



“Zensar Technologies Limited  
Q2 FY2019 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q2 FY2019 Earnings Conference Call of Zensar Technology Limited hosted by Haitong Securities. 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 this conference is being recorded. I now hand the conference over to Mr. Mukul Garg from Haitong Securities. Thank you and over to you Sir!

**Mukul Garg:** Thank you, Rio. Thanks everyone for being with us on the call today. On behalf of Haitong Securities, I welcome you all to the Zensar Technologies Q2 FY2019 Earnings Call. We have with us, the senior management team of Zensar, Mr. Sandeep Kishore, MD and CEO, Mr. Navneet Khandelwal, CFO, and other members of the management. I will now hand over the call to Sandeep to start the proceedings. Thank you and over to you, Sandeep!

**Sandeep Kishore:** Thank you, Mukul. Hello, and good afternoon, everyone. Thank you for joining us on the Q2 Fiscal 2019 analyst call. On the call today, I have with me, from our management team, Ajay Bhandari, Head of Strategy and Corporate Development, Navneet Khandelwal, our CFO, Vivek Ranjan, our CHRO, and Sanjay Rawa, our Global Financial Controller.

I will give you a brief overview on Q2 fiscal 2019, which will then be followed up by an update on other financial metrics by Navneet, after which we will open the floor for questions. I trust all of you have had the chance to go through the detailed Q2 fiscal 2019 financial results and the fact sheet that we released yesterday. Let me take this opportunity to present some key pointers.

We had a good and steady Q2 fiscal 2019. On an overall basis, we delivered a sequential revenue growth of 2.3% in dollar terms and 4.1% in constant currency terms. Our revenue for core business stood at \$127.6 million, a growth of 2.4% and 4.4% in dollar and constant currency, respectively.

Our Q2 fiscal 2019 PAT grew sequentially by 8.6%. Our Q2 fiscal 2019 gross margin and EBITDA were affected by wage hike and impact on utilization change in the quarter. Our core EBITDA stood at \$19.1 million, which is 15% of revenue.

In Q2 fiscal 2019, our digital revenue accounted for 44.2% of overall business, a growth of 5.2% sequentially driven by our CX/UX front-end development capabilities, cloud and infrastructure and mobility business.

In Q2, we continued our large deal momentum with a net new multimillion-dollar infrastructure and cloud win with a Hitech medical devices firm. We also won multiple deals with our top-tier clients and added several net new logos during the quarter.

Our Application Services business delivered a healthy growth this quarter. Digital and Application business grew sequentially by 4.1% in constant currency terms on back of core digital at 7% sequentially.

Our cloud infrastructure business had had very good quarter. It grew by 4.2% sequentially on constant currency with cloud; digital led next-gen infrastructure business increased 6.6% sequentially. Cloud infrastructure business has seen great increase in sales, pipeline and opportunity with an impressive conversion rate resulting in sharp hike in number of RFPs that we are now getting invited and responding currently.

All regions grew sequentially, led by Europe at 10.9%, Africa by 5.6%, U.S. by 2.8% in constant currency terms. In terms of business sector, Hitech and manufacturing grew sequentially by 8.4%, financial services by 5%, whereas retail had a decline of 8.7% - all in constant currency.

In terms of our acquisitions, Foolproof, Keystone and Cynosure are all successfully integrated and continue to do well. The synergistic capabilities of Zensar and our acquisitions are generating good traction within our client base, creating new partnerships with selling as one Zensar across our service line.

Keystone had a very good quarter with sequential growth of 3.8% and a yearly growth of 28.9%. It also added some exciting new logos during this quarter.

Indigo Slate, a company which we very recently acquired, has a made a great start and has helped strengthen the core of our digital offering to our combined client. As stated in our last call, Indigo Slate helped add customer experience and digital transformation capabilities, particularly in the U.S. with access to some marquee Fortune 500 client.

Foolproof is doing well in helping us win and position differently, particularly in the CDO/CMO space across our new and existing clients. In terms of revenue, Foolproof grew 12.7%, sequentially.

Cynosure had a soft quarter, which was primarily on account of project delays in one of their clients.

Our overall pipeline has seen very good increase, a total of \$200 million, sequentially. The total pipeline now stands at \$800 plus million TCW. The bookings stood at approximately to \$290 million in the first half of the fiscal from \$10 plus million deals. The digital team continues to do very well and has had some significant contribution in all the recent wins for Zensar. We have had some very good wins across the quarter. You can find all the details in our press release.

As I mentioned earlier, our Europe and Africa business continue to do very well in constant currency terms. Europe grew by 10.9% over the last quarter on the back of major net new wins and expansion into existing accounts. Africa, as a market, grew by strong 5.6% in constant currency. Both markets saw some headwinds on currency movements that affected the growth in USD terms.

We continue to execute well on our strategy of expanding our businesses, identify top-tier clients that have headroom to grow our business and also drive multiservice across applications, digital and cloud infrastructure. Our targeted initiatives in this regard have started to bear results. Q2 saw consistent focus as we increased business from top-tier client considerably, increasing our wallet

share in those clients. As a result, we now have 20 clients in the \$5-plus million category up from 14 a year ago. We now have 7 clients in the \$10 plus million category compared to 5 last quarter.

Our top clients revenue have increased steadily quarter-on-quarter. In Q2, our revenue from top 5, 10 and 20 clients grew sequentially at 4.1%, 4.5% and 3.2% respectively, while growing at 26.2%, 24.7% and 19.6% on an annualized basis.

We continue our emphasis on digital as our business strategy pivots around the digital capability, solutions and services. We are excited to launch RoD NeXT as we elevate return on digital to align to our customer focus for creating significant business impact in their digital transformation program. You would remember, almost two years ago, we launched Return on Digital (RoD) which soon, thereafter, became the center of all of our solutions, wins and go-to-market offering. Return on Digital played pivotal and key integral role in helping us win all \$10 plus million deals in the last 24 months. RoD NeXT now integrates new and exponential technologies with RoD by bringing together human experience, smart platform and artificial intelligence as key tenets.

Zensar continue to get included across reports this quarter by reputed industrial analysts for our capabilities. In Q2 fiscal 2019, some of the notable mentions were: Zensar was mentioned in Gartner Digital Commerce Vendor Guide, 2018; Zensar was recognized in ISG Infrastructure & Data Center/Private Cloud report and noted for digital transformation and automation initiatives; Zensar was recognized in Gartner's Competitive Landscape: Consulting and System Integration Service Providers for Robotic Process Automation, 2018; Foolproof, a Zensar company, was recognized by E-consultancy in their Top 10 Designs & Build agencies ranking; Zensar named in Gartner Market Guide for Sales Force Implementation Service, 2018; Zensar mentioned in Nelson Hall report for IT services, cognitive IT infrastructure management; Zensar named as major contender in Everest Group Digital Workplace Services - Market Trends and PEAK Matrix Assessment for second consecutive year.

Our business growth has translated into a larger headcount. At the close of Q2 fiscal 2019, our global headcount stood at 9482 Zensarians, a net addition of 360 associates on a quarter-on-quarter basis. Indigo Slate came in with a headcount of 132 associates. On a yearly basis, we have added more than 1050 associates, of which 700 were added in a Zensar's core organic business.

Before I conclude my update for Q2, I would also like to take this opportunity to elaborate more on the yearly trends that we have seen. Our revenue yearly grew 16.5% in dollar terms and 17.5% in constant currency. For core business, the revenue increased by 19% and 21% in dollar terms and constant currency, respectively. Our gross margin and EBITDA too increased by 17.3% and 27.1%, respectively, in dollars term on a yearly basis. And of course, our PAT grew by 36.7% on a year-on-year basis. Our digital revenue continues to follow great momentum and have had a stellar growth of 39.8% on a year-on-year basis.

The last 12 months has seen us book a total of \$600 plus million of bookings, which included multiple \$50 plus million wins, first time in the history of our company so all in all, it has been an exciting and a steady quarter and with that, let me call Navneet, our CFO, to provide an update on key finance data, after which, we will open the floor for questions. Navneet!

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

We have reported revenue for the quarter at rupees Rs.9687 million, which reflects a sequential growth of 7.1% in rupee terms. In dollar terms, the reported revenue is \$138.1 million, reflecting a growth of 2.3%, sequentially. These reported numbers include Rs.281 million or \$4 million of Indigo Slate revenues for the part of the quarter.

Revenue without Indigo Slate for the quarter in Rs.9406 million, reflecting sequential growth of 4%, and in dollar terms, it is \$134.1 million, reflecting a decline of 0.7%. The U.S. dollar realization during the quarter has been Rs.70.13 per dollar as against Rs.67 in the quarter before. A year before in the same quarter, it was Rs.64.3. The gross margin for the quarter has declined by 180 basis points due to impact of wage hike and a decline in the utilization in the quarter.

The effective tax rate for the quarter is at 28.1% as against 27.8% in the previous quarter. Billed DSO stood at 67 days as against 71 days in the previous quarter. The total amount of outstanding hedges as of September 30, 2018 is equal to \$110.9 million against \$116.3 million in the previous quarter. As of end of September, our cash and cash equivalent balance was \$57.4 million as against \$64.4 million at the end of the previous quarter. During Q2, we have availed loan of \$18.9 million, which has been primarily utilized for the acquisition of Indigo Slate.

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

**Moderator:** Thank you very much. We will now begin the question and answer session. We have the first question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

**Madhu Babu:** Just on organic growth. That has been a bit tepid this quarter, almost a decline in organic business. What was the reason for the sharp drop in retail? And I will come with a followup.

**Ajay Bhandari:** Madhu, actually in constant currency terms, there has been an increase 1.7% despite the decline in retail by 8.7%. Retail, we saw some project ramp downs because as you know, large part of our retail business is projects business. So typically, they tend to ramp down as they come towards the end of the quarter simply because there is a code freeze so the ramp down, in a way, for us happened a little sooner than expected so large part of the revenue decline is on account of that. However, there have been enough deal closures in that business, so we think that this will not carry forward to Q3, but it was largely because of project ramp downs.

**Madhu Babu:** Sir, secondly, can we talk about the new deal ramp ups? I mean we have announced one deal with Ruffer, a U.K. based company in the infrastructure management. So I mean, further on the infrastructure management, any other deals which are in the pipeline? And if you could give us more view on that. And one more deal which we have signed quite some time ago, City of San Diego, so just how the transaction will happen on those deals?

**Sandeep Kishore:** Sure. Let me take that Madhu Babu. This is Sandeep here. So our cloud infrastructure business has done a phenomenal turnaround. Over the last six-eight months, we have won several deals,

actually. We have won just in the last quarter, \$45 plus million worth of deals only from cloud infrastructure business so we are looking quite good and quite healthy. The two deals that you called out City of San Diego is actually well into steady state. We had won the deal in April of this year. We did the transition for the first 100 days. We are in steady state and doing very well on that. Ruffer is currently in transition. We just announced that deal a few weeks ago. It is a U.K. based wealth management financial services company and we are currently in the transition stage right now. Both the deals actually address two different aspects of cloud infrastructure business. San Diego is largely around network and network security and cloud provisioning, whereas the Ruffer is largely around the whole all stacks, the entire stack of compute, storage, network, the whole IT assembly. And Vinci, which is our platform with which we competitively position ourselves through automation and autonomics, is the backbone for both of these deals and all the deals that we have won recently and the ones we are fighting.

**Madhu Babu:** Sir, just on the margins, I mean, our onsite has been gradually going up. Even this quarter, the onsite effort went up. Of course, there are some acquisitions, which are contributing to that and subcontracting has also been going up for the last three-four quarters so considering our position to strengthen digital, so do we see that the currency tailwinds will be invested in these initiatives and margins might not see a big improvement?

**Sandeep Kishore:** Actually, the subcontractor has happened for a couple of reasons. Number one is the large deals that we have won, they came with a bit of a secondment of subcontractor. And over a period of time, it will actually start to go down. When you win \$40 million - \$50 million individual deals of TCV, a client already has several subcontractors working and in the initial phase, for business continuity reason, we do take the same subcontractor on board and hence, you actually see an uptick in the subcontractor also, the uptick in the onsite percentage of the business in addition to the acquisition that we have done. As part of the overall strategy itself, we have stated it quite clearly that our entire pivot is around digital and transformation led across the businesses, which, in any case, would mean marginal increase in the onsite business, but I do believe that where we are right now, it should start to stabilize. Subcontractor will go down, our own onsite strength will go up. But it will start to stabilize in the 65%-66% range.

**Madhu Babu:** Okay Sir I will come for a followup.

**Moderator:** Thank you. The next question is from Ashish Chopra from Motilal Oswal Securities. Please go ahead.

**Ashish Chopra:** Thanks for the opportunity. Sandeep, just wanted to understand a little bit more on retail so while your focus is definitely to pivot towards digital, and retail is one the probably the ripest sectors for that. I think, in terms of the performance, it has been patchy now for quite some time and as a percentage of our business also come down to 21% or 22% from 27% so one would have expected it to probably gain share within the overall company's portfolio with the focus on digital so just wanted to know your thoughts on do you see a reversal of how big retail would be and do you see certain fixes that need to be made, maybe, even in terms of the project closures and getting into more larger-term engagements to deviate from the dependency on these very short-term contracts?

**Sandeep Kishore:**

Thank you. Yes, Ashish. So let me answer each part of the question. One is the new acquisition that we did, Indigo Slate, almost has no retail and hence, the percentage of the business actually does get impacted, and that is factored in when you say retail as 21% of the business. It is a very core and a very integral part of our business. In the last quarter, just towards the close of the quarter, we actually won \$40 million worth of business in retail, particularly in the omnichannel and the digital supply chain, which is where we are pivoting our business. See, here is what is happening, most of the traditional capabilities that we had earlier were in the commerce business. Now most large retailers are pretty much done with their commerce implementation. The big implementation of commerce's is done and now it is more or less about feature enhancement and support and migration and update and all of that. The big investment in the retail sector right now is actually happening in the digital supply chain area. That is where most of these companies are investing where they want to really convert from order management, warehouse management, experience, the whole supply chain plus the experience. They are two different tracks so our pivot over the last couple of months have been to actually start to focus on aligning it where there is client investments happening, which is where what we did and so this \$40 million worth of win, which has actually happened, is in that area. I do believe that we have pretty much bottomed out on the decline of the retail, and we are pretty confident that we will start to see an uptick in the retail sector. Now as the uptick in the other businesses start to happen, it is unlikely to go back to 27% - 28% of the total business but that is not on account of any non-focus on retail. It is just that the other businesses are doing equally well. But our focus on retail is pivotal, and we feel very good that it is going to come back up.

**Ashish Chopra:**

Got it, that is helpful. Secondly, on the margins front, just wanted to understand the turnaround that has taken place in the IMS segment in particular so both Q-o-Q and Y-o-Y, pretty sharp jumps there, while the maintenance piece of the business is still there and about, and it has not really come down. So just if you could through some light on where do we see the margins go from here? And should they expand further as the MVS piece comes down?

**Sandeep Kishore:**

I will address two parts. One is what we call the core and the noncore. MVS is part of our noncore business along with ROW. The core is everything else. And we are tracking our business, we are tracking profitability, all operations and financial parameters for core and noncore both. Core CIS, which is cloud infrastructure business, has two components: One is the traditional CIS business, the L1, L2, and the data center, the core ops, and the second is all cloud orchestration and digital workplace, digital persona, cyber security, all of that and for the last two quarters now, we have actually started showing the trending on both of these businesses. Our pipeline is very healthy right now on the cloud-based infrastructure deals. That is said, the deal sizes are the ones where we position ourselves differently compared to others in the marketplace. These are in the \$10 million to \$30 million. They are no longer \$50 million, \$80 million, \$100 million. Those deals are far and few. The deals have come down, and we position ourselves quite uniquely, and that is why we are actually winning. That is one. Margin profile, hence, on the new business is actually better than the traditional business. We have expanded our margin on the core infrastructure business. We have scaled up. One of the reasons why actually the utilization for us in the Q2 went down because we are feeling very good about the quality of pipeline, the deals that we are in the final stages of closing, and hence, we have actually hired up for those people and just to be ready to deliver. So

margin expansion in the core infrastructure, cloud-oriented business is there and also because it has large number of automation, tool-based service delivery as well. Ajay, you want to add anything?

**Ajay Bhandari:** Yes. Just one point, Ashish, is that if you traditionally look at our services business, we had core services and we used to have an element of products as well. So this time, this quarter, products has seen a slight decline and our services businesses, which is a pure play infra business, has grown almost 20% quarter-on-quarter and products business is a low gross margin business. So given the fact that low gross margin product business declined and the high-margin services business grew substantially, that has also positively impacted the margin.

**Ashish Chopra:** Just lastly one bookkeeping from my end. Could you just share the revenues from Cynosure in this quarter?

**Ajay Bhandari:** The revenue from Cynosure is around \$5.4 million.

**Ashish Chopra:** Thanks for that, that is it and all the best.

**Moderator:** Thank you. The next question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.

**Dhruvesh Sanghvi:** I am attending Zensar call for the first time. Pardon my basic questions. I wanted to understand the overall sales process for companies like ours and how has it changed over last few years for the industry and for us in particular and approximate timelines for particularly larger deals, let us say of \$50 million, \$100 million deal that we may be trying to achieve. How does this ecosystem work?

**Sandeep Kishore:** Dhruvesh, first of all welcome to the call for the first time. Let me answer this, and then I will ask Ajay to add to this as well. Now we have been participating in the \$50-plus million deals for about 18 months. Earlier we were not getting invited, but after we won San Diego, and there are 3-4 more deals of \$50-plus million that we have won. Other than San Diego, we have not publicly announced their names. We are well within the considerations set by the advisers. As you know, these deals are largely led by advisers. Earlier, traditionally, Zensar was not being called, but for the last 18 months or so, we are now being called, particularly in our chosen market sector, which is Hitech manufacturing, insurance and retail. So that is one track. The second is, as I mentioned earlier to you, we now have 20 accounts of \$5-million plus per annum and those accounts, we believe pretty strongly that there are significant headrooms to grow. And hence, you have to proactively work with them, keeping your digital pivot at the center, the whole Return on Digital earlier and now Return on Digital NeXT, which comes with this AI, Smart Platform and Human Experience and you proactively work with the customers to create the deal. One of the wins I talked about, a med-devices win that we had, it was not exactly \$50 million, but it was just short of \$50 million deal. But it had the complete consideration set of the same deal flow that I have just talked to you about, where the client is looking for a high level of automation, they want a nimble player, they want a player, which drives significant cloud adoption for them and significant level of automation. And we fare quite well into them. Final point on the deal timeline that you asked, I think, the timeline



for a \$25 million to \$50 million deal, it takes four to six months. In some cases, sooner, some cases, later. But roughly, that is the timeline in which the deal closure happens.

**Dhruvesh Sanghvi:** Right. I have one follow-up related to this. Are we also in sizably bigger deals, let us say \$200 million, \$500 million type of deals? When you say that we are being invited or at least considered, above \$50 million, so like is it that we are capped at \$100 million or \$200 million? Or no, the sky is open for us now?

**Sandeep Kishore:** Yes, the sky is open for us. Those kinds of deals are far and few. We are not competing with \$250-plus million deals as we speak now. But I do think with the deal wins and the execution, we have completely demonstrated to the clients, as well as to the advisers who lead those deals, that we are quite open to taking up such transactions.

**Dhruvesh Sanghvi:** Right, and Sir any large deal coming over the next three to six months? Any likelihood? I mean, if you can comment on something about it.

**Sandeep Kishore:** So, we track, and we announce. The \$290 million deals that we have announced are deals north of \$10-plus million. The cumulative deals are over \$400 million that, we have won in the last six months. \$100 million deals are under \$10 million TCW. Large deal pipeline, which as per our definition is \$25-plus million, we would be currently bidding on roughly 14, 15 of them, so it is a healthy pipeline.

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

**Mukul Garg:** Thank you. Sandeep, first, can you give us some visibility into long-term aspiration on the margin side? This quarter you saw a dip of about 70 basis point. The aim over last few quarters have been to improve the profitability. So, a), if you can give us the pulls and pushes this quarter on the operating margin; and b), how you are planning to take it up to 14% to 15% range?

**Sandeep Kishore:** Thank you Mukul for asking. You are right, at the EBITDA level, we did see a drop of 70 basis points. At GM level, it was 180 basis points. So, we did a fast recovery on the opex side to make sure that the EBITDA, we save some money, but it still dropped by 70 basis points. Now having said that, I also called out in my opening commentary that if you just look at our core business, which excludes MVS and excludes ROW, we are at 15% EBITDA now. So, we have two tracks, which we are focusing on, one, as we have updated everyone that we are looking to divest out of those two businesses over a period. Till the time they remain with us, we are, anyway, working to make sure that we stay on course to clean up and profitably improve that. But for our core business, the focus is largely that the margin improvement has to come from expansion of gross margin and expansion of gross margin through higher automation, through a higher tool and solutioning base and higher value added, which is digital at the center. So those are our three big metrics. The fourth is fresher hiring, which I have talked earlier. We have significantly increased the intake of fresher in our company. I had mentioned earlier, we will hire 1000 freshers this fiscal. We are well on track to do even more than 1000 freshers this fiscal, so that we do right pyramid balancing here.

Those are some of the levers, Mukul, that I can quickly call out that we are focused on in our core management team to drive.

**Mukul Garg:** Understood and what were the impact of wage hikes this quarter, any benefit from currency depreciation?

**Navneet Khandelwal:** Yes. So, we have about 1.7 percentage impact on the gross margins as a result of the wage hike. Currency impact has been roughly about 0.8% positive on the gross margins.

**Mukul Garg:** Understood. The second question, Sandeep, was on the \$50 million plus deals you mentioned a little while back. Can you help us understand the duration of these deals? Are they three-year or five-year in nature? What is the impact, given that you are seeing a couple of them every year, so they will have a very meaningful impact on your topline growth? So, if you can break it up between the \$50 million plus and sub-\$50 million deals?

**Sandeep Kishore:** Mukul, as I said earlier, of the four deals of \$50-plus million we have won in the last 12 months, we have announced one. They are all in multiple phases of implementation. Two are in the steady state, the other two are just getting the transition done, and we should be in steady state in all of them in the next few weeks. The second is on the sub-\$50 million, if you further categorize, which is \$25 million to \$50 million and \$10 million to \$25 million, large number of deals are in the \$10 million to \$25 million deal. There are very few in the \$25 million to \$50 million. So, once you get above \$25 million, we have seen a trending of going above \$50 million also and the \$10 million to \$25 million deals are largely application and digital transformation deals, which have many of our RoD solutions at the core of it as well. Ajay, you want to add?

**Ajay Bhandari:** The average tenure of these deals, Mukul, is between five and seven years. The two \$100 million and the one \$80 million deal that we closed, one was five years and two were seven years. Of late, we signed another just below \$50 million deal, that is a five-year deal. So largely between five years and seven years.

**Mukul Garg:** Got it and the final question was on the manufacturing in Hitech vertical. You have delivered strong growth in this segment and if I remember, manufacturing used to be an area where there was a lot of restructuring going on. Are you now more comfortable for the growth going forward in this segment? Or what kind of a growth rate do you expect over the longer term in this space?

**Sandeep Kishore:** Yes, based on where I see it today, I feel pretty good about manufacturing. Manufacturing has two components, Hitech and discrete industrial manufacturing. Both pipelines are excellent. We talked about the med devices win that we just concluded and several Hitech clients that we have signed in the last five to six months. They should all help us in the ramp up as well. We feel pretty good. The reason earlier commentary, which we had made, I remember, several quarters ago, is traditionally we were doing very Oracle-based work in manufacturing. So, we have tried to make sure that we do a balanced portfolio because we now can. We have got cloud infrastructure services, which is doing exceptionally well, b) through both the acquisitions, which is Indigo Slate and Foolproof, we now have front-end digital capability and that is where the Hitech customers are spending because they also want to deliver their product "as a service". The moment you do as

a service, then experience becomes important for their end client, and as a service, by default, has cloud and infrastructure and provisioning and orchestration and autonomies built in into the platform itself. We have changed our strategy in the Hitech and manufacturing sector. That is the reason why you are seeing the numbers.

**Mukul Garg:** Got it. I will get back in into the queue.

**Moderator:** Thank you. Next, we have a follow-up question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

**Madhu Babu:** Sir, earlier we used to have seasonality in 3Q. So, considering the new deal wins and all, so how do we expect the second half?

**Ajay Bhandari:** Madhu, as explained some of the large deal wins that we had in the retail right towards the end of the quarter, I think, that should help retail turn the corner. So, we think that as far as retail is concerned, that has kind of bottomed out and the other vertical, which is Hitech, insurance, pipeline is pretty good at the moment. Indigo Slate that we acquired largely has a Hitech portfolio. So, there we have begun the process of selling both Indigo services as well as Zensar services and even the products portfolio of CIS, which traditionally has a pretty good quarter in Q3, simply because everybody tries to consume most of their IT investments before the financial year ends. So, I think, all in all, we do feel that we should have a good quarter in Q3.

**Madhu Babu:** Second, on the depreciation, I think, there was an uptick here and how should we see the earnouts because the net cash on balance sheet has come down substantially?

**Navneet Khandelwal:** Yes. So, while the net cash in the balance sheet has come down at this moment, it has gone into mostly in the working capital, and we expect that to ease out in the next couple of quarters and we should see some healthy cash generation on that and we should be able to fund our earnouts, which our acquisitions make subsequently, Madhu.

**Madhu Babu:** Yes. So how much is the earnout payout you should take for this year?

**Ajay Bhandari:** So, for up to March 31, 2018, Madhu, there is only one small component of earnout, which will come towards the end of November. Yes. So that is roughly \$1.5 million or so, otherwise up to March 31, 2018, there is no other earnout.

**Madhu Babu:** And the depreciation, Sir, I think, it is Rs.22 Crore this quarter from Rs.18 Crores. So, should we take this as the new normal?

**Navneet Khandelwal:** The depreciation also includes amortization for the intangible assets that we have acquired as a part, so the increase is related to that as well. So yes, this is going to be the new norm on that.

**Madhu Babu:** Thanks.

**Moderator:** Thank you. Next question is from Amit Chandra from HDFC Securities. Please go ahead.

**Amit Chandra:** Thanks for the opportunity. Sir, like if you see the growth ex on the integration of Indigo Slate, it appears to be very muted in the quarter despite the large deal wins that we had in the last six months. So, like, two of the large deal wins has started contributing from this quarter. So, the City of San Diego and one large \$100 million deal that we won. Are we seeing increased pressure in our old business, the legacy business? And what is the contribution from the new deal wins in this quarter, if you can elaborate that?

**Ajay Bhandari:** Amit, as far as revenue is concerned from the large deals that we closed, there was one deal we closed in Q3 of last year. That came into steady state in Q4 itself of last year. So that is fully baked in this quarter's number. The second is a deal, the City of San Diego deal, which we closed in Q4 of last year that also is almost fully into steady state for this quarter. The third \$100 million deal that we closed last quarter, that will hit steady state next quarter. So, there are two of these deals are figuring in the current numbers. The decline is largely on account of only retail in this quarter because as Sandeep mentioned in the beginning, barring retail, every other business has grown in constant currency. We were impacted to a certain extent because of the dollar as far as the South Africa and U.K. business is concerned. But both grew handsomely as well. South Africa grew 5.6% in constant currency and U.K., 10.9%. So, to a certain extent, there has been a currency impact, and there has been a decline in retail, but all other businesses are doing well. So, we think that this is an exception quarter rather than the rule.

**Amit Chandra:** Okay, Sir and on the retail impact, so has the impact been from the one single client or it is related to around the client bankruptcy or is it to dragging the professional access account and as you just mentioned that the retail is bottomed out in this quarter. So, what we are expecting the growth to be in retail in the second half of the year?

**Sandeep Kishore:** First is, no bankruptcy. We had the TRU bankruptcy, so those we have made provisions for the TRU's receivables last quarter. One of the reasons you see an uptick in G&A is because there is no provision for TRU in this quarter. So, no bankruptcy. We do a lot of work in e-commerce. A lot of the projects typically get into code freeze, which means that the projects must get completed before September 30, 2018, so that they, in a way move to steady state by October, so we have had ramp downs in two of our clients, hence therefore the revenues of those came down sharply this quarter. We have, however, closed the largest deal in retail itself towards the end of last quarter. You will see the impact of that coming practically from the mid of this quarter completely. So, we do expect that retail will do better than last quarter as far as Q3 is concerned and we will have the full impact of the deal in Q4. So, then Q4 will get even better. Some of the deals that ramped down have moved are basically going to restart development in Q4. So, you will see an uptick there also. Hence, we do feel that Q3 and Q4 would be better quarters for retail.

**Amit Chandra:** Okay and Sir on the onsite hiring has been pretty strong. Since last two quarters, we have done 400 onsite hirings. So, these all are fresher hirings or laterals and is there any kind of re-waging also there onsite?

**Sandeep Kishore:** Part of the on-site hiring has come from both Indigo Slate and Cynosure because they put together, have around 200-odd people onsite. So, a large part of that has come from there only. But outside

of that, even in some of the large deals, we have had to rebatch some employees, and some of them are still in transition phases, so we have still not seen the full impact of revenue coming from those clients. So, it is partially on account of those two reasons.

**Amit Chandra:** Thanks, and all the best.

**Moderator:** Thank you. We have one last question. The last question is from the line of Dhruvesh Sanghvi from Prospero Tree. Please go ahead.

**Dhruvesh Sanghvi:** Sorry, my line got disconnected and I was asking about any chance of large deal wins in the next two to three months or something like that if you can comment upon?

**Sandeep Kishore:** We certainly hope so, Dhruvesh. We are fighting large deals, and we are confident. We do not give any forward guidance but based on what we are seeing in the marketplace, we are getting invited to more deals that is the reason why our pipeline is now north of \$800 million for the first time. It was hovering between \$600 million and \$700 million traditionally and that has gone because of the large deals. So, we are certainly hopeful that we will win larger deals in the coming quarters.

**Dhruvesh Sanghvi:** Thank you.

**Moderator:** Thank you very much. That was last question in queue. As there are no further questions, I would like to hand the conference back to the management for any closing comments.

**Sandeep Kishore:** Thank you so much for joining the call. I look forward to talking to you again in Q3. Thank you so much.

**Moderator:** Thank you very much. On behalf of Haitong Securities, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.