



“Zensar Technologies Q2 FY17 Earnings Conference Call”

October 18, 2016



MANAGEMENT: **MR. SANDEEP KISHORE – CHIEF EXECUTIVE OFFICER,
ZENSAR TECHNOLOGIES LIMITED**
**MR. S. BALASUBRAMANIAM – CHIEF FINANCIAL OFFICER,
ZENSAR TECHNOLOGIES LIMITED**
**MR. AJAY BHANDARI – HEAD, STRATEGY & CORPORATE
DEVELOPMENT, ZENSAR TECHNOLOGIES LIMITED**
**MR. SYED AZFAR HUSSAIN -- HEAD, GLOBAL HUMAN
RESOURCES, ZENSAR TECHNOLOGIES LIMITED**
**MR. SANJAY RAWA -- GLOBAL FINANCIAL CONTROLLER,
ZENSAR TECHNOLOGIES LIMITED**

MODERATOR: **MR. SHASHI BHUSHAN – IDFC SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Zensar Technologies Q2 FY-'17 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shashi Bhushan from IDFC Securities. Thank you and over to you sir.

Shashi Bhushan: Good Evening, Ladies and Gentlemen, Good Day and Welcome to Zensar Q2 FY-'17 Earnings Conference Call. We have with us Mr. Sandeep Kishore -- CEO, M.D.; Mr. S. Balasubramaniam – CFO, along with the senior management of Zensar Technologies. Over to you sir for prepared remark and the presentation.

Sandeep Kishore: Thank you, Shashi. Hello! and Good Afternoon, everyone. This is Sandeep Kishore here. Glad to be joining on the call. Thank you so much for being on the call. I have with me from the Zensar management team Bala our CFO; Ajay -- Head of Strategy & Corporate Development; Afzar -- Head of our Global HR; and Sanjay -- our Global Financial Controller.

I will give you the brief overview of how Q2 FY-'17 which was the last quarter went for Zensar, this will be followed by a brief opening remark by Bala on other financial details that he usually shares with you, post that we will open the floor for questions.

I trust all of you have had the chance to go through the detail financial result and the fact sheet we released yesterday October 17th.

Let me take the opportunity to present to you some key details from our results and business performance. We had a good quarter from operating parameters perspective; in constant currency terms our revenue growth was 2.3% on year-on-year basis, 2.2% on sequential quarter-on-quarter basis. In US dollar terms Q-on-Q revenue grew 1.8% from \$114 million to \$116 million. In INR terms Q-on-Q revenue grew 1.9% from Rs.762.4 crores to Rs.776.7 crores. Gross margin grew by 3.7% in US dollar terms and 3.8% in INR terms quarter-on-quarter despite the impact of wage hike which was there in Q2. EBITDA grew by 4.1% in dollar terms and 4.2% in INR term sequentially. Digital revenue has grown sequentially and accounted for 27.8% of our last quarter result. Our core Application Services business grew at 1.5% sequentially on a constant currency basis. The Infrastructure Management business grew by 4.2% sequentially in constant currency. The Services part the IMS Cloud Services component actually grew at 13.9%, driven by aggressive account mining and revitalized sales and client-facing team. Our continuing focus on account mining has once again borne results. The number of million dollar plus customers has grown from 65 to 69; share of revenue from top 5, 10 and 20 customer has also increased by 2.4%, 2.9% and 3.4% respectively. They now account for 38.9%, 48.6% and 59.1% of our business respectively. Other operational parameters like utilization, attrition, onsite:offshore revenue mix have also shown improvement.

From a geography perspective, revenue from US grew 2%, Europe grew 3% in constant currency, Africa region continues to perform quite well and grew at 4.1% in constant currency terms.

Retail and Consumer Services business experienced very strong growth of 10% sequentially driven by large digital win with our existing client.

Manufacturing vertical experienced a slight drop of 2.2%, but continues to see a good inflow of deals and strong pipeline.

Digital business continued a steady performance and accounted for as we mentioned earlier 27.8% of our revenue in the second quarter, which was driven primarily by the growth in Digital Commerce and our IM Cloud business.

Our focus on large deal continues to yield result in form of deals from both new as well as existing customer and a significantly increased number of large deal order book. We signed three large multi-million multi-year deals; these are typically 25 plus million deals in Retail and BFSI vertical. Our focus on Digital has also resulted in significant wins in last quarter. Some of these Digital wins were: a large deal for Digital Commerce launch for leading kids store in the US; and an Oracle Commerce implementation at US-based manufacturer for laboratory instrument. We also noted significant wins in our core traditional service lines which are part of our return of digital framework. We signed a multi-service large deal in UK for a global leader in financial services corporation; a large deal for vendor optimization initiative for one of the largest networking companies in the world; a multi-million dollar share point roll out and infrastructure support deal for integrating applications and infrastructure in Europe for one of the leading global labor issues agencies; next-generation fleet management system deal in Africa for one of the largest fleet management company; Oracle EBS deal in US for one of the large international retailing group that operates several chains of retail brand in consumer durable sectors.

Our focus on thought leadership driven by 'Return on Digital' has continued to yield result. We continue to refine our IPs and have also filed patent for few of our offerings. This focus has also resulted in multiple industry analyst coverage and publications of several white papers with their cooperation.

Our efforts to make Zensar 100% digital company have been accelerating in the last quarter. We have launched several new enterprise class applications to streamline our digital processes. Some of these applications are:

- **ZenSales:** to have a complete sales pipeline view on a digital app for all the client facing team.
- **ZenMCM:** automates the management council meeting, including all actions and follow-up,

- **ZenHelp:** which is our global HR app for query and grievances enables our employees to communicate one-on-one with the HR partner,
- **ZenIdea:** which is Zensar's crowdsourcing platform for innovative ideas and solutions from Zensar Associates, including functionality to share ideas and comments and vote on them,
- **ZenFinance:** now enables mobile payroll access to our global employees including access to their PF and pension contribution and
- **ZenCSR:** provides details on Zensar's many CSR activities and gives our employees the opportunity to volunteer for these activities.

Apart from these new digital application, we continue to refine the existing application based on the stakeholders' feedback with many of them having gone through multiple releases in the past quarter.

In summary, Q2 FY-'17 has been a good quarter for us with a broad-based growth in most areas. Our focus on 'Return on Digital' continues to show results and investments that we have made will continue to drive return in this sector.

Let me now ask Bala to provide you with his views and insights on additional financial details, subsequent to that we will open the floor for questions. Bala, over to you.

S. Balasubramaniam:

Thank you, Sandeep. Good Evening, Ladies and Gentlemen. As usual I will give you some financial data points so that call can move very easily towards the relevant issues. In terms of CAPEX this quarter we spent Rs.9.58 crores or 1.4 million, on H1 basis we are now at Rs.13.20 crores of CAPEX, so roughly it is about \$2 million. In terms of closing debtors, it is \$81.2 million or Rs.540.62 crores which compares favorably with the same period last quarter at DSO of 64-days. In terms of cash and the balance sheet, we have cash of \$52.5 million and short term liquid investments at \$29.3 million, so the total cash plus short-term investment is \$81.6 million or Rs.541.32 crores, and against that we have borrowings of \$26.4 million essentially for working capital or 174.66, so the net free cash available as end of Q2 is \$55.2 million or Rs.366.66 crores. In terms of our FOREX coverage, of the \$81.2 million of debt we have coverage for approximately 54%, which is at \$44 million at an average rate rupee to the dollar at 70.31. So these are the data points that I had, which I thought we will share it upfront.

Moderator:

Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira:

My first question relates to the deal pipeline, there is a lot of optimism in the management voice. If you can share what is the deal pipeline, last quarter I think you mentioned about \$200 million, how has that inched up? Is it possible for you to share in terms of the closure of 40 million deal wins this quarter, how much would be from Digital or eCommerce or IMS or Oracle growth engines?

- Ajay Bhandari:** The deal pipeline continues to improve, I think if you look at it on a quarter-on-quarter basis both with respect to our wins as well as pipeline we are seeing good growth. At an overall level, while last quarter pipeline was close to the \$500 million mark, our current pipeline is closer to the \$700 million mark. So the pipeline kind of continues to be strong.
- Priya Rohira:** So it is an addition of around \$200 million this quarter itself you are saying?
- Ajay Bhandari:** Yes, that is right.
- Priya Rohira:** It is \$700 million compared to \$500 million last quarter, just to read it correctly?
- Ajay Bhandari:** Yes, it is partially also because we have just improved the way we do our pipeline tracking as well. So Sandeep kind of spoke about the way we manage our own pipeline etc., using digital so that has improved the way we track our pipeline, but yes, it is a pretty decent number at the moment.
- Priya Rohira:** In this \$40 million which you have clocked this quarter, how much of it would be through key growth engines of say Digital eCommerce, IMS and Oracle?
- Ajay Bhandari:** Practically 100%.
- Priya Rohira:** Also, in terms of the number of clients whom we service on digital, last quarter we had I think around 50 out of the 183 clients and we had a target of moving it to 100% client coverage in 18-months. Can you share a number, what has been the incremental coverage in this quarter?
- Ajay Bhandari:** What we have been doing, Priya, is rather than track the overall number, we have been tracking the extent of penetration in the top-50 clients because that is where we have inordinate amount of focus, and at the moment more than 80% of our top-50 clients are being covered by some digital solution or the others.
- Priya Rohira:** You have mentioned in your presentation that 32 clients have been identified for the Three-in-a-box strategy. What could be the potential of these top-30 accounts from what would you look currently, I am sure the efforts would have gone assuming the potential over there, so what in your assessment, are you the preferred vendor over there or when do you get a mind share over there?
- Ajay Bhandari:** Priya, as you have seen, there has been very healthy movement in the top-20 clients and it is partially because of all the investments and effort we have put in the top-32. So we are hoping to see that the investment we make in these accounts continues to help us grow them disproportionately to the rest of the company, so we are hopeful that there will be growth.
- Priya Rohira:** My last question relates to the sales team. While I look at the number of sales team being a little lower compared to the last quarter, the spend has been quite decent. So I am assuming

there has been some good churn or with respect to healthy inductions. If you can throw some color over there?

Sandeep Kishore: I think we are constantly investing in the right team in front of our customers and it is a process of evolution which we have talked about ever since I have come on board which is since the last three quarters now. Our endeavor is as follows: We want to work with fewer set of customers, but bring deeper and richer relationships, particularly when it comes to Digital and that needs a different kind of a capability set and we are constantly evaluating and investing both to drive customer relationship, not just from a sales team perspective, but also from the account management and client management perspective. So the right way actually to look at the client investment is not just look at the sales team because we have now created a dedicated Three-in-a-box as you mentioned yourself, so there is a combination of a sales person, a delivery person and a digital evangelist, dedicated for each of those top-30 accounts.

Priya Rohira: What would be the revenue of Professional Access this quarter?

Sandeep Kishore: \$15 million.

Moderator: Thank you. The next question is from the line of Sumeet Surana from Haitong Securities. Please go ahead.

Sumeet Surana: My question is regarding the growth in beyond top-20 clients. This quarter we saw a decline of around 6% on quarter-on-quarter basis. So going forward, what can we expect in this area – will we see more decline or there will be stagnation after a quarter or two?

Sandeep Kishore: Thank you, Sumit. I think it is a very astute question, it goes back to the opening comments I was making. We are very committed to focus on accounts and clients where we need to deliver digital relevancy to them and those are the accounts where we are focused on and that started to show initial set of results as you have seen in the top-20 account growth. The long tail account we have made that also publicly clear that we will do the churn on those accounts, we are looking at those accounts very carefully, actually this quarter we saw an increase of four new set of customers that have come from our hunting team, but in our existing set of account, we are watching it carefully, wherever we think we can add value we obviously would want to retain and be relevant to them, where not then we will have to prune that list out.

Sumeet Surana: The other question is regarding the IMS Service segment. We saw a strong growth in this area. So can you share some color where the growth came from, how much of this growth was contributed by the IMS Cloud part?

Sandeep Kishore: The 13.9% sequential growth, Sumeet, actually all of it came from IMS Cloud. MVS part of our business, actually declined and that is the reason why overall IMS only grew 4.2%, the net of the client overall growth was 4.2%, the Services part of our business which is strategic and core growth area has done exceptionally well this quarter at 13.9%, driven predominantly by

account mining and going back to the top-20 accounts focus and dedicated team started to show initial set of good results.

Sumeet Surana: My last question is regarding Professional Access. If we see this is a sequentially strong quarter for PA but the number you have highlighted at \$15 million, looks a little bit on the lower side. So was there some one-off in this area and how can we see growth in the third quarter for the same segment?

Ajay Bhandari: What has happened, Sumeet, is that if you track the performance of PA, in Q3 of last year there was not a dip. So traditionally there used to be a dip because it was a very project-based business. Projects were to end by November and Q3 was a dip. But we have since then substantially added to the whole AMS, support and enhancement piece in e-commerce and we actually do not see a seasonality any more. So Q3 can be as good if not better than Q2.

Sumeet Surana: How much were the PA margins if you can share that number?

Ajay Bhandari: I will send it to you separately.

Moderator: Thank you. The next question is from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: Sandeep, wanted to know if there are any examples of you being able to cross-sell lot of your offerings to existing customers of Professional Access given the fact that Oracle Commerce has been tremendously successful in large retailers, that would give you an opportunity to get hold of some marquee clients and mine them further, so just some color on that would be helpful?

Sandeep Kishore: I think it is a great question, Sagar, thank you for that, and the answer is 'yes' at the same time it is very early days. So as you know Professional Access is now fully integrated and its part of what we now call DCS which is our Digital Commerce Services business. It has phenomenal relationships with some of the world's best brands in retail and consumer services, and we have now reached out to all of them with all of our other service offerings from CMO offering which sits quite well with what DCS does particularly on the ATG and Oracle Commerce side, also, our Infrastructure Services offering, and the traditional custom application services from the app dev. So all of this is coming together in what we have talked earlier in the whole 'Return on Digital' framework. So return on digital framework focuses on agility, crossover and core system, and commerce sits between agility as well as the core system and some bit of it actually goes into the crossover as well. It is early days, I would not call that we have seen significant amount of pipelines and deal wins of selling those core services into the DCS account, but that quite frankly is the opportunity as well.

Sagar Lele: Also, wanted to probe you a little more on the number of clients bit, so you currently at 187 and you see an active pruning of clients over the last four quarters now. Just wanted to get a

sense in terms of when you see that pruning completed, are there a lot more accounts left which you are assessing at the moment or are we at the fag end of this exercise?

Sandeep Kishore: We still are continuing with our pruning and I believe it will go on for at least three to four more quarters as there are multiple stages of discussions with these clients. When you have to prune it down you really have to make sure that you work in very close alignment. You have to complete the project, it is a responsibility that we have taken. Also, we need to be very clear ourselves that we are taking a very prudent and a strategic decision. So the process is on, we started it two quarters ago and it will continue to be on for at least three to four more quarters.

Moderator: Thank you. The next question is from the line of Ritika Jalan from Narnolia Securities. Please go ahead.

Ritika Jalan: Actually, we have won a multi-million deal in South Africa. So I want to know when it will start to contribute to the revenue?

Ajay Bhandari: So it has already started, it is a multi-year project, but as far as its impact on revenue is concerned, that started from this quarter itself.

Ritika Jalan: Then how much revenue has been contributed?

Ajay Bhandari: We cannot reveal that at the moment but it is a good client, for us a good logo and a good name to have with us.

Ritika Jalan: In terms of utilization, can you guide me at what level would be the steady state level be and going forward what will be the utilization level?

Ajay Bhandari: We are at 80% right now, we obviously are always looking at opportunities to improve that. We are also conscious of the fact that there is a healthy balance that you need to maintain because you also need to be ready, we are signing a lot of large deals and there are lot of ramp ups coming up. So we will be watching the utilization closely and we will manage it based on the need of the business at that point - 79.8% which was there last quarter, to anything between 82 and 83 depending upon the state of the business then. So it is not like we have got a fixed formula set up, it is tracked based on the need of the business then, other closures, the large deals that we have signed, ramp ups, etc.,

Ritika Jalan: Can you share the revenue of Professional Access?

Ajay Bhandari: That is \$15 million.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: Our growth in the quarter was aided by the Retail and CPG. Would there be some impact of seasonality in Q3 FY17 in this vertical?

Ajay Bhandari: No, not really, Shashi, as I mentioned, the Commerce business, we are no longer seeing any seasonality in that business and outside of the Commerce business, which is largely deployment of core retail solutions or could be the legacy IT Services of infra apps there was no seasonality in that in any case. So no real seasonality there.

Shashi Bhushan: Manufacturing vertical has declined in the quarter. So how is the outlook in that vertical shaping up both in the near-term and slightly over the longer-term as well?

Ajay Bhandari: What is happening there is that if you see some of the pruning that we are doing in accounts, lot of them are Manufacturing because traditionally we used to do lot of Oracle implementation, lot of them are fairly small with very little cross-sell or repeat business there. Lot of the pruning that we are doing happens to be in the Manufacturing vertical which is why you will see that decline there. But most of the logos that we are adding in the pipeline what we mentioned in the analyst presentation are much improved better logos, better clients and you will start to see the needle turning the other way once the ramp ups in those clients happen.

Shashi Bhushan: Is there any currency risk in our Africa business that one needs to account for?

S Balasubramaniam: I think the ZAR has improved from where it was from say two quarters ago and Africa is an emerging market. So while we are aware and attuned to the currency exposures, we also have started hedging the ZAR. Like any other emerging market we are conscious about the currencies. So one way is to increase the offshoring but essentially Africa has been onsite business and if it is an onsite business we earn in ZAR and we spend in ZAR. So to that extent it is a natural hedge, but Africa is approximately about 10% of our business. So it really is not a big impact to the bottom line per se. South Africa economy has improved over the last two quarters and the ZAR has also steadily kind of improved. So it is essentially a major aspect of our risk management whether it is the GBP or the ZAR or even the dollar.

Shashi Bhushan: How about the profitability in that part of world for the projects?

Ajay Bhandari: So the operating margins in that business is around the Zensar average, it is not like it has low profitability, the appreciation in the currency has helped us.

Sandeep Kishore: Let me just add to that question, Shashi, I think there are multiple ways to look at this -- #1 is we are extremely proud of our business in Africa, we probably are the only company the best that I can remember, which has such a huge commitment and such a large part of the business which comes from Africa compared to what we deliver, it is almost 10% of the business. We have invested correctly, we have some phenomenal brands with whom we work in Africa across Financial Services, Retail and we have just started doing some amount of

Manufacturing work there. So our commitment to Africa is actually quite strong. As we win larger projects to take on from where Ajay and Bala had enumerated, we are clearly focused on moving more work offshore because of the scale required and the time required by our South African customers to deliver the digital program which they really want to launch at a fast pace. So it provides an opportunity for us to deliver this in a true global delivery model both from South Africa onsite as well as now ramp up significantly from India, and that can provide some cushion of lever to hedge from the currency as well.

Shashi Bhushan: Are we coming to end of that pruning exercise that we have undertaken or would there be any follow on impact for the remainder of FY17 as well?

Sandeep Kishore: No, it is not the end of it... I think I answered it a little while ago, we will see this for at least couple of more quarters, when we started the exercise two quarters ago within our own management team, we were quite clear that we must make sure that we have a happy customer, whether we work with them or not, we have a responsibility to deliver the programs and that is still our focus area. At the same time, we also want to be very clear that we are digitally relevant to our customer and that exercise is on. So I think it will go for at least three to four more quarters.

Shashi Bhushan: Any qualitative color on IMS Service line decline in the maintenance part but growth in the services part, is it because of the changing nature of the business or impact of Cloud in it?

Sandeep Kishore: The answer to both of that is 'yes,' we have also made it quite clear that MVS which is a third-party maintenance business is essentially a profit improvement program for us, and it has declined some seasonalities with it, but our entire focus at the management level and in the company is actually to develop solutions in the core IM Cloud business and you will see several solutions which we have already launched and there are several more which are in the pipeline plus invest into client engagement and client facing team, particularly on those top-20 or 30 accounts and that is where our focus is. So it started to show good set of results and one of the reasons why 13.9% sequential growth happened in IM Cloud business is exactly for that reason, combination of Cloud Orchestration and Data Center move into the Cloud in the large accounts that we work today. So multi-services, Cloud focus is going to be a continued focus area for us.

Moderator: Thank you. The next question is from the line of Aniket Pande from Elara Capital. Please go ahead.

Aniket Pande: My first question is regarding the revenue growth. So, in this quarter, were there any positive or negative surprise for the revenue growth and what are the headwinds you are expecting in coming quarters?

Ajay Bhandari: The only headwind we faced this quarter was kind of from currency largely from the GBP, but if you just look at it in terms of pure volume, it was pretty decent growth for us. But we are to

a large extent at the mercy of two currencies -- the GBP and the ZAR -- and they have been moving in opposite direction; the ZAR has appreciated and GBP has depreciated, so to a certain extent there is some dependence on that, but outside of that there is no real headwind in our business at the moment.

Aniket Pande: So presently Digital business accounts to 28% of your revenue. So out of your total 217 clients, how many clients are of Digital business?

Ajay Bhandari: Out of the 187 active clients this quarter we have already covered slightly more than 60, for whom we are doing some form of digital work or the other and the proportion of digital varies, in some cases it is 100%, in some cases it will be lower, but at the moment we are doing it for almost 60 of them.

Aniket Pande: Can you please throw some light on outlook on your African business?

Ajay Bhandari: I think Sandeep just alluded to it. Africa business which has been in existence for the last 14-years has done phenomenally well; on an average it grew somewhere between 24% to 30% year-on-year, in constant currency terms for almost 4 to 5 consecutive years. We have pretty impressive list of logos there and at the moment we believe that we are the second largest Indian IT vendor in that country and it was led largely by applications and over the last couple of years we are doing a lot more Infrastructure integrated deals as well as lot more digital. So it is clearly the business that is substantial portion that is doing very well.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Could you help us understand if the IT budgeting exercise for your top clients have already started for next year and what is the initial sense for next year?

Ajay bhandari: No, we have not reached that stage thus far. That is a subject of discussion in the next 30-days. So maybe we can update you by next quarter.

Gaurav Rateria: So in the traditional business, could you help us understand what are the dynamics around renewals of contracts in terms of pricing, contract sizes, competition?

Sandeep Kishore: Let me actually take it in two parts -- #1 is in the traditional core services, the renewal discussion is on because when clients are talking about digital enterprise, there is a very significant part which the core application and the core infrastructure play because many of these large Fortune 1000 or Global 1000 companies, have a lot of investments which is done into their core back-end system. There is a reasonable degree of predictability of that business. I think more and more when we do Digital projects and when we do Cloud projects, some of the clouds are actually moving in on high level of automation and orchestration. That is on the

project basis. Digital is currently largely on the project basis. So it is a combination of the annuity-based business as well as project-based business which we are dealing with.

Gaurav Rateria: So within the annuity part of the business, what are the dynamics around price discussions or competition and/or contract sizes, are they remaining the same when the renewals come or are there some amount of compression happening?

Sandeep Kishore: By and large I think they are remaining the same. We are seeing from our own pipeline perspective we do have actually pretty sizeable pipeline on large deal what we call \$25 plus million. So that number is increasing month-on-month for us and that also is the reason why that is getting contributed into both the wins as well as the revenue. Where we are currently working with the customers it is our responsibility and that is the opportunity set available for us, that you do not just talk to the customer on the core backend system. I think the opportunity for us and also for the industry is to really deliver the digital value chain of taking the work that you do with the core backend system into crossover and the digital front end. All of the solutions investment which at Zensar we have put forward and we have delivered over the last two to three quarters are focused around that journey. If you only focus on the core backend system, nobody pays you more to do the same work again and again and that is not where we want to be. So you clearly have to define a value roadmap which is digitally aligned and work with the customer towards that and that has been our focus.

Gaurav Rateria: Sir, any idea about the competition in both the sets where you win large deal and who you win large deal against and also within the Digital projects, is the competition same or do you see a different set of competition in both the kind of business?

Sandeep Kishore: I think we have won against large Tier-1, we have won against global companies, if it is only on the Digital front-end we still continue to see a lot of niche players come in and compete as well. So it is a combination.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Principal Mutual Fund. Please go ahead.

Ashish Agarwal: Sir, my question is regarding margins. Now, if I just look at your margins especially on the segmental margins, Infra margins have dropped significantly in this quarter despite the fact that the services portion has seen an increase. What is the reason for the same?

Ajay Bhandari: The reason for that largely is our maintenance business. I think Sandeep earlier in the call mentioned that that has kind of gone down by about 14%. So that business which typically tends to have a high fixed cost, is highly sensitive to revenue. So when revenue is down, the margins go down disproportionately. We have taken measures to improve the margins and you will see that impact in Q3 because some of those measures have taken whole of Q2 to get resolved. So in Q3 you will see some of that is coming.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Manager. Please go ahead.

Ashish Kacholia: My question pertains to the productivity of the typical Digital tech employee of Zensar. There is a recent article on Bloomberg by Andy Mukherjee which states that the productivity of the typical Indian Digital technology employees is 25% as efficient as its counterpart at the global guys like Accenture. So could you just throw some light on the pricing ability of us versus the leading vendors in the world?

Sandeep Kishore: Let me just give a little bit of color; Digital as we have defined in the seven services stack which is Analytics, Cloud, Customer Experience, Digital Marketing, Mobility, Commerce, Security and IoT. It is not just one digital. So it is unfair to say X percentage or Y percentage and put Digital as en-masse. All of these seven stacks of digital which we have publicly stated the way we track Digital revenue and Digital business and Digital investments are at different stages of maturity. So IoT for example is still horizon 2.5 or horizon 3. It is not there at the large scale of projects and roll-out that you would have seen in the Analytics sector or now Cloud for the last several quarters. So as the industry in Digital perspective matures, you would see employee productivity getting in line of the main stream and it varies. So I do not know whether 25 is the right number or not. From our point of view we have taken significant steps towards training our own people into making them digital proficient. We have launched “Digital Academy”, almost now six months ago and I can ask Azfar to give a little bit of more color about how we are training our people in digital proficiency so that that is in line with what the customers expect us to deliver and we are very-very committed to that. Azfar, can you just elaborate a little more on that please?

Syed Azfar Hussain: Sure Sandeep. We have a five-level course curriculum for the digital academy starting from the awareness level on to the basic level followed by the intermediate, advanced and expert levels. So, we had 100% of our billable employees complete both awareness and basic levels in a matter of three months. We have now launched the intermediate level at which stage anybody who completes intermediate level will be equipped to start a project in that technology. So now overall digital has been broken into seven streams. Then anybody who completes the expert level will be a subject matter expert in that area. So we hope to cover 100% of our associates, the intermediate level by the end of this financial year and then get on to the advanced and expert levels next year. So I think we are making sure that our associates are well equipped and well positioned to help the organization, take advantage of the opportunities that present itself as our go-to-market in those areas become stronger.

Ashish Kacholia: Just a follow-up question; there is this big Cloud overhanging the Indian IT industry which is this entire thing of digital and the Indian IT industry not being able to kind of cope with this change. So we have these kinds of articles on the death of the Indian IT industry. So what is your big picture perspective on this – is this an opportunity for us to kind of keep growing or is this going to severely disrupt our longer-term growth aspirations?

Sandeep Kishore: It is a great question. I think the death of Indian IT industry is highly exaggerated and it is not true. It is an opportunity quite frankly. I tell you why it is an opportunity and the way we see this. If we have 187 customers that we work and you have seen 69 of them are million plus dollar accounts. We have also stated that give or take 35 of those customers is where we have invested heavily. Now every company has their own set of large relationships with whom they are working. The opportunity quite clearly is how do you move the needle from the traditional core back-end systems which the industry has traditionally been delivering at a rapid pace to go to the crossover and go to the digital agility part. That is the value which the clients are expecting from us. So it is important that we invest correctly, it is important that we predicted and created. So all the solutions that we have launched at Zensar over the last six months, whether it is our Bot Solutions, Process Automation Solutions, Hyperorchestration of Cloud Solutions, the Automation Solutions, they are all in the crossover and the digital agility front end. So it is quite frankly an opportunity for us to rapidly transform and as you heard from Azfar to train our employees. The employees need to be trained to spot those opportunities, create those opportunities and lead it. So we feel that it is an opportunity, absolutely yes.

Ashish Kacholia: How difficult is it for you to retrain your employees to kind of move from legacy technologies to this digital of content kind of stuff?

Sandeep Kishore: It is a great question. It is a journey, it is not a plug-and-play, it is not a switch which you can flip tonight and everybody becomes digital superstar tomorrow and as you heard from Azfar, we are pretty committed to this, it is a 12-to-18-month journey which we have defined and those five levels will go through the journey. What makes it exciting is really the associates that we have are really looking to develop digital skills. I think there is a great enthusiasm at their end which is what helped us achieve 100% completion of basic and awareness levels in three months time which is not an easy task to do. I think it is that enthusiasm and energy for digital which makes us very confident that we will be able to make this journey very quickly.

Ashish Kacholia: Eventually, what percentage of our associates and employees do you think will become digitally proficient over the next 3-4-years or they have the basic capability to be retrained?

Syed Azfar Hussain: 100%.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investment Advisors. Please go ahead.

Gagan Thareja: If I look at the revenue growth for the first two quarters of this year, the revenue growth has been discernibly lower than what we have seen in the past few quarters, if you break down the revenue as you reported in your fact sheet manufacturing and financial services put together would be around almost 70% and these two seem to be pretty weak. If you could just sort of help us understand what is the baseline revenue growth trajectory for you in a six-month timeframe or going up to a three-year timeframe and how that sort of comes from the various

segments, Manufacturing, you are downscaling some of your smaller customers and at the same time Cisco is a big account, so if you could sort of elaborate on this a bit?

Sandeep Kishore:

Gagan, let me give some perspective and then I will ask Ajay to add to that as well. First of all, as you very well know, we do not give any guidance and we are going to stick to that. Second, we have also been very focused in clearly articulating our strategy and our strategy is to be digitally relevant, transformation partner to our customers, focus set of customers, we do not want to work with a whole long list, we want to work with the customer where we think we can add significant value in the Digital quotient which is those seven services stack which also we have publicly stated. We have also said that we are very focused in US, UK and South Africa, largely these three regions. In the market segment, you mentioned it, Manufacturing has a high exposure for us, I do think as we grow the rest of our business, overall as a percentage manufacturing will remain steady but it may see few points adjustment but just because of the large relationship which we have with one of the largest customers, I think we are putting a lot of investments to make sure that we move the revenue mix from just the traditional core back-end system into what I articulated earlier into the digital relevant, front-end agility as well as the crossover section, not just for the largest customer, but for all the top-20 customers. So that mix is the area of focus for us. Different markets behave differently. Retail and Consumer, you have seen that growth doing quite well this quarter; it is moving at a pretty fast pace because quite frankly it is a matter of survival for that industry segment itself is they do not invest into being digitally relevant for their customers, quite frankly, they do not have a business, and hence you will see that over the next several quarters an opportunity set which is going to be large. Financial Services for us is largely insurance today. We do think that we have an opportunity to expand because that market segment also is changing quite rapidly with the digital initiative coming in. Manufacturing, we have been traditionally very strong, particularly on the oracle investments and oracle backbone. This company traditionally has invested. There the opportunity for us actually quite frankly is to bring multiple services to our manufacturing customers from IMS Cloud as well as the whole CMO proposition suite which we have launched, both on the B2B as well as the B2C sector. So based on where we want to go as a company, I think there is a great set of opportunity available for us to invest both in solution as well as in the client facing team. That is where we are currently focused on. We will obviously be executing this well, it all depends on how well we execute, we executed well in the last quarter, that is why the operating set of numbers is what you have seen, and our focus is to continue to execute well on each one.

Ajay Bhandari:

The other point I would add is that in the whole account selection process we have been fairly selective, in the sense, we obviously want for our accounts to grow because we have an ambition of growth, so our ambition gets realized only when our accounts grow. So the whole process of selecting which account we keep or do not keep, depends largely on whether the account has any potential of growing and whether there is growth in the client itself in terms of their own revenue. So we have been selective and we have tried to retain clients where they themselves are growing and our business is growing and at the same time identified clients in our verticals where the potential of growth is very high. So, we have done okay in terms of

growth over the last two quarters and we hope that this whole process that Sandeep just enumerated and our whole account selection criteria helps us to grow faster.

Gagan Thareja: On the same lines your gross margin and EBITDA margins too have in the first two quarters sort of taken a hit. You pointed out one of the reasons could be restructuring in MVS. But, are we to infer that barring that one reason your margins would have been stable or is there more to it than the restructuring and some sort of price pressure in the traditional business which only spirals in the future as well?

Ajay Bhandari: No, I think MVS has contributed to that. We have not seen any rate pressure or any decline in the rate at which we are booking new business or for that matter client mining, so no, we do not see any such pressure.

Gagan Thareja: MVS part you believe in the second half having been restructured will lead to some improvement in margins?

Ajay Bhandari: We believe lot of the corrections we made which were towards the fag end of Q1 and a large part of the Q2 you will start seeing that in Q3 and Q4.

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

Nandish Dalal: My question actually is on revenue growth again. Though your top accounts have gone great, overall growth seems to be a bit muted because of obviously non-top-20 accounts, lot has been talked about pruning of long tail accounts. Just a simple question, will you be able to share how much of revenue loss you might have taken a hit because of long tail accounts during this quarter consciously moving away with the long tail accounts?

Ajay Bhandari: No, we will have to compute that, Nandesh, because it is not something that we are doing consciously, so it is not like we are tracking it separately, but we can compute it and give you the number if you want.

Nandish Dalal: If you can just take us through the margin walk during the quarter as how much wage hike impacted and the other operational parameters contributed to margin performance on the EBITDA front on a QoQ basis?

Ajay Bhandari: On the EBITDA front, obviously we had an impact of increments which was to the extent of slightly more than a million dollar which was we negated it through some good execution on the operational front which is by improving utilization to certain extent, flattening the pyramid a little more, replacing subcontractors, doing bunch of stuff that we typically do to improve margins. That collectively ensure that the gross margins have gone up and a large part of that gross margin increase has traveled to EBITDA. So, therefore you are seeing an increase both in gross margin and EBITDA.

- Nandish Dalal:** Sandeep, your peers have highlighted lot of discretionary spends on hold and you guys also derive a lot of revenues from digital. Are you seeing any pushback or holding back of projects especially on the US which is your largest geography?
- Sandeep Kishore:** No, we are not seeing any such thing in the US, there are some impacts of Brexit in the UK clients, that is true particularly in the Financial Services sector.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I would now like to hand the conference over to Mr. Shashi Bhushan for his closing comments.
- Shashi Bhushan:** We would like to thank Zensar Technologies for the opportunity. Ladies and Gentlemen, have a great evening.
- Sandeep Kishore:** Thank you.
- Management:** Thank you.
- Moderator:** Thank you members of the management team. Ladies and Gentlemen, on behalf of IDFC Securities that concludes today's conference. Thank you for joining us and you may now disconnect your lines.