



“Zensar Technologies Limited Q4 FY-20 Earnings  
Conference Call”

May 15, 2020



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**MODERATOR:** **MR. SUDHEER GUNTUPALLI – TECHNOLOGY ANALYST,**  
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**Moderator:** Ladies and gentlemen, good day, and welcome to the Zensar Technologies Fourth Quarter FY20 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Sudheer Guntupalli, Technology Analyst at Motilal Oswal Financial Services. Thank you, and over to you, sir.

**Sudheer Guntupalli:** Thanks, Ayesha. Good afternoon, ladies and gentlemen. Welcome, and thanks for joining us today. On behalf of Motilal Oswal Financial Services, I would like to thank the management of Zensar Technologies for giving us the opportunity to host 4Q FY '20 earnings call.

We have with us Mr. Sandeep Kishore, Chief Executive Officer; Mr. Navneet Khandelwal, Chief Financial Officer; and other senior management team members on the call. We will start off with initial prepared remarks from the management team to be followed by question-and-answer session. Thanks, once again, for being with us. Over to you, Sandeep.

**Sandeep Kishore:** Hello and Good Afternoon everyone. First and foremost, I hope and pray you and your families are keeping safe and healthy. Thank you for joining us today to discuss Zensar's financial results for the Fourth Quarter and year ended March 31, 2020.

On the call, I have with me from the Zensar Management team – Navneet Khandelwal, our CFO; Vivek Ranjan, our CHRO; Prameela Kalive, our COO; Harjott Atrii, Global Head, Cloud and Infrastructure Services; Harish Lala, Head of Africa Region; Shirsendu Deb, Global Finance Controller; and Rishabh Mishra, Head of Corporate Development.

Rishabh has joined us last month and will be based at our corporate headquarters in Pune. He will henceforth lead all Investor Relations for Zensar.

We are living in an unprecedented time where humanity itself is being tested and health and wellness for all need to be put before anything else. The black swan event of COVID-19 has taken a huge toll on life, not just from medical point of view but also economically. As the world fights this situation as one, we at Zensar are leaving no stones unturned to keep our associates and stakeholders at the center, above everything else.

To track our associate's health and wellness in real time, we quickly built a module in our digital native platform which helped provide 24\*7 support across all our geographies of operation. Our Emergency Response Team's prompt response and assistance helped in providing all assistance to our associates globally. We enabled our associates to work from home even before the government mandated it keeping in mind the safety of our associates.

In these difficult times, it was key for us to connect with our customers and understand their evolving pain points and immediate needs. We made it our absolute priority to not let our deliveries get impacted at all.

We reached 100% Work from Home within 7 days, which is a testament of the agility and responsiveness of our entire organization. Security, data privacy and seamless remote IT support were quintessential here. Our associates are currently working from the safety of their homes globally and remain committed to delivering outstanding business solutions and services to our clients.

We feel very proud and humbled in the way in which we were able to turn around our whole delivery operations globally to be 100% WFH. We have institutionalized an extensive client connect process to ensure that we work very closely with them to address and help them in any other areas that we could in these difficult times.

In view of the COVID-19 business impact across business units and geographies, we constituted the COVID-19 Nerve Center, an integrated program of how Zensar is and will be responding to this situation. The objective of this Nerve Center is to focus on following 6 imperatives:

1. Associate Wellness
2. Business Continuity
3. Client Management
4. Cybersecurity and Data Privacy
5. Business Opportunities
6. Cash, Liquidity and Cost Management

Coming to our Q4 FY20 performance, we reported a revenue of USD 140.6M taking our FY 20 revenues to USD 589.5m. YoY growth of 5.8% in US \$ terms and 6.7% in constant currency. Core business YoY growth was 6.8% in US \$ terms and 7.8% in constant currency, all organic.

On a constant currency basis Q4 FY20 had a QoQ decline of 1.5% and a YoY decline of 4.2%. The sequential revenue decline in Q4FY20 was primarily on account of the unforeseen pandemic as the clients started focusing on conserving cash by delaying projects and reduced volumes.

As you would have seen in the results, we witnessed recuperation of our EBITDA margins, led by optimization of both direct and opex costs, which is expected to continue.

Fortunately, we did not have any supply related slippages because of a swift move to 100% WFH. This should also help us to tap into the post crisis accelerated demand, especially for our Digital and Cloud Infrastructure Services business.

While Navneet will talk about the cash conversion and cost management, In immediate response to the pandemic we did not limit our priorities only to the financial security, focusing on cash and cost control measures, but also have been bringing new solutions to the market as we see post COVID-19 world to offer promising opportunities in workforce mobilizations, cost reduction programs, virtual immersive experience platforms, digital events, etc. as well as major changes to traditional delivery models.

Taking the time to proactively seize the opportunity in market and at the same time identifying and mitigating the key risks to our client's business, we have launched several COVID-19 related market facing propositions. We developed, what we call the ZERF i.e. Zensar's Enterprise Resiliency Framework which defines 3 impact zones where Zensar offers end to end assistance in reducing COVID-19 impact, expediting recovery and transforming overall business for our clients. Our proposition - ZenCare empowers end users to access a virtual workplace and collaboration tools in a secured environment from any remote location, while ZenTrust allows enterprises to optimize in-flight and planned project costs, ensure business continuity, secure business applications, and digitally enable stakeholders.

We also launched Humane, an enterprise-grade solution to help organizations create impact by augmenting their current talent systems & processes with a digital-native platform that transforms the employee experience.

We believe that these solutions will continue to remain relevant even after the whole COVID-19 situation is dealt with. Businesses across the globe are going to change the way they operate and will move their essential operations to an agile and resilient model, which is the underlying problem statement we are trying to address using our pro-active solutions.

Our order bookings continue to be solid with some impressive new wins taking our overall digital revenues to 57.2% in Q4. EBITDA for Q4 was at USD 19.6m, 13.9% of the revenue, Core Business EBITDA for Q4 was at 14.6%.

For FY20 the reported EBITDA was at USD 72.4m. 12.3% of the revenue, Core Business EBITDA for FY20 was at 12.5%.

We posted a net profit of 9.6m which is 72.9% higher than Q3, taking the FY20 net profit to 37.8M.

All 3 regions grew on constant currency YoY basis, US by 2.9%, Europe by 13.7% and SA by 28%. Among the verticals, YoY growth in constant currency was led by FS at 21.9% led by Banking at 49.6% and Insurance at 13.2%. Hitech Mfg grew at 10.6% YoY on constant currency. Retail Consumer services declined by 20.3% YoY on constant currency. Even though Retail Consumer Services grew in Q4 on constant currency by 6.0% – primarily because of the one-timers not being there in Q4 compared to Q3.

Cloud Infrastructure business continues to be a strategic priority for us and has been doing consistently well. It grew by 8.7% YoY in constant currency. Next Gen Infra services grew at 37.5% YoY on constant currency on back of 77.8% YoY it had grown in FY19. With the Cloud and Security opportunities opening up due to COVID-19, we expect our CIS business to be a major growth lever. We feel we are fully equipped with strong solutions and delivery organizations to take on the new opportunities at scale.

Digital Application Services grew by 6.4% YoY on constant currency led by digital services which grew 21.1% YoY.

Overall Digital business at company level grew at 23% YoY on constant currency including digital application and next gen cloud infra services. For full year FY20, digital was 52.4% of total business.

In the last three years we have seen the revenues from our top 10 clients growing at an annual rate of 18.6%. As we have mentioned earlier our strategic focus is to grow accounts with deeper and multi services partnership. We continue to consolidate our relationships with larger and growth-oriented clients. During the year we added 5 clients in the 5M+ and 1 in the 10M+ per annum category. Now we have 87 - 1M+ clients, 24 - 5M+ clients and 10 - 10M+ clients. Over the last 3 years our 5M+ and 10M+ clients have increased by 7 and 6 respectively.

Our global headcount at the end of Q4 FY20 was 9524, around the same level as last year. This signifies a constant improvement in our productivity levels as our revenue per associate has grown at an annual rate of 10.2% during the last 3 years. We now have more than 30% of our associates as women Zensarians.

At Zensar in India we work directly with RPG Foundation for all CSR commitments, Under its patronage, we have distributed over 2.5 lakh hot meals across the country, including 40K in Pune itself. Over 70% of our associates in India also voluntarily contributed their one-day salary to the COVID-19 fund that was matched by Zensar. The days ahead are uncertain but human beings are known to adapt themselves and we shall. We will continue our efforts towards this crisis and help those in need.

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

**Navneet Khandelwal:**

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

In the fourth quarter of financial year 2020, we have reported revenue at Rs. 10,178 million, which reflects a sequential decline by 0.3% and a Y-o-Y decline by 2.8% in rupee terms.

For the year FY '20, our revenue in rupee terms stood at Rs. 41,768 million representing a Y-o-Y growth of 7.1%. Our gross margin for this quarter was 28.9% as against 23.6% of previous quarter. The recovery in gross margin has been largely due to the cost efficiency measures declared by us and recovery of the onetime hits we took in Q3 of this fiscal.

For FY '20, our gross margin stood at 27.8% versus 29.2% for FY '19. The effective tax rate for the quarter is at 27.3% as against 25.5% in the previous quarter. The U.S. dollar realization during the quarter has been Rs. 72.40 per dollar against Rs. 71.20 in the previous quarter. The year before in the same quarter, it was Rs. 70.50.

The total amount of outstanding hedges as of 31st March 2020 was equivalent to \$164.5 million against \$178.4 million in Q3 of this fiscal. As of end of this quarter, our cash and cash equivalent balance was \$103.6 million as against \$92 million in Q3 of FY '20.

During FY '20, we have put focused efforts on improving our cash flows. For FY '20, operating cash flow grew by 299.2% to Rs. 6,229 million against Rs. 1,560 million for FY '19. Free cash flow grew by 425.8% and stood at Rs. 5,447 million as against Rs. 1,036 million for FY '19. For the quarter ended March 31,

2020, billed DSO reduced as compared with previous quarter and stood at 54 days against 57 days, while DSO including unbilled reduced by 6 days to 87 days as against 93 days in the previous quarter.

During the quarter ended March 31, 2020, the Board of Directors approved further additional interim dividend of Rs. 1.80 per share. The total dividend payout during the 3 months ended March 31, 2020, was Rs. 595.9 million or \$8.2 million. Cash and cash equivalents, including the investments in mutual funds, net of the borrowings increased by \$13 million from \$46.7 million in the previous quarter to \$59.7 million in the quarter ended March 31, 2020.

Our operating cash flow as a percentage of EBITDA stood at 122.8% against 32.5% in FY '19. And free cash flow as a percentage of EBITDA was 107.4% as against 21.6% in FY '19. As the COVID-19 crisis started unfolding, we took immediate steps to improve our cash position and contain our costs. Firstly, we have drawn down further \$5 million from our available lines of credit and negotiated with our vendors for extended credit period in addition to the increased focus on collections from our customers.

Secondly, we have put enormous focus in driving cost efficiencies by taking action on our subcontracting costs, improving utilization, deferring hiring decisions and also announcing measures relating to deferment of our salary increases for FY '21.

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

**Moderator:** Thank you very much. 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:** Sandeep, I hope the Zensar family is fine in these trying times. First of all, I wanted to congratulate on the amazing margin improvement. I think this was definitely better than what any of us were expecting. And I think it is commendable the way you guys have been able to recover the margins. I want to start with the outlook and demand for FY '21. Given what we have seen in Q4, there was a cease in deals in March. There was almost 4.5% Q-o-Q hit during the last few weeks. How should we see FY '21? Will there be a material deceleration during the year given the disruption we have seen in just a few weeks?

**Sandeep Kishore:** Thank you, and I hope you and family are doing well as well. There were two questions. First is a commentary on margin. Yes, when we realized the COVID situation towards the end of February, as Navneet called out, we put this COVID program together to make sure that we conserve cash and defray several of the investments that were planned, including hiring of the freshers, which we have moved a couple of months down.

We were impacted by COVID. Our March wins, actually, the pipeline itself dropped. We are now back to our original pipeline of \$1 billion. So our pipeline is actually right now quite good.

In the cost takeout initiatives, as I called out, ZenTrust also the ZenCare, our cloud infrastructure proposition, plus the virtual systems of engagement. So there are three big tracks that we are taking to market in our proposition going forward.

Retail, which is 15% of our business is severely impacted, as you can imagine. And the technology sector, so far, we have not seen much of an impact. There are some moderate impacts of project delays, but nothing significant that I can report as we see now.

Financial services is a bit of a mixed bag. Some parts of financial services, insurance, particularly, where we have seen some impact, but on the other hand, as I called out earlier, our banking business is actually doing very well. It has grown at a very healthy rate, and the pipeline also looks quite good.

So from where I see today, Mukul, it is very difficult for me to actually say that what would be the impact. I do believe quarter 1, as you are seeing in the industry, is going to be a high impact. I do hope that somewhere towards the second half of quarter 2, it should start to moderate.

**Mukul Garg:**

So, Sandeep, just to follow up on the commentary about the technology clients. When we actually look at the commentary from your top clients a few days back, they saw a significant degrowth during the quarter, and their guidance for next quarter also is almost double-digit degrowth.

Can you just help us understand in terms of the areas where you are working with them? Is that more on the hardware side or software side? And what avenues you have to have that kind of maybe a stable environment at this client, given the value of business you drive from them?

**Sandeep Kishore:**

Yes. So for our top most client, quarter 4, we actually held steady. Even this quarter, so far, we have not seen any significant impact. Now having said that, it is anybody's guess. If their business is severely impacted, it is likely that there will be some impact into quarter 1. But I feel very positive because the business mix that we have changed in our top customer has moved away from the traditional IT, more towards "As a service" in their analytics, software-led, cyber security and collaboration business.

So some part of that customer actually is doing quite well. But overall, based on the macroeconomic technology landscape, because, their customers are effectively other enterprises, so some impact will be there. But I think, strategically, if I look at what we do for them, by design, we have driven volume growth in that account by doing more core services, which is aligned to their future growth. So even if there is a short-term impact, in the medium-term to long-term, I do feel it will come back up.

**Moderator:**

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

**Madhu Babu:**

Hi Sir, first of all congratulations on your strong margin improvement. Sir, in your portfolio companies, Indigo Slate and Cynosure and all, there is a high dependence on project-based growth. So how is the traction there? Similarly, on our Oracle portfolio and Salesforce implementation. These are also a lot of project-based work, so how do you see the first half for this part of the business?

**Sandeep Kishore:**

Yes. Thank you Madhu Babu. So let me take one by one. For our Indigo Slate business, yes, it is project-based. Very large part of the client base in Indigo Slate is actually technology customers. Over 90% of the business that we do there. It is, of course, now fully integrated into the entire services because it is now coming up to about over 20 months now from our integration point of view. Because of the technology

focus of our offering, we have not seen any significant negative impact on Indigo Slate business. So it is holding quite well.

The second is, I actually called out virtual systems of engagement as a new dominant way of our customers to engage internally as well as externally, internally with employees and partners because there is no in-person and physical large-scale event which is happening not only now, for the next several months, is out of question.

And hence, the ability to create a digital immersive, very high-interactive platform is the core competency of the offering that we have actually launched. We have launched an offering called “Everywhere Events”, which is built around the whole Indigo Slate offering, and we have taken it to our all the top technology customers. So we feel very positive about the traction that is created.

Cynosure, which is largely around the Guidewire, there has been some moderate ramp-downs and project delays, which have happened from the insurance customers. Because the category, which is a Tier 3, Tier 4 insurance customers, particularly in the U.S., have delayed some projects. But we feel that as soon as the market stabilizes in the second half of the year, they are going to come back up because the fundamental digital transformation of the insurance carriers is built around centralizing their claims and accounts and billing and data processes. And we are right at the core of it. So there is an intermediate delay, but overall, I still think it is going to come back up.

Oracle was the third part you asked. Oracle, we have actually won several Oracle engagements, which is the core competency of Zensar. Oracle, particularly on the cloud. We have won it in South Africa, in addition to winning the U.S. and the U.K. markets here. And so is the case with SFDC. So actually, both are pretty strong offerings from us. We have won a few deals on both of them, Oracle and SFDC.

Prameela, do you want to add anything specific on these two, Oracle and SFDC, please?

**Prameela Kalive:**

Thank you, Sandeep. Thank you for the question. Like Sandeep has mentioned, we see no disruption in the several Oracle and other enterprise package implementations that are going on for our customers globally. We have made sure that this disease does not impact any of the deliveries. Now, we have touchless transitions, touchless discovery and due diligence tools that we have launched. In fact, we are doing several complex global implementations even now for our enterprise customers across the verticals in this new world. Having said that, a few programs, like Sandeep mentioned, where clients were about to start new Oracle large implementations, are going slow on the start. But for ongoing projects, there is absolutely no disruption. We are continuing to deliver complex implementations now.

**Madhu Babu:**

Sir, one more from my side. The work-from-home theme can provide space for a disruptor in the sector. So would that lead to any deflation in pricing because you do not have real estate and operating costs will come down significantly? How are we planning to tab this work from home theme?

**Sandeep Kishore:**

I think, Madhu Babu, the short answer is, yes, it will create new opportunities at a reduced price point. Early days. We want to be among the first ones to get this off the ground. We have already started working



on creating a completely new, we call it “Work From Anywhere”, which will onboard talent from a completely new talent supply pool in India and even in the U.S., U.K. and South Africa, where we operate.

**Moderator:** Thank you. The next question is from the line of Mohit Sharma from Motilal Oswal Financial Services. Please go ahead.

**Mohit Sharma:** I had one quick question. Could you please also provide some trends that you are seeing on the legacy side of the services and the business. So what will be the, is the pressure high, more on the pricing side? Or is it a sharp ramp down or a delay or what is it? As we see that digital is picking up in the near term, what is exactly happening on the legacy side of the services?

**Sandeep Kishore:** So Mohit, you can see from our fact sheet, we called out the details, both on digital and application services. We call it core application services. And in cloud infrastructure services, we also call core infrastructure services. Now those are the legacy, legacy is probably a strong word, but they are the non-next-generation categories.

And you can see that those have been declining for a couple of reasons. Number one is the client investments into those themselves are reducing. And if you have seen the forecast that came out literally a few days ago from Gartner, earlier also from ISG, they have been talking about it, that with COVID, the deceleration on legacy will be even higher.

Now clients are going to move much faster into specific areas of collaboration, security, cloud, immersive engagement, AI-affiliated experience, as you just heard from Prameela. And strategically, our focus at Zensar clearly, even pre-COVID, has been to be a relevant partner to our customers in the areas that they want to be investing. And that is the reason we call out the forward-looking investment for the customers, which is in the digital category as well as in the cloud category.

Our pipeline, if I can just delineate \$1 billion of pipeline that we currently have, over 70% of the pipeline is in the area of digital and cloud that we fight today. So as long as we have a differentiated proposition and the investment from clients are happening, they do not freeze that, I think we should be good.

Now having said that, I also want to call out Harjott to give you a little more color on the next-generation cloud services because that has got an acceleration actually post-COVID. Harjott, would you just give some quick color on that?

**Harjott Atrii:** Yes, Sandeep. Thank you. So as Sandeep mentioned, I think COVID has an impact on what we were anticipating as spend areas for customers 3 years down the line. They have all been pulled forward to enable the work-from-home economy. So across the globe, our customers, as they enable their employees to work from home, they made certain compromises on security, performance and experience.

And now the migration to the cloud, spending on new network design and engineering, spending on new security, firewall security management, security operations, will be some big spend areas for the customers. So we have, as part of the big bets, we have the service catalog aligned which we call it digital foundation services for Enterprise 4.0, which proactively addresses the concerns of the customers and aligns the service

catalog to where the customer spend areas would be. So that is why we feel pretty confident and positive about playing a key role in the customers' journey post-COVID.

**Mohit Sharma:** Sure. And one more if I can squeeze in. So do you want to call out or highlight any client-specific issues in your top 10 or top 20 clients and if you see anything different or any sharp trend with any particular client?

**Sandeep Kishore:** The retail sector is going to be severely impacted. It already is. And as you can imagine, it is 15% of our business, and we do expect impact on retail category, as I actually mentioned in one of the earlier comments. Other than that, there is nothing specific to call out right now.

**Moderator:** Thank you. The next question is from the line of Mihir Manohar from Capgrow Capital. Please go ahead.

**Mihir Manohar:** First of all, congratulations on regaining the losses which were there in 3Q. My question is regarding ECL-led provisioning. I mean have you did a fair assessment related to ECL-led provisioning? Because when I see results of other companies, there are ECL-led provisioning's, but there is no impact on our margins because of that. So just wanted to understand on that.

**Sandeep Kishore:** Yes. Navneet, would you take that, please?

**Navneet Khandelwal:** Yes. Can you please repeat the question? I could not hear exactly what provision you are talking of? Can you please repeat that?

**Mihir Manohar:** Yes, sure. So I am talking about the expected credit loss provisioning, which has been required to be done as per Ind AS. Now when I see results of other companies, there are some issues with that provisioning on account of some marginal impacts from that, but that is not the situation in our case. So I wanted to understand why is that scenario? And how should we look at it going forward?

**Navneet Khandelwal:** Yes, sure. So that expected credit loss method requires you to do a sensitivity analysis based on the profile of customers you have, the kind of receivables you have as well as assessment from all external factors and your past experience as to whether any proportion of your receivables you believe will get doubtful, and accordingly, you need to make a provision.

Now if you will note from Zensar's financials, over the last 2 quarters, we have done exceptionally well in our debtors' collection. So our DSO, which had touched a peak of 104 days, has come down to about 87 days now. And because of which, the kind of outstanding we have also has gone down.

As a result, when we did this evaluation, we have not found any incremental provision to be taken purely because of the COVID scenario because a good chunk of our old outstanding have been cleared, and we do not expect any delinquency of the debtors, which we have in our balance sheet as of 31st March versus what we have already recorded in our financials. So that is where you will see that we do not have a big provision hit on account of that.

**Mihir Manohar:** Okay, sir. And how would that pan out for FY '21, any sense of yours?

**Navneet Khandelwal:** So we have tightened our operational rhythm on debtors and collections, and you have to look as to how things span out. As FY '21 spans out and as the COVID situation unfolds, we will have to keep a close tab on how things move and how our clients are impacted, but to tell you the rhythm that we have set up and the kind of operational rigor we put has helped us that by the time we really got impacted by COVID, we had really collected a good amount of cash, and we had dropped down our receivable positions very significantly.

And we will continue on that path. But as to how does it span out with respect to the way our clients react to COVID, we will have to still wait and watch, and we will continue to keep a tab on it.

**Moderator:** Thank you. The next question is from the line of Ravi Sundaram from Sundaram Family Investment. Please go ahead.

**Ravi Sundaram:** My first question was on, did you mention the retail as a sector, the exposure was 15 %, right? That is what you had mentioned, right? I just wanted to crosscheck because I heard, was it 50% or 15%?

**Sandeep Kishore:** 1-5, Ravi. 15%.

**Ravi Sundaram:** Okay. Yes, I totally understand this year, we probably may have some stress. Sir, I had a very general question. The question is, in the last 5 years, if we observe Zensar, the bottom line has been flat. And actually, some of us were hoping that 2021 could be the year considering the pipeline that we have, and we would break out of this at Rs. 10, Rs. 12 kind of EPS and move to the next fold.

But I think, again, in FY '21, we had a significant risk in terms of COVID, but how are you I mean, looking at this, when will, for us as investors, Zensar move out of this narrow bottom line and take it to the next trajectory of growth in terms of profitability?

**Sandeep Kishore:** Yes. I think it is a fair question, Ravi, and thank you for asking. Strategically, what we are doing for our company as core management team is to really pivot the organization to our customers where they are investing in the new area. And that is where the big focus on investment is to build the competency of the organization. And where I see, we have been calling this out, there are a few choices that we have made.

First is work with fewer set of customers rather than too many clients. And that is the reason why our top 5, 10, 20 customers keep expanding. As we increase the volume in those customers with differentiated services, which is you heard about cloud, you heard about experience-led services, our ability to create the price differential is going to be higher.

I cannot give you any specific date by when this narrow band will change, but you have full commitment from our team that, that is a big focus area for us. As you increase the cloud infrastructure services to the next set of volume, this business right now is about 14%, 15% of our business, and that is a big growth driver for us. Same is the case for the digital offering in our application services, which is virtual systems of engagement, experience-led, data and AI. We have to do more of those into the core categories in financial services, manufacturing, hi-tech customers.

Retail is going to go through a bit of a stress, but we have been decreasing our focus anyways in that category. It used to be a 27%, 28% of our business. We have moderated it to 15% of the business. And as I had mentioned in the last analyst call, we are broad-basing retail to be a consumer services as we now are in fiscal '21.

So keeping the COVID thing aside because this is, as we all know, is an exceptional circumstance, but strategically, I think the company has invested into the areas where we believe the client investment is also going to be high. And it should feel overall that the trajectory is right.

**Ravi Sundaram:** Okay. Sir, I think that clarifies. One last question. In your top 5, do you have any of your retail clients, part of top 5 customers?

**Sandeep Kishore:** Yes, we do.

**Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan:** Just a couple of things. So one is, you did mention that Q1 will be weak, followed by some sort of a recovery in the second half of Q2. Just wanted to understand the extent of the drops that one should assume? Do you think or maybe 2 ways. One is, do you think it is mid-single digit, high single digit? Or alternatively, do you think the tail accounts are there on 15% of revenues roughly?

And do you think that, that is a higher risk in addition to the retail segment that you see. So those were the two things to start with. Just to try and understand the extent of the drop that we could see in Q1 before we see a recovery?

**Sandeep Kishore:** Yes. Nitin, thanks for your question. I think at this time, it is very difficult because every day is a new day, you can see from the way the market is responding. And given that 75% of our business is the United States business. So very difficult for calling out. Retail, as I had mentioned earlier, is going to be impacted quite heavily. So that exposure is there.

The tail accounts, we do not see too much of an impact, but the project dealers, we are winning projects actually, as we speak, we are winning projects. But the start bit could also get impacted. So I really cannot call out. All I can say is that quarter 1 will have impact based on everything that I see, when we talk to other CEOs of our clients and the CFO organizations, everybody expects it to stabilize as economy starts to open up, which the government has been tracking.

So we are watching it very, very closely. For our non-retail top 20 customers, we have an exceptional rhythm going in with them. And there, we are tracking all the projects, nothing exception to be called out there. But it could get delayed depending on how the next few weeks are panning out.

So I am going to keep a very close watch on this. I do believe, as I had mentioned earlier, the second half of quarter 2, we should start to see stabilization coming in. And H2, hopefully, it should come back with the new propositions that we have launched, and particularly in our cloud infrastructure business.

**Nitin Padmanabhan:** And on the margins, do you think we have been in a position to sort of sustain the current level of margins for the full year? Or do you think that is a viable target?

**Sandeep Kishore:** Navneet, do you want to add on that, please?

**Navneet Khandelwal:** So if you will see that we have improved and we have come back from the margin track from the hit that we had taken from the previous quarter. So we have actually worked on our cost structures to be able to get a sustainable improvement in a go-forward basis. However, it is very difficult to project how the full year would look like because it is an uncertain environment where we are also not able to project where the revenues will end. We will have to keep a tab on it.

Having said that, we are all geared up to ensure that our costs align to our revenues. And to that extent, we have made a very nimble organization, where we have also delayed the fresher hiring. And if you would see, we have a good chunk of our cost still as subcontractor cost. Subcontractor cost is still 15.2% of our revenue. And should there be any further impact on revenues that is the cost which would be the first one to further be brought down.

So, all I would say is that we are geared up to be able to take on any challenge from a cost perspective and will work towards scaling it down if the situations come to that. But it will be very difficult to currently give you any kind of a broad indicator as to where the margins could lie for the coming year.

**Nitin Padmanabhan:** Just one last question on the risk, which covers two facets: One is within our existing client portfolio, do you see any specific clients who are at risk of bankruptcy or anything that should sort of worry you in terms of potential receivables from them?

And the second thing is on the acquired entities that we have, is there any risk of any write-down on goodwill or any such thing in your assessment?

**Navneet Khandelwal:** Sure. So talking on the receivables portion, we are keeping a very close watch on our debtor's position and its collection. And we are running a daily drill on that, keeping a tab on how our customers are behaving. As Sandeep pointed out, roughly 14.5 % of our revenues are still coming from retail sector, which is slightly more impacted than the other sectors that we operate in.

So we have to keep a tab on our customers in that sector as to how things go. What we have done is the overdue positions in all these customers, we have been able to bring down, and we continue to monitor closely the collections and how each customer is reacting to the current situation. So that is a part of our de-risking strategy.

Apart from this, coming on to the goodwill part, actually, we have done a very vigorous stress testing on our goodwill when we closed our financials on 31st March, which is backed up by various scenario analysis to see what happens if situations go much adverse and how would it span out. Basis that, as of date, we do not see any impairment in any of our acquisition-related goodwill. We will continue to keep a close watch on it as time moves by.

- Moderator:** Thank you. The next question is from the line of Abhishek from Elara Capital. Please go ahead.
- Abhishek:** Thanks for the opportunity. Sandeep, the first question is, there has been a lot of discussion about projects where there could be asset transfers or monetization of captives and there could be a commensurate large deal. So what is your assessment of the market? Are you seeing it, and would we also look at such kind of large deals?
- Sandeep Kishore:** So Abhishek, I think the short answer is it depends. We are fighting large deals. We want to fight large deals. And particularly in the full system integration areas in cloud infrastructure businesses. We are very careful on how we pick this up. I mean, in the past, we have done that, particularly in the city of San Diego, as you very well know, and a few other cases.
- So I actually do not rule that out. I do believe it will depend on the stability of the client, financial resilience of the client, and how critical it is going forward from the technology that they are building into their own success road map. So we are not shy of that. I do not think it is that I will say we do not do this. We are quite considerate on how we want to play this one.
- The second aspect is, as I had mentioned earlier, it has to be built around our core services. So if it is a pure-play only, as I said, I do not think that is going to be of interest to us. It always has to be a part of an integrated next-generation cloud infrastructure services, only then we will play.
- Harjott, do you want to add anything on this?
- Harjott Atrii:** Yes, pretty much in line. The large deals consist of 2 key pillars as we look at them. We take over the legacy and we do the run an optimization, but on the back of it is that we are also the preferred partners for our customers in their transformation journey. And we have the first right of refusal and full influence on the transformation dollars. So we optimize, run and operate and integrate that to change and transform, and that essentially constitutes a healthy large deal pipeline for us.
- Abhishek:** That is helpful. The second question, Sandeep, is on the bookings number. So last year, Q4 FY '19, we had a trailing 12-month book-to-bill of around 1.05, 1.33 in reported, but I adjust the one of the large deals which you always talk in your presentation, and this year, that TTM book-to-bill is now 0.95. How should we read this converting into your revenue for '21?
- Sandeep Kishore:** Yes. I see you have done the analysis quite well, Abhishek. It is 0.95, I mean, it is rounded to a little over that, but you are pretty much right. But having said that, we just in month of March had very, very little bookings. So the January and February was all of \$110 million was actually in Jan and Feb. So if you take it on a normal run basis, ideally, we should have been at the same level as about 1.15 to 1.25 track.
- Our pipeline is very good. It had actually dropped from \$1 billion to \$600 million right in as we were closing on 31st March and first week of April. For the last 4-5 weeks, we have actually seen a very sharp uptake on the new offering that we have built. There are several new offerings that we have launched to our customers, as I explained in my opening comments and during some of the question-answer that we have been doing.

So I actually feel quite good. I mean these offerings are aligned to where I think the client investments are going to be. To recap, there are in 3 categories there: Number one is Cloud adoption. Cloud has a far higher adoption rate, much faster pace. Number two is virtual systems of engagement, and we have launched both “Humané” as well as “Everywhere Events” for our customers. And the third is the whole vendor consolidation and cost takeout, where we are very aggressive with our top 50 clients.

So as we go on a normalized basis, now COVID, of course has taken the best of depending on how the clients' spend pattern is. But on a normalized basis, I do think we should be in the same range on 12 months, between 1.2, 1.35.

**Abhishek:** Okay. And just a follow-up to that is when we give the bookings number, what is the mix between renewals and net new?

**Sandeep Kishore:** In every of our commentary that we have made, roughly, this is half and half. For the quarter 4, it was about 55% is incremental wins and about 45% is the deal renewal. So it is always in the same range. It varies between 60, 40; 45, 55; for the \$110 million, with 55% on incremental and 45% renewal.

**Abhishek:** Okay. That is helpful. And just last one from my side. Sandeep, just wanted to understand that from a large customer perspective, is it imperative for the reseller business to accelerate for us to also grow in the large customer, or from that historical basis, we have moved on from that reseller component?

**Sandeep Kishore:** I did not understand that Abhishek? Yes. Maybe you can help clarify the question, please?

**Abhishek:** What I meant is, especially in our large customer, is our business a function of reselling their components as well?

**Sandeep Kishore:** No, not at all. No. We have moved away from that completely. That is why 3 years ago, we stopped calling out the product business separately. It has become completely integrated. And it is a very insignificant part of the overall business now.

**Moderator:** Thank you. In the interest of time, I now hand the conference over to Mr. Sudheer for closing comments.

**Sudheer Guntupalli:** Thanks, everybody, once again, for joining us today. Thanks to the management team of Zensar Technologies. Good day, and stay safe.

**Moderator:** Thank you. On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.