



“Zensar Technologies Q2 FY2018  
Earnings Conference Call”

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**ANALYST:** **MR. KULDEEP KOUL – ICICI SECURITIES LIMITED**

**MANAGEMENT:** **MR. SANDEEP KISHORE - CHIEF EXECUTIVE OFFICER - ZENSAR TECHNOLOGIES**  
**MR. MANOJ JAISWAL – CHIEF FINANCIAL OFFICER - ZENSAR TECHNOLOGIES**  
**MR. AJAY BHANDARI - CHIEF CORPORATE DEVELOPMENT OFFICER - ZENSAR TECHNOLOGIES**  
**MR. SYED AZFAR HUSSAIN - GLOBAL HR HEAD - ZENSAR TECHNOLOGIES**  
**MR. SANJAY RAWA- GLOBAL FINANCIAL CONTROLLER - ZENSAR TECHNOLOGIES**

**Moderator:** Ladies and gentlemen, good day and welcome to the Zensar Q2 FY2018 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need 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 now hand the conference over to Mr. Kuldeep Koul. Thank you and over to you Sir!

**Kuldeep Koul:** Thanks everyone for being with us on the call today. We have with us the senior leadership team of Zensar Technologies, Mr. Sandeep Kishore, Chief Executive Officer, Mr. Manoj Jaiswal, Chief Financial Officer and other members of the management. We will begin the call with a brief overview on the business by Mr. Sandeep followed by a discussion on financial highlights from Mr. Manoj post which we will open the call for Q&A. Over to you Mr. Sandeep!

**Sandeep Kishore:** Thank you Kuldeep. Hello and good afternoon everyone. Thank you for joining on the call. As Kuldeep talked about I have with me the Zensar management team. Mr. Manoj Jaiswal our CFO, Mr. Ajay Bhandari - Head of Strategy and Corporate Development, Mr. Azfar our Global Head of HR and Mr. Sanjay Rawa our Global Financial Controller. I will give you a brief overview on how the last quarter FY2018 went for us. This will be followed by an update on detailed financial from Mr. Manoj, post which we will open the floor for questions.

I trust all of you have had a chance to go through the detailed Q2 FY2018 financial results and the fact sheet that we released on Friday November 3, 2017. All of our financial reporting are in alignment with Ind-AS reporting standards and you will find all metrics in our results on retrospective basis as well from FY2016 onwards. Let me take this opportunity to present some key detail from our results and business performance of last quarter. This was overall a very good quarter for us. On overall basis, we had a revenue growth of 3.8% sequentially and 3.1% year-on-year both in dollar terms. All our profitability metrics grew smartly Q-o-Q. The gross margin, EBITDA and PAT went up by 8.2%, 19.2% and 33.1% respectively in dollar terms.

We are also happy to report that both of our acquisition done in the last 12 months – Foolproof and Keystone – are doing very well. Since the acquisition, we had initiated introducing the services across our client portfolio. Our clients have been very appreciative of the end-to-end suite of services we now offer and we have gained significant momentum in cross-sell processes. We booked multiple digital deals through this in last quarter. Digital now account for 36.8% of our overall revenue, a growth of 5.3% quarter-on-quarter and 36.3% Y-o-Y.

Our core application services business grew 5.2% Q-on-Q on constant currency basis on back of our digital revenue growth. However, our IM business experienced some softness on account of low revenue in the maintenance and product line of businesses. While pure-play IM services grew in constant currency term. Overall service revenue declined by 3.6% due to lower product revenue. Our digital commerce business after a few quarters of muted performance has picked up

momentum again. This quarter saw good volume growth in our DCS business. The revenue grew 3.8% sequentially and we begin to see good momentum in market including few deal wins. This is the validation of all steps we are taking to de-risk the ATG business and the business is actually moving pretty well in the right direction now.

Zensar had introduced a client partner model for our key US account largely to accelerate the process of scaling up these accounts. This is working well. Pipeline in the accounts are showing positive momentum. Our overall global pipeline is now at \$900 million. We saw good growth across all our key markets. From a geography perspective, Africa continued its great performance and grew 8.7% sequentially on constant currency. Europe and US grew 3.3% and 0.5% respectively also in constant currency. In terms of verticals, financial services, retail and manufacturing grew sequentially by 5.5%, 5.4% and 3.4% respectively in constant currency term.

As we talked earlier, digital continues to be the main pivot and strategic focus of growth for us. As we have mentioned during previous calls over the last couple of quarters, we have been rigorously working towards becoming a 100% digitally run company. We have developed a digital platform called ZenROD, Return On Digital, which improves the productivity of an enterprise with the help of analytics and little bit of artificial intelligence right now, but that is where we are spending a lot of our time with over 30 digital native mobile and cloud platforms covering a wide area of business process for our customers.

We had launched ZenROD solution in the market last quarter and through Q2, we focused extensively on presenting our solutions to all our clients. We have received tremendous response from our clients and have already booked over a million dollar of business from ZenROD platform sales. Our other solutions, Vinci, Digital Workplace and Zen Analytica continued their great performances as well. In this quarter, most of our wins have been in digital space, thanks to cross-sell effort and the ZenROD sales. You can find all the details in our press release, but I will take the opportunity to highlight a few of the key deals we won.

We won multiple deals across the Experience Design, Digital Commerce, Analytics, Automation, and Digital Testing. We won deals for designing customer experience for one of the leaders in healthcare industry in the UK. A high-tech company that focused on creation of multimedia software products based out of US. We also won multiyear multimillion dollar digital commerce deal for one of the largest specialty retailers in apparel, a multimillion analytics deal with the global tech major, a robotic process automation deal for South African financial services group, and the Vinci automation deal which is our ITSM automation stack for one of US leading airline. We also had wins in our core services across Oracle, SAP, and other managed services, Oracle EBS implementation for a US company that provides and services voice communication for global financial services organization, SAP implementation for global pharma and SAP implementation for leading supplier of biopharmaceutical products, and AMS deal for one of global tech major.

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Our focus on productivity and cost efficiency continued this quarter quite well. We managed to show a growth and manage high utilization as well. Our utilization has increased to 85.9% from 83.2% on a sequential basis by rigor on optimization. Our capabilities across the core and digital services stack continue to gather recognition from leading industry analyst, therefore was included across reports published by Gartner, Everest, ISG to name a few. Zensar was mentioned in Gartner competitive landscape partnering for data center and network maintenance cost optimization. Zensar was named as a major contender in Everest Group Workplace Services, market trends and peak matrix assessment. Zensar was also named in ISG Provider Lens Quadrant Report - 2017 ISG Application Development and Maintenance Services as well as was included in the new ISG research, Digital Workplace Services Archetype Report. With that let me ask Mr. Manoj our CFO to provide update on key finance data post which we will open the floor for question.

**Manoj Jaiswal**

Thank you Sandeep. Good evening everyone, welcome to this call. In addition to Sandeep talking about the business I will take you through some of the financials on the P&L as well as the balance sheet. We have reported revenue for the quarter at Rs.7626 million which reflects a sequential growth of 3.5% in rupee terms, while in USD terms, the reported revenue is \$118.6 million reflecting a growth of 3.8% sequentially and 3.1% year-on-year. The shares realization during quarter has been Rs.64.30 per dollar as against Rs.64.45 in the quarter before and the year before in the same quarter, it has been Rs. 66.90 per dollar.

The gross margin for the quarter improved by 120 basis points over the previous quarter despite headwinds on account of compensation revision that had an impact of close to 1.5%. We had been able to achieve this through business efficiencies driven by return on digital platform internally deployed within Zensar. The effective tax rate for the quarter is at 25.4% as against 29.4% in the previous quarter. The improvement is due to better mix of SEZ profit in India. Consequently, the PAT grew by 33% over the previous quarter.

DSO stood at 65 days as against 64 days in Q1. The total outstanding hedges as on 30 September was equivalent to \$70 million as against \$48 million in the previous quarter. The gain on hedges as of 30 September carried forward in the balance sheet is approximately \$38 million.

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

**Moderator:**

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

**Mukul Garg:**

Thanks for the opportunity and great quarter congratulations. Sandeep, first on the growth part, if you can provide us some colour on the mix of the growth. So if you look at the quarter, AMS saw a very sharp uptake. Was that primarily because of growth in the ATG portion of the business or was there contribution from other areas as well which led to this strong pickup? And second on the IMS side, when do you expect the product business to get out of decline phase where it is

currently in the IMS services because this was supposed to be the high growth area and it has declined in the quarter? So if you can just provide some colour on how we should see this going forward?

**Sandeep Kishore:**

Sure. Thank you, Mukul, first of all. And let me address few of the growth trajectories that we have seen. Application, which includes majority of the Digital Stack business for us, other than the cloud orchestration area, drove the growth quite well. As you said, it grew about 5.2% sequentially and that is what drove the fundamental of the growth. It's about 83%-84% of our business. If you take another cut at it, our top 20 account -- all of them actually, top 5, top 10, top 20 grew quite well. They grew sequentially by 40 basis point, 60 basis point and 160 basis point. So a lot of growth has happened on account of the top 20 account. Our Digital Commerce did well, but all other parts of our application and digital business actually contributed, not just the Digital Commerce business. We also talked about the ROD -- the ZenROD. ZenROD now has client installations available and we have been talking about it in several of the calls that at Zensar we are becoming 100% digital company and we have all intentions to take the investments that we have done in digitalizing our own processes to our customers. And we launched that in Q2 under the banner of ZenROD and ZenROD is now available for client deployment. It's a configurable, customizable solution. Phenomenal acceptance from the customers to whom we have taken. We have done over \$1 million worth of platform booking on that, roughly about \$0.5 million of that actually also got billed. So we saw some pretty good movement on that count as well. IM business has been soft, particularly on account of both product sales as well as the MVS, which is a maintenance business. We are in the process of cleaning up a lot of cost issues, particularly on the MVS. I don't think we are done yet. It will still take at least two quarters more for us to get out of all the costs issues. Product business, we don't declare it separately because our view is that in the SI stack that we are taking to our customers, it is an integral part of the core services. And as you start to see the core cloud services picking up the momentum, the product business actually proportionately will become quite small. The reason we have called it out in my commentary is because right now there is a good mix of product business and it takes couple of quarters for it to be coming to a level where the cloud services business will start to become dominant. Vinci, we have talked about it, which is the core of our ITSM Stack. We launched ICC, which is our Intelligent Command Centre, to our customers. We have got some pretty significant wins, but these are early days for that. So these are not volume wins, these are good client wins which have happened. And that's why, actually, core IMS business grew quite well. It grew 12.8% on constant currency terms sequentially. But the base is small and hence it significantly doesn't alter it. We are quite hopeful that this is a business where we should do well as we go into the second half of the year. Ajay, you want to add anything specific?

**Ajay Bhandari:**

No Sandeep, I think you have covered everything.

- Mukul Garg:** And just to follow up on the applications growth this quarter, are you seeing any clearing out of the growth headwinds which were there till last quarter? Any sort of increased acceptance or adoption by -- especially customers in US?
- Ajay Bhandari:** So Mukul, if you look at up to last quarter primary reason for the drop in -- at least on the application side, was the commerce side of our business. But fortunately, the shift that we started around a couple of quarters back, which is to move or de-risk our business from ATG and move to a lot more micro services, UX based custom development, that actually has worked well for us. So almost all our customers -- we have started moving them positively towards micro services based architecture. And that has resulted in a healthy up tike in that business. So I think the big headwind, which was because of ATG, which is no longer there at least at the moment.
- Mukul Garg:** And if I may follow with one more question, in terms of utilization, you are now close to 86%. So how much upside is there still in that parameter or should we expect that to moderate in the near term?
- Ajay Bhandari:** So Mukul that we had an exceptionally good utilization in the sense that we took it to almost 85.9%. But you will see that relaxing a little, because fortunately the business that we won was in the areas where we had staff. So the utilization went up high, but you will find it to be moderating and landing somewhere between 85.9% and 83% that was the last quarter.
- Mukul Garg:** Understood. I will get back into the queue. Thanks for answering my questions.
- Moderator:** Thank you. We have the next question from the line of Sagar Lele from Motilal Oswal Financial Services. Please go ahead.
- Sagar Lele:** First of all I wanted to get a better sense of the infrastructure profitability, especially in the services business. It was encouraging to know that you grew about 13% in constant currency in that part. But would it be right to assume that because the kind of investments that you are making at this point in time without having much of a revenue base, the profitability would be low currently?
- Ajay Bhandari:** Sagar, it was to an extent right. I mean, we have made the investments in Vinci, Digital Workplace, ICC, so there are some investments being made. Some deals have been closed but they are still not reflecting in the revenue. So you are right to a certain extent. Even though a large part of the infrastructure profits or at least the lack of it is because of the maintenance business, the MVS business, which has been troubling us for some quarters. But we still feel there is probably a couple of quarters before which that stack completely turns into profit, still some kind of restructuring that we need to do in that.
- Sagar Lele:** Alright sure and also in the U.S., in the earlier quarters, you spoke about some amount of rejigging happening in the sales team there and probably a lag time till revenue growth starts to

reflect. One is, how far are you in that recomposition? And secondly, is the vertical mix in the U.S. materially different from your overall mix? I mean, I think it would mimic it because it's 70% of our revenue. But is it that some verticals are probably dominant, say, manufacturing or financial services? Just want to get a sense on that.

**Sandeep Kishore:** So, Sagar, this is Sandeep here. Let me address the second question first. Yes, US has a materially different composition of vertical. It follows pretty similar to the overall company vertical split, which is manufacturing almost half and the other half is equally split between retail and financial services. Now Europe and South Africa are predominantly financial services business. There's a little bit of retail, but there is hardly any manufacturing. To answer your first question, are we done with the U.S. sales team, I think we are more or less done. But hiring and deploying sales, both farmers and hunters, is a continuous process. However, I would think that the team is stabilized now and that is the reason, quite frankly, why we are seeing an up tike into revenue because 0.5% growth off of 72% of business is still quite reasonable. And the pipeline, we have some pretty good pipeline in the U.S. right now because of the great work being done by our application and digital team. We still have some ways on the core IM stack, but I think we will get there.

**Sagar Lele:** Sure that is it. Thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Girish Raj from Quest Investment Advisors. Please go ahead.

**Girish Raj:** So on the IMS front, there are 2 commentaries actually. One is some restructuring left and Sandeep also mentioned that second half would be positive. So how exactly should I read it?

**Ajay Bhandari:** Yes. So, Girish there is some work to be done on the MVS side. We think we are still two quarters away. I think in two quarters, if we manage to complete all the cleanup, then, yes, I mean some of the headwinds that we are getting in terms of profitability in the MVS business, probably some of that will go and hopefully the IM profitability will be better. But at the moment, the only thing we can say is we are still two quarters away.

**Girish Raj:** So it can be negative also?

**Ajay Bhandari:** No, no. What we are saying is that the reason the profitability is negative at the moment is because we have some restructuring issues yet to be resolved in the MVS business. But once we resolve that, then it will move to positive territory.

**Girish Raj:** Okay. So should I put it this way? Akibia will be positive at PBT level this financial year?

**Ajay Bhandari:** We don't really calculate Akibia profitability anymore, so...

- Girish Raj:** It is a different company.
- Manoj Jaiswal:** Akibia is not in the top line in Ind-AS that we clarified last time. From a profitability standpoint, it was very, very insignificant in terms of value.
- Girish Raj:** Okay, sure and this quarter-on-quarter decline in the headcount what exactly led to this?
- Azfar Hussain:** So the reason for that is actually -- if you would notice, the revenue has gone up despite the headcount going down and that's because our internal fulfillment engine has been ramped up. So we are able to A, I think it's partly automation; the other is that it's internal fulfillment. A combination of the two has allowed us to grow revenues despite reducing headcount.
- Girish Raj:** Sure, thank you very much.
- Moderator:** Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** Sir congrats on a good quarter. Sir, the top clients have done very well this quarter, but US has not grown. So how was the top account has faired, which is the largest account for you?
- Ajay Bhandari:** So the top account, Madhu, has done fairly well this quarter. So it's grown this quarter.
- Madhu Babu:** Sir, but just wondering because the growth in top 10 accounts has been very good, but if you see the geographies, most of the incremental has come from Africa and rest of the world. So I was just trying to reconcile that?
- Sandeep Kishore:** Madhu, this is Sandeep here. Let me just add to what Ajay said. And what we have also said earlier -- in all of our earlier call that our focus is to invest more into the top tier account where we see growth potential and also remove a lot of long-tail account. So if you do the math, you will actually see that the top 20 account grew quite well actually. And the long-tail account declined because we are not focusing on those - huge set of long-tail account. We had talked about it earlier that we had picked up about close to 60 accounts when -- in couple of quarters ago I had mentioned and now we are almost done with it. Now we have acquired two companies, so the total number of accounts has gone up. But the original set of accounts that we had started our client rationalization, account optimization plan, we are pretty much done with that initial set. It's a continuous journey. Through the acquisitions, there are some new set of accounts which have come in. And our strategy and focus at the company level is to do more with a smaller set of account than to just keep doing with a long list. And we still think there is room available for us to grow predominantly because our growth has largely been application and digital led. So once we start to get IM core cloud services into those accounts, we think that that can drive additional growth lever for us.



- Madhu Babu:** And Sir secondly on -- we have a big portion from manufacturing and retail. So would there be any furlough impact on Q3 on growth?
- Sandeep Kishore:** Q3 furlough is a reality. It happens every year, and the answer is yes. But then we have to figure a way out of making sure that we don't get risked with it. But there will be furloughs, particularly in our top client; there are furloughs, they do it every year.
- Madhu Babu:** But still we should be able to deliver good growth?
- Sandeep Kishore:** We do not make any forward guidance, but we are all very hopeful.
- Madhu Babu:** Sir, and just lastly, if you see the BSE release, I mean, in terms of the segmental margins where we give, there was a reversal in unallocable expenditure from Rs. 10 Crores last quarter to minus Rs. 6 Crores. So just wanted to see -- because your segmental margin IMS moved to loss but there's an unallocable expenditure where there is a reverse swing. What is that regarding?
- Manoj Jaiswal:** That is largely around exchange that we have had gains. That is one element and there are some unallocatable cost where we saw from reversal and that you have seen that in the segmental reporting.
- Madhu Babu:** Okay, how much is the reversal Sir?
- Manoj Jaiswal:** Splitting that number would be difficult at this moment. If you look at the exchange gain alone was Rs.14 Crores, which was spread into cash flow hedges as far as the business was concerned and some of them were in the non allocatable category.
- Madhu Babu:** Okay Sir. Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Congratulations on a good set of numbers. Sandeep, I mean we have reached, I mean, quite 36% digital as our top line. So really in 3 years' time, what is your perspective, some if you can really say? And second is, this decline in ATG business would be, I mean, more than offset by this growth in the digital.
- Sandeep Kishore:** So let me give the top level view, Bharat, on this and then I'll ask Ajay to add in. I think in a 3-year view it is fair to assume we will certainly be north of 50%, 55% or probably even more of digital. I mean we are betting our company on digital. We have invested hell of a lot of money on first becoming a digital company and it's a choice we made. We made a choice six, seven quarters ago that let us first be digital before we take out our platform to our customers. And we have been saying this all the while. We launched that platform, but these are early days. So I still

feel pretty good that digital will continue to be the centre of all of our strategy aligned to our market segment. Our market segments are retail, which does quite well for digital because, as you know, in all the retailers around the world, they're spending and investing more and more into experience-led digital technology which allows the customers to buy from mobile devices to account channel, same for financial services, same for hi-tech customers. So I think we are invested correctly, but we have to continue to invest because the technology just keeps evolving. So I don't think the investment is going to come down on to that. Infra question, Ajay, you want to add quickly?

**Ajay Bhandari:**

No, first I will just answer your DCS question. So your question was whether the decline in ATG will get more than compensated by increase in digital in general and as well as the increase in this accelerated development which is basically what's happening in the industry, and the answer is yes. Because, essentially what is happening is that most clients who are on e-commerce are moving away from monolithic like, say, ATG, Hybris, etc., and building loosely coupled, highly usable kind of applications which can be redeveloped, repositioned in a matter of days, and this is the trend in which the industry is moving completely. So it is not only in the case of e-commerce, but all other areas you will find a lot more development happening through more APIs, more micro services. And you will find this trend not only in the case of e-commerce, but in general any application development area, you'll find a lot more Agile, DevOps, micro services and APIs.

**Bharat Sheth:**

See, does it mean that this is a kind of digital where we have invested can give you a non-linear growth in business model wise if you really look at it, with less number of, I mean, headcount we will be able to do more business and improving on EBITDA side?

**Sandeep Kishore:**

So there is some non-linearity for sure. We do want to move to platform plus services. However, if you take a look at a three-year view, the platform revenue will still be not at par with the services revenue. However, from zero today, today it was nothing, it is going to significantly move into bigger territories for sure. We have already started doing it in Q2 itself.

**Bharat Sheth:**

Where do -- I mean your expectation is for this platform, our revenue with three year?

**Sandeep Kishore:**

We actually do not give any guidance. I think it is also very early days. So we do not want to speculate on what the platform revenue will be in three years from now.

**Bharat Sheth:**

And now with The Vinci in the place, how do we see it can really read about this IMS? Now once this whole restructuring is over, so how do we really look at, I mean, IMS piece?

**Sandeep Kishore:**

So Vinci, much like ZenROD, Return on Digital, is also a very critical part of our IMS growth strategy and I think you should see growth momentum coming in core IMS services business in couple of quarters. There are some good initial wins which we have already had with Vinci. We

talked about it in our opening comment and now we have a responsibility to expand those. So you should see growth in that.

**Bharat Sheth:** And so from bottom line there will be a much higher traction coming from IMS from this low base?

**Sandeep Kishore:** Yes, we hope so.

**Bharat Sheth:** Okay. All the best. Thank you.

**Sandeep Kishore:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Vishal Desai from Axis Capital. Please go ahead.

**Vishal Desai:** Hi. Thanks for opportunity. Quickly on the digital side, just wanted to check in terms of, are we seeing any increase in deal sizes from a year-on-year perspective or are they largely stable at around \$0.5 million or so that we have mentioned earlier?

**Ajay Bhandari:** Hi Vishal. So the deal sizes, at least in the last quarter or so, we have not seen a great uptake, but they are all in the -- between \$0.5 million to \$5 million, I mean that is the range, depending upon the kind of deal. I mean, if you take a micro services kind of development which is largely digital development, those deals can be anywhere from say \$2 million to \$10 million. But the mobility, some of our platform deals are all between \$0.5 million to \$1 million. So depending upon the deal -- but, yes, I mean there are deal sizes which are large.

**Vishal Desai:** And also would it be fair to assume that close to 80% odd of our top, say -- I do not know, top 50 clients are probably penetrated in terms of our digital services, in terms of offerings?

**Sandeep Kishore:** No, not all of them, Vishal. This is Sandeep here. I mean, that would be perfect. But, no, not all of them are and that is why we feel good that there are growth opportunities available. I would think the top 20 have pretty high penetration on one or the other digital offering from us, but not all the top 50.

**Vishal Desai:** And if I got it right. I saw your CNBC interview and you mentioned about US growth momentum picking up in H2. This quarter was around 0.5% growth Q-o-Q. So could you highlight to us, to be helpful in understanding where are you seeing the momentum coming from in terms of vertical and service lines?

**Sandeep Kishore:** Yes. So it actually goes back to the statement I was making earlier. Our deal pipeline is pretty good right now. We are fighting some mid to advance stages deal. And as a team, we are very hopeful that some of them will certainly close. These are large transaction. Almost all of them are

in the US region, so that is where the large transaction happen. And they are pretty spread across the verticals. They are in manufacturing, they are in financial services and they are also in retail, but largely financial services and manufacturing.

**Vishal Desai:** Sure. That will be all from my side. Thanks and all the best.

**Sandeep Kishore:** Thank you Vishal.

**Moderator:** Thank you. We have the next question from the line of Karan Taurani from Dolat Capital. Please go ahead.

**Karan Taurani:** Hi Sir. Thanks for taking my question. Just wanted to understand why the lower tax rate this quarter?

**Sandeep Kishore:** Manoj?

**Manoj Jaiswal:** The tax rate is lower because our mix of SEZ profit has increased in this quarter versus the previous quarters. Plus we also had a one-time impact which is almost a 1% impact on the ETR for this quarter alone. But rest of it was due to shift of mix of profit into SEZ.

**Karan Taurani:** And where do we see the tax rates for the full year in terms of estimation for FY2018?

**Manoj Jaiswal:** If you look at Q1, we were at 29.4%, this quarter at 25.4% with some one timers. I think for the full year, I mean, difficult to give a number, but it should range anything between 27.5% to 28%, 28.5%.

**Karan Taurani:** Sure. Thanks.

**Moderator:** Thank you. We have the next question from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg:** Just a couple of clarification. First, the rest of world was quite strong this quarter, moved up from \$2.7 million to \$4.6 million. So any thoughts on which area saw an uptake? The second one was, the quantum of rate hike which you gave this quarter, how much was it? And the third is, on the G&A side. The G&A has been elevated for last three quarters because of one-off charges and acquisition-related charges. Where do you think it will stabilize going forward, if you can prove some thoughts on that?

**Manoj Jaiswal:** On the G&A, if I were to answer that first, I mean, we did have few one-timers in the last year and in the last quarter we had quantum because of the acquisition cost that we had. This quarter the G&A -- if you look at the range, it is well within the range. If you take a long-term average versus this quarter having some one timers, which is related to some provision on debtors, which has got into some level of stickiness on collection. And these are norm-based provision that we

do and to that extent, there is an incremental provision that has come into the P&L impacting the G&A. And other than that, I mean it is a normal course of expenditure that you see.

**Mukul Garg:** So where do you think it will stabilize going forward? Should it go back to something around 9% or will it stay around the current levels?

**Manoj Jaiswal:** It would stay around the current level largely in terms of the volume or the value in the near two, three quarters it could probably be in the similar range.

**Mukul Garg:** Got it and the sudden uptake in the rest of world growth?

**Ajay Bhandari:** Yes, Mukul, on the rest of the world business, I mean nothing, it's just regular business, some deals we closed, which had steep ramp-ups. Those deals got staffed, delivered. So -- yes, it was like a just regular business, but something that we booked and delivered in this quarter.

**Mukul Garg:** And if you can also provide about the wage hike given during the quarter, the onsite offshore mix -- onsite offshore number, that would be really helpful.

**Manoj Jaiswal:** So the wage hike impact as we had called out even last quarter if you remember, it was in the range of, on overall basis, close to a little less than a \$2 million per quarter kind of an impact. And for this quarter, we have had an impact of close to \$1.9 million to \$2 million in the range of what we had indicated last quarter. And I mean that is the kind of an impact that we have had a wage hike and perhaps that is more or less static number now for the rest of the year till we get to the next wage hike.

**Mukul Garg:** Got it. That is all from my side. Thank you.

**Manoj Kumar Jaiswal:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

**Madhu Babu:** Sir, regarding margins, so how should we see from here? Are we targeting any exit level margin for this year, so that we can build in good assumptions for 2019?

**Sandeep Kishore:** Very difficult to give, Madhu Babu, on this. But I think our complete endeavour is to make sure that on the gross margin level we maintain it at this level at least for the remainder of the year.

**Madhu Babu:** And second, Sir, on digital, I think we have been executing very well. But we also talked about some annuity deals mainly using the kind of automation in IMS and BPO. So how the progress there was and what is the kind of TCV we are seeing in that area?

**Sandeep Kishore:** So outside of the large deals, all have a part of digital because that is our competitive differentiators and that is how we are structuring all of those deals. But they will largely be still traditional services because large deals have a lot of traditional services on application development and management and support, which are built-in. But the way we have pivoted ourselves is all of them do have a part of digital.

**Madhu Babu:** No, no, sir. I was asking that we have talked about some of the deals in IMS and BPO using automation like we have this Vinci platform. So some of the robotic process automation deals we have won in South Africa and all. So I am asking about those deals, can we disclose the TCV of those, especially in IMS and BPO service line?

**Sandeep Kishore:** Yes, sure. So deal -- the RPA deals are actually all in the range of \$300,000 to probably \$500,000, \$700,000 range right now. And as you start to put more bots and more outcomes, I mean, they can actually go also into the range of \$2 million to \$4 million to \$5 million. And Vinci are in the initial phases, as I have mentioned, and they are all in the range of to \$250,000 to \$500,000.

**Madhu Babu:** Okay. So can we see substantial growth in this IMS area? Because one of mid-cap peer has been using this kind of strategy and delivering good number in the IMS side. So, I mean is that our ambition to make a bigger deal sizes in the infrastructure management using this kind of platforms?

**Sandeep Kishore:** We hope so.

**Madhu Babu:** Okay and Sir and lastly from my side in the APAX, I mean lot of these -- I mean the PE guys at least -- some of mid-caps are benefiting from that. So we earlier said that we had only few wins from the APAX portfolio. So how is that shaping, I mean, from APAX group companies?

**Sandeep Kishore:** APAX is obviously a very integral part of our growth strategy and we are in several conversations with their portfolio companies. We do not disclose all of those deal pipelines. But I think we are feeling pretty good that the help from APAX and the strategic input on the portfolio company alignments are in the right direction.

**Madhu Babu:** Okay Sir. Thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Ritesh Poladia from Giri Capital. Please go ahead.

**Ritesh Poladia:** Hi and my all questions have been answered, just one. In the last two years our marketing staff has reduced from 143 to 78, almost 45%. How do we read this?

**Sandeep Kishore:** I do not know. Ajay, you have that feature because that does not include the sales..

- Ajay Bhandari:** Yes, so I think the big difference has been that we used to run a large inside sales team which we have completely outsourced, which is why you see the drop in headcount. But there is no other reason, Ritesh.
- Ritesh Poladia:** Okay. So in the first half also it has fallen from like 102 to 78. So now are we at a steady state or would there be still a change in that?
- Ajay Bhandari:** So now we are at a fairly steady state, so it will be here or probably go up, but going down is highly unlikely. We use to run a pretty large inside sales team to supplement our field sales efforts. Over the last couple of years, we have systematically 100% outsourced that.
- Ritesh Poladia:** Okay. Great. That is all from my side. Thank you.
- Moderator:** Thank you. We have the follow up question from the line of Vishal Desai from Axis Capital. Please go ahead.
- Vishal Desai:** Sorry, just I missed the impact on the margin due to the wage hike. Could you just clarify that to me? Was it 150 basis points?
- Manoj Jaiswal:** Yes, that is right 1.5% from a quarter-on-quarter perspective.
- Vishal Desai:** Okay. Perfect. Thanks so much.
- Manoj Jaiswal:** Welcome.
- Moderator:** Thank you. We have the next question from the line of Bharat Sheth from Quest Investments. Please go ahead.
- Bharat Sheth:** Thanks for opportunity. Sandeep, on digital deal size, as you said, it is currently a little over \$500,000, I mean. So, maybe our customer is outsourcing from several players and going ahead, do we see consolidation in that space and so deal size in next one or two years will be increasing?
- Sandeep Kishore:** Yes, most certainly it will increase. We have already started seeing the trend of increase on digital-led deal size. If you remember five, six quarters ago, it was in the range of \$250,000 to \$500,000 or \$700,000. Now, it is -- as Ajay talked about earlier, it is going up from \$500,000 to \$5 million. Also digital is a centre of all the large deals that we are fighting as well. So I do believe that the size of digital-led deals will increase and it will go into \$5 million to \$10 million category for sure.
- Bharat Sheth:** And how it will help us in, I mean, growing our services because that will be always associated with some service, correct?

**Sandeep Kishore:** Yes. So our uniqueness is that we want to fight where there is a platform plus services play in that size of deal. The deal which is \$5 million to \$10 million should have a platform play. A deal which is \$10 million, \$25 million, \$50 million will largely be built around services. There will be little bit of platform there. So you got to be picking and choosing the battle you want to fight because we have invested heavily into...

**Bharat Sheth:** Sorry, sorry.

**Sandeep Kishore:** Can you hear me? Hello?

**Moderator:** Yes, sir. Please go ahead.

**Sandeep Kishore:** Yes. So what I was saying is the kind of deals that you are fighting will determine how much of it will be a platform plus services play versus a lot of it being services. The larger the deals are, the component of service deliverable will be significantly higher. Whereas in the \$5 million to \$10 million deal sizes, there is a good opportunity of a platform play and we do want to participate because we have invested quite heavily into creating ROD as a platform. So we do want to participate into those deals and that is our unique sweet spot.

**Bharat Sheth:** Okay. Thank you. That is helpful. All the best.

**Sandeep Kishore:** Thank you Bharat.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

**Sandeep Kishore:** Well, thank you so much for joining in. I think we have had a fantastic quarter in Q2 and I do look forward to talking to all of you again in Q3. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities Limited that concludes the conference. Thank you for joining us and now disconnect the lines.