



“Zensar Technologies Limited Q4 FY17 Conference  
Call”

**April 26, 2017**



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**MODERATOR:** **MR. MUKUL GARG – HAITONG SECURITIES**



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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Q4 FY17 Earnings Conference Call of Zensar Technologies Limited. As a reminder, all participant lines will be in a 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 “\*” followed by “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mukul Garg from Haitong Securities. Thank you and over to you, sir.

**Mukul Garg:** Thank you, Zaid. Good evening, everyone. On behalf of Haitong Securities, I welcome you to Zensar Technologies' Q4 FY17 Earnings Call. From Zensar we have Mr. Sandeep Kishore – CEO and MD, Mr. Manoj Jaiswal – CFO, along with the rest of Senior Management. Sandeep and Manoj will give a quick update which will be followed by Q&A. Let me hand the call over to Sandeep to start proceeding. Over to you, Sandeep.

**Sandeep Kishore:** Thank you. Hello and Good afternoon, everyone. Thank you for joining the call. As you heard, I have with me the Zensar team, Manoj who is our CFO, I also have Bala who is our outgoing CFO with us on the call, Ajay who is head of our Strategy and Corporate Development, Azfar who is our Global HR Head and Sanjay Rawa who is our Global Financial Controller.

I will provide you a brief overview of how the last quarter Q4 went and the overall fiscal 2017. And then we will follow it up with a brief note from Manoj, our CFO, on the financial details. And then we will open the question-and-answer.

I trust you have all had the opportunity to go through the financial results and the fact sheets that we released yesterday. Let me take the opportunity to present some key details from our results and business performance.

Q4, as we have announced, was a soft quarter for us with a revenue decline of 4.9% in dollar terms and a growth of 1.1% on the year-on-year basis compared to Q4 of FY16. For the complete fiscal 2017, the revenue was up by 1.4% in dollar terms and 3.5% in constant currency. In INR term the FY17 revenue was up 3.9% YoY from INR2964.3 crores to INR3080.5 crores.

Zensar's digital revenue grew both on YoY as well as on QoQ by 11.6% and 8.1% respectively. For the quarter, digital accounted for 34.1% of our overall revenue. As we have been talking about it, we are pivoting the company more and more towards being much more digital lead and the growth of our future business also is going to be directly aligned to the digital strategy.

While there has been good order booking, both on digital as well as on the traditional booking over the fiscal, we faced some delay in start of some of the traditional projects, particularly in Q4. This impacted the business in US which saw an overall decline in revenue, even though the decline in non-core MVS business and IM products we had planned for.



At a pure services level, Q4 did see a small increase on a sequential basis. US as a region has a new leadership in place, and with the investments in digital and automation solution and the sales team, we do expect the conversions to be much, much better going forward. Europe and Africa which cumulatively account for 20.2% of Zensar's revenue grew quite smartly in constant currency terms at 24.8%, but were impacted by currency and therefore grew 13.6% in dollar terms.

Digital continued to form a larger and a very significant part of our revenue and now accounts for 30% of the total fiscal revenue. In fact, Q4, as I mentioned earlier, digital is 34.1% of the revenue, thanks to the growth in Cloud, Mobility and Automation and the addition of CX/UX from the Foolproof acquisition which we did in November of 2016. With the acquisition of Foolproof and Keystone, which we had announced on 30th of March, and the development of key digital platforms by Zensar, we believe digital will be between 35% to 37% of the full fiscal 2018 revenue.

Our commerce business, which is largely US based and which was impacted by the change in strategy of Oracle had a soft quarter. However, the progress being made on building pipeline with new micro-services and omni channel strategy is showing good results, and this business is expected to show momentum in the coming couple of quarters. Keystone is now a part of this business and we believe digital supply chain, combined with commerce and customer experience, will be a key growth pivot for us.

From a client standpoint, our \$1 million account increased to 86 from 75 and our revenue from Fortune and Global 500 continues to show upswing with addition of both Foolproof and the Keystone acquisitions which only work with Global and Fortune 500 Companies. It is also worth noting that Zensar did not lose a single client in the top 20 list. And Zensar is currently engaged in digital conversations in close to 70% of our top-50 clients. Overall, pipeline continues to be robust and the focus on large deals will continue to be a key pivot for us.

From a profitability standpoint, the FY17 profit margins were lower than FY16. Some insights on the same. The onsite revenue ratio actually increased 250 basis points from 64.3% to 66.8% due to increase in our digital business as well as new wins in our traditional business, both of which being onsite heavy impacted the gross margin. Impact of exchange rate fluctuation on both gross margin as well as FOREX losses also accounted for profit margin impact. We had a specific discount in two of our customers to the extent of \$1.6 million. And as I mentioned earlier, the delay in project, especially in the US part, impacted the utilization levels as well as the gross margin.

We have talked earlier on this call that we are in the process of profit improvement program in our MVS business and this quarter also we had a one-time provision in our maintenance business. We also had some provision for collection in our India government business. We have discontinued all new government business last year, however some residual business remains.



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One-time expense to the extent of \$0.5 million for some property tax and BEE compliance in South Africa were also accounted for in the margin.

Apart from this, at Zensar we continue to deliver on strategic initiatives and have now completed over 10 world-class digital platforms that provide a positive business outcome to our customers, which covers all business functions from client engagement to marketing to finance. And we believe that these platforms are critical for us to drive the growth strategy going forward in our return on digital framework.

We also announced the launch of two world-class facilities yesterday, Zenlabs, which pivots the research based transformation for our customers and innovation hub for Zensar. And ICC which is the Intelligent Command Center which is a critical part of our IM services business, along with Vinci that helps build the infrastructure business going forward.

Zensar is now recognized by all leading industry and technology analysts for the quality of its solutions. We have seen significant uptake over the last couple of quarters in the way we are positioning and building solutions and the recognition that we have received from the industry analysts. Zensar now has a completely revamped leadership team in place that is driving the future growth of the company. We have a significant pipeline of about \$800 million, a revamped sales team and a new set of digital solutions and the accepted industry thought leadership. I do believe that FY18 will be far more positive for us than the FY17 has been.

With that, let me call Manoj, our CFO, to provide update on the finance data. And post that we will open the floor for questions.

**Manoj Jaiswal:**

Thank you, Sandeep. Good evening, everyone. Welcome to this call. In addition to Sandeep taking around in terms of the P&L numbers, I will add on the financial and the balance sheet.

As of the end of the quarter we have spent close to Rs. 41 crores for the last financial year towards CAPEX. And for the quarter alone it was Rs. 4.2 crores. In terms of our outstanding debtors, it is Rs. 532 crores as of March, which is \$82 million. And our DSO has improved from 62 days last quarter to 58 days during this quarter end. In terms of our FOREX cover, we have a total cover of \$31.5 million and GBP3.5 million. And it has a mark-to-market gain in the balance sheet of Rs. 15 crores, which is carried forward into the future period which will be recognized as and when we unwind those hedges.

We have had a loss of \$4 million on FOREX, largely on a mark-to-market on all working capital items on the foreign balance sheet as well as the debtors, which is recognized in other income during the period. This, of course, will be mitigated to some extent due to the FOREX cover that we have and unwinding of the hedges in the future.



In terms of our cash position, our cash at the end of the quarter, as on the balance sheet date, was Rs. 571 crores, which is \$88.2 million. Of which almost \$37.5 million is invested and rest is available globally in terms of liquid cash for future growth.

We have a short-term debt of \$2.4 million, which is largely packing credit and a long-term working capital debt of \$18 million. So, net of that, the free cash that we have as on end of March 31st is \$67.8 million.

We have seen an increase of 1.7% in our ETR during the year. This is because in the previous year we had tax refunds that went ahead and reduced the ETR and we have had some increase in our onsite business versus offshore business which added to the ETR and the ETR has increased by close to 1.7% during the year.

These are few financial data. Now we can open the floor for question-and-answer.

**Moderator:** Thank you, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Priya Rohira from Axis Capital. Please go ahead.

**Priya Rohira:** A few questions from my end. Sandeep, wanted to get more color on the large deal pipeline. I mean, one, I do believe that you look at the aggregate level and then you look at the large deal level from what you have been showcasing it from the last two quarters. So, one, what is the definition internally for a large deal? And then at the aggregate level how has the deal pipeline moved say from Q3 to Q4?

**Sandeep Kishore:** Sure, Priya. So, as I mentioned, the total pipeline is \$800 million. The way we define large deal is \$25 million plus TCVs, multi-year deals, multi services or it could be single services. As on date I think 50% of our pipeline is on account of large deal currently, which includes services from infrastructure, commerce, digital and some traditional businesses as well.

The movement of large deal pipeline between Q3 and Q4 has actually been pretty good. Some deals have moved, they were supposed to close which did not close because of the shift in customers' budgeting for the traditional businesses. We are seeing more and more investments moving at the client location across the business, whether it's, financial services, retail or high-tech manufacturing into far more digital than traditional. And that kind of pivots the discussion, and in many cases, have actually moved the deal forward. So, the pipeline of the deal actually still remains quite robust.

**Priya Rohira:** Sure. And would you classify this fourth quarter as something which was a little setback in terms of revenues because of the deal delays? Or would you say that it was also a function of client evening out which you have been doing? And could we say this that the revenue decline has sort of bottomed out and we should return to a positive trajectory?

**Sandeep Kishore:** So, I think the way we have to look at it Priya is, if you take a look at the core application business, if you go into the fact sheet you will actually see that the core application business on a constant currency basis has grown 6.5%. The IM business is the one which has declined 6.1% and hence the constant currency growth is at 3.5%. So, is this a one-time cleanup? The IM business, particularly the maintenance business, we have always been talking about it that this is a profit improvement area and we are going to continue, it is not yet done, there is still probably one or two quarter worth of work which is remaining. We are focusing quite heavily in our business to be digital lead and the digital growth, if you have actually seen the digital has grown 8.1% sequentially for us. The 34.1% number which you said in the previous quarter was 30%, it is a sequential growth of 8.1%. If you compare the same quarter this year Q4 of FY17 versus Q4 of FY16, there is a 27% growth in dollar terms on our digital business. The number of solutions that we have developed and deployed, we think they are actually quite well positioned in the business that we want to demonstrate. So, IM business is an area which we are working on to fix. IM actually is 100% US, so it does impact our US business as well. So the reason US on a constant currency has a decline of 2% is because almost all of IM business is sitting there. And then there was some softness of the project delay as I mentioned earlier, which I am sure is going to come back between this quarter to next quarter.

**Priya Rohira:** And what part of our revenues would have been contributed by the two acquisitions which is Foolproof and Keystone?

**Sandeep Kishore:** For Keystone, there is none of the revenue, Keystone acquisition got consummated in the first week of April, so there is no revenue at all of Keystone into Q4. For Foolproof, Foolproof had a full quarter into this number and revenue is \$4 million of Foolproof which is a part of our Q4 numbers.

**Priya Rohira:** Okay, it is basically incremental two months, if I remember well?

**Sandeep Kishore:** Incremental one month. In the previous quarter Q3 it was November, 2<sup>nd</sup> of November is when we announced the acquisition of Foolproof, it was \$2.5 million in Q3 of Foolproof, in Q4 it was \$4 million.

**Priya Rohira:** And if may squeeze in two more questions and then I may just come back later. Vinci had seen a very good acceptance in Q3, you had outlined six clients being signed up and their deal sizes will range between \$8 million to \$9 million to \$20 million. If you can help us on update on Vinci, that is one. And the second one in terms of the selling and marketing cost, is that fully loaded with the salaries of the new inductions which you have seen or there could be a flow through even in Q1?

**Sandeep Kishore:** Let me ask Ajay on Vinci and I will come back on S&M.

**Ajay Bhandari:** So Priya, Vinci continues to drive the pipeline. We have an unprecedented pipeline for infra in Europe. Like Sandeep just mentioned, our infra story was largely in the US and Europe was kind

of lagging behind. But over the last four months the Europe pipeline in Infra too has gone up significantly which is completely on account of Vinci. What we have done with Vinci is that we have got it validated by the top analyst firms globally and all of them have said that it is a platform that is unique and differentiated. And we are using that to generate a lot of pipeline in the core infra managed services area. So, to answer your question, yes, a very healthy pipeline in infra managed services with Vinci as the backbone.

**Sandeep Kishore:** And the sales and marketing expense, if Priya your question is on Q4, where did it go up from Q3, is that the question?

**Priya Rohira:** No, what I mean to say is, we had a couple of new hires from the external environment, do we have this cost fully loaded or do we see this, I mean, was it for the full quarter or do you see it loading even in Q1? There was \$0.6 million increases added from Q3 to Q4, just wanted to know whether it could have a further increase even in Q1, if it is not fully loaded.

**Sandeep Kishore:** Sure, absolutely. So, the US sales team we are completely rejigging right now and we will hire some more people client facing in Q1 and Q2 as well, we are going to sequence this out. The increase of 600k which you actually see between Q3 to Q4 is largely on account of the global customer event that we held.

**Priya Rohira:** And you mentioned about FY18 being better than FY17, I am sure the aspiration would be to do at industry or above industry growth. While I know the portfolio is different and more in terms of digital becoming a much more strategic percentage, how would you classify it more qualitatively not asking for your direction, I mean, not asking for a quantitative number but maybe a direction would help us?

**Sandeep Kishore:** That is the comment I made, I think there are two tracks on which we measure ourselves. One is how relevant are we to our customers' new growth strategy, and that is all around digital transformation. So, digital will be 35% to 37% or more percent of the business, minimum is what we will deliver, that is one guidance. The second is, of course we want to do at least at par with the industry, and I think FY17 has not been a good year from the total constant currency growth perspective. We do not give guidance but the investment that we are making in the front-end sales organization and the digital solutions, with the acquisitions that we have in pipeline, we do think that we will be in that ballpark.

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

**Sagar Lele:** Sandeep, just wanted to get your sense on the situation in the retail vertical. Multiple other vendors have been sighting some issues here, I understand your portfolio is a little different and more relevant given the fact that you have acquired a lot of new age service lines lately. So, wanted to understand if you see any concerns based on your interactions with your customers so far?

**Sandeep Kishore:** Retail actually has done exceptionally well for us. As you have seen it in the fact sheet, it grew 21.8% on constant currency year-on-year and a little of it has actually come from Foolproof. A lot of this has driven predominantly from the other service lines which we have delivered. So, our pivot to retail is in and around omni channel and micro services as I mentioned earlier. Previously it was around ATG which is through the acquisition we had done a couple of years ago. ATG, as we all know, Oracle is no longer supporting or selling ATG, so we are moving away from ATG in to micro services and omni channel. And the Keystone acquisition that we have done in the area of digital supply chain actually completes the suite. So, from commerce to back end into digital supply chain, order management, warehouse management, store management, and then through Foolproof acquisition right on the front end of customer experience, the investment into retail is there, particularly aligned to omni channel. So, if you are aligned there, then there is no reason why you should be worried, more and more we want to be digitally relevant to our clients. We today work with almost eight out of the top ten retailers in America and we are going to continue to expand our footprint into retail. Retail has done well, we have some phenomenal solutions built on retail, so I do not see a problem in the digital area. There is softness on the traditional area in retail for sure, that is not a big play for us, it is a very small play in retail for us currently.

**Sagar Lele:** And also wanted to get a sense on traction in the IM services business, I understand you have launched a lot of new services there as well, but this quarter we saw a little bit of conflicting data point where services sort of declined whereas maintenance remained steady. So, wanted to get a sense on how the pure play services are doing there?

**Ajay Bhandari:** The IM pure play services is doing really well. Just to take off from Priya's earlier question on Vinci, so we have two solutions there, we have Vinci which basically looks at core managed services in infra both on premise and cloud, and we have the digital workplace which is largely focused on end user and both are doing really well and pipeline is at an all-time high. So the IM services decline that you saw in Q4 over Q3 was largely the product sale which typically has a seasonal spike in Q3 and it kind of almost disappears in Q4. And so therefore both the IM services decline as well as the revenue decline is on account of that. But the core IM services, largely on the back of Vinci and the digital workplace, we have a phenomenal pipeline.

**Sagar Lele:** And the profitability in the services bit, I understand you would have made a lot of investments lately to beef that services line up. So as you mentioned the deal pipeline is good and when revenue growth kicks in do you see this materially improving going ahead in FY18?

**Ajay Bhandari:** So, a lot of the investments that we made both for digital workplace and Vinci are already baked in the numbers for FY17. So you will find both revenue and margins, I think it will definitely be at Zensar average or higher as far as the margins are concerned.

**Moderator:** Thank you. Our next question is from the line of Karan Torani from Dolat Capital. Please go ahead.



- Karan Torani:** I just wanted to check on the IMS front. So, on a CC basis this segment is declining in the last three years by about 6% - 7% odd. You mentioned there is two quarters spend left even now, so what kind of growth can we expect for FY18 for this segment?
- Sandeep Kishore:** My take, Karan, is that we have to exclude this maintenance business because this is going to be a drag till we clean this up and we should focus certainly on the services business. As Ajay explained that services business had some product and services, product is getting a smaller part of the business, we do not report that separately. Vinci and digital workplace solution, the two solutions that we have launched and the intelligent command centers that we have built, I think we are positioned quite well in the core IM cloud business. We have won some pretty significant Fortune 500 brands in the last six months, I should say, in the core IM services and we are transitioning some work from some of the larger companies today, purely on account of the automation and the cloud orchestration solution that we are driving. So, you should certainly expect to see growth in the core IM services and cloud services, so watch this space, this will grow.
- Karan Torani:** And the next question would be on the margins, if you see you had some kind of one-off this quarter in terms of margins, can you throw some more light on that?
- Ajay Bhandari:** So Karan, there were quite a few one-time kind of costs that we took in this quarter, some of it was related to stuff like property tax, the Black Empowerment Program compliance in South Africa. We have also had some cleanup of the maintenance business that Sandeep alluded to right at the beginning where we have taken amounts totaling to almost \$3 million for the year, we have done some amount of clean up there. The idea being that rather than take small-small amounts over the next three to four quarters do a one-time clean up so that we go in the next year with a much cleaner balance sheet and P&L. So we did all of that this quarter. So you are seeing all that in the margins which is why the margins look depressed.
- Karan Torani:** Can you please quantify exactly how many basis points was impacted because of this one-time?
- Ajay Bhandari:** Can I come back to you on that, Karan, I do not have the exact numbers right now.
- Karan Torani:** Okay, fair enough.
- Ajay Bhandari:** It is approximately \$2 million.
- Karan Torani:** \$2 million for this quarter which would be reversed going ahead?
- Ajay Bhandari:** Yes.
- Moderator:** Thank you. Our next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg:** Sandeep, I wanted to understand a little bit more on the top client performance and what you are sharing from them in terms of their expenditure going forward. This quarter the growth was weak across the board in all the client buckets, so if you can throw some light on that it would be helpful.

**Sandeep Kishore:** Sure. I think what we are hearing from the customers, largely there are three buckets, we have retail and I covered retail in some level of detail in answering one of the earlier question. Retail, all the customers are moving investments into making sure that they are relevant to the consumers of today, the consumers can click anywhere and collect anywhere in the time window that they want and at the price point that they want. It is easier said than done, there is a lot of complex synchronous IT and marketing system you have to put into place for that. All the investments of larger customers that we are working are going there and we think with Keystone acquisition we are quite well positioned to address that opportunity. Insurance is also moving quite heavily into some of the new areas, we are seeing growth in automation, we have announced some RPA wins a couple of months ago. So our focus in the insurance segment is largely around improving the process automation and putting BOTs. Also from customer experience perspective, that industry as a segment has lagged behind quite a bit into delivering a better and improved customer experience. Customers have choices and insurance companies realize that today, so there is a big amount of investment going on in that category. High-tech company is all about launching product to services, all of them are trying to move towards launching far more annuity based services. So there you have some play of IoT and cloud hosted services. So our investment, now if you connect back with what we are doing at Zensar in developing solutions in and around and then you connect back with Zenlabs investment that we have put and the ICC, both of that which we launched yesterday, we are pivoted quite well into the new growth area. The decline in the legacy and the traditional business is real and it is there for all of us across the board. Clients are spending more into the newer programs, at the same time they are actually spending into smaller lot than the traditional larger lots of spends, it is far more iterative in process, also you have probably seen a spike in our own onsite component of the business. As you do more of these, there is a pretty good chance that in the initial phases the work will need to be delivered on site across the board in all the geographies that we are seeing here. So, our investment is aligned into the area where we think the clients are focused into and all the digital platforms equally into all the three segments, I think we in our propositions are quite well aligned.

**Mukul Garg:** And the second question was on the comment which you initially made about the slowdown in the client decision making during the earlier part of last quarter. So, is that over now and any comments you can give in terms of deal wins during this quarter?

**Sandeep Kishore:** No forward guidance, we do not give that. But I think is it over now, it is tapering off. What had happened was that as you deliver larger digital transformation program it is not pure play digital only, the only way you can deliver it is if you actually integrate your front end to the cross over and the core back end systems. And clients have to figure a way out of how are they funding this

because there is a CIO budget, there is a CMO budget and when you make the program larger which is what we are trying to do rather than doing multiple small programs the whole strategy is built around how do you deliver business impact through transformation program. Now that means moving out budget between different buckets within a client organization. The larger the client the more complex it gets and hence it impacts on decision making. So we have choices to make, either we go back and do small, small, small deals or we take a call and say no, I think the only way we can impact business for you is if we integrate your front end to cross over to the back end system and let's figure a way out of how to do this. So it does take a little bit of time. Good news is that, and the reason 34.1% of digital business we deliver and 8.1% in dollar terms on sequential growth is because we have been able to move the needle both in retail and in the insurance clients of ours to start to take digital deal from now earlier it used to be between 750k to \$1.5 million, if I go six months ago, today we are now doing deals anywhere between \$2 million to \$2.5 million average on the digital. So we are moving the needle, but in larger accounts that is where our focus is, we only work with Global 500 and Global 1000 companies by and large. But it takes time because it is not easy for them to move budget and that has what happened last quarter.

**Mukul Garg:** And can you share the amount, the revenues from professional access as well as the large deal wins during Q4?

**Ajay Bhandari:** Professional access, of course professional access does not exist anymore, we call it digital commerce business. Our digital commerce business grew marginally last year, FY17 over FY16, it recorded a growth of around 3%.

**Mukul Garg:** And Sandeep, if I can squeeze just one last question on more philosophical in terms of the write-off which you have taken this quarter. So, just wanted to understand on the timeline and what prompted you to do the write-offs on the receivables during Q4 and was this something which was more of a recent thought process?

**Manoj Jaiswal:** Sorry, can you repeat the question, what prompted the write-off?

**Mukul Garg:** The receivables, I think there was some \$3 million and \$2 million charges which came during Q4.

**Manoj Jaiswal:** So just to give you some data point on that, what we did is we applied business combination accounting under the IndAS which basically gives us requirement to be able to amortize intangibles over a period of time which has got acquired from a fair value perspective on acquisitions that we have made. And we applied this from an IndAS perspective effective 1<sup>st</sup> December, 2010. And we had acquired PSI, or Akibia earlier in Q4 of 2010-2011, and since then this had to be applied on all intangibles that had to be recognized under the IndAS methodology as of the current year and current quarter. So what has happened as a result of that is in the previous year if you look at the reconciliation between IndAS and the IGAAP accounting, there is almost a Rs. 22 crores worth of amortization that has happened on account of this. As far as

the financial year 2016-2017 is concerned, there is a Rs. 7 crores worth amortization that has happened on account of that. And effective 1<sup>st</sup> April, 2015, or 31<sup>st</sup> March 2015, which is the date of transition to the IndAS, there is Rs. 183 crores worth of intangibles that got adjusted from the reserves which is the prior period adjustment for this business combination accounting. So, this has nothing to do with the MVS write-off, MVS write-off is a normal business revenue correction that happened which is a significantly smaller amount, it is more about acquisition the way they were being accounted earlier versus the way they are accounted in the IndAS methodology.

**Mukul Garg:** So, the cumulative amount, sorry I am a little bit confused, is it \$2 million, \$3 million or am I looking at two different numbers here?

**Manoj Jaiswal:** No, there are two things. I think if you look at depreciation and amortization amount on the P&L, if you look at that line, that line has moved from Rs. 65 crores to Rs. 48 crores this year, there is an amount due to this adjustment which is Rs. 22 crores last year and Rs. 7 crores this year which is happening due to IndAS, it has nothing to do with ongoing business cost which is a one-time cost of \$2 million that Ajay explained to you, that is a one-time business running cost, it is a real cost, this is more about an accounting adjustment which is happening in the line of amortization and depreciation. And to that effect Rs. 22 crores last year and Rs 7 crores this year is more or less done with, you may have a small carry forward of the amortization that may happen next year to the extent of Rs. 5 - 6 crores. And this largely comes not due to operation, largely it is a function of acquisition.

**Sanjay Rawa:** And it is mentioned in note 13, if you can see the note 13 of the results we have been given that reconciliation of profit.

**Manoj Jaiswal:** Yes, note 13 and note 14 put together clarifies the entire position.

**Moderator:** Thank you. Our next question is from the line of Madhu Babu from Prabhudas Liladhar. Please go ahead.

**Madhu Babu:** Sir, large deals team the focus would be on retail and distribution assets or would you look at newer verticals as well?

**Ajay Bhandari:** So the large deals team, Madhu, works on all verticals. So right now our largest pipeline has deals from manufacturing, insurance, retail and banking, all are four critical verticals.

**Madhu Babu:** And sir, just on the top account, how would you see the growth in that account and how are we evolving within the top account, which is almost 25% of our revenues?

**Ajay Bhandari:** So, in our top account, one is, as we mentioned in our previous calls it has never declined, it has not declined this year as well, so there is a single-digit growth in that account. The big difference there is a change in portfolio, we are moving from the traditional legacy business to doing a lot

more digital. And therefore, there has been a shift in our onsite offshore ratio in our account. So when you look at the overall Zensar onsite offshore ratio there has been some shift in the top account as well. But that account continues to grow and our proportion of business there is moving favorably towards digital rather than traditional.

**Madhu Babu:** Sir, and lastly on the margins, I mean, we are entering with a weak exit rate and we already have this currency appreciation. So, how are the wage hikes placed and how are the counter levers placed?

**Manoj Jaiswal:** So, from margin perspective exchange is a one-time impact, as I mentioned to you, largely happened due to the impact of the debtors which has been reinstated as of 31st March.

**Madhu Babu:** I was going forward, now rupee is almost like Rs. 64, so you have a currency headwind and you would have wage hikes, 2Q I think, so how would you handle the margins?

**Sandeep Kishore:** I think what we have to do is look at doing far better value realizations in our customer premise because of the digital lead services. It is also important that whenever you start a digital program it is by and large closer to customer onsite driven and then you have to be able to move program on a global delivery model, A. B, you have to then drive far higher automation which has lower deliver cost. So there is no magic formula here of doing it, it has to be driven through a combination of high value added services and more automation, which is exactly what our strategy is to go and deliver.

**Moderator:** Thank you. Our next question is from the line of Aniket Pandey from Elara Capital. Please go ahead.

**Aniket Pandey:** My most of the questions are answered, I just have two questions now. How many new clients are added in our digital business and what is the average ticket size of the digital business?

**Ajay Bhandari:** Aniket, we added 11 new accounts this year, all of them are Fortune 1000 accounts. This is apart from the 20-odd accounts we got through the addition of Foolproof. And as Sandeep mentioned earlier, most of the Foolproof accounts are Fortune 500 accounts, so we have kind of got a good set of logos now. The digital business, depends, they vary from as small as 200k to even deal sizes of \$30 million, we closed one commerce deal worth 30 million which we announced in Q3. So I think they vary but they are getting larger is our general observation.

**Aniket Pandey:** And sir, you said that you are optimistic about FY18 win than FY17, so may I just know which business segments and which geography are you expecting that would do better in FY18?

**Sandeep Kishore:** Let me add, Aniket. See, Africa and Europe are doing quite well for us, as we explained earlier. Europe has grown 35.7% on constant currency including Foolproof, if you exclude Foolproof it has still grown at 20%, Africa has grown 11.6% on a constant currency basis year-on-year. So, our big focus and the big investment is in the US and we have multiple teams, we have

completely rejigged the US frontend client facing organization, both sales as well as delivery organization. And as we go through the fiscal 2018, we have just started fiscal 2018, I am pretty confident that US is going to come back to a pretty good shape.

**Aniket Pandey:** And sir, one last question. Any guidance or can you throw some light on attrition and utilization level?

**Sandeep Kishore:** Sure, let me ask Azfar, who is head of our global HR to answer that.

**Syed Azfar Hussain:** So, our overall voluntary attrition has actually gone down marginally from 15.9% to 15.4%. And our overall critical talent attrition has gone down from 7% to 5.5%. And our overall attrition, voluntary, involuntary together also has gone down to 21.2%. So, overall attrition has come down. Utilization has gone up marginally, last year we ended at 82, this year I think it has been 82.5.

**Moderator:** Thank you. Our next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

**Ashish Chopra:** Sandeep, you mentioned in the opening remarks about the delays in ramp ups in some of the accounts that also had an impact on the services growth. Just a couple of things there, so would you be able to quantify what is the kind of impact it would have had on the growth? And secondly, how is your visibility in terms of these coming through maybe in the immediate quarter or is there some prolonged delay over there?

**Sandeep Kishore:** We do expect them to come back in the next at least one to two quarters, those delays are structural delays of adjustments in to some of the clients' budget, as I actually explained to answer one of the earlier questions, that was one. I think some drop in revenue, as Ajay explained, also happened because of the product decline in our IM business. A combination of both of them actually had a sequential decline which accounted to 4.9% of it. So, client project delays is going to come back, it is just about a matter of time and structuring it correctly.

**Ashish Chopra:** And just to get a clarity on the margins for this quarter, sorry to be harping on that but... so if I really exclude some of the one-offs that took place during the quarter, then firstly would we be in that band of 13% to 14% EBITDA margin which we have been operating at for the remainder of the year in FY17? And hence should we be back in that band immediately in the next quarter or is there more to it which would mean that the recovery to the normal levels may take a bit longer?

**Ajay Bhandari:** So Ashish, sustainable EBITDA margins we believe is between 13% and 14%.

**Ashish Chopra:** And we should be there sooner than later or you think that it will now probably take a few quarters to get back with all the MVS initiatives also currently in place?

**Ajay Bhandari:** Yes, I think we believe there is a little bit of clean up still left in MVS. But yes, sooner than later, if not Q1 maybe Q2, but yes around that region.

**Ashish Chopra:** And just one question on there, so Sandeep you did mention that the onsite heavy nature of digital did have an impact on the profitability as well, given that the proportion of digital revenue is also increasing. And your outlook of that is for further increase in FY18 as well, right, to 35% to 37%. So how should we look at the margins in the light of that contribution? Should we expect maybe once the growth of digital proportion starts decelerating is when we see the impact on the margins from probably GDM and automation or do you think that there is enough lever in place to manage the margins despite this headwind that will remain with the growth?

**Sandeep Kishore:** I do think we have levers to manage the margins. The realities of life are wage increase for us is in the July, August, September quarter, so in that quarter you will see a wage increase impact which is exactly what happened in FY17 also, but then we improved our gross margin in the subsequent two quarters. If you have seen from our results, in Q1, Q2, Q3 we have consistently increased our gross margin and that is exactly our charter. To answer the other question which is a little more structural, digital by definition would need clients to be serviced, at least in the initial phases, closer to them. And it is a requirement, it is a strategic requirement of the business and we will do what is structurally and strategically right for the clients and of course for our shareholders, and that is going to continue. What however we have to do is to increase our mix of doing far more through automation and platform than just people. So, all the investments in platform that we have done, we talked about more than ten platforms that we have launched, the reason we have done that is so that you can deliver far more of service delivery through these automation and platform lead approach rather than just people centric approach. And over a period of time we feel it will start to take shape into the P&L, this is not a one or two quarter discussion, it is structural shift here.

**Ashish Chopra:** And just lastly from my side, so there has been a lot of changes that have been introduced in the team, especially in the US where you now have a new leadership. So I am assuming that all of that churn and new additions, etc., would have had maybe an inward focus, if I may put it that way, in the recent past. Would you think that some of that would have also had a say in the trajectory that you have seen in the US and that may play on the overall growth for a bit or you think that all of that is not necessarily distraction of any sort and the US may probably return ex of IM changes or ex of the IM addressing that you have been on?

**Sandeep Kishore:** Yes, so I think we still have some work to do in the US region from sales and go to market perspective. We have started the change ahead of our US, as I mentioned earlier, in December of 2016. So the team is under process to rejig. Even in the last analyst call we had mentioned that it is going to take us one to two quarters to get the team in place, and we are pretty much on track. So, as you go through the year in FY18, I feel pretty confident that we are going to get US back on track.



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**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Garg for closing comments. Over to you.

**Mukul Garg:** Thank you. We would like to thank Zensar for the opportunity to host their earnings call and all the participants for joining in. Have a good day ahead.

**Management:** Thank you.

**Moderator:** Thank you very much, Mr. Garg, and members of the management. Ladies and Gentlemen, on behalf of Haitong Securities that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.