and you will actually see that in the sequential quarter between Q3 and Q4 in fiscal 2016 we have reduced the total number accounts from 211 to 194. We also are working towards improving the quality of our deals, our revenue from managed serviced has increased from 47% last year to 51% this year. We won various strategic deals throughout fiscal 2016. We won large deal worth more than $130 million during fiscal 2016 and we are clearly very confident about a much higher number in fiscal 2017. Our efforts to mine existing accounts with high headroom to grow continue to do well and you would have seen that the top 20 accounts now constitute 55% of the total revenue which was 51% in the last fiscal. As I have said during the last Q3 earning call that we would share our plans of the company with you from a strategy perspective and we have uploaded a detailed presentation on our website which details our outlook for the company going forward and I would be happy to answer any questions that you may have. To summarize, fiscal 2016 has been good for us at all levers we have put into place which is related to the core growth strategy of the company and the core services where we are really putting a lot of investments together. With the entire world going digital Zensar clearly has made big bets in the space and we are going full throttle to ensure that Zensar is on the forefront of every digital initiative. For example at Zensar we have launched a new initiative called ZenVerse, which is a first of a kind native mobile and digital platform designed to encourage open and direct communication between CEO and all the company's employees. It has received great feedback from our associates around the world given the democratization of conversation, and the increased transparency in a far more inclusive manner through the digital platform. We are clearly fairly confident that going forward we will continue to see massive return on all of our digital investments that we are making at Zensar. Let me now ask Bala to provide you with his views and insights on additional financial decisions and subsequent to that we will open the floor for question. In which I will be joined by Azfar, Ajay and Sanjay. Bala over to you.

S. Balasubramaniam: Thank you Sandeep and good afternoon to everybody on the call. Thank you for joining in the Zensar call. As usual I will give you some financial inputs. We have given a very detailed fact sheet from this time onwards both at the website and along with our analyst presentation. However I will call your attention to some of these data points.

Our total capex for the year was 44.63 Crores or $6.9 million. The debtors at the end of year were 542.75 Crores or $82.22 million. Our DSO is a shade higher at 65 days vis-à-vis last year at the same period was at 62 days. Our cash balance including investments is 385.96 Crores or $58 million of which liquid cash is at 43 million and investment is at $15 million. Our hedge position as of end of the year is $45.1 million for the US at the average rate of 69.70 and 1.8 million of GBP at an average of 105.20 roughly covering about 50% of our total exposure. Our effective tax rate has slightly come down. We are at 27.26% as against 28% last year. So these are some data points which normally we start the call on I have given you and in case you have any questions during the course of this analyst call I will take them. I hand it back to Sandeep.

Sandeep Kishore: Thank you Bala. With that we can open the floor for questions Sandeep.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Sumeet Surana from Haitong Securities. Please go ahead.

Sumeet Surana: Thanks for the opportunity. My first question is regarding the Q4 margins. There was a dip of around 200 bps. Can you quantify the impact of that margin and going forward in FY 2017 will that impact continues or it is just a one off.

Ajay Bhandari: This is a one time event. We provided for some doubtful debtors for Q4 which kind of impacted it, so substantial portion is that. So roughly of the 4 million impact, 1.7 million is just that and others are routine sales and marketing expenses, there are some events that we do, customer events etc. So this is just a onetime provision we have made. So it is definitely not going to continue in the coming quarter.

Sumeet Surana: Thanks for that and in terms of tax rate. The Q4 tax rate was bit lower than what the usual tax rate had been, for modeling purpose if you could guide effective tax rate for the FY2017 that would be great.

Ajay Bhandari: If you notice the Q4 of the last year also you would have found a dip. What happens is that towards the end of the year we do all the adjustments and write back and whatever is the tax assessment credit and so on and so forth plus also typically what happens is that our policy of moving into the SEZ happens gradually during the course of the year. So I would rather that you go along with the year-to-year 27.2, my commitment was to move it at half a percent that is 500 basis points each year to ideally reach between 25 or 24 through a combination of, as Sandeep had mentioned our offshore percentage will increase and our expansion to SEZ will continue. So a combination of these two will give us our ETR reduction which has always been our focus.

Sumeet Surana: Thanks a lot Sir then the last question on any color you could provide on FY 2017 the demand outlook and the margin what we are planning and I know you do not give guidance but if there is some color you could provide us that would be great. That is it from my side.

Sandeep Kishore: Sumeet this is Sandeep here. We obviously do not give guidance but let me comment on a few things on what we are doing in the company, which is also articulated in the analyst deck which we uploaded and we have significantly increased I think the quality of communication and the granularity of financial details that we have provided to all of you. Our focus going forward clearly is on a few markets, few verticals and some key service lines where we see heavy growth opportunity in the vectors that we have chosen to play in, which are largely led by digital particularly from analytics, cloud, and both user experience and the customer experience as well and that is the reason why you have seen a significant uptake in the retail and consumer service business in the two fiscal that I talked about earlier. So we will continue to focus heavily on the digital commerce side. We are also launching the entire CMO proposition particularly for the first time in our company because that is the big growth sector which we see in the retail and consumer sector also in the asset segment and some uptake in the manufacturing segment that we are. The geography footprint clearly focused on US, UK and South Africa as the three growth levers and that is where we are putting lot of our investment in. Profit improvement is what our focus is on MVS, which is the hardware maintenance side, multivendor support and the rest of the world. Rest of the world and MVS is going to be really a profit improvement opportunity going forward for us.

Moderator: Thank you. We will take the next question from the line of Nandish Dalal from IIFL. Please go ahead.

Nandish Dalal: Thanks for taking my question. Thanks for the detailed operating metrics shared by you guys. It is really helpful. I have couple of questions. First on the revenue growth, Sandeep do you think that the quarter panned out exactly as you initially expected. Where I am coming from is that in your Q3 comments there were four clients who had major issues and challenges vis-à-vis that you had none during the start of the quarter and also there was some ramp ups expected to happen on the support revenues during the start of the quarter. So some details would be helpful on this front.

Sandeep Kishore: Thank you. So we do not comment on client specific issues. I can give you a broad guidance. I joined in the middle of the quarter but I have not seen any significant ramp up or ramp down issues in any of the clients that I can tell you. The Q3 revenue had a lot of product and hardware maintenance revenue built in which is not a key growth driver for us. We really want to put energy and investment of the company towards the core services business, which is application services, digital services, infrastructure, which is led by cloud and that is what we are putting our entire emphasis on as we build the business together.

Nandish Dalal: Thanks that is helpful. On the margin side you elaborated on the provision for doubtful debt but still your S&M expenses as a percentage has moved up like almost 4% points. Could you just elaborate on the areas where you are investing in terms of may be the sales force or in particular geographies may be?

Sandeep Kishore: I will give you the overall color and Ajay can add on that. As I mentioned given that the client investment is around digital and analytics and the whole user experience side we are clearly building up both the frontend capability plus a lot of solutioning and digital architecture capability in our company to address that opportunity. Some of that has come in into the last quarter of the last fiscal although big jump which you see in the whole SG&A including the doubtful debt which Ajay talked about that actually has moved the needle. We will continue to invest more and more into building both the frontend capability, solutioning and some key delivery positions. So going forward S&M will be a big focus area for us because quite frankly that is where the growth is going to come from. Ajay you want to add anything.

Ajay Bhandari: So Nandish basically when I earlier explained 2.2 million of our program is in the S&M the balance is actually genuinely S&M kind of expenses. So like I explained we typically do a large sales kick off come sales training exercise, it is typically done in first quarter of financial year. This time we did in the last quarter so that is why a lot of expenses have actually come in this quarter. That would not repeat in the next quarter.

Nandish Dalal: That is helpful and couple of book keeping questions Bala can help. Could you share the revenue from professional access during Q4?

S. Balasubramaniam: For the year ended it is 56 million and Q4 in particular 14.6 million.

Nandish Dalal: Could you share the TCV of deal wins during the quarter? Last quarter it was somewhere around 75 million.

Ajay Bhandari: We do not have that handy Nandish but we will send it to you.

Nandish Dalal: That is fine and just on the pipeline could you give some comments as in how the pipeline is currently.

Sandeep Kishore: I think last time we had talked about the pipeline being healthy, I think it continues to be healthy but I should comment that what we are tracking is the core services pipeline for us, not the product and the MVS pipeline because our entire strategy is aligned to application services, infrastructure services around the data center consolidation, the next generation, enduser engagement, cyber security and the DevOps. Across all of that I think we continue to see pretty healthy pipeline in our chosen market segment. I would not be able to give you exact number on what that pipeline is but I think we are pretty good with the pipeline that we are seeing in our chosen market segment.

Moderator: Thank you. The next question is from the line of Aniket Pande from Karvy Stock Broking. Please go ahead.

Aniket Pande: Thank you for the opportunity. Sir how is Zensar's digital offerings different from other competitors and why digital as a percentage of total revenue is going to like increase forward and how does digital as a percentage of total revenue comparable against other players?

Ajay Bhandari: Let me answer that question. So if you look at our definition of digital we include SMAC; which is social media, mobility, analytics, cloud; IOT and security that is what we cover apart from commerce and if you would have noticed large part of digital revenues is around commerce, which it is digital commerce whether it is B2C or B2B and bulk of our revenue growth is largely driven around commerce but if you just look at the commerce spectrum itself now commerce is a very small component of the entire CX or customer experience journey whether in a B2C situation or B2B situation and typically in such situation you do the front end CMO related digital work which Sandeep alluded to at the beginning and you look at how you can do personalization of a market you do analytics on top of that. You do recommended selling, you do all of that as part of the CMO offerings and then later on you service the customer either once again through analytics or through some cloud system. The entire CX area is where we are focusing on digital and right at the center of it is commerce. So you will find that in our digital revenue there is a large part of commerce. We see a huge amount of growth there because whether it is B2C or B2B in the B2C market we are seeing a lot of customers moving from legacy custom developed commerce systems to packaged systems like Oracle, Magento, Hybris where Zensar has capability and in the B2B situation once again people are moving from ERP to more well developed B2B commerce systems like ATG and Hybris. So we are going to do a lot more in this space as well as in the whole CMO space. So you will find lot more revenues from Zensar coming from CMO as well.

Aniket Pande: Sir who are the key competitors in retail vertical for Oracle, ATG?

Ajay Bhandari: Zensar largely competes with Sapient, Cognizant and Accenture.

Aniket Pande: Sir till when we can expect that you will be getting a diamond partnership for Oracle?

Ajay Bhandari: We had a slight change in that strategy because what Oracle themselves are noticing is that the whole diamond partnership is skewed towards larger providers who are focused on Oracle installed base but not really focused on Oracle's own future strategy which is around cloud. So Oracle now has come up with a managed cloud partner program where they are looking at signing up partners who will do a lot more of selling of Oracle Cloud Services especially around Oracle CX, HCM and PaaS and which is our focus area as well because like I mentioned earlier both CX and custom cloud is where we are going to do a lot of work. So at the moment we have kind of diverted course and we are focused less on the Oracle diamond partnership program and focusing a lot more on the managed cloud partner program because we want to be an elite cloud partner of Oracle and all our investments are directed at that and to that extent Zensar and Oracle both are in discussion and may be by the next call we might be able to provide an update on where we are on that on achieving that partner status.

Aniket Pande: Sir when do we expect improvement in Maintenance business and what would be the strategy for this business?

Sandeep Kishore: As we said Aniket earlier, Maintenance business is not a revenue focus growth for us. It is a profit improvement area, if you recall, this business came along with an acquisition called Akibia, which we did around five years ago and it came with some great set of customers and our strategy clearly is to provide the four towers that I talked earlier on the infrastructure core services which lends itself well to both clouds as well as the DevOps and hence that whole digital journey which Ajay explained to you earlier. So Maintenance is a profit improvement program for us not a revenue growth program.

Moderator: We take the next question from the line of Deepen Shah from Kotak Securities. Please go ahead.

Deepen Shah: Good evening and thank you for the opportunity. Just had a couple of questions. Firstly on the digital front just wanted to get some more idea how are the deals panning out like may be in some sense on the size of the deals which are coming to Zensar's way and whether we have seen any particular improvement in the sizes of deals which come through to Zensar so that was the first question and the second question is more on the services revenues during the quarter. We have seen that AMS and infra business in terms of dollar revenues they have remained flat on a quarter-on-quarter basis. We understand the product and the licenses business are very volatile but within the IMS and the AMS we have seen flattish revenue trend. So if you can throw some more light on the possible reason for that.

Sandeep Kishore: So let me take the digital and give you a little more color and this probably the continuation of the previous question and then Ajay can give some financial details on Q-on-Q on AMS and we have actually also provided pretty detailed Zensar digital solutions stack in our investor presentation which is uploaded on our website. If you take a look at the digital today for us is 27% of our total revenue that is about $122 million on the full fiscal 2016 and you heard earlier that digital commerce which is the erstwhile PA organization is about $56 million that means the $66 million 55% of our digital revenue has actually come from the other part of digital which is non-commerce. That is big data and analytics, the whole design experience, the digital marketing services, the cloud initiative, the B2B commerce not the B2C which PA does, the cyber security little bit of revenue we have started seeing coming from IOT. So it is a full suite of digital services which we have started to invest and we are seeing significantly increased traction in our customer conversation around all of them and that is what is driving the digital led growth and lot of it is also then built into the application legacy modernization and legacy development, legacy maintenance that kind of work. So there are three stacks of digital approach which we are taking to market. One is the front end, which we would call digital agility. The second is digital cross over into business process and IT system which is the whole two speed IT or the multispeed IT, the hybrid IT as you would call and the third which is a very critical component is what we call stability of the core system and that is where lot of migration opportunities of the modernization which lends itself into digital and into cloud actually comes in and we are tracking all of them separately and then bucketizing them into the six stacks which I talked to you earlier, which is there in the investor presentation as well. So that is where our route to market is and then we map that onto the vertical segment that we are present which is manufacturing, consumer services as well as the financial services market segment. So overall I think we feel pretty good of the opportunity which exists in front of us, on digital which lends itself into application and also into infrastructure. Ajay you want to just quickly talk about the sequential dollar question.

Ajay Bhandari: On a sequential basis, Deepen, our services business you are right was little flat, we grew by roughly a percent. There were two large reasons. One was that lot of the PA commerce assignments tend to ramp up in Q3 because they have to kind of go live before the holiday season. So there is concentrated activity in Q3 and it kinds of start tapering off in Q4 but the other reason is that we have had some change in our customer portfolio, one of accounts where we used to do a fair amount of work I mean they sold their business to somebody else. So to a certain extent revenues of that has tapered off but the new client the new buyer of the business is going to give us the business so you will see the ramp up again in Q1 of next year but that has largely been the reason.

Deepen Shah: Within the IMS you generally gave breakup between maintenance and services. So if you can give some idea about how the quarter and FY2016 has panned out between the two.

Ajay Bhandari: So what we have done, Deepen, if you go through the preview and you have been in all the calls, you would know that we have been kind of significantly trying to reduce the products. Now we have reached a stage we now believe that there is no pure play product business left anymore. I think most of the product business is so heavily integrated with services that now we are categorizing that as services. One of the reasons why we have kind of stopped reporting it from this quarter and we have kind of adjusted the previous quarters as well but if I have to just break it down then what you would find is that products on a year-on-year basis fell close to 13% or so from last year. The maintenance business has fallen close to 17% and pure play services have gone up by 6.5%.

Moderator: Thank you. We take the next question from the line of Saket Lohia from Param Capital. Please go ahead.

Saket Lohia: Good evening Sir. Could you quantify the one time expenditure this quarter?

Ajay Bhandari: It was largely provision as I mentioned earlier close to $2.2 million that we provided for some debts which we are fairly confident of recovering in future quarters but for the time being we have made a provision for that.

Saket Lohia: Sir another thing goes in the investor presentation you mentioned that there was one client a leading US kids product retailer to build and install their e-commerce side, could you tell something more about that if it is that possible.

Ajay Bhandari: This is one of the largest kid's retailers in the US. We are deploying commerce system for them; it is an Oracle commerce system. It is roughly a $14 million deal spread over two years. This is where we are basically rewriting their entire commerce system and so far large part of that deal happened by Q3 and right now once there is a pilot site that is going live after that it will get rolled out to all other sites which will happen on the balance part of the year. So it is a prestigious one for us and one of the largest and most well known child retailer in the US.

Saket Lohia: Sir last question, I was just looking that the company has a new CEO now. So after analyzing for the first few months could you share what did you find that something that you are looking to change in the years going forward. What was the one thing that got to you that is going to change in the next few years going forward or the next big strategy change in that?

Sandeep Kishore: Saket I think it is a great question. Zensar traditionally has been an amazing organization to deliver consistent value to customers over a very long period of time. If you take a look at the client base the top 60-65 clients which constitute a very large part of the business average age of the client with Zensar is over 6 years and that speaks volumes of the delivery quality that we have been able to provide to our clients for number of years and those relationships have been built project after project, program after program, location after location. So that has been the traditional strength. Clearly we need to start to focus to harvest more from these clients and going forward that is a clear opportunity for us where we need to bring multiple services into a set of clients where we think possibility of growth exist and to that extent we have done changes in the way we go to market and the way we bring and develop our solutions. The solutions are now clearly aligned from our proposition development into digital and the six stacks of digital and on the investor deck you will also see our whole infrastructure and the cloud business, which is another big growth lever for us and there are possibilities of driving synergies into application account from infrastructure. We are also putting lot of emphasis as we have talked all long on digital. We also need to focus on a few things and you probably heard that that the growth opportunity for us is clear, profit improvement opportunity also is there, a few of those areas. We need to invest into front-end particularly in the US, UK and South Africa which are our chosen market. Those are some of the first few months of observations and plan which we have put into place and we have actually shared that in the deck that we have uploaded on our site as well, so hopefully that gives you a little bit of color. It is a beginning of a transformation journey for us and we really see a good opportunity in front of us which we feel quite confident of building it. We have also created a large deal team which was not there before, an exclusive large deal organization which just focuses on $25 plus million TCV cases. So that there is sharper focus available on multiservice deal within our own client space.

Saket Lohia: That was a very well explained answer Sir. If I could understand more focus will be on driving the margins on the higher side or the revenue on the higher side if that explainable on your part.

Sandeep Kishore: No I mean we do not give any guidance.

Saket Lohia: But I am not asking about guidance, I am asking about focus on the company would be more towards, if that is the problem I will skip the question is not the problem but the question was not on revenue guidance or margin guidance which is focusing on gathering better margins from the existing clients by providing services or gathering more revenue from the existing like you mentioned just before hand.

Sandeep Kishore: I think in an ideal world you would want to get both, but our focus right now is to get growth back in the company. If I have to summarize it in one sentence we want growth and all the investments and all strategies are being set to get growth.

Saket Lohia: That is the main focus and for the time being digital is your main focus where you are expecting the growth could be coming from.

Sandeep Kishore: Clearly.

Moderator: Thank you. We will take the next question from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Thanks for the opportunity. My question is related to IMS vertical like in dollar terms the IMS vertical I am seeing that it has a decline of 11% quarter-on-quarter but when I am seeing the segmental reporting in INR term there is a 5.1% jump in the IMS revenue and also in terms of the margins the IMS has reported a 4.7% negative PBIT margin. So just want to understand that how to read this?

Ajay Bhandari: The negative EBIT margin is largely because the provisions that I mentioned right at the beginning. So that actually almost completely related to maintenance part of the infrastructure business. Can you repeat the first of the question?

Amit Chandra: In IMS like in the dollar terms we are seeing a 11% decline in revenues quarter-on-quarter but in segment reporting in INR terms there is a 5.1% jump in the IMS revenues. So why is there such a gap in this?

Sanjay Rawa: That is largely due to a re-classification in the fact sheet we have shown the products revenue under the IMS services. So that is the classification.

Amit Chandra: But Sir you have mentioned that you have classified the product revenue under the AMS.

Sandeep Kishore: No that's the licenses. So we have two elements in that one is the usual licenses that we sell along with our services, which forms part of the traditional AMS services business. So that has been classified under AMS services and the product business which is part of the IMS services which goes along with our services offering that has been classified under the IMS services fees in the fact sheet.

Ajay Bhandari: So let me explain, what used to happen in the product and license business was, we used to do pure product reselling, which is pure traded revenue and we did not want that as a business and as Sandeep was elaborating up to now we are just focused on services. So over the past three years what we have been doing is getting out of the pure traded business right now all our product business has got a large managed security component, I mean this is very similar to our Oracle SAP business where let us say you do a $2 million implementation along with normally a 400,000-500,000 license component and we include all of that as services. We just waited till we moved the product and licenses revenue of infrastructure to a point where there is no traded revenue. Everything comes along with a large implementation cum managed service of security. Now since we have reached that stage by Q4 we have basically eliminated it completely from the segment reporting and we are bundling everything in services, some of the anomalies you are seeing this quarter is largely because of that regrouping.

Amit Chandra: In terms of margins will we see a sharp decline in margin in IMS that is also related to the restructuring part.

Ajay Bhandari: Yes one is obviously the provision because there is a $2 million provision I was mentioned but part of the reason is also that since the revenue is declining I mean product decline 13%, maintenance decline 17%. So there is that impact on overall margins as well.

Amit Chandra: Because like we have what we have been telling is that the overall margin expansion in the company will be filled by restructuring part of the IMS and so that is why just want to understand that. So Sir just wanted to understand that how IMS will lead to margin expansion for the whole company like what steps have been taken.

Sandeep Kishore: So Amit to answer your question, three ways, and one is since the traded revenue and products kind of almost coming to an end and you will not see and that is actually a very low margin. So that business will almost come to an end, it is still reflecting in FY 2016 but in FY2017 you will find very little of that. The second is that the maintenance business, which is now substantially reduced. Now the focus in that business is largely to improve profit rather than to improve revenue and so therefore you will see some margin uptake as far as maintenance is concerned. The third is obviously the focus on services which is the pure IMS and cloud services where we are having the large deal team and all our efforts is to improve IMS service business and as a large deal starts kicking in IMS it will have its own impact on margin as well. So in IMS all three levers will operate to improve margin.

Amit Chandra: Sir like in terms of verticals like out of the four verticals that you have mentioned only the retail part is growing, it has grown to 54% but manufacturing and financial services were not growing like we have seen 5% dip in manufacturing and such an account for 54% to the revenue similarly in financial services. So just wanted an outlook on these two verticals or how it is panning how like?

Ajay Bhandari: Retail is growing, like you rightly pointed out, very well, I mean if you look at it, there is of course commerce which is driving a large part of the revenue but even non-commerce related revenues grew 30% year-on-year. So that is a healthy growth in retail overall whether related to commerce or not. BFSI actually we have done very well but because of our BFSI business are largely based out of South Africa in dollar terms it does not translate too much but if you look at the fact sheet on constant currency our South Africa business grew 30% year-on-year. Our entire BFS business, almost 80%, is based out of South Africa. That growth is there in volume terms but is not really there in USD terms.

Sandeep Kishore: Actually manufacturing to a large extent when we categorize revenues large part of the maintenance and product customers also were manufacturing customers. So the drop over there has impacted manufacturing as well but you will see manufacturing coming back from next quarter because this one time impact will not be there.

Amit Chandra: Okay and Sir one last question as you mentioned that your focus is now on Oracle managed cloud partner is there any kind of a benchmark for the Oracle diamond partnership we have studied that the oracle should earn around $100 million from the company. So is there any kind of benchmark for this partnership that you are targeting?

Ajay Bhandari: No. Oracle has actually not come out with a benchmark as yet but they have elite cloud partner program and we are actually right now going to be part of that program where we work jointly with Oracle to help them in key strategic areas of Oracle. As you know all software vendors including Oracle have a huge thrust on cloud they want to significantly increase the cloud revenue and Zensar is going to be a strong partner for Oracle in two aspects. One is Oracle CX customer experience and other is Oracle PaaS which is custom cloud which is moving large legacy applications to cloud which is a big area for Zensar and Zensar believes that there is a huge area of growth going forward in digital. So in these two areas we are partnering with Oracle. We would like to be an elite cloud partner there so that we get the benefits that were very similar to the diamond partnership program.

Amit Chandra: Sir is there any internal timeline that you are targeting to get these managed partners, so is there any immediate benefit to it like immediate benefit in terms of increase revenues or shares from Oracle and all.

Sandeep Kishore: The benefit of being a strong partner to Oracle is not only in the cloud revenues but also in the on-premise revenues. If you look at Oracle's footprint even a large part of Zensar's customer footprint lot of them are on-premise but most on-premise customers have large legacy application that they would like to move on Oracle cloud and Zensar is trying to become a partner on Oracle cloud with oracle. So I think it will have a definitely a positive impact. To what extent it will have an impact I cannot say right now but definitely the impact will be positive.

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

Abhishek Anand: Good afternoon Sir. Sir I just have a few questions. Firstly as we have highlighted in the call earlier that the focus of the company is on growth and bring growth back but if I look at our hiring plans or if I look at the head count over the last two three quarters it has more or less remain sort of flat. Do you have any specific hiring plan to achieve this growth or are we looking at any inorganic opportunities that will help us achieve this any color would really help.

Sandeep Kishore: I will ask Azfar to talk about the head count and then I will give you a little color on the inorganic.

Syed Azfar Hussain: Thanks Sandeep. As you can imagine in a software services organization in a way the revenue drives the head count we have and as you have observed and seen, the overall growth has been more or less flat over last two, three quarters. The scope for head count increase is rather limited but as we are looking forward to this coming year we expect significant growth and we are gearing up to ensure that we have the pipeline in place from a talent perspective to be able to fulfill the requirements that come our way. We have in anticipation we have gone and hired significantly larger numbers of MBA tier I B-school graduates this year in line with the investments that we want to make on the people side. Last year, for example, we hired four from Tier I B schools. This year we have hired 31 similarly we plan to increase the overall hiring from engineering graduates as well. We were discussing earlier today and if you take a look at the requisitions that have come in may be the highest for at least the last couple of years. I think that is a leading indicator of the growth that we are expecting. As far as the inorganic part is concerned I will request Ajay to respond to your question.

Abhishek Anand: Can you quantify on the technical side what sort of hiring plans you might be having?

Syed Azfar Hussain: I cannot share a number with you but the requisition that the RMG and the talent acquisition department received from the business is the highest in a couple of years. So I think that it is an indicator.

Ajay Bhandari: So on the other thing that Sandeep mentioned in the beginning there has been a lot of focus on improving the quality of revenue. We have shutdown a lot of tail accounts and moved them into Tier I accounts. So in doing that some of the people who got released from tail accounts have already moved into some of our high growth accounts. So to a large extent that movement has also happened. So I think we have been in a way self-sufficient. The other element which Azfar did not allude to is our whole focus on automation. Everyone is given targets that some portion of their business has to get automated and that releases a set of people which again goes towards the growth that we have. So these twin factors also the focus on improving quality of revenue but also introducing automation and everything we do is also releasing talent into the supply chain which is kind of getting used to fulfill all our demands, so to a large extent the rate of growth of revenue need not necessarily be the same rate at which you will add people.

Abhishek Anand: On the inorganic front.

Sandeep Kishore: Yes Abhishek clearly growth through M&A and inorganic is part of our strategy. We have made statements earlier that we are looking for tuck-in acquisition which means 25 million to 75 million of revenues of the company in our chosen area of growth and we have defined the M&A playbook completely, we have redone that actually over the last 90 days and we are actively seeking opportunity in those areas, which are in the area of high growth where the market is and all of them is what we have illustrated in our analyst deck where we are looking on the digital and analytic cloud IOT, business process management, so those are the areas which we are looking for our tuck-in acquisition and as the last acquisition we did was CX which is now almost coming up to two years. So we are certainly very active for M&A.

Abhishek Anand: Sir the new parent which has come on boards now Apax partners also going to help us in anyway, is there any synergy that we are getting from their own clientele for client mining or to get new client?

Sandeep Kishore: The answer to both of that is yes, Apax now has 23 plus % of the equity in our company and we welcome that. Apax obviously is world class and one of the world's largest private equity company and their processes in acquiring an acquisition is what we are leveraging very well in what are we are trying to do right now in our M&A so that is on the inorganic side. Also from the portfolio company yes there are clear opportunities for us to work with their portfolio organization as long as they are in our chosen market segment. Apax has very large set of companies in their portfolio but we want to be sharply focused on only those companies and only those service lines which lend itself well with where we want to grow our business to. Yes we are absolutely in engagement with Apax on both of them.

Abhishek Anand: Secondly Sir we have talked about more clients mining putting more people on the front end which obviously would mean that our expenses on sales and marketing will probably go up and the benefits of these may be little bit back ended. So do we see sort of scenario where our margins dip further and then probably see a rises once we start seeing revenue coming in or do you think we can manage earlier margins excluding the one off that we talked about even going ahead.

Sandeep Kishore: Abhishek we do not give any guidance on margin expansion or revenue growth but as I have alluded earlier our focus is on growth. Our focus is to grow in the area where we think there is enough headroom available, number one, number two you also heard earlier from Ajay that we do believe we have opportunity through operational excellence within our company as well through automation. So a combination of that will drive some synergy but all combined we are looking to grow our company and get the growth back.

Abhishek Anand: Sir justly lastly on the doubtful provisioning that we have done is this related to some of the emerging geographies where because of currency we might be facing payment related issues or it is nothing to do with that.

Sanjay Rawa: No it is got nothing to do with that.

Abhishek Anand: Can you provide any color on this?

Sanjay Rawa: This is essentially as per our board policy. Any outstanding which is more than six months to be provided for and these are all related to the business in the USA.

Moderator: Thank you. We take the next question from the line of Sandeep Baid from Quest Investments. Please go ahead.

Sandeep Baid: Thanks for the opportunity Sir, couple of questions on client metrics that you have provided. You talked about client mining and penetrating the existing clientele better and the revenue from your top 20 client moved up from 51% to 55% now. Where do you see this number heading going forward and second your million dollar clientele has come down from 75 in FY 2015 to 64 in FY 2016 given your current order book and the deal pipeline where do you see this number going forward.

Ajay Bhandari: Let me give you a reply by pointing to two or three points which kind of what we discussed during this conversation. The first is that we are doing inordinate focus in top 30. These top 30 are where we are investing like you saw the top 20 ratio going up that is because of the focus we have been putting on the top 30 accounts both in investment in terms of people as well as our focus on digital is also on moving the needle on the top 30. So you are going to see that our top 30 accounts will have positive movement. The second aspect about the million dollar accounts is that a large part of our business is still projects whether it is commerce, oracle, SAP and out of this project at some point move from implementation to support. Now one trend that is happening in the market is that the on premise implementation that we used to signed say couple of years back all of them are slowly getting replaced by cloud implementation, which tend to be kind of smaller in size and that is why one of the reason why the implementation do not really hit them, I mean they hit the million dollar mark but over financial years they are not a million. The on-premise projects are kind of moving to support and the new projects are kind of smaller in size. So that is one thing we are noticing in the million dollar accounts. So these two put together have impacted the number. The third is the depreciation of the ZAR. So the ZAR which like I mentioned earlier South Africa grew 30% in ZAR terms but 5% in USD. That has got a lot of 5 million accounts to the one million bracket and one million accounts to below that. So that has also had an impact. In terms of absolute number of accounts of that 75 that we used to have in the million we have basically just lost three accounts which are basically accounts that came to an end at the end of the project and in some cases where we transition support to somebody else, so there will be no absolute loss of accounts almost all the accounts that were there are still in the company and like I said at the beginning focus is going to be to take the top 30 and move them in to a higher range by coming up with the innovative solutions, digital, large BUs etc.

Sandeep Baid: So that means that the 55% number will move further maybe towards 60% range going forward over the next few quarters?

Ajay Bhandari: While we are not giving any guidance our effort obviously will be to do that.

Sandeep Baid: Sir Can you give some color on the mix of project revenue versus annuity kind of revenue for this?

Sanjay Rawa: It is there in the fact sheet. Well, it has moved, over the year if you can see the fact sheet it is moved from 47% to 51% between fiscal 2015 and fiscal 2016 and as we do more and more mining number one, number two as we do more and more multiservice our clear focus is to provide that as managed service rather than time and material.

Moderator: Thank you. We will take the next question from the line of Bharat from Quest Invest Advisors. Please go ahead.

Bharat Sheth: Hi this is Sheth from Quest. My question is on IMS, see we have been bringing down this product business since last eight quarters and still our revenue we are talking of reaching inflection point at the end of this year or somewhere. Can you give the color that now how do we really see and how much product has contributed this year vis-à-vis last year so that really in IMS and last question if we look at even if we ignore one of this IMS business the margin we were looking to improve has declined. So IMS I would like to know really from here on how we are really looking at.

Ajay Bhandari: So Bharat Bhai you are right, we have kind of soft landed the business slowly rather than taking a call of drastically bringing it down we have slowly brought it down so that when we acquired this company they were largely doing maintenance and products there were almost no services if you look at from where they were to where we are now this business is substantially services now so this maintenance in this product has been brought down significantly. So to that extent there has been an impact on margins, however with the focus now on IMS and Cloud large deals cross selling, IM in top accounts etcetera and the necessary investments you made in terms of people in these accounts we are confident that the infrastructure business will now show a positive trajectory both in growth and profits.

Bharat Sheth: You were targeting double digit kind of level directionally, can you give some color on trajectory.

Ajay Bhandari: Well I do not want to quote a percentage but I can definitely tell you that effort is to grow both in terms of revenue and profits.

Bharat Sheth: How much has the product contributed this full year vis-à-vis last year?

Ajay Bhandari: Last year was around 30 million than what we did that. This year it was 27 million.

Bharat Sheth: Earlier we were looking for reaching digital business at 14%, what is the current stage, we are already there 27%, and can you give some color on that?

Ajay Bhandari: So what has happened is that, I think somebody had asked a question earlier, I think it was Deepen about the size of the deal, so if you decompose digital then for us we have commerce which now accounts whether B2C or B2B accounts were close to 20% of Zensar's revenue and the commerce deals are large in size, they can be 1 million, 2 million, that kids retail which I mentioned was $14 million deal over two years so the commerce deals are big, but non-commerce details which in Zensar's case is roughly 30 million, there is analytics, there is cloud, there is social mobility so the cloud deals tend to be more than a million, the social mobility deals tend to be smaller in size so if the commerce engine does well it will grow faster, if others pick up it is slower because the deal sizes are smaller, but if you just look at the growth over the past three years the trajectory is very good, our commerce growth is fairly decent, so I think the impact on revenues growth et cetera we expect that to be positive in the future as well.

Bharat Sheth: Ajay, you mentioned that you are seeing a huge opportunity in transiting from traditional to cloud based as well as some migration in hardware also, so how big the opportunity do you see and what is our presence over there?

Ajay Bhandari: So on the cloud side there are two aspects Bharat Bhai, so there is SaaS aspect which is there Oracle HCM, Oracle CX, SAP Ariba, Success Factors et cetera so those deals tend to be smallish, however the cloud deals, the custom cloud which is to move to PaaS whether it is force.com or Oracle cloud those deals tend to be much larger. So there are two different kind of deals and both kind of deals are happening and right now. With Oracle like I mentioned earlier we are trying to be a partner on both ends so you will find that as the custom cloud gets very popular and it is our bet or our premise that over the next two to three years there will be huge amount of investment in custom clouds then we will see that the digital revenues because of custom cloud will start going up. So there are different aspects some deals are smaller some deals are larger and it depends, because for example on the HCM side for example a fair bit has already done now most people are moving their attention towards the migrating legacy applications to cloud and that is where we see a lot of movement and we have kind of ready for that.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Nandish Dalal for his closing comments.

Nandish Dalal: Thanks everyone for participating in the call, I will now hand over the call back to Mr. Sandeep Kishore for his closing remarks.

Sandeep Kishore: Thank you so much everyone for joining the call. As we have stated obviously we are at the beginning of a transformation journey here at Zensar and based on what I see I feel pretty good that we are going to be focusing more and more on our core services area that is where the growth opportunities lie, so thank you for joining and I look forward to talking to you again when we come back next quarter. Thank you, bye!

Moderator: Thank you. Ladies and gentlemen on behalf of IIFL that concludes this conference. Thank you for joining us and you may now disconnect your lines.