

"Zensar Technologies Limited Q3 FY21 Earnings Conference Call"

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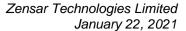
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MODERATORS: Mr. SUDHEER GUNTUPALLI – ICICI SECURITIES

MR. HARDIK D SANGANI – ICICI SECURITIES





Moderator:

Ladies and gentlemen, good day, and welcome to the Q3 FY '21 earnings conference call of Zensar Technologies Limited hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sudheer Guntupalli from ICICI Securities. Thank you, and over to you, Sir.

Sudheer Guntupalli:

Yes. Thanks, Rutuja. Hello. Good morning, everyone. Thanks for joining with us today. On behalf of ICICI Securities, I would like to thank the management team of Zensar Technologies for giving this opportunity to host Q3 FY '21 earnings call. We have with us Mr. Ajay Bhutoria, our Chief Executive Officer and Managing Director of Zensar Technologies; Mr. Navneet Khandelwal, Chief Financial Officer along with other senior management team members on the call. We'll start with a brief presentation and opening remarks from the management. Subsequently, we'll open up the floor for Q&A. The safe harbor statement on the second slide of the analyst presentation is assumed to be read and understood. Thanks for being with us once again, and over to you, Ajay.

Ajay Bhutoria:

Thank you, Sudheer. Hello, and Good morning, everyone. First and foremost, I hope you and your families had a great start to this new year and are safe and healthy. After such a challenging year, I hope 2021 offers you great opportunities and success. Thank you for joining us today to discuss Zensar's financial results for the third quarter of fiscal year 2021, which closed on December 31st 2020. As you all may know, it has been 2 weeks since I joined Zensar. I'm amazed by the energy and passion of our company. I'm delighted to lead this extraordinary organization that stands tall on the bedrock of great culture, highly talented employees, esteemed clients and outstanding corporate citizenship. I'm on a steep learning curve, prioritizing significant time in understanding the organization. I'm working closely with the Board, the senior leadership team and everyone at Zensar in charting a new growth story for Zensar.

On the call with me are Navneet Khandelwal, our Chief Financial Officer; Vivek Ranjan, our Chief Human Relations Officer; Prameela Kalive, our Chief Operating Officer; Harjott Atrii, our Global Head of Digital Foundation Services; Chaitanya Rajebahadur, Head of our Europe region; Shirsendu Deb, Global Finance Controller; and Arjun Warty, Head of Corporate Development for Zensar.

Before I take you through our third quarter performance, I want to note that we have completed the divestiture of our third-party maintenance business in December 2020. We are now focused on our core business, comprising of digital, cloud and IT services. My Q3 commentary pertains only to the core business and its operating performance. Let me now give you an update on our Q3 performance. The third quarter of FY '21 was a soft quarter. We registered a revenue of USD 122.8 million, with a sequential decline of 2.4%. On a constant currency basis, that decline is 3.7%. This was primarily due to softness in our Hi-tech business. Although our Hi-tech business declined, we experienced modest growth in U.K., South Africa, our Consumer Services business

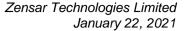


and Banking and Financial services. Importantly, most of this growth has come from our digital offerings. Digital revenue today stands at 65% of our total revenue, up by 120 basis points. We continue to focus on strengthening our margin profile and posted a strong 20.6% EBITDA margin. This is the highest EBITDA percentage for us in the past decade. This translates to a 167.3% year-on-year growth, which is the highest in the last 6 quarters. This margin expansion is a result of cost optimization, reduction in subcontracting costs and an increase in offshore ratio and is partially offset by a reduction in utilization. Our EBIT at 15.9% of our revenue experienced a growth of 4.5% sequentially and 422.1% year-on-year. The EBIT level of 15.9% is also the highest ever EBIT for us in the past 10 years. Despite a decline at the topline, we delivered strong PAT, amounting to USD 13.4 million. This marks a 148.8% year-on-year growth and a 13.3% sequential growth.

While Navneet will talk more about our collections and cash positions, I'm delighted to share that Zensar is now a debt-free company. Our net cash position stands at USD 160 million, which is also a new milestone for us. Order booking for third quarter was at USD 200 million TCV, maintaining a healthy mix of large and mid-sized deals. This new high of over 6 quarters includes both renewals and new business as our clients take action to invest in cloud infrastructure, app modernization and customer experience transformation within new demand. Both the Europe and South Africa regions experienced sequential growth of 6.3% and 11.6%, respectively in reported currency. With new business signings this quarter and a strong pipeline, we expect that momentum to continue. Our U.S. business declined sequentially by 6.4%, which we attribute to a decline in our Hi-tech business.

Our global Consumer Services business has done well with a sequential growth of 7.7%. Banking registered a steady growth of 5.5%. Our BFSI vertical is gaining momentum with several key logos opening this quarter and a healthy pipeline ahead. Hi-tech registered a decline of 10.2% sequentially, which we attribute to softness in one of our top clients. We expected this decline, and our plan is to maintain wallet share and create new business with this client beyond core IT. We attribute a portion of this decline in Hi-tech to project closures with some other clients as well. Our digital business continues to gather steam in the current environment. Our Digital Foundation Services business, which is sharply focused on client digitalization and Enterprise 4.0 has registered a 6% year-on-year growth. We have several deals about to close, and our pipeline is solid. Zensar's global head count at the end of third quarter was 8,809, up for the first time in 4 quarters. We strengthened our teams with experienced, skilled talent, and our work-from-anywhere model continues to be a success with over 550 associates onboarded and fully integrated. We continue to expand our talent pool and expect to onboard even more associates in the coming few months.

We also conducted an annual salary revision exercise effective January 2021 as mentioned in the last quarterly call. We are continually tracking the health and wellbeing of our associates and include sustainable practices to make a positive impact on environmental, social and governance matters. Our compliance around governance-related requirements is 100%. We closely monitor our energy consumption, use energy-efficient practices and contribute to our communities just





as we've done for many years. We continue to make conscious decisions and investments to promote sustainability. And going forward, we'll share details of these activities and initiatives with our stakeholders. Our confidence in opportunities and the company growth remains intact. I am optimistic of both market potential as well as our ability to seize market opportunities. As we pursue new areas of business, we remain committed to our clients and other key stakeholders and look forward to your continued support.

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

Navneet Khandelwal:

Thank you, Ajay. Good day, everyone. Welcome to this call. In addition to Ajay talking about the business, I will take you through some of the details on financials. In the third quarter of FY '21, excluding TPM business, we have reported revenue at Rs. 9,065 million, which reflects a sequential decline by 3.2% and Y-o-Y decline by 7.7% in rupee terms. In U.S. dollar terms, the reported revenue is 122.8 million for the third quarter, reflecting a decline of 2.4% sequentially and a decline of 10.9% annually. In constant currency terms, for the quarter, a decline by 3.7% sequentially and a decline by 10.6% annually. The U.S. dollar realization during the quarter has been Rs. 73.8 per dollar against Rs. 74.4 in the previous quarter. In the same quarter of the previous year, it was Rs. 71.2. Our gross margin for this quarter was 34.6% compared to 34.8% in the previous quarter. The effective tax rate has remained same as the previous quarter at 26.5% after adjusting it for exceptional items and excluding the TPM business.

For the quarter ending December 31, 2020, billed DSO decreased compared to the previous quarter and stood at 48 days instead of 51 days while DSO, including unbilled, decreased by 2 days to 73 days compared to 75 days in the previous quarter. On a year-on-year basis, DSO, including unbilled, decreased by 20 days from 93 days to 73 days. The Board of Directors have approved an interim dividend of Rs. 1.2 per share.

Cash and cash equivalents, including investments in mutual funds net of the borrowings, increased from USD 117.2 million in the previous quarter to USD 160.2 million in the quarter ending December 31, 2020, reflecting a net increase of USD 43 million. The total amount of outstanding hedges as of December 31, 2020, was equivalent to USD 120.6 million compared to USD 172 million in Q2 FY '21. In Q3 FY '21, we have added 1 client in the USD 5 million+ band, bringing USD 5 million+ client total to 24; and 2 clients in the USD 1 million+ band, bringing the total to 83. During the previous quarter, we classified TPM business as held for sale and impact pertaining to adjustment from the carrying amount versus the fair value less the transaction cost was disclosed as an exceptional item. On October 19, 2020, we signed an agreement for the sale of TPM business. On completion of the closing conditions, the differential impact has been disclosed as an exceptional item, including the reclassification of balance in foreign currency, translation result to the consolidated statement of profit and loss amount amounting to a gain of Rs. 374 million.

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 Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli: Hi Ajay. This is probably the first time you are interacting with investors in your new role as the

CEO of Zensar. First of all, welcome and best wishes in your new role. I will be glad to know your broad thoughts on the Zensar opportunity and how you see yourself taking this company

to the next big league?

Ajay Bhutoria: Thank you so much, Sudheer. As you know, I've been at Zensar for 2 weeks. I have a clear

charter from the Board to understand the firm, immerse myself in the business and look at how to reinvigorate profitable growth. So that is my focus, to deliver consistent growth at consistent margins. I'd like to underscore here that getting back to growth is foremost priority, and we will continue to focus on deal closures. We have managed a strong operational quarter with stable margins, and we'll continue that discipline. Our cash position is strongest in the last decade. That gives us a lot of dry ammunition. Zensar now is a zero-debt company with the highest ever net cash position of USD 160 million. That aside, I've inherited a very solid business with great

passionate people and great clients. And I'm looking forward to a very exciting journey ahead.

Thanks, Sudheer.

Sudheer Guntupalli: Just a follow-up question, Ajay. I understand it might be a little early or a little unfair to ask this

question because you have joined just a couple of weeks back. But you might have been looking at Zensar from the sidelines as an industry observer over the last several years. So any, let us say, quick thoughts or preliminary thoughts on what might be, let's say, incremental

improvements that you would like to bring in into the company?

Ajay Bhutoria: Right. Sudheer, like I said, it's too early to say, 2 weeks, and I am spending a lot of time with

our associates, with our leaders, with our partners, with our clients. I'm spending a lot of time understanding the firm. I'll continue to do that in the immediate foreseeable future. And it's only after I've done that, where I can then come back with comments. Right now, I'm on a steep

learning curve. I'm immersing myself in the firm, and that's what I'm going to continue to do in

the short term.

Moderator: The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please

go ahead.

Mukul Garg: Welcome Ajay. We understand that it is still early days. But if you look at slightly longer term

in the history of Zensar, we clearly have done a lot of work on the margin profile improvement, but growth continues to remain anemic despite having a) very high additional digital revenue share; and b) continuously very, very large deal pipeline. So any early thoughts on areas where

you believe changes can be made or opportunities can be found to improve growth?

Ajay Bhutoria: Sure, Mukul. As we indicated in the past quarter, we have softness in one of our top-tier clients

in Hi-tech. And that, together with a couple of deal closures, has caused decline in our revenue.

Outside of Hi-tech, we have seen some good growth elsewhere. Quarter-on-quarter, our





Consumer Services business grew 7.7%, BFS at 5.5%, EU grew at 6.3%, South Africa at 11.6%. So these are healthy growth numbers. The bookings, especially in Digital Foundation Services that drives our initiatives in cloud have been quite healthy. Overall booking is 200 million, one of our best in the recent quarters. We've also handled the margins quite well. So, as I get into this role, the mandate that I have from the Board and the leadership is very clear, to reinvigorate profitable growth. And that is going to be the focus going forward, i.e. consistent growth at consistent margins.

Mukul Garg:

So, my question was more on slightly longer-term trajectory than FY '21. While you understand that profitable growth is important, but basically, what is your perception between the two? If you have to focus early on, will it be more on the growth element or on maintaining the profitability? Because you clearly have built a fair bit of buffer on profitability now, but growth remains behind the curve.

Ajay Bhutoria:

Right. So Mukul, again, a little bit of early days for me. And as I get to learn the firm, as I look at the working, the structure, the people, the clients, the pipeline, one thing is very clear, the mandate and the charter coming from the Board is to reinvigorate profitable growth. That I'd be unequivocal about. Outside of that, I wouldn't like to comment too far into the future, but topline is a clear priority. Let me just state that.

Mukul Garg:

I think that's all I had from my end, and best of luck for your years ahead with Zensar.

Moderator:

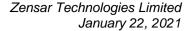
The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan:

Ajay, any preliminary thoughts on what do you think would be the quick sort of fixes to really improve revenue growth? Any thoughts on how annuity versus project-based composition in this business is today? And how you think that could, from a thought-process perspective, improve. I think those were the two quick questions from a strategy perspective. And then I had a question on what were the net new wins of this \$200 million. And finally, the potential impact from compensation on margins going forward?

Ajay Bhutoria:

Thank you, Nitin. As I go through my learning process, one of the things that I'm working on is, what do we do going forward? I think we have a fairly well-established digital strategy. And my focus will be largely around execution. Once again, in order to achieve consistent growth at consistent margins. So that is what I'm focused on. If you look at the key areas of investment for us that we have called out in the last several quarters, which is Banking and Financial services, Digital Foundation Services, and digital product engineering, cloud-related services, these focus areas, we will continue to double down on. And as I develop the strategy, along with the team, along with the leadership team, as we tweak it in the coming period, I will share more details. Right now, I'm immersed in the organization and chartering the path for profitable growth for us. So that's where I'm at. And regarding your second point, of the \$200 million net new, it is 40%. And for the third question, I would like to ask Navneet to step in and respond to it.



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Navneet Khandelwal

Thanks, Ajay. So Nitin, as you would see that our margin performance has been pretty good. We have done consistently over the last 2 quarters, is that we have expanded our margins pretty well. And this is due to the optimizations that we have been successfully able to deliver so far. Coming on to the go-forward perspective, definitely, there will be certain investments that we are planning to make, especially in the field force as well as we have the impact of salary hikes coming in. However, despite that, there are enough levers, we believe, that we continue to work on, which should ensure that while the margins would get moderated a bit. But they would continue to be in a narrow range. So that's how we look forward to it.

Nitin Padmanabhan:

Sure. If I could just squeeze one more question in. Do you think the headwind from the top client is almost over? Or do you think that will continue for some more time?

Ajay Bhutoria:

So the way I would like to answer that question is, while we have seen decline in our revenue, our volume of business, we have consistently managed our wallet share. That has not changed. The second point I'd like to make is that we have, over the years, steadily expanded outside of core IT services within this context into other areas where we see growth in the client investments etc. And we've been quite successful in that. So these are the 2 points I'd like to make, while there is a decline, our wallet share is consistent, and we continue to expand outside of core IT.

Moderator:

Thank you. We will move to the next question, which is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar:

Just one question. Can you give us a color in terms of when could we see the challenges from the top customer subside? That could be really helpful. And also, if you can elaborate on is the challenge more coming from the growth of the top customer? Or anything in terms of vendors at the customer end?

Ajay Bhutoria:

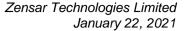
So Abhishek, thanks for the question. What I can share with you is that as we had discussed in the last quarter. There is softness in the volume that we have from that customer. Having said that, we continue to manage and maintain our wallet share. So that's one point I'd like to highlight once again. The other thing is that over the last several quarters, 4 to 6 quarters, we have made a concerted effort with a fair amount of success to identify other areas and move into other areas at that customer outside of core IT and also, these being areas where the customer is making investments and continues to grow. So with that, I think we are managing the customers' relationship quite well. We are very focused on this customer. We continue to make very strong delivery. Our relationships are quite strong. And we'll continue to watch this space.

Abhishek Shindadkar:

That's helpful. But in terms of any timelines, I mean do you think it has bottomed out? Or there could be still some more pain is what we were trying to understand?

Ajay Bhutoria:

Sure, Abhishek. I think the softness is expected to continue into Q4. And we will watch over that carefully. The way we see right now, it is expected to continue in Q4.





Moderator:

Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah:

Ajay, congrats on your joining. The first question, Ajay, you are joining at a time when Zensar's growth rate has been volatile and lagging the industry growth rates for the last several years as a whole, but at the same time, the margins are almost a decade high. So do you believe that the first priority is to turn around the growth, even at a compromise to margin, may not be a bad strategy. And then once the growth turns around, you can pull back the margin as a whole. So are you open for such kind of a strategy? Or are you from the day 1 want to balance out as a whole? Just some direction would help.

Ajay Bhutoria:

Sure, Sandeep. So first of all, I would like to underscore the fact that getting back to growth is foremost priority. And we will continue to focus on deal closures. So just let me underscore that. Consistent growth, consistent margins, our objective is to reinvigorate profitable growth. So now that being said, the good place we are in is that, a) our EBITDA is at a decade high. And our cash position is at a decade high. It's actually at an all-time high, and we are a zero-debt company. And this gives us dry ammunition to help fuel growth within the company, and we are going to use that ammunition.

Sandeep Shah:

And second question is in terms of the TCV wins. Last 3 quarters, we are adding a sizable TCV, with net new portion being 40% to 50%. But that does not translate into Q-on-Q growth. I do agree that there is a decrease in the top client. But even if you assume some amount of additional growth, it should have helped you to actually show some growth trends as a whole. So apart from our top client, is there other client-specific issues, which is impacting? And what is the view in terms of the non-digital business? Is it actually decelerating at a fast pace, and which is driving actually almost Q-on-Q decline in the revenue for the past few quarters?

Ajay Bhutoria:

Right. Sandeep let me make a few points. And then I'd like Navneet to add to it as well. As you rightly pointed out, on one side, there is growth, we are closing deals and on the other side, we have project completions, project end etc. And that's a balancing act that we have to perform. If you look at this quarter, so, while there has been a decline at one of our top clients in Hi-tech, we've also seen at another Hi-tech client a project closure of a fairly large project. And we see this happen in a couple of other places as well, including insurance. So what we are balancing here is to manage between closure of deals and driving bookings towards new revenues. So that's what's going on. Navneet, please add.

Navneet Khandelwal:

Thanks, Ajay. See, Sandeep, please note that the order booking has been translating into revenues in all the other business segments that we have. For example, consumer business has stabilized and is growing. It has shown a growth for the last 2 consecutive quarters. We have had the BFS business also picked up during this quarter. And so outside of the impact, which has happened largely on one of our top clients, I think the momentum is picking up. And if you were to exclude that event, we are on the path to actually get to a growth level. And this momentum should continue to build as we look forward to prioritizing on deal wins and getting the maximum out of it. At the same time, also plug any kind of leaky bucket we have, so that it





Sandeep Shah:

does not impact the revenue momentum that we can build up. Yes, it will take some time, but we are already on that and should see things moving up in the times to come.

Sandeep Shah: So Navneet, is it fair to say that from fourth quarter onwards, we may start seeing some gradual

growth pick up instead of a negative decline?

Navneet Khandelwal: So see, again, we do not give any forward-looking guidance. At the same time, as Ajay has called

out, we do expect certain continuing softness in one of our top clients to continue in Q4. Barring

that, all the other businesses are looking pretty much better at this moment.

Sandeep Shah: And the second question is in terms of the nonrecurring charge. It's still to understand that for

the same transaction in a span of couple of months, last quarter, we had a big charge because of the difference in the fair value to the book value. And now there is a big gain, half of it. So what

is the nature of this gain, which is accounted as extraordinary in this quarter versus a loss in the

last quarter?

Navneet Khandelwal: Yes. So if you would see, last quarter, we had recognized whatever was the excess or shortage

However, this was an investment which was made by us in 2010. And at that point in time, there was a particular exchange rate at which the investment was made. And when we have actually exited that investment, the exchange rate has been different. So, all this, while this difference in

of money that we were expecting to realize versus the carrying value of the transaction.

exchange rate was always carried in our balance sheet in the results, has to get reclassified into your P&L only upon actual closure of the investment. So it would not have been possible for us

to actually account for it in the last quarter. And hence, in the last quarter, we only recorded the

excess of the book value over the fair value. And in the current quarter, the balance foreign exchange gain has actually flowed into the P&L as a result of closure of the transaction.

narrow band. But do you believe that trend may continue once the lockdown restrictions have been renewed, and there could be more on-site transition, there could be more travel, there could

be more facility-related costs. So how confident are we to maintain this narrow band movement

And just last question, if I can squeeze. You have told that margin movement could be in a

even beyond 6 to 9 months down the line?

Navneet Khandelwal: Yes. So, one thing is for sure that there has been a structural shift in the way we operate as a

result of COVID, which has actually given certain natural efficiencies on cost, which is reflected in the margins. Having said that, the margin levels that we have hit at this moment are pretty

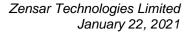
high and may not be sustainable to that extent. As costs start climbing up once all the restrictions are removed, we don't expect it will go as high because, let's say, for example, travel cost, I think

everybody has got used to being able to close transactions, deals and conversations through the

online channel. Once travel resumes, definitely, some of those costs will go up, but they will never go back to the levels it used to be. Second aspect is that we have now got a very well-oiled

machinery in terms of how we do our cost management and how we actually track what is the

return we get from every investment. To that extent, COVID has been a very good learning ground for us in terms of how you get all of this right. So that cost-conscious culture will





definitely continue. And we would definitely look to invest some of these margins into our sales organization to fuel better growth. Having said that, we still have certain efficiencies which we can work on, be it in the offshore costs we have and the shift to offshoring, which has happened. We believe that is not something which will go back to the old times even when ramp-ups happen. Based on the deals that we are seeing; it may only increase the offshore mix on a go-forward basis. So, we believe there are enough levers to be able to manage costs and hence, that confidence of indicating that we believe the margins would stay in a narrow range, despite any of the headwinds that we see.

Moderator:

Thank you. The next question is from the line of Baidik Sarkar from Unify Capital. Please go ahead.

Baidik Sarkar:

I'm sorry if I missed this in your opening comments, but if I can get a bit specific here, as somebody who spent considerable amount of time in retail, what is your diagnosis of the issue that Zensar has faced, whether it's retail portfolio? And how deep do you think the problem is? I understand you said it is early days, but as somebody who has spent as much time as you have, it would be great to hear your perspective.

Ajay Bhutoria:

Thank you, Baidik. So if you see consumer services has traditionally been a strong line of business for Zensar. And what we saw at the beginning of the pandemic is our portfolio got disrupted, hit because of pandemic-related declines and shrinkage. What I do see is that in the last couple of quarters, it has bounced back, especially the last quarter where it grew 7.7%, and the deal pipeline looks very healthy as well. So I am actually pretty happy, I would say, to see the performance of our Consumer Services business. As we go forward, we will continue to focus on making sure that the strengths we have in Consumer Services business continue to help drive our business. And we'll continue to invest in it. We will continue to grow the team. We will continue to bring in more leadership talent in that practice. The core of that practice is quite strong.

Baidik Sarkar:

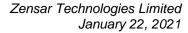
Ok, I'm sorry if I missed this in your disclosures, but I was seeking to understand what percentage of your digital revenues and retail revenues accrue from implementations? And within each of these opportunities, that is within digital and within retail, barring non-implementation, as an industry insider, what are the practice silos that you've been most excited about?

Ajay Bhutoria:

Right. So Baidik, we have Prameela, our Chief Operating Officer, on the call, and she also manages our retail business quite directly. I would request her to take that question.

Prameela Kalive:

Thank you, Ajay, and Hi, Baidik. To give you a color on the retail business, almost 70% of our retail business is, when I say implementation, it is platforms and packages. The core areas we focused both in the retail and the consumer services, that's the segment we're focused on, are around e-commerce, but now the whole e-commerce solutions are being modernized, going away from the package to new-age microservices-based architecture platform solution implementation. Also, a big focus area for us is the entire digital supply chain space, how we optimize, accelerate and modernize the supply chain solutions for our customers. These are two



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key areas. We also work in retail tech in the product development space. In tech products, again, cloud-native products for our customers in the entire retail space, merchandising, planning and customer engagement. The new-age areas we are focusing on in retail are around the customer analytics to really disrupt customer experience. Also, the customer engagement focus area is on bringing automation and RPA to transform customer engagement points, whether it is contact centers or its customer onboarding. So, these are the areas that we are focusing on in the retail space.

Baidik Sarkar:

Thanks, Prameela, that's useful. I don't need to go on, but I'm curious because the outlook from the platform OEs who cater to retail and the exact specs that you've mentioned of the last 2 quarters has been on a tear. In fact, they probably guided for the best outlook ever since their existence. So, there is a bit of discountenance between the outlook that service providers like you are giving vis-à-vis the outlook that OE product manufacturers are giving. So, is this an issue with wallet share? Or is it disruptive pricing? Because at the end of the day, this is a cost take out industry. So, is it fair for me to understand that the second issue that I mentioned, that's the real trouble and not the macro opportunity per se?

Prameela Kalive:

So, if we just look at what happened in the last holiday period is a good indication for all the retail consumer services. We work with several of our global retailers in supporting them. And through the holiday period, we have seen a significant shift in their online business. I think they have just doubled or tripled their online business compared to the previous years. So, in all our retail client accounts, what we are seeing is the huge focus on accelerating their digital transformation program. They are moving away from the package world and build more scalable and modern secure micro-services-based architecture. So, we are working on several such transformation programs with our clients. But we are very upbeat about the kind of budget the customers are now diverting as they have all just opened up their 2021 budget. So, we see that investment in the digital programs for retailers will continue.

Baidik Sarkar:

Ajay, while in your opening remark you said, you see the dry powder, you alluded to that and you said it's a mandate from the Board. The context of the question is what is your sense of how Zensar has leveraged on all your acquisitions? It's an easy thing to do but depends on the maturity people have, but what's your sense of how you managed those?

Ajay Bhutoria:

So Baidik, again, not sure if I got your answer right, and I apologize, the line is not that clear. But if I were to repeat, your question was acquisitions of Zensar and how we've leveraged them, right?

Baidik Sarkar:

Yes.

Ajay Bhutoria:

Right. So, my view is that I think the tuck-in acquisitions that we've made at Zensar have truly been capability-enhancing. So right from the time when we got in Keystone to Cynosure to Foolproof to Indigo Slate, very pertinent acquisitions, and each one of them added significantly to the capability of the company and helped us leap forward. So, Keystone, in many ways, turbocharged our retail practice. Cynosure has done incredible things to our insurance practice.





Foolproof, which has helped us accelerate our experience-led transformations and now is fully integrated. And a lot of our European go-to-market is fully integrated along with Foolproof, and it is showing incredible results. A big part of our bookings in Europe come from wins in the space of experience-led transformation. And similarly, Indigo Slate has also done very well. They have just come out of a great quarter. So, I am very enthused with the acquisitions we've made thus far. And similarly, as we go forward, we continue to look for opportunities to make investments in inorganic space to again leapfrog on opportunities, continue to make these kind of tuck-in acquisitions. Like I said, we have a lot of dry ammunition. Cash position has been the best we have seen since the beginning of the firm. And that is good ammunition for us to continue to make investments organically and inorganically. We will continue to evaluate those tuck-in acquisitions very carefully.

Moderator:

Thank you. The next question is from the line of Dipesh from Emkay Global. Please go ahead.

Dipesh Mehta:

Just 2 questions. The first is about wanting to get your sense about this work-from-anywhere model, which we have implemented. What is the experience so far? How the revenue and cost model play out? And how do you expect it to have an implication on the margins? And second question is on insurance. Insurance is showing weakness for some time now. So, if you can provide some perspective how one should understand what factor is driving that weakness and how we expect it to play out over next few quarters?

Ajay Bhutoria:

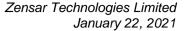
Sure. For the first question, if I may request Vivek to share his thoughts. And for the second question, I'll make my observations, and I'd like Prameela to chime in as well. Go ahead, Vivek.

Vivek Ranjan:

Thanks a lot, Ajay, and thank you, Dipesh, for the question. Yes, as you mentioned about work-from-anywhere and I have spoken about that in the past also. It has been a pioneering initiative from us. We started this journey with a pilot of 100 associates. And now in fact, in the last 6 months, we have hired more than 550, and that is a very strong indication of the success which we had in the model. And obviously, your question is around how it is going to enable us in terms of growth? Yes, absolutely. In fact, what it does is that it helps us increase the scope and span of our supply, and it is helping us reach out to where we were not able to reach out in terms of talent and skill supply. And also, it has a massive positive impact for industry as a whole in terms of optimizing our cost. So, we believe that it has been a fantastic initiative for us in Zensar. It has been hugely successful, and it is a pioneering initiative for industry as a whole. Thank you.

Ajay Bhutoria:

And on the second question, look, it's a very vibrant practice for us. It's a very strong team. As we speak, we just brought in a new leader. A very seasoned insurance professional into the leadership team, continued deep focus. What we are seeing is some of the project closures came at a time that caused a decline, a shrinkage in revenue. But once again, the pipeline looks good. The team is strong. Our capabilities are very good. And I see the insurance business also picking up growth just like we saw in the Consumer Services business. I don't think that's something that we would worry about too much. So we are very deeply focused. We continue to stress hard on building pipeline in that business and continue to focus on deal closures. Prameela, would you like to add, please?





Prameela Kalive:

Thank you, Ajay. Just to add to what Ajay mentioned, yes, there were some significant-sized projects that came to an end in the last couple of quarters. Also, 7 of our retail clients when the pandemic began, they took a little while to make their decisions on starting off their transformation program. But what we look at, I think we've got a very strong pipeline of opportunities. A big key area that you see across, in fact, some of the new logos that we closed in this quarter are for significant larger retailers, both in U.S. and in U.K. And the opportunity that you see where most of our insurance pipeline currently is, is this massive modernization programs that our insurance clients across the 3 geographies have embarked upon. These are taking their legacy systems away from mainframe, moving them to cloud. Modernizing the systems, rearchitecting their solutions to drive agility, speed and customer experience. And this is where we see the full stack Zensar, our awesome capability in the Digital Foundation Services coupled with the core applications, technology expertise and the whole customer experience capability that we have in our acquired businesses. This is where the true end-to-end modernization programming is what we are working on with many of our big insurance players. So we do see that this is going to come back on the growth track soon.

Ajav Bhutoria:

And I'd like to add that we've had a good quarter in insurance. We closed a couple of very good logos, and that is going to support the momentum in the practice.

Moderator:

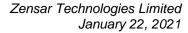
Thank you. The next question is from the line of Hardik Sangani from ICICI Securities. Please go ahead.

Hardik Sangani:

Sir, I have a couple of questions. In terms of deal wins or in terms of pipeline, so a lot of our peers, they may just focus on large deals, and they have, like, also planning to do some investments around the same. So what would be our take on it? And are the deal conversions or the mix of deals, which we would have been seeing in past couple of quarters, changing? And the last question and except for the headwinds which you are facing in some of our top clients, what can be the new areas of growth for us? And are there any investments in terms of sales leadership or in terms of some delivery mechanism needed to achieve this? That's from my side.

Ajay Bhutoria:

Hardik, first of all, thank you. So Hardik, actually, quite a few questions. So, let me go one at a time. So first of all is, we have seen good pipeline and good deal closures. The size of these deals varies from small to medium to a couple of large ones as well. So, it is the full spectrum. Now towards that, will we be open to making investments in order to win large complex deals etc., that we will be consistent with what we have done thus far. Back to the point where our objective is to deliver consistent growth at consistent margins and reinvigorate profitable growth. Where we see a deal which provides us with volume and ensures margin within the range, we will continue to find them hard and we will not shy away from making short term investments etc. to make sure that we are well positioned on big deals. Now the other question, Hardik, that you had, which is, will we continue to invest in the sales team etc.? So as we mentioned slightly earlier in the call as well, cash position is good, margin is good and the objective is consistent growth, we will, in the coming quarters, and you will see it, we will continue to invest in increasing our sales and solution teams, increasing our leadership team, we will continue to invest in bringing in new capabilities, we will continue to look at inorganic growth very





seriously. And outside of our traditional areas of strength, such as consumer services, insurance and Hi-tech, the areas that we will focus on outside these areas of traditional strength are Digital Foundation Services. We have doubled down pretty significantly on that. We are making very significant investment in banking and financial services, and that is bearing results. The pipeline looks good. We have closed a few good logos out there to create headroom for growth. And in terms of services, we are invested in continue to building, within the auspices, within the overall umbrella of digital foundation services, our cloud business. And we will continue to invest in building our digital product engineering, data engineering, analytics and AI/ML business. These will be core areas where we focus to continue investing above and beyond.

Moderator:

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

Nitin Padmanabhan:

I just wanted your thoughts on what are your thoughts on how we plan to improve the annuity in the business? Because what we have seen thus far is that there have always been project completions and either client-specific issues and something of that sort impacting revenue. And we have always assumed that the project-based revenue would be coming down over the last couple of years. But what we have always struggled is where are we on that journey and by when do we start seeing predictability on revenue? So anything you could help us with on that front would be very helpful.

Ajay Bhutoria:

Right. So, Nitin, if you may please look at the overall landscape, we will continue to invest and drive business in the experiential area, so digital experience. We will continue to drive business in our digital application services space, which includes engineering, which includes product implementation, package implementations, which also includes a lot of work that we do in the run space for application maintenance. Then the third area, which is a big focus for us, is our Digital Foundation Services, which largely deals with infrastructure, digital operations, digital end users, computing, and digital experience. And between digital applications and Digital Foundation Services, we see a considerable amount of deal flow now that categorizes as annuity. And we want to make sure that we fire on both cylinders, we ride both horses, both in terms of the transformational change type work that we do extremely well, as well as the run side of the house, that run the business, manage/maintain operations, run infrastructure that we have also done very well and continue to build capability around. So, I think we will fire on both these cylinders, Nitin.

Nitin Padmanabhan:

Sure. That's right. Now there's one suggestion, something that would be helpful in the future is anything to help us in terms of how this annuity business is building up on the overall portfolio. And that sort of gives us a sense on how the productibility is improving in the business, and that really helps a lot from an investor perspective.

Ajay Bhutoria:

We will take that as an input. Thank you, Nitin.

Moderator:

Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Sudheer Guntupalli for closing comments.



Zensar Technologies Limited January 22, 2021

Sudheer Guntupalli: Thanks, Rutuja. Thank you all once again for joining us today, and thanks for the management

team of Zensar Technologies for giving ICICI Securities this opportunity to host the call. Have

a good day and a good weekend, all of you. Thanks.

Ajay Bhutoria: Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining

us, and you may now disconnect your lines.