

“Zensar Technologies  
Q4 FY2019 Earnings Conference Call”

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**ANALYST:**

**MR. RISHI JHUNJHUNWALA - IIFL INSTITUTIONAL  
EQUITIES**

**MR. AMEYA KARAMBELKAR - IIFL INSTITUTIONAL  
EQUITIES**

**Management:**

**Mr. Sandeep Kishore – Chief Executive Officer &  
Managing Director – Zensar Technologies**

**Mr. Navneet Khandelwal – Chief Financial Officer –  
Zensar Technologies**

**Mr. Ajay Bhandari – Head of Strategy and Corporate  
Development – Zensar Technologies**

**Mr. Vivek Ranjan, – Chief Human Resources Officer –  
Zensar Technologies**

**Ms. Prameela Kalive – Global Delivery Head of  
Application and Digital Services – Zensar Technologies**

**Mr. Sanjay Rawa – Global Financial Controller – Zensar  
Technologies**

**Moderator:** Ladies and gentlemen, good day and welcome to Zensar Technologies Q4 FY19 Earnings Conference Call hosted by IIFL Institutional Equities. 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 touch phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishi Jhunjhunwala. Thank you and over to you, sir.

**Rishi Jhunjhunwala:** Thank you Neerav. Good afternoon everyone. It is our pleasure to host the senior management of Zensar Technologies for this 4Q and full year fiscal 2019 earnings con call. Today we have with us Mr. Sandeep Kishore – CEO & MD at Zensar, Mr. Navneet Khandelwal – CFO and other senior management team members.

With that I would like to hand over the call to Mr. Sandeep Kishore to give us an introduction of the rest of the management team and a brief update on the 4Q and full year 2019 results. Over to you Sir.

**Sandeep Kishore:** Thank you Rishi. Hello and good afternoon everyone. Thank you for joining us on the Q4 Fiscal 19 Analyst call. On the call today, I have with me from the Zensar Management team – Ajay Bhandari, Head of Strategy and Corporate Development; Navneet Khandelwal, our Chief Financial Officer, Vivek Ranjan – our CHRO, Prameela Kalive, Global Delivery Head of Application and Digital Services Business and Sanjay Rawa, our Global Financial Controller.

I will give you a brief overview on Q4 FY19 and follow it up with a full year FY19 summary. This will then be followed by an update on other financial metrics from Navneet. Post which we will open the call for questions.

I trust that all of you have had the chance to go through the detailed Q4 FY 19 and full year FY19 financial results and fact sheet that we released on April 30th. Let me take this opportunity to present some key pointers:

Q4FY19 kept up our sequential growth momentum with quarterly revenue crossing \$150M+ for the first time for us. On an overall basis we delivered revenue growth of 4.5% sequentially and 18.5% year-on-year, both in \$ terms. Our Revenue for Core Business had solid sequential growth of 5.2% and 22.3% YoY, both also in \$ terms

Our Q4 GM and EBITDA had a good recovery from last quarter largely due to volume gains, growing sequentially by 11% and 20.2% respectively – in USD terms. Both the financial metrics saw significant YoY growth of 15% and 20.7% respectively. Core EBITDA increased 18.1% QoQ and stood at \$20M which is now 14.1% of the Core Revenue. Our Q4 PAT, grew sequentially by 53.1% and by 4% YoY

In Q4 FY 19, our Digital revenue accounted for 46.4% of our overall business – a growth of 8.1% quarter-on-quarter and 35.6% YoY in dollar terms primarily driven by our ROD NeXT offerings in Applications and Cloud Infrastructure services.

We continued our large deal momentum in Q4, by winning key deals across regions from existing and new clients in all our focused verticals. Multiple net new logos were also added during the quarter. We won deals more than \$150+ M in Q4 continuing our winning at scale in FY19

Zensar's Application Services business continued to grow at a faster pace this quarter. Digital & Application Services (DAS) grew QoQ by 6.7% in dollar terms on the back of our Digital services revenue which grew 8.2% QoQ.

Our Cloud and Infra business fell by 6.3% QoQ but increased 28.5% YoY primarily due to project completion in an account. Cloud, Digital Led Next gen CIS continued its increase, growing 7.1% sequentially and 45.5% YoY.

Regional growth was led by both the US and the Europe markets. US grew by 4.6% while UK grew by 7.5% on constant currency terms sequentially.

In terms of business sectors – Hi-tech sector grew sequentially by 5.7%, Retail and Consumer Services grew sequentially by 6.7% in Q4 in constant currency terms. Financial services declined by 4.3%. Insurance had a slightly soft quarter (because of the project completion of the CIS) however there was healthy increase in deal wins especially in the Guidewire space

In terms of our acquisitions - All acquired companies have had a very strong quarter and continue to play a pivotal role in their respective areas while helping cross sell core Zensar services. Keystone had a very good quarter with a sequential growth of 16.1%. Indigo Slate has also picked up pace with combined GTM in place and grew by 6.5% sequentially. Foolproof continues to do well and help us grow overall in the European market. In terms of revenue, it grew by 10.2% QoQ. Cynosure continued its growth momentum and performed very well with a 18.3% sequential growth with key wins in P&C and Guidewire business.

Our overall pipeline remained healthy and is now consistently above the \$1 Billion mark, we have won \$750M + TCV wins in FY19.

Our Digital team continues to do very well and has had some significant contribution in the recent big wins for Zensar. As mentioned earlier, we continue to execute well on our strategy of expanding our businesses with our identified top tier clients with headroom to grow our business and also drive multi services across Applications, Digital and Cloud Infrastructure. We have been successful in this across our regions with cross sell in identified accounts increasing significantly.

As a result, we now have 9 clients in the 10+m \$ category, up from 4 a year ago showing that the targeted initiatives have started to bear results. We also have 92 clients in 1+M category up from 80 a year ago.

Our top clients' revenue has been increasing steadily while we continue to win large new logos. In Q4FY19, our revenue from top 5, 10 and 20 clients grew sequentially at 0.3%, 2.0% and 3.5% respectively while growing at 15.4%, 20.1% & 19.3% on a YoY basis.

Zensar continues to get included across reports this quarter by reputed industry analysts for our capabilities. In Q4 FY19, some of the notable mentions were -

- Zensar has been mentioned in the Gartner Report- “Revitalize Application Management Services with Kanban”
- Zensar named as a Major Contender in the Everest Group Digital Services PEAK Matrix™ Assessment 2019
- Zensar Recognized for Third Consecutive Year in Gartner Magic Quadrant for Managed Workplace Services, North America
- Zensar mentioned in the Zinnov Zones global rankings of Digital Service Providers for 2019, titled, 'Zinnov Zones for Digital Services - 2019'
- Zensar mentioned as an Innovator in Avasant Applied AI and Advanced Analytics Services RadarView™

Q4 saw us reach the 10,000 mark in terms of global headcount closing at 10,073 - a net addition of 260 & 1168 associates on a QoQ & YoY basis respectively. Our attrition rate stood at 15.6%, down 20 BPS from last quarter.

Now let me now take the opportunity to highlight a few yearly trends that we have seen. Most of you who have been tracking us closely would have seen these changes, but I would like to enumerate them for the benefit of those who have recently started interacting with us:

We have been steadily increasing the focus on our Core business. Over the last year, Core business as a % of total revenues has increased further from 90.7% to 93.5% of revenue. The growth of our core business was at 21.2% against the company growth rate of 17.6% in USD terms.

We continue our emphasis on Digital and our business strategy pivots on our Digital capabilities, solutions and services. Zensar’s RoD NeXT platform and solutions continue to be an integral part of all \$10M+ wins so far and around 15% of our clients are benefiting from the RoD and RoD NeXT Platforms. Digital now accounts for 44.7% of our overall revenue of FY19 and has grown 37.7% over FY18.

We have significantly stepped up the positioning of Zensar in our Customer ecosystem. We have, over the last 3 years been focused on reinventing Zensar to be a 100% living digital enterprise. We are very proud to be featured in a recent case study by Harvard Business School capturing the company culture and this digital transformation. Most of Zensar platforms, solutions and services are now featured in leading Analyst research reports like Gartner, Everest, IDC, Forrester etc.

We have reached 10000+ global headcount for the first time, adding 1168 associates this year.

We have also completed 2 acquisitions in the past 12 months of capabilities we felt were strategic for our company and would be a key aspect of driving future growth. Cynosure and Indigo Slate – Cynosure, the company we acquired in April 2018 has added Guidewire capabilities to our P&C Insurance business. Indigo Slate added customer experience and digital transformation capabilities

particularly in the US with access to some marquee Fortune 500 clients. At Zensar, we continue to keep investing in business to ensure sustained growth.

You will also be pleased to know that Zensar has now filed 53 patents across areas such as Blockchain, AR / VR / MR / NLP, IoT, AI/ML. This is contributed by Zensarians across the globe and Zenlabs which is at the center of these innovations.

Overall it has been an exciting FY19 and with that let me call 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 and 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 FY2019, we have reported revenue at Rs.10,574 million which reflects a sequential growth of 2.1% and Y-o-Y growth of 29.8% in rupee terms. In US dollar terms, the reported revenue is 150.1 million, reflecting a growth of 4.5% sequentially and 18.5% annually. In constant currency terms for the quarter, company grew by 4.1% sequentially and 21.5% Y-o-Y.

For full financial year, our revenue in rupee terms stood at Rs. 39,663 million, representing a Y-o-Y growth of 27.6% and in US dollars was 566.9 million, representing a Y-o-Y growth of 17.6%. In constant currency for the full financial year, the company has witnessed a growth of 18.5% over FY2018.

This fiscal, the board of directors of the company have declared the final dividend of Rs.1.8 per share, taking total FY2019 dividend to Rs.2.8 per share - that is 140%.

The US dollar realization during this quarter has been Rs.70.5 per dollar against Rs.72.1 in the previous quarter. The year before, in the same quarter, it was Rs 64.3. For the full year FY2019, the exchange rate stood at Rs 69.9 as against Rs.64.5 in the last fiscal.

Our gross margin for this quarter was at 28.4% as against 26.8% in the previous quarter. For full financial year, our gross margin stood at 28.7% versus 29% for FY2018. The effective tax rate for the quarter is at 29.9%, as against 27.8% in the previous quarter. For the full year, it is 28.5%.

For the quarter our billed DSO stood at 73 days as against 72 days in the previous quarter while DSO including unbilled stood at 105 days versus 106 days in the previous quarter. The total amount of outstanding hedges as of March 31, 2019 was equivalent to US dollar 149 million as against \$103.1 million in the previous quarter.

As of end of the fiscal, our cash and cash equivalent balance was 60.4 million as against 69 million in the previous quarter. 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. The first question is from the line of Ameya Karambelkar from IIFL. Please go ahead.

**Ameya Karambelkar:** Good afternoon to the management team, thank you for the opportunity and congratulations on a very good quarter. Could you talk about how we should look at the margin trajectory going forward and some of the key margin levers that are in play - both in the short and medium-term? Thanks.

**Navneet Khandelwal:** As we have been indicating, we believe that in the medium term we are looking to get our core businesses operating margins closer to 15%. From the previous quarter, you have seen that the operating margins have improved and we continue to focus on our operational efficiencies. There has been an improvement in the utilization from previous quarter as well. We have also had the impact of certain furloughs in the previous quarter which do not exist in the current quarter and subcontracting as a percentage of our revenue has also declined from the previous quarter. All this has reflected in the margins in the current quarter. We believe we will continue with the cost optimization initiatives as well as drive better rate realizations as we sell more digital business to get to the target we have set for ourselves.

**Ameya Karambelkar:** Thanks.

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

**Mukul Garg:** Thanks for the opportunity and congratulations to the management for the robust core business performance. Sandeep, to start with, you said in your commentary on the macro demand environment that it continues to be quite robust. But if you look at comments from a couple of your larger peers - there is an increasing concern on US slowdown. Have you seen any concern from any of your clients on the same and if not, is that partially due to any difference in market approach from your end versus the larger IT services companies?

**Sandeep Kishore:** Thank you Mukul for the question. Let me address the 2-3 questions that you have asked. Number one is on the broader go-to-market strategy from our side - that has been very consistent over the last six to eight quarters now. We have been focused on the deals that we want to fight; we are not here to fight every deal. The deals that we want to fight are the deals where we competitively position ourselves differently in the market place. That is the reason we are winning. That also is a reason that for the first time, ISG has now included Zensar in the booming 15 list in the Q1 of CY2019 report which they announced.

So, if you are focused on the market segment which is unique and where you have an ability to differentiate and position (for us, it is digital led and is NexGen Cloud Infrastructure led) you would do quite well. We have not seen any softness or any decline in our overall pipeline. Our pipeline, as I mentioned, continues to be very strong. It is about a billion-dollar pipeline. We manage and monitor that on a very frequent basis. We are fighting several deals, many which are advisor led - that is why we are in the ISG Quadrant right now. However, we are largely in these three markets - we are in Insurance P&C, we are in Hi-Tech and then we are in Retail and Consumer Services. So, our view of the market maybe a little different from what others are seeing. We have not seen any macroeconomic slowdown in the US in these markets.

**Mukul Garg:** Understood. The second question was on the deal win TCV. First just a clarification - did you mention that the deal wins during the quarter was \$150 million?

**Sandeep Kishore:** Yes, for the quarter it was \$150 million. The total for the year is \$750 million. As of last quarter, we had said that we had won deals of \$600 million. The FY19 total value of \$750 million includes the existing deals, new deals and some larger deal renewals too.

**Mukul Garg:** And this includes all sort of deals or only \$10 million plus deals?

**Sandeep Kishore:** All deals.

**Mukul Garg:** If you look at the large deal win number which you mentioned last quarter, it comes out to about \$650 million, \$10-plus million, the \$100 million below \$10 million deal number has been steady since Q2, whereas your presentation mentioned that it continues to see below \$10 million deal flow in. Can you help us understand why it has not moved from H1 onwards because that historically used to be a sweet spot for you and relatively less competitive in nature?

**Sandeep Kishore:** Sure. Let me first call out some key data points. As I said \$750 million total deal win. Of the \$750 million of fiscal 2019, about \$500 million is the \$10-plus million win. In the first half, we had said this (\$10M+) was \$290 million. If I now add the second half as well, the total is about \$500 million which are in \$10-plus-million category. The second point as I mentioned, these deals include some large renewal deals as well. Small renewal deals are very difficult to track, and we actually don't track them. But the larger ones, which are \$10-plus million - we do have to fight to renew. Because often at times the work being done is in development phase and then later go into support phase. Many a times the clients have existing service providers already available for support. So we actually have to compete and fight them. So from our point of view, it is as good as getting into a deal win psyche as well. The smaller than \$10-plus million deals, that you are asking Mukul, I think our focus is, over a period of time, we want to do more and more on \$10-plus million and less on the smaller deals. It is just a part of our strategy and that is why we have invested significantly in to the advisory services who usually run these larger deals (which are now \$15, \$20, \$25-plus-million deals range). Also, into the market segments that we are present - largely Insurance and Hi-Tech. Retail has been bit soft for us and as you have seen from our results, we are redoing our Retail strategy. So, you have smaller deals on retail, larger deals on the Insurance and the Hi-Tech category. That is the broad sense that I can provide.

Ajay you want to add anything?

**Ajay Bhandari:** No Sandeep, I think you have covered most of it. So Mukul, a lot of our smaller deals actually happen on a farming mode. There are a lot of existing accounts that we are continuously farming that we do not necessarily track. The deals that are fought and won are the ones which are RFP led - those are the deals we typically announce. We do not really announce the small farming deals.

**Mukul Garg:** Understood. Thanks for answering my question and best of luck for the next fiscal year.

**Sandeep Kishore:** Thank you Mukul.



**Moderator:** Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

**Ravi Menon:** Hi, thank you and congrats on the good quarter. First question is on the Insurance segment. You have mentioned that the Insurance sector has done really well, but when we look at the Insurance vertical this quarter, it does not look like those deal wins have translated into revenue. So should we take it that these deals are in transition right now and we should see this revenue come in soon?

**Sandeep Kishore:** Thank you Ravi. First of all, let me call it out - I mentioned in my opening comment as well that Cynosure on a standalone basis, has actually done quite well. It grew 18.3% sequentially. The reason you see the softness in the overall Financial Services business is on account of a CIS project completion. So Cloud Infrastructure business, which overall declined by 6.3% - actually all of it is in that one client in which the project got completed in Q4. We were expecting the renewal to happen immediately but that did not happen. The renewal now will happen in the next one or two quarters, but Cynosure continues to do very, very well.

**Ravi Menon:** When we look at the utilization, there does not seem to be too much headroom there and looks like the realization has dropped ever so slightly. So, what do you think will be the margin levers to continue towards 15% EBIDTA that you have been targeting?

**Sandeep Kishore:** So Navneet actually answered some of that but let me add to what Navneet earlier mentioned. Right now, for our core business, we are at 14.1% EBBIDTA. It improved by about 120 basis points between Q3 and Q4. The margin levers still exist. They are in the CIS category - as we expand our volume business into Cloud Infrastructure, it does have a larger margin play than the ADS business. The reason for that is, CIS is far more outcome led, tools led, automation led, rather than just effort led. So that is the key lever for us. Second lever is in the Application and Digital business which is our platform-led strategy. Remember we mentioned that our Return on Digital platforms actually play a very critical role in all the \$10-plus million deals. Our monetization of these platforms is still not there at scale and we do believe that there is an opportunity for us to do more. Third is the lean and automation track in the Application and Digital business - particularly for the fixed price and managed services business. As you have seen, our fixed price and the managed services portion has been steadily growing up. Now it is at about 55% or so of our overall business and we are putting a lot of effort to make sure that we drive lean and automation in this particular category. Add to this the normal volume growth without the proportionate increase in Opex and this will actually drive that extra 100-odd basis points which we still have to cover. As a management team, we are quite committed and quite certain that we will get that 15% operating margin in the medium-term.

**Ravi Menon:** Great. Thank you and one last question if I may, at one point I think you were investing about 5% of your work force on your Return on Digital to create those frameworks and all. What would that be right now and how do you see that playing out in the future?

**Sandeep Kishore:** First of all, it is no longer 5% now. It was 5% for the first 18 months after I had joined, because, like you said, we were building the frameworks then. However, it is not that we have just dropped the ball. It is still a very critical and core part of our go-to-market strategy. I think right now it is



probably at half that level. So, it is still quite significant - 2.5% or 250 people working to just build our platforms, for our own use as well as leveraging it for our clients.

- Ravi Menon:** Great, thank you and best of luck.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Sir on the Non-Core business, what is the current status? When is the remaining part being divested? and secondly, on the wage hikes, when is the wage hike scheduled and how do you see that impacting margins?
- Ajay Bhandari:** As far as the Rest of the World (RoW) business is concerned, as you know, we announced the exit on that part on 21st of Jan. That is now almost complete barring a few customers. As far as the other business is concerned, which is MVS - we are currently re-organizing that business. We have to ensure that the revenues as well as the profit goes up. So, at the moment, we are just focused on that. We will give you an update once we are ready.
- Sandeep Kishore:** And on the wage hike, Madhu Babu, our standard wage hike is in the month of July and so it actually comes in Q2 of our fiscal. We are currently going through the process of determining it and thus is a little bit early for any callout. But my initial guidance is that it will be in the same range as we have given in the last year.
- Madhu Babu:** And Sir this year exit has been very strong and typically our company had a lot of quarterly volatility. But considering that there are a good amount of new deal wins and the order book is strong, do you think that next year you are going to have a strong growth footing for the overall year FY2020? Like growth in the range of 13% - 14% ?
- Sandeep Kishore:** We give no guidance, but we certainly hope so! You are absolutely right that we have delivered an exceptionally good performance this fiscal 2019 and the exit is pretty good. So we certainly hope so and the Management will be very committed to meet both the topline growth momentum as well as the operating margin which we just talked about.
- Madhu Babu:** And one last question regarding the payouts for acquired entities for FY2020-21. What would be the payout be and what is the Capex for FY20-21. Also, on the total amount which we have paid till date for the four acquisitions, if that number is available that would be great. Thanks.
- Navneet Khandelwal:** We have paid about \$50 million in the last fiscal on the two acquisitions that we did. In the coming year we have an obligation to pay anywhere between \$6 to \$10 million, which is related to earn out that we need to be paying.
- Madhu Babu:** Okay, \$6 to \$10 million for FY2020 as well as 2021, right?
- Sandeep Kishore:** I think mostly it gets done in 2020 but we do have one in 2021. But those are based on very, very strict performance goals. It will take care of itself.

- Madhu Babu:** And the core Capex sir for this year, for FY2020?
- Navneet Khandelwal:** The core capex we have reported is about \$6.9 million in FY2019 and we could see some increase based on the expansion plan that we have. We are setting up facilities and creating incremental 1500 seats. So, based on that, the core Capex would definitely go up from this level.
- Madhu Babu:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.
- Ashish Chopra:** Hi, thanks for the opportunity. Sandeep, firstly I had a question on the performance and the break down across verticals. So if you see Manufacturing, Banking, and Retail were either flattish or down this year on a full year basis. And as far as Hi-Tech and Insurance go, Hi-Tech did have some contribution from Indigo Slate but it still seems to have done well. Insurance, even excluding Cynosure, would perhaps be just about in double digits. So at least as far as the growth is concerned, it is yet to really be broad-based across all your industry verticals. So, I just wanted to get an outlook from you on this. Also, you mentioned that you are rethinking your strategy in Retail. But some of these other verticals have been relatively softer as well if I look at on a Y-o-Y basis. How do you see that panning out in FY2020?
- Sandeep Kishore:** Let me call out Ashish on each of those three - which is Hi-Tech, Retail Consumer and the Insurance sector. You are right, the Hi-Tech and the Insurance numbers had some contributions from Indigo Slate and Cynosure respectively. But even outside of that, the year-on-year growth is in the high teens for the Hi-Tech as well as for the Insurance segment without the acquisition. Our focus in the market segment is clearly based around expanding core Zensar services capability - both Digital and Application led. Plus, the Cloud Infrastructure services part is 100% organic which is built on Insurance clients as well as on Hi-Tech clients.
- Retail has been soft. We have called that out a couple of quarters earlier. It is still a work in progress, but we have done well on a sequential basis. We have arrested the decline, however there is seasonality in Retail which always comes based on the client concentration and their own investment cycle. So Retail will take one or two more quarters before it actually gets into the growth momentum. Our Cloud Infrastructure business, which is a pure play organic business, has done very well on the core next generation Cloud Infrastructure Services - something I called out in my opening comments. Our go-to-market strategy is dual, both from Application and Digital (which is experience and analytics led) and then Cloud Infrastructure and automation and autonomies led from the infrastructure stack perspective. And the deal sizes that I mentioned to you - billion dollar of deals are reasonably well split between Hi-Tech and Manufacturing as well as the Financial Services and Insurance. We have a pretty good pipeline (including on the retail sector) as we speak now. So based on everything that I see from where I stand, I think there is some pretty good momentum in the market for us.
- Ashish Chopra:** Got it, that is helpful. Could you also throw some light on the Manufacturing vertical in particular?

**Sandeep Kishore:** Yes sure. So manufacturing which is outside of the Hi-Tech is what we called Discrete Manufacturing. We include Med devices and Industrial Manufacturing into Discrete Manufacturing. The uplift in Q4 into this Discrete Manufacturing segment is because of some good Medical Devices wins that we announced. Actually, one of them is in the public domain as well. So that is the number that you actually see in the non Hi-Tech Manufacturing business.

**Ajay Bhandari:** And then there is one more reason Ashish. Our RoW was 100% Discrete Manufacturing. So as we exited that business its contribution has impacted that as well.

**Ashish Chopra:** Got it. And secondly on the acquisitions bit, just wanted to know on how the appetite would be at the current juncture in terms of the gaps that you would be looking to fill with urgency. Or is the focus on consolidation of some of these current assets which are doing very, very well? I think you had also mentioned about potentially looking at some other spaces. So would we have any acquisitions coming in the next year or would we be relatively slower than the last couple of years run rate?

**Sandeep Kishore:** I think Ashish we had called this out even in our Q3 analyst call that (a) we are still acquisitive (b) you should see slower level of acquisition than what we have done in the past. We have done four in very quick succession in the last two years, because we frankly needed to build unique and differentiated capabilities. Now we have built that and the acquisitions are integrated and all are doing very well as you can see from the numbers. However, we are still acquisitive and we are still looking for one or two other acquisitions, specifically in the areas which we think buy is going to be better than build. And they will be in the area of all forward-looking technologies - in Digital Engineering, IoT and Cyber Security and so on. We have called this out earlier as well. But there is no absolute urgency that we have to go and acquire. We always look for the right fit. We do have enough cash along with the debt that we can raise in the market. So capital is not a constraint at all here. However, you will see slower level of acquisitions than what we have done in the past.

**Ashish Chopra:** Sure. I just had a couple of book keeping questions as well. Navneet if you could help us with the operating cash flow and free cash flow for this year.

**Navneet Khandelwal:** We have not shared the operating cash flow and the free cash flow numbers as of the moment. We will share that with you offline.

**Ashish Chopra:** Sure. Lastly just wanted a clarification on the line item in the P&L which is the other operating income. It was around Rs.5 Crores this quarter and Rs.15 Crores in the full year FY2019. If you could just help me understand what is this pertaining to in particular?

**Navneet Khandelwal:** So in accordance to Ind-AS, if there is a write-back of any provision previously created - that goes as a part of the other operating income. So there have been certain provisions which we had to write-back which is what is reflecting there.

**Ashish Chopra:** Got it. Thanks for taking my questions and all the best.

- Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec India. Please go ahead.
- Nitin Padmanabhan:** Navneet, on the other operating income number, if I just look at for the last many quarters now, it has always been a positive number. So has it also included something other than the provision write-backs historically?
- Navneet Khandelwal:** Historically, the only provision is for write-backs. At times there could have been some provision for doubtful debts which we would have created which hits our G&A but the write-back of that happens in the other operating income line item. So, it is essentially write back of provisions which are no longer required and predominantly it is typically if there was a provision for bad debt in the previous year and I have corrected it subsequently - it comes under this line item.
- Nitin Padmanabhan:** So, if I understand right, it comes in this line item only if there is a write-back otherwise it is within the G&A number where the negative number would be.
- Sanjay Rawa:** No, not necessarily. For the same period if you have a write-back, it will go against that line item in the expense. Traditionally, if you have any write-back pertaining to our provisions created in the earlier year, then it will go in other operating income number.
- Nitin Padmanabhan:** Ok. I was just confused because it has always been a positive number.
- Navneet Khandelwal:** Yes, because in some pockets, where if any of the write-backs are there, we account for it like this which is in accordance with Ind-AS.
- Nitin Padmanabhan:** Sure. I will possibly take it offline. Just a couple of other questions. One is the \$750 million of wins this year, how does it compare to the previous year?
- Ajay Bhandari:** So, in comparison to previous year Nitin, we were closer to say 350-400 million of total order booking for last year which was existing plus new. This year it is 750 Million. I would say that it has almost doubled from previous year.
- Nitin Padmanabhan:** That is a significant uptick. In the context that historically the whole strategy of winning larger deals and moving to larger accounts was to build in a bigger annuity in the whole business, could you throw some light on how the annuity is now versus two years ago in the overall portfolio?
- Ajay Bhandari:** We do not have an exact number Nitin, but you are right. The deals have got longer. For example, if you go back two years or maybe three years, the average tenure of a deal used to be 1-2 years. Now a lot of the deals that we have signed are larger and in between five to seven years of duration. So the foundation of orders booked is a number that is improving every quarter because we are booking a lot more business. Average duration of the deal that we have closed - out of 750 million, roughly 350 odd million worth of deals that we have signed are in the duration range between five to seven years.

**Nitin Padmanabhan:** And the other thing I want to check was, if you look at this quarter specifically, it appears that a lot of the incremental revenue has come from growth in the acquired entities and within those acquired entities, I presume that there would be more of shorter cycle projects. So does that sort of infuse some level of volatility into the numbers? how should one think about it?

**Ajay Bhandari:** Well most of the deals that we won in the acquired entities, a large amount of them happened in Cynosure and these deals are pretty long even if they are projects - roughly two to three year. Also, these projects potentially can go on for a year or two more because we normally start with a few modules and then add more modules as we go along as they are implemented. A typical Guidewire implementation, if you take full cycle, which means all modules, can go up to four to five years if we cover the entire footprint of Guidewire. But the deals that we have closed have a roughly two-year cycle.

**Nitin Padmanabhan:** Apart from Cynosure, the other entities would be relatively shorter and considering the incremental revenue contribution was high this quarter, do you think that there could be some volatility in the near- to medium-term then?

**Ajay Bhandari:** As far as the other deals are concerned, no I do not think so Nitin because if you look at the ramp up of revenue from 143 to 150 million this quarter, a lot of it happened because some of our large wins, which were in transition earlier moved to steady state in this quarter. There were roughly around \$4 million of new business - some of it from acquisition, some of it outside and a lot of them are annuity as well. So I would say a large part of it is still annuity or with a predictable pattern for the next four quarters at least.

**Nitin Padmanabhan:** And lastly, just correct me if I am wrong, did you suggest that core operating margins were at 14.1% for this year?

**Ajay Bhandari:** That is for this quarter.

**Nitin Padmanabhan:** For this quarter, because what I remembered last year was you had suggested was 15% then and for the prior year, what would it be?

**Ajay Bhandari:** It is 14.1% for this quarter and it is 13.1% for the year as well actually. So when we say that our endeavor is to take it into the neighborhood of 15% - 15.5%, it is the core business only.

**Nitin Padmanabhan:** Right, but so does it imply that it is actually declined on a year-on-year basis in the core?

**Ajay Bhandari:** No, Actually there has been a marginal increase on an annualized basis.

**Nitin Padmanabhan:** Thanks that will be all and all the best.

**Moderator:** Thank you. The next question is from the line of Kunal Pawaskar from Indgrowth Capital. Please go ahead.

**Kunal Pawaskar:** Hi, good evening. My question is on the client additions as mentioned in slide #16 of the deck. If I want to break down the five clients added in FY2019 in the \$10M+ segment and when we reconcile that with the services split, how many of these would be in Core App Services and how many of these would be beyond that?

**Ajay Bhandari:** Can you repeat the last part, Kunal?

**Kunal Pawaskar:** How many of the 5 clients added in the 10 million plus category and the two which are 5 million plus, are in Core App Services and how many are in other part of the business?

**Sandeep Kishore:** Kunal this is Sandeep here. I think other than two of the seven, all are in Application Services Business. So, two are in Cloud Infrastructure and five are in ADS business.

**Kunal Pawaskar:** Ok got it. If you could highlight a few steps to integrate the Core App Services team in the last couple of years? Because it is well understood about how the acquisitions have led to growth but even the Core App Services is now delivering growth. What were the qualitative steps that we have taken in the last couple of years for this? If you could enlist maybe the top two, three things that come to your mind?

**Sandeep Kishore:** Prameela do you want to take that question on the Application Business please?

**Prameela Kalive:** Thanks Sandeep. If we just look at the wins that we have seen in both the existing client accounts and also the new deals that we have won, we are seeing that our clients continue to invest significantly in the digital space - that is also evident in our digital business going up. Now in digital space, if you really look at our Insurance clients, they are investing in largely modernizing their legacy platforms. When I say modernizing, the clients are looking at platform services, they are looking at even customer experience and how do we transform that. So quite a few wins for us in the last one year in the existing client accounts are large multi-year transformation programs of legacy systems. Now if you look at what is happening in the Hi-Tech space, again the client investments are really in the whole supply chain space, where they are bringing in automation and platforms, smart analytics even elements of the NexGen technologies. In the Retail space, our clients are really focusing on transforming the end customer transformation and the experience. In fact, we talked about how we are also leveraging our RoD NeXT framework to really work with our clients in all of these three verticals and bring in the capability of the acquired businesses as well. What is really helping us is the whole human experience, digital agency led work and then we integrate this digital capability with Zensar's own core capability on platforms and the legacy systems and build these integrated solutions for our clients. So these are really helping us win deals - both in the existing client accounts as well as the new deals.

**Kunal Pawaskar:** Okay, thanks a lot. That is all from my end. Thank you, madam.

**Moderator:** Thank you. The next question is from the line of Amit Chandra from HDFC Securities Limited. Please go ahead.

**Amit Chandra:** Thanks for the opportunity. Sir, my question is related to the subcon expenses. The subcon expenses have come down sharply in the quarter and it is now around 15.3% of the revenue. So what is the expectation from here on? Considering it is an important margin lever for the core business, where do we see it stabilizing and what steps are we taking to bring down the subcon expenses? and could you highlight on the supply side concern that we are talking about in the US market? We have been seeing that some of the companies have been talking about easing of the supply side concern and the subcon expenses have been coming down for them as well. So if you can elaborate on that?

**Navneet Khandelwal:** Sure. Last quarter we had indicated our subcon had gone up significantly because there were some elements in transition where we had to do rebadging of certain contractors. In addition, there was a significant demand spike at a very short notice and so we had to resort to subcontracting. We have, in the current quarter, been able to mitigate that impact to a very decent extent while we continue to work on ensuring that our supply is maintained so that we are able to fulfill the surge in demand that we get. We will continue to work on reducing these costs. Having said that, the current quarter has had a decent improvement versus the previous quarter on the subcon expenses. We will continue our journey in terms of ensuring that from an operating perspective, we have a tight hand on this. I would let Prameela comment on the supply side.

**Prameela Kalive:** Thank you Navneet. On the supply side, we are taking multiple initiatives to mitigate this. First, our local development centers that we have started in the US and even in Europe in Krakow and in France, these are helping us get access to the local talent pool there. This year, we have also invested in a local fresher program – something that we were always doing in India, now we are doing in the US as well. The other thing is we are now building a very strong RPO partner ecosystem in the US for our predominant skill requirement for which we are hiring in the US market. We are finding partners who will help us build the capacity locally there. The third area is we are taking a bet on select technologies, really tracking our top customers - where are they growing, where they investing and basis that, we are taking a forward view of the next 12 to 18 months. We have selected technologies in which we are going to proactively build capacity here in India to be ready from the supply side and strengthen and accelerate our way of fulfilling.

**Amit Chandra:** My next question is related to the Sales and G&A investments. As we have been investing on expanding our sales team in the US and have revamped it totally in last one year, are the investments now complete or are we still expanding our sales team as is being reflected in the large deal wins that we have reported?

**Sandeep Kishore:** So Amit, this is Sandeep here. I think it is fair to say that we will continue to invest into the front end. And this is not just sales and hiring sales organization, it has a lot more components to it and that is the reason why you have actually seen the jump come up in Q4 over Q3. For example, working with our top technology partners (Alliance partners), participating in events, building solutions which help us win, working with Third Party advisors – this is where our S&M investment is. We will continue to be invested because it provides opportunity for us in the deal pipeline and the deal flow. We have more or less done our sales hiring as such. But there are chances of opportunistic hiring which we will do as and when needed. Broadly, as I had mentioned



a couple of quarters ago, our sales engines are now in place and as we expand our business, we will certainly expand the sales headcount as well. But our big focus right now is to actually start working with the ecosystem which enables us to influence the deal pipeline in a nonlinear manner.

**Amit Chandra:** Thanks Sir. My last question would be on the Retail vertical. In this quarter we have seen a significant jump in the Retail performance. You have also mentioned that you are revamping this business. However, the performance in this quarter has been the best in the past eight quarters! So what is driving this? Is it a onetime thing or is it some change in strategy that we are doing here?

**Sandeep Kishore:** So some of it is related to large project wins which we have delivered here. But not all of it is one time. We are also fighting deals in some organizations as well and our endeavor is to win those. As I mentioned earlier, the pipeline for retail is quite good. It is still not where we would want it to be, but it is quite good. So if we win - we will continue to maintain the momentum. However, as of now, it is a little early to say. I still think for Retail, it will take at least one or two quarters more to start seeing the main stream growth as you have seen in Hi-Tech and Financial Services.

**Amit Chandra:** How has Professional Access been doing here? Because we have seen the drop in revenues related to Oracle ATG, have we seen stability in the Professional Access revenue?

**Sandeep Kishore:** Professional Access actually got consumed and integrated several quarters ago. So it is now a very integral part of our business. We track Keystone revenue separately because it was done two years ago, and we have publicly been continuously reporting its number. But it is very difficult to say what is Professional Access and what is Zensar. ATG implementation is pretty much done. I think if you have not done a commerce piece earlier, you are already very late. The investments from Retail Technology are largely around analytics or as Prameela called out - around experience. It is around Omni Channel, around supply chain, digital supply chain - that is the growth segment which we are working on. We still have a pretty sizable e-commerce practice. But what is driving the growth is not commerce. What is driving the growth is actually experience, data, analytics, and digital supply chain in retail.

**Amit Chandra:** One last one. If you can mention or elaborate upon the margins that we are expecting or margins that we are getting on the newer deal wins. Are they higher than the company average and is there a scope of offshoring in the existing deals that are ramping up? So will that be a margin lever or will it be largely onsite?

**Sandeep Kishore:** Two parts to the answer. As I mentioned in one of the responses today, our CIS margins are higher. Core NexGen CIS business is a very small part of the business at present and thus materially does not impact much. But the endeavor for Management and the entire Organization is to scale that business. ADS margin is pretty much in the same range as the company average margin - in the 30% range or so. This is my quick guidance on the margin front.

**Amit Chandra:** And offshoring opportunity?

**Sandeep Kishore:** We have added significant headcount even offshore. So yes, we continue to look for businesses which have off shoring space. However, it is not always possible - particularly in the new front-

end areas. That is the reason why we have opened Mexico, opened five centers now in the US, two in Europe and so on. You will need to stay invested into the countries in which you have to go-to-market. Because it is the right thing to do. But margin levers, as we all know, in India are high and hence it is our focus and endeavor to find opportunity which has growth in India as well.

And we have expanded. In some of the wins that we have had, we have completed those projects and transitioned them into India for support and ongoing service. And this, we will continue to do. It is relatively easier to do so in managed services than in time and material.

**Amit Chandra:** Okay Sir. Thanks for the opportunity and best of luck.

**Sandeep Kishore:** Thank you Amit.

**Moderator:** Thank you. Ladies and gentlemen due to time constraint we will take the last question from the line of Vivek Kumar from Blue Fin Capital. Please go ahead.

**Vivek Kumar:** Hi Sandeep. I am pretty new to the company. In the presentation you have mentioned there is a strong demand environment and trend towards slightly smaller deals with increased deal volume. So can you elaborate more on this? Is it playing to advantage of the small and mid-cap companies? Can I understand it in this way? Or is it something else?

**Sandeep Kishore:** No, you are absolutely right Vivek. It is that. If you have seen the ISG Momentum report which they announced a few weeks ago in which we got featured for the first time as I was calling out earlier - you will see the same trending. You will see that the deal sizes are becoming smaller which is the trend for the last several quarters and hence organization like ours are much better equipped and positioned for these deals. So that is exactly what we are calling out.

**Vivek Kumar:** So can we expect the deal momentum to continue? I am not saying that it will double again next year, but it will continue to increase from here right? Can we expect that?

**Sandeep Kishore:** Absolutely and unequivocally yes.

**Vivek Kumar:** And in the morning interview on Bloomberg, you were talking about automation as a challenge or an opportunity, can you elaborate on that?

**Sandeep Kishore:** I had called it out more as an opportunity. I had mentioned it in today's call as well. I think in our Application and Digital Services (ADS) business, automation is a big opportunity as a margin lever in the fixed price and managed services projects. It is also an opportunity in our CIS business because it is nonlinear in nature. It is not effort driven. Rather is more tool driven. So it helps us on both sides of our business and is an opportunity. It is a challenge only if you do not have the right processes and tools available to you. But we have invested heavily into the whole RoD NeXT and Vinci bit which is our automation platform to really take advantage of that opportunity.

**Vivek Kumar:** And you have achieved success in it right ? Can I assume that?

**Sandeep Kishore:** Yes absolutely.

**Vivek Kumar:** Sure. Thank you and all the best Sandeep. Thank you very much.

**Sandeep Kishore:** Thank you Vivek.

**Moderator:** Thank you very much. I will now hand the conference over to Mr. Rishi Jhunjhunwala for closing comments.

**Rishi Jhunjhunwala:** Thank you Neerav. On behalf of IIFL Institutional Equities I would like to thank Sandeep and the entire management team of Zensar Technologies for giving us the opportunity to host the call. With that I will pass it onto Sandeep for any closing remarks. Thank you.

**Sandeep Kishore:** Thank you Rishi. Thank you everyone for dialing in. Always a pleasure talking to you all. Thank you so much and we look forward to talking to you again in the next quarter. Thank you very much.

**Moderator:** Thank you. On behalf of IIFL Institutional Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines.