



“Zensar Technologies Q1FY17
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Zensar Technologies Q1 FY2017 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Priya Rohira from Axis Capital. Thank you and over to you Madam!

Priya Rohira: Thanks, Aman. A very good afternoon, good evening and good morning to various participants joining us from various time zones. With great pleasure, I welcome you to the first quarter FY2017 earning call for Zensar Technologies Limited. We have with us Mr. Sandeep Kishore, Chief Executive Officer and Managing Director, Mr. S. Balasubramaniam, Chief Financial Officer, Mr. Ajay Bhandari, Chief Corporate Development Officer and other senior management team members from Zensar Technologies. The call will begin with a brief management discussion on the performance for the quarter ended June 2016. This will be followed by an interactive Q&A session. I will now hand over the floor to Mr. Sandeep Kishore, CEO & Managing Director for the initial presentation. Over to you Mr. Sandeep!

Sandeep Kishore: Thank you Priya, Hello and good afternoon, good evening, good morning everyone. Thank you so much for joining the call and as you heard from Priya I have with me the Zensar management team Bala, our CFO, Ajay – Head of our Strategy and Corporate Development, Azfar our Global HR Head and Sanjay, our Global Financial Controller. I trust all of you have had the chance to go through the detailed financial results and the fact sheet that we released yesterday July 21st. Let me take the opportunity to present some key details from our results and of course commentary on our business performance.

First, our first quarter fiscal 2017 performance – sequential revenue growth of 3.1% in US dollar term from USD \$110.5 million to \$114 million. YoY revenue growth of 2.6% in US dollar term from \$111.1 million to \$114 million. In constant currency, our revenue grew 2.6% sequentially and 5% on year-on-year basis.

Q-on-Q revenue growth in the rupee terms was 2.1% from 746.4 Crores to 762.4 Crores and yearly the revenue growth was 8.2% in INR term from 704.6 Crores to 762.4 Crores. Sequential PAT increased by 9.6% in US dollar term from \$10.4 million to \$11.4 million and 8.6% in INR term from 70.2 Crores to 76.2 Crores.

Digital, as we have been talking even in our previous call, has remained stable and accounted for 27.3% of the quarter revenue so slight upward trend there. Our core application services business grew at 4.5% sequentially on a constant currency basis. Majority of our digital revenue actually is reported in the application services business.

The infrastructure management business moved in the right direction. There are two or three components of that. The MVS business showed a reversal of revenue for the first time and this is

the upward trend we are seeing the first time in the last eight quarters. The core infrastructure management services business was marginally up. The product business that is not a core part of the business and we are continuing to defocus on that, has reduced marginally. So the core infrastructure IM business actually is up which is a good news for us.

From the geography perspective business grew or remained stable across territories. Revenue from Africa on constant currency sequentially grew the highest at 9.7%. Revenue from Europe grew 2.7% again in constant currency term. US geography experienced a marginal decline of 0.6% in constant currency; however, US did witness a good inflow of new deals and is expected to grow back to a positive territory in one to two quarters.

If you take a look at the business segment industry performance, the manufacturing and retail consumer service vertical showed pretty good momentum. They were up by 4.2% and 3.5% respectively in constant currency terms and this of course, as I mentioned earlier, was led by very strong growth in the application space and we are seeing significantly increased number of transaction which are digital transformation led.

As I mentioned earlier digital continues to be doing quite well for us and now accounts for 27.3% of our revenue in this quarter. This was mainly on account of the traction for our e-commerce business and differentiated digital offering, which is built around the 'Return on Digital' framework, and I will talk a little more about that subsequently.

Our focus on pursuing large deal is starting to bear fruit. We have signed a multimillion-multiyear application development digital integration support and enhancement deal with a UK based motoring association organization and we have seen a doubling of our pipeline over the last quarter. This is mainly on account of our efforts to develop a stronger relationship with top tier customers both existing as well as new and of course our investment, as we had mentioned earlier, in a dedicated large deal team.

We have also continued to grow our existing business and expertise of win. Some of the wins have been as follows; the big one is in digital commerce space where we won consulting deals with a US based provider of customer engagement and loyalty program. We have also signed a deal with a publicly traded Latam America grocery chain and departmental store for digital commerce implementation.

In digital field again we won a deal from a large hospitality services company in the US to enable their cloud business and create a digital business platform for them as well. We continue to see increased digital traction in our Africa business where we have been chosen as the digital transformation partner by a leading East African retailer. We also won a digital analytics consulting and assessment deal with one of Africa's largest paper and plastic manufacturing business. In the insurance sector, we signed a multiyear, multimillion-dollar application development and digital integration deal with a large US specialty insurer.

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In the retail sector, we won an Oracle EBS Global design and implementation deal with a floral and gourmet food retailer in the US. We also recorded our first infrastructure managed services deal in Africa with an existing customer where we signed a multimillion remote infrastructure management deal in the financial services industry.

Driven clearly by our framework of return on digital, digital services continue to be an area that we are targeting for growth. Over the past quarters, we have fine-tuned our differentiated digital offering. Some of you may have seen the live demos at our group investor day conference, which we did three weeks ago in Mumbai.

Our RPA, which is Robotic Process Automation solution, is estimated to write down TCO for our customers by up to 45% and automate up to 80% of the basic task, which is at the L0, L1 level. Retail vertical focused smart selling application acts as a bridge for both the omni channel online and brick and mortar world allowing retail customers, which is a very large part of our business, to seamlessly target their customers across omni channel.

We have also invested and developed an IoT solution that leverages our deep manufacturing experience, which as you know is over 50% of our business. It leverages manufacturing as well as our Oracle capability to deliver solutions that reduces downtime by up to 40% and both Oracle and manufacturing have been the bedrock for the several client engagements that we have.

In our last call, I had touched upon our effort to make Zensar a 100% digital company and I am happy to report that we have made a significant progress in that direction. We now have nine enterprise class applications that cover a wide array of our internal processes be it from employee engagements to customer engagements.

Our focus on account mining continues to have a positive impact on our performance with the number of \$5+ million customers now growing to 6 and we are maintaining a pretty steady hold on the top 20 customers as close to 56% of our business.

In summary, Q1 FY2017 has been a good quarter for us with steady growth in some of the areas as I mentioned above and consolidation in the other areas. At the beginning of the fiscal year we had set out to do a few things and I am glad to see good progress on all of those fronts. Client mining, our focus on top 20 account continues, our focus also to rationalize accounts continues and you would have noticed that over the previous two quarters we have removed 28 accounts, 17 in the quarter before the last one and 11 in the last quarter. We are focused clearly on a fewer account and trying to do multiservice in a few account.

Our focus on return on digital is starting to show results as I mentioned to you earlier and the investment in solutions that we have made for our customers as well as creating Zensar as a 100% digital focus enterprise will drive significant return in this sector.

Our digital and cloud crossover solution that enables return on digital is clearly seeing good traction in the application services and is generating good amount of services, consulting and development business and that has been the key facet of why application services grew 4.5%, much higher than the overall company's number on the sequential quarter-to-quarter basis.

Let me now ask Bala to provide to you with his views and insights on additional financial detail and subsequent to that we will open the floor for questions where my management team will join in addressing them.

S. Balasubramaniam: Thank you Sandeep. Good afternoon ladies and gentlemen thank you for joining the Zensar call. As usual, I will give you some financial data points so that we can set the right tone and you need not kind of obviate the needless questions that might come because of that. As of end June, our loans were US\$ 18.4 million which was essentially working capital loans taken in the US. In terms of cash and the balance sheet, we have 468 Crores or 69.3 million which is split between cash on hand at 42 million or 284 Crores and in short-term liquid investments which is at 27 million or 184 Crores. The total position is 69.3 million or 468 Crores. In terms of debtors' receivables, our DSO is 64 days. In terms of absolute amount it is 548 Crores. In terms of capex for the quarter, it is 5.8 Crores, just about a million dollar. In terms of our forex cover, we have \$48.8 million covered at an average rate of Rs.70.40 to the dollar. Thank you, these are the points I had. Over to you Sandeep!

Sandeep Kishore: So with that Priya, we will open the floor for questions.

Priya Rohira: Thank you so much for good insights. Aman, can we go ahead and start with the Q&A line?

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sumit Surana from Haitong Securities. Please go ahead.

Sumit Surana: Thanks for taking my question. My question is regarding revenue. So were there any surprises in terms of positive or negative during the quarter and did the quarter go as we expected it would or were there any positive or negative surprises?

Sandeep Kishore: Sandeep here, I do not think there were surprises. I think we did quite well. We are executing well. The volume growth is there. We did see a little bit of softness in the US and that is specific to one or two clients where the ramp up has been pushed by a quarter or so but otherwise as you can see in the numbers they are pretty consistent with where we are investing. Our focus clearly is to mine accounts where we see headroom to grow and deliver multiple services to a set of large customer.

Sumit Surana: Thanks, Sandeep, and a follow up would be going forward are we happy with the current growth we are having or are we expecting to ramp it up even faster as we move to the second half of the year?

Sandeep Kishore: In terms of guidance on revenue we obviously do not give but what I can tell you is our focus on being digital transformation partner to a set of large and key strategic customers has been a big shift in the approach that we have taken in the last two quarters and we are continuously executing on that. All of the investments and solutions which I mentioned in my opening comment, as well as all the solutions that we demoed on the investor day three weeks ago, are aligned towards that and you will see significant movement both on the digital solutions as well as on client mining from us.

Sumit Surana: Just a book keeping question if you can share how much of the revenue did Professional Access contribute in this quarter?

Sandeep Kishore: \$ 14 million.

Sumit Surana: Thanks Sandeep.

Moderator: Thank you. We have the next question from the line of Sagar Leley from Motilal Oswal. Please go ahead.

Sagar Leley: Thanks for the opportunity. Sandeep the cut down in the number of customers has come across quite aggressively over the last two to three quarters. Would it be possible to give a sense on how much this means in terms of revenue so we get a better sense of the extent of reconstitution in the underlying growth in the business?

Sandeep Kishore: I will ask Ajay to give you some detail on the revenue number but let me give you the overall philosophy and this is what we have been talking from the last two to three analyst calls and as well as well as in our strategy discussion. We still think we have far too many customers. For us to deliver value we need to focus on fewer customers in our chosen market segment. Our chosen market segments clearly are Manufacturing – within manufacturing, we have Hi-Tech as well as industrial – then in Banking and Financial Services which is largely Insurance at this time and we will expand into Banking both in the US as well as in Europe, and of course Retail and CPG. So we are tracking both from our existing customers in these segments large global organization and you would have also seen we have picked up good momentum in the net new business as well and sharply focused in delivering value to our customer where multiple Zensar services can be brought. So that is the operating philosophy. We are investing heavily on client partner as well as delivery leadership onsite just to make sure that in any of the digital transformation conversations, which comes up we are right there working with the customer to make sure that we do not miss any heartbeat.

Ajay Bhandari: Sagar what we are doing is that we are taking clients who are giving us a run rate of \$250,000 a year and trying to see if we can push them to one to two million and if we cannot, we are kind of terminating. So we have closed a quite a few over the last two quarters. We still believe there are close to 18 to 20 clients, which are in that range. I cannot give you an exact number because some

of them are moving to the million plus range, but there are potentially still around 18 clients where there is potential to either exit or more than double.

Sagar Leley: That was helpful. Also, the onsite growth in this quarter seemed very strong. Is this a function of some specific projects ramping up or is it because of the changing mix of incremental revenue compared to what was historical?

Ajay Bhandari: It is a little bit of both. So in existing clients as well as a couple of new ones that we have closed almost all of them are onsite, a large part of them are also in the US. Most of these clients are digital led so there is a large amount of digital consulting and digital implementation, which we notice, are all onsite heavy at the beginning. Almost all of them have a very long tail offshore effort as well but the initial effort is onsite and a lot of the deals that we closed especially in commerce, cloud and to some large extent even managed services which have a consulting front end of the deal almost all of them we did in this quarter. So it is good news to the extent that a lot of these will move offshore from the next two quarters. So it will kind of move offshore but we are right now consulting heavy, which is why you are seeing a lot more onsite revenue.

Sagar Leley: But would it also be fair to say that the pricing on the deals would be higher and hence margins would kind of be on average to what the company margins are?

Ajay Bhandari: The margins on these deals are decent. Some of them are actually priced for the entire deal. So it is not necessarily it will get reflected in a quarter. So it was based on the overall price and these are actually very large deals, some of them are two to three years old. You will see margins over a period of time and not necessarily over to two specific quarters.

Sagar Leley: That was helpful. Thanks a lot.

Moderator: Thank you. The next question is from the line of Karan Taurani from Dolat Capital. Please go ahead.

Karan Taurani: Thanks for taking my question. My question was regarding the IMS part. If you see you had clearly mentioned that MVS part will actually probably not be good in terms of growth but we have done well this quarter and the IMS actually declined. So what is the specific reason for that?

Ajay Bhandari: Karan, let me breakdown your question into three parts. The first part is MVS, so when we are saying that MVS is not a core part of a business – if you recall our discussion in last quarter what we also said is that our MVS priority is the profit priority rather than a revenue priority. However to generate more profit you also need to increase the revenue. When we are saying that it is not a focus business, it does not mean that there is no revenue there. We are going to get more revenue in MVS. But it is also a scale and density business, which means that the deals which are loss making we have to exit. The deals that are profit making we need to do a lot more of and we have had actually good success there. As you recall the last quarter we did mention that we are bringing

a lot of good talent for managed business that is already there and we are already seeing a completely different strategy to turn that around. So some of the revenue that comes in is because of a new strategy there and it will show its impact on profits as well. The services business once again we had mentioned in last quarter that since our product business has declined to such a small number that we are not reporting it separately and we have merged it with our services business. So, therefore, there is a kind of a decline in the product business. Last quarter we had around close to 5 million of products in the services revenue. This quarter is around 2.5 million but we have an uptick of 1.5 million in services. So the pure play IM services which are the remote kind of services that went up by a million dollar and our product revenue went down by 2.5 that is the net impact you see in IM services.

Karan Taurani: So last quarter you clearly mentioned that the \$5 million runrate will be maintained and that 20 million would be the odd number for FY2017, which you could have in terms of products. So now the product revenue guidance goes downward we can assume \$10 million, \$12 million kind of runrate for the product?

Ajay Bhandari: Yes so we have been maintaining Karan that the product is going to go down and it will actually since it is now becoming deal specific so we do not have a sales team selling products anymore. We have a services team that sell products as a byproduct of the services deal. So we are unable to tell that we will definitely sell so much of products. There will be some quarters of good products some quarters will be bad. This quarter we had 2.5 million which indicates the runrate of 10 million but it could be anywhere between 10 to 14 million.

Karan Taurani: So excluding product basically the IMS services grew on Q-o-Q basis?

Ajay Bhandari: That is right.

Karan Taurani: Just one more question in terms of margin, so if you exclude the one time impact which you had last quarter, which was a positive impact, I mean if you reverse that you had an extra cost in terms of RDD last quarter \$1.7 million so that would be a reversal kind of a thing this quarter, which will have positive impact in terms of margin and plus depreciation cost was I think lower this quarter on a Q-on-Q basis about 18%, 19%. So if you exclude both these positive impact on the margin on a Q-on-Q basis your margins have actually declined operationally plus in terms of going ahead in next quarter also there will be margin decline because of salary hike. So what are the levers available for margin improvement from FY2016 to FY2017?

Ajay Bhandari: So for the direct cost going up there are two reasons actually. First if you notice, in replying to the earlier question I mentioned that onsite revenue has gone up significantly and there is a lot of the onsite revenue for which there was high onsite cost as well and since the overall margin of the deals is based on the cost throughout the deal so the high cost consulting effort happens initially but the benefit of that you get over the period of seven to eight quarters. So there is an impact of that on margin. Also this quarter we had a relatively low onsite utilization because some of the

project that we are doing are digital and we had to start on a particular date, in order to ensure that we started on the date we ensured that people reached the US pretty early. So we had a high bench cost of these people in the US. There, of course, all of them are now billing because they started the project but there was a cost due to lack of utilization of these people in the US, which actually depressed the margins.

Karan Taurani: So I mean next quarter going ahead I mean this should not happen in Q2 right?

Ajay Bhandari: This is actually very project specific because they had to start and we had to mobilize quite a few people to go onsite and it was not possible to do all of that on the same day so in some cases we had people arriving early and it took a few days, a week later also to start the project. So that was there.

Karan Taurani: Just I could squeeze one more question in terms of Professional Access. It is a seasonal business or is the revenue evenly spread out throughout the year?

Ajay Bhandari: This is actually slightly seasonal. So the bulk of the growth happens in the period July to November that is where there is maximum revenue but December has a slowdown and then February it picks up again. So there is a bit of seasonality. So this quarter tends to be slightly weak. The next quarter and the following quarter tends to be pretty decent. So Professional Access were almost flat I mean they were around 14 million last quarter as well. So the bulk of the growth actually will happen in the next 5 months.

Karan Taurani: So the outlook of Professional Access to grow at faster pace and overall revenue remains the same. There is no change on that.

Ajay Bhandari: Yes I mean unless something drastic happens we will maintain that.

Sandeep Kishore: Also let me just add to what Ajay is saying obviously Professional Access when we acquired came in with a very strong Oracle Cloud and Oracle Commerce capabilities, largely Oracle Commerce and now we have obviously built in Commerce Cloud as well on to that plus the focus on Retail. So the reason for seasonality is because of heavy focus, which PA has on retail. We are clearly working towards further expanding that industry base into beyond retail, into financial services as well as into manufacturing. So our objective in the organization is to make sure that we evenly spread the business growth momentum of Professional Access which is now called DCS part of our business, which is the Digital Commerce Services business for us at Zensar, and it will take us one or two quarters to get that rhythm to align to the rest of the business objectives.

Karan Taurani: Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

- Priya Rohira:** Thank you for giving me an opportunity to ask questions. My first question relates to is it possible for you to share the value of TCV wins this quarter and then to follow-on we had won a \$130 million odd-deal in FY2016, when does this start contributing to our revenues in FY2017? Lastly, what is the quantum of salary hikes and the likely impact in Q2 which one should budget in?
- Ajay Bhandari:** We actually have not yet disclosed the TCV value of any of the deals that we announced in this analyst presentation or in the past so that we are not really doing. What is your second question?
- Priya Rohira:** The second one was, we had won a one \$130 million deal in FY2016. When does this start contributing to our revenues in this year?
- Ajay Bhandari:** I do not know from where you got the number. We have won a \$30 million deal.
- Priya Rohira:** \$30 million deal when does this start contributing to our revenues actually in this year?
- Ajay Bhandari:** \$30 million deal was a Commerce deal. It is already running right now.
- Priya Rohira:** It is already there and it is built in Q1 actuals?
- Ajay Bhandari:** Yes.
- Priya Rohira:** What is the extent of salary hikes we are contemplating and the likely impact, typically it ranges between 100 and 200 so any thoughts over there?
- Syed Azfar Hussain:** The average salary hikes in India has been 8%, other three geographies outside India where we operate has been 2% in the US, 2% in Europe and 4% in South Africa so it will probably come down to a little above 6%. So actually there is an impact of 0.7% to 0.8% on PAT and EBITDA.
- Priya Rohira:** 0.8%, so that would be the impact an EBITDA in the true sense?
- Ajay Bhandari:** Yes, that is the impact. If you go to all financial years earlier most of us have mastered the art of negating that impact as well, but yes, I mean may be that is the potential here.
- Priya Rohira:** Has there been some classification between the cost of revenues in Selling and Marketing because just need to get some clarity over there because I do see that this change in number in S&M team?
- Ajay Bhandari:** Yes, there has been a bit of reclassification. In fact, there has been reclassification within SGA from S&M to G&A and there has been some bit of reclassification of S&M to direct cost as well. This is why you are seeing a bit of that impact.
- Sanjay Rawa:** But that impact is not that significant. It is marginal.

- Ajay Bhandari:** Yes I mean it is not significant. Roughly there was 0.5 million reduction from S&M to G&A and roughly 0.5 million from S&M to direct cost.
- Sandeep Kishore:** But let me add a broader prospective, Priya to your question. I think your question also is the reduction in the marketing headcount, which we have seen, we are – as I have been mentioning earlier as well – in the process of revamping the client interface and the client partner team pretty much across our business particularly in the top 20 accounts because the strategy is to grow high growth strategic account and most of the top 20 fall into that category. So, we are completely re-looking at the team which is interfacing with the client and training them and making sure that we have right calibre of client engagement’s team working with these customers because the spend of the customers is as we all know is on the transformation project, spend of the customer is in the digital initiatives and hence it is imperative upon us to make sure that we have the right set of people so that reduction of headcount which you have seen would go back up in the next one or two quarters.
- Priya Rohira:** My question is why was that? Because given the increased focus you are giving on client mining, I would presume that this has to interrupt in the coming quarter?
- Sandeep Kishore:** It will, absolutely.
- Priya Rohira:** Just a last followup from my side the tax rate has gone up to 30%. Was that one-off or should be assuming this rate going forward?
- S. Balasubramaniam:** As Ajay has mentioned earlier on, in this quarter we had fairly high onsite revenues, therefore, onsite revenues pulls up the tax because it is essentially US based.
- Priya Rohira:** That is helpful. As the projects move offshore this would obviously see the reversals?
- S. Balasubramaniam:** Yes, generally even if you look at the past four quarters we were at 29.8 in Q1, 26.9 in Q2, 30.4 in Q3, and 21.1 in Q4 then average of 27.3 for the whole year so in the first quarter we do take fairly conservative ETR looking at purely from point of view of deployment onsite and offshore and as offshoring happens plus some of the tax related adjustments, refinance etc., come in the ETR kind of balances.
- Priya Rohira:** Just one more follow up on and this is for Sandeep, we have mentioned about the doubling of the pipeline, I mean could you share some colour is it more to do with a digital e-commerce and Oracle which is our main forte we want to grow and something more on the geographical side where are you seeing this pipeline you did mention about the US picking up in a good way, so just wanted to get some more colour over there?
- Sandeep Kishore:** Sure, happy to. There are two levels of tracking, which we do. Number one, is on large deals. Our current large deal pipeline is north of \$200 million and is very evenly split between our geographies

and of course our market focus. Number two is the focus on digital and digital-led deal both in the application as well as cloud-led deal in the infrastructure. They are significant contributors to our investment as well as pipeline, which we are seeing from there. All the solutions which I talked about in my opening commentary, which we demoed, a couple of weeks ago at the investor conference, they are all aligned towards helping us position through a differentiated set of offering whether it is on the digital automation, we also launched the whole CMO suite of proposition, which is aligned for the first time by our company to the chief marketing organizations within our clients as well as the entire hybrid cloud which is part of our infrastructure management stack. Very sharp focus on a few differentiated sets of propositions has helped us push the number of deals that we are seeing as we speak now.

Priya Rohira: This is quite helpful. I think \$200 million is certainly quite enriching. Thank you very much and wish you all the best. Aman, you can go ahead with the other questions, please.

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

Deepen Shah: I think almost all the questions have been answered. Just one thing in terms of utilization we are already at 81%. Can you just may be guide as to what levels could be the steady state levels or what levels are you looking at ahead in the quarter?

Ajay Bhandari: Deepen actually this quarter has slightly dipped. We are at 79.8%. Like when I explained earlier that some of the ramp-up is going to happen onsite as well offshore, so we have kept some resources available for those projects but on an average we maintain it at 80% and so you can assume spectrum of 79 to 82 is roughly where we manage our utilization, so at the moment we have not felt the need to take it on higher or lower on either side.

Deepen Shah: Thank you very much.

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

Nandish Dalal: Congrats guys for the good quarter. Thanks for taking my question. I have just question for Sandeep with some client mining, your client matrix, some matrix are looking good like top 6 to 10 clients, but overall if I see there are still some challenges that looks and the top five or something so two parts, so is it just specific to this quarter where you faced challenges at your topline or are you going to see some traction going forward?

Sandeep Kishore: First of all thank you. I feel it has been a good quarter, so we will take that compliment. Number two is client mining on the top 5, 10 and 20 if you see all the three categories. I think we have been fairly consistent in both our investment into those accounts as well as the business that we are seeing from those customers. So they move a few basis points up or down, they are largely

seasonal. So our investment, as well as the client spent we are not seeing anything dramatically, which should be an issue or concern for us. What we are; however, certainty seeing is the mix of spend is changing and the mix of opportunity available to us is also changing and that is the reason, why I was mentioning earlier that we are completely re-looking at the front end team which is interfacing with a client not just client engagement, but also delivery engagement number one. Number two, multiservice delivery owners, the team, which is responsible for delivering multiple tracks and multiple services across the digital, the applications and the infrastructure layer, so a lot of that investment is going in. You would have also noticed that we are spending a lot of time into hunting, which does not figure into the top 20, but the focus on finding the right global 1000 customers in our chosen market in a chosen geography is the big focus for us and the mix within the top 20 will also change as we go forward, because some newer accounts will come in and our plan is to clearly aggressively grow those newer accounts. But on a sustained basis, I would think that the top 20 account will continue to be in the 55%,-57% range for us.

Nandish Dalal: Just to actually be clear about this because I was just talking about specifically on top five clients because there the growth has been hardly anything during this quarter. So I just wanted to check whether there is just some unusual activity in the top five in particular?

Sandeep Kishore: No, I would not call there is any unusual activity. We are holding pretty good in our top one customer as well as in our top 5 customers.

Nandish Dalal: Sure that is great to hear. All the best guys.

Moderator: Thank you. We have the next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Thanks for the opportunity. I joined a little late so I am sorry if this is a repetition. So while digital is 27% of revenues today, I just wanted to understand around what proportion of clients would it be cutting across out of the 183 clients we have right now?

Ajay Bhandari: Ashish, right now I would say of the 183 we may be talking to roughly 50 of them on digital. If you look at our pipeline and new wins almost all new wins have a digital element. So every conversation with the client these days is about digital, every new business that we get from existing brands is digital. It is covering all our clients at a pretty rapid pace, because we have identified the top 65 clients from a farming perspective, we are over investing in these, but even the accounts outside the top 65, all conversations are with respect to digital side and I foresee that in the next 18 months there will be an almost 100% coverage.

Ashish Chopra: That is helpful. Just lastly from my side while we are very strong on the Oracle side of the ERP, just if you could throw some light on how is the positioning within SAP and is it a significant contributor to the business for Zensar and also the outlook on the same that will be helpful, thanks.

- Ajay Bhandari:** SAP is not a big percentage of our business even though as far as growth is concerned, we are fairly serious about the growth of that part of our business as well, because lot of our clients do have SAP as their back-end system and as we takeover managed services, we do get a lot of SAP business, but from a pure implementation standpoint, we have done a lot of work in India and we have done a lot of work in the US. The core ERP business is on the decline there and a lot more cloud business is happening especially Success Factors, Ariba then some work in Concur. So as we are so late in the SAP game, I think we will do a lot more on the SAP cloud business than focus on the ERP. But you know it is still a very small percentage of our business.
- Ashish Chopra:** Even if that segment declines as a result of this restructuring from may be on premise to these cloud platforms, it may not necessarily impact the performance overall?
- Sandeep Kishore:** Not really. For example, but if you see Oracle and if you see our new wins this quarter, almost all of them are on Oracle cloud, so that is the business that is growing really fast, growing really well.
- Ashish Chopra:** That is it from my side. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Karan Taurani from Dolat Capital. Please go ahead.
- Karan Taurani:** I just wanted to check on the growth. So the app growth has been very impressive 4.5% on constant currency basis and despite that the utilization rates have actually declined. I mean, there has not been any hiring also in terms of headcount addition, so why this mismatch?
- Ajay Bhandari:** Karan, we have some of the projects which are onsite heavy where we have done a lot of the initial digital consulting work, all of them have an offshore element which is going to begin in the subsequent quarters, otherwise we manage utilization fairly rigorously, but since we know that business is coming in few quarters we have just held on to some people and not let go of people in a way so just for the business coming into future, we have just kept the utilization level a little low.
- Karan Taurani:** What about the FPP is that a lever for margin improvement?
- Ajay Bhandari:** Fixed price projects of course, so all the projects that we are doing right now Karan, all have fixed price element. See the way we typically do it is consulting and design is done on T&M and the development and execution or implementation is fixed price, so almost all of them will move back to fixed price.
- Karan Taurani:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Gagan Thareja from Kotak Investments. Please go ahead.

- Gagan Thareja:** Good evening Sir. Is it possible to give out a number on the budgeted headcount addition for this year and when do your campus recruits effectively come on your payroll first question?
- Sandeep Kishore:** Azfar, if you can talk about campus recruitment and Ajay can address overall.
- Syed Azfar Hussain:** The campus recruits have started coming, they will start coming in from July and they come in all the way up to January. This is on the engineering side on the MBA, CA side; they have all come in in May.
- Ajay Bhandari:** The headcount question is a little difficult to answer, because the amount of the automation we bring in the way we deliver, but typically when we go to campuses we seek to recruit around 300 to 400 engineers from campuses, but net addition is a little difficult to say.
- Gagan Thareja:** Your largest account, CISCO if you could throw some light on how that is moving for you? Have you been able to retain your momentum there or do you see this year being positive in terms of growth from CISCO?
- Ajay Bhandari:** CISCO has been flat this quarter. There the real challenge for us or the real opportunity for us there is to change our profile of the business and we have done it fairly well. Off late all our businesses in CISCO is on the CMO, augmented reality, customer experience, user experience, force.com, Pega side, and the work that we are doing is moving into a very interesting zone there, so no reason why as an account it should not grow in the future as well. For this quarter it remains flat.
- Gagan Thareja:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Sandeep Agarwal from Edelweiss. Please go ahead.
- Sandeep Agarwal:** Thanks for the management for taking my question. Sir, I have two questions. One regarding your strategy while I appreciate that you are trying to consolidate key accounts and you are trying to focus more on them so your focus currently more on farming rather than hunting, but do you not think that this also brings some element of risk because in uncertain times and given the impact of Brexit is an unknown, it will also increase your concentration in the clients and reduce diversification that is point number one. Point number two other than the management bandwidth which may be an issue and some part of cost which you would be incurring what else is the key reason of this, do you see any strategic benefit out of it, so are you seeing that these clients if being focussed, they can actually leave their actual current large providers because they may not be satisfied with them, but they are continuing because they want much, much more focus and finally if you see how digital and the IoT part is shaping up, what different are we doing there? I know all surfaces, all verticals, all horizontals, cut across digital whether it is on the data side, cloud side, analytics side or something else, but what is our approach? Will we go with the platform approach and providing some solution to target digital or we will go with the services side, question number

two. Number three, finally, if you can also throw some light on what you are doing on cloud transition side Sir? That will be really helpful. Thank you.

Sandeep Kishore:

Sure, absolutely happy to and yes those are pretty detail question, but let me try and give a perspective on each one, so the first you said about client mining as well as new account and our focus has been clearly and we have articulated this several times ever since I have taken charge here is that there are two aspects to this, number one is where our existing clients we believe we have a differentiated proposition for us to go and deliver more, we are investing quite heavily into our existing client. Number two is at the same time we are also quite aware that we really do need to go and win new logos and new clients in our chosen market segment and that is where the differentiated digital proposition, and I will touch upon that in a minute, comes in quite handy. What we have done however to make sure that we do justice; we have completely separate and dedicated teams for client farming and client hunting. For client farming for every single account, which we believe can grow to 5 million or more, we have exclusive and dedicated team for those accounts and we have trained the entire organization just to make sure that we are talking the right level of conversation with the customers, which are about business led transformation through the digital initiatives, so it is not digital, just for the sake of developing a few apps or doing a few integration, really taking it to the level of what is the business benefit, which we can deliver to our customers through those digital solutions that is number two. The broader question Sandeep which you asked about how we are going to market on digital let me take a minute or two to explain and we call that 'Return on Digital' which is pretty similar to the approach of return on investment because our differentiated proposition is whatever we do for our client must deliver business impact and there are three tenets of that and all of our investment and all the solutions that we have talked so far on the call and which are out there for you to see because we demoed these solution at our investor conference are built around the return on digital framework. The three tenets of 'Return on Digital' are number one we call digital agility, which is at the front end that is around the analytics, that is around the customer experience, that is around the user interface. It brings in a lot of new automation, which we have done for the whole CMO proposition. Number two is where the digital crossovers into business processes and IT systems. That is where the whole application modernisation comes in, that is where the infrastructure management and the cloud migration comes in, that is where the whole cyber security layer comes in, that is where Commerce interface starts to come in that is at the crossover layer. And finally of course the focus is on the stability of the four IT system that would be traditionally existing applications or it would be Oracle back end or SAP back end or data center services in the infrastructure stack or security and end user computing stack as well. So all of these three are critical for any enterprise whether they are native digital company or they are reborn digital company. Our existing top 20 clients most of them are reborn digital and their massive investment is actually happening on their digital initiatives in either one of these three buckets. Either they are in the agility or in the crossover section or in the back end of the IT organization. Our solutions quite frankly are differentiated. We have been investing heavily and we are in the market with every single IT organization and the business consulting organization. We are competing heavily and the clients are liking what they are seeing and that is

why you see a significantly enhanced number of the deal flow, which I mentioned earlier, every single one of the large deal of \$200 plus million which we are chasing today has an element of one of these three. So we think that we are differentiated and we are working quite hard to make sure that we win. You also raised a question about I do not know if there was a Brexit element into that at all or not, but Europe is a small part of our business, it is just about 10% to 10.5%. Financial services, which is directly in line with the whole Brexit discussion which is going on, also is about 18% of our business, our exposure is actually quite low and we are working very closely with our client on every single one of them to make sure that we are aligned with their overall strategy on how this whole thing evolves, so we are watching this very closely and we are obviously aligned to make sure that we do whatever it takes to not miss a heartbeat on this one. I hope it has given you some flavour on each of those aspects.

Sandeep Agarwal:

Thank you Sir. Thanks a lot for the detailed answer and if operator allows me I will try to squeeze one more and my apologies for the same, but Sir if you see we are pretty small in a very big market and if you see many of the large companies have basically reclassified large portions of their revenues as digital in last two, three years and if you do the maths their incremental revenues do not match to the digital revenue, but unfortunately I am sure this would give you a big disadvantage in the market place while you are going for the business because clients believe that the big companies are the companies which have actually reclassified their revenues under digital, they are much, much, much bigger and more competent, so are you not seeing any issues because of this kind of reclassification and positioning differently in the market by some of these companies?

Sandeep Kishore:

It is a very valid question, let me take a minute to explain when we say digital is 27.3% our business, what exactly is that and I think Ajay earlier alluded and explained as well, so there are seven service stacks which we call in our digital business. Number one is the analytics the whole big data and analytics stack, which is growing quite well for us, we do not declare individual number, but I am giving this to you so that we explain the way we are calling what is our business, which is digital. Number two is commerce, both B2B as well as B2C. Number three is customer and design experience, which is at the front end of digital agility work, which we talked about. Number four is digital marketing services. This is an exclusive service, which we have recently launched in the early part of last quarter for our CMO customers. Number four is cloud. We have talked about cloud from both infrastructure service as well as some amount of Platform as a Service. Number five is cyber security. You would have seen in our announcement that we are a big part of this whole checkpoint ecosystem as well as the cyber security as a service offering from our IMS proposition and finally is the IoT. It is right now small part of our business, but we have invested, we have talked about the solution particularly for our manufacturing customer, built on Oracle cloud and Oracle back end system but it is an IoT proposition. So these are the elements of digital business and that constitutes about 31 plus million dollars of business, which we did last quarter that is about 27.3% of our business, so classification is an issue. But we are pretty clear about what are we calling Digital and we have been very open about it around from the first day that I have been here.

- Sandeep Agarwal:** Thank you, Sir. Thanks for the details. I do not have any more questions. Thank you.
- Moderator:** Thank you. We have the next question from the line of Chandra Gupta as an Individual Investor. Please go ahead.
- Chandra Gupta:** Thanks for giving this opportunity. My question is about debtors, last quarter there were some provisions made for debtors. Just wanted to know the position now, whether any recovery has been made or not, and by when it is expected?
- S. Balasubramaniam:** We have made a provision for about approximately \$1.7 million as a conservative way. We have recovered close to about \$800,000 in this quarter and obviously this will take a couple more quarters to finalize for everything else.
- Chandra Gupta:** Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Ms. Priya Rohira for the closing comments. Thank you and over to you Madam!
- Priya Rohira:** Thanks everyone for joining this call. On behalf of Axis Capital, I would like to thank the senior management team of Zensar Technologies for giving us great insight and would now like to hand over the floor to Mr. Sandeep Kishore for the final remarks.
- Sandeep Kishore:** Thank you Priya. Thank you, everyone, for taking the time to join our call. My summary comments are similar to my opening comments. We had a pretty good quarter 3.1% sequential growth in dollar terms 9.6% on PAT sequential. We are doing quite well and we continue to stay invested heavily on digital as a differentiated offering. Thank you so much and I look forward to talking to you again in our next earnings call. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.