



“Zensar Technologies Limited Q3 FY-14 Analysts Conference Call”

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Moderator

Ladies and gentlemen good day and welcome to the Zensar Technologies Limited's Q3 FY14 Analysts Conference Call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Ganesh Natarajan – Vice Chairman & CEO of Zensar Technologies. Thank you and over to you, Dr. Natarajan.

Ganesh Natarajan

Thank you for joining this call. You would have all seen the numbers so I will spend more time on the qualitative facts and then handover to my CFO, Bala, who is also on the call. Our strategy head, Ajay Bhandari, is also at the call for any other questions.

As a quick recap – I think as expected we had a slow quarter because we lost close to \$3 million potential revenue on account of customer furloughs. Two of our large customers had about 8-9 days shutdown each which was expected. What was not expected of course was the very strong currency swing which as we have mentioned in the note resulted in a Rs. 19 crores year-on-year negative swing and sequential quarter was Rs. 23 crores. In spite of this, because of better margins as well as some tax benefits, the profits could go up; but what is more important and I am quite excited about that and the whole team is, is the qualitative impact of this quarter.

First of all, of course, as you all know we had a two-three quarter delay in the turnaround of the IM business which I think is now happening very smartly. So we have had good 12% growth sequentially in the IM business in dollar terms and also looks good because the order booking has been excellent. Close to \$30 million of new orders have been booked, out of which \$27 million have been significant deals in the IM business. We have also seen in fact our focus in the Enterprise business delivering results not only in US and Africa but Europe as well. Europe particularly has been very encouraging because we have kind of expanded our footprint with some of the UN clients as well as other clients that we do work with which is why the over 11% growth. So that has been good also as Bala will explain to you if you look at the YTD our margins have also jumped because of both I think better pricing environment today we are seeing, larger deals that we are signing and I think it has been an overall environment it has been good.

So looking forward I think not only this quarter but definitely FY15 we will be back to a significant growth track of more profitable growth. The good news is across all the key territories that is US, UK, Continental Europe and Africa and of course Asia we do not do much but whatever we do there as well as all the key verticals which is manufacturing, insurance and retail we are seeing good traction and the service areas continued to be very, very strong. Oracle SAP we are now strengthening substantially and the traditional AMS as well. We are also investing which I mentioned in the last call in what we call systems of engagement which is a digital transformation because many, many more of our customers are having

discussions on how can they use Mobility, Cloud, Social Media better and we are really investing in that area not only to be a good systems of record or traditional systems company but also to help our customers to make their transition to Digital Enterprise.

So overall very positive about where we are today. I think the future looks good at this point of time and I will ask Bala to make some comments on what he sees from the financial point of view and then we will throw it open to any questions you may have on the company or the prospect of the company.

Suby Balasubramaniam

Thank you Ganesh. As Ganesh kind of outlined in terms of the overall margins if you see the top-line on a YTD basis that is moved up from Rs. 1617 crores to Rs. 1727 crores which is a growth of about 6.8% and if you come down to the profit before operations before other income we have moved from Rs. 204.36 crores to Rs. 235.55 crores which is a 15% jump. So even though the top-line has gone up by 6% the margins before other income has gone up by 15% which is a combination due to very good operating efficiencies and the other aspects in terms of better pricing and better efficiencies overall which has kind of helped us.

I will also kind of cover on the other aspects of the business. As of Q3 our hedging policy has been same in terms of the fact we cover our outstanding debts as of Q3 on plain vanilla options we have covered roughly about 48% of our debtors at \$24 million with an average rate of 61.36 to the US Dollar. In terms of our days covered we have done better it has come down from 62 days to 59 days and in terms of the debt on the balance in the books we are now at \$27 million translated to about Rs. 170 crores. In terms of cash on the balance sheet is Rs. 284 crores so the free cash is Rs. 114 crores. CAPEX as YTD December of 2013 is Rs. 22.36 crores. So these are the general statistics I wanted to cover as inputs to you and if you have any queries we will take them as we move along.

Ganesh Natarajan

So thank you very much. We will throw it open for any questions you may have.

Moderator

Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Karan Taurani from IFCI Financial Services. Please go ahead.

Karan Taurani

My question is related to the USD revenues which we reported this year. If you see the last three quarters' performance and if I am assuming a 3% growth next year sequentially your USD revenue run rate would be around about negative than last year. So just wanted to throw some color on that if you can?

Ganesh Natarajan

Yeah absolutely. I mean as all of you are aware as I mentioned earlier also in the last two quarters we have had disappointments in the IM business because as I mentioned even two quarters ago while we retired many of the existing data center contracts saying it was not really futuristic it took longer to actually kick off some of the new businesses and if you look at the

IM Services business I mean thanks to the order booking in the last six months I think we will start seeing the execution having an impact both in this quarter as well as definitely in FY15. So I mean yes, you are right I mean this year has been disappointing for us because while we have made good progress in most of the territories in the Enterprise business, IM has been slow but as I mentioned in the earlier part of my call the fact that we have been able to grow substantially this quarter and the outlook looks good. So Karan I think that is really the answer to your question. You are right, we are more or less flat for the year because of the slowdown in the IM business. But overall the outlook looks very much better for the next five quarters not just in the next quarter.

Karan Taurani

Because I think the integration of the Akibia which you acquired in FY12 after that there has not been a double digit revenue growth in the last two year so probably this also you would finish it off on a flat basis or negative 1% growth and last year was just 5% growth in dollar term revenue. So what kind of a ballpark number would you give for next year in terms of dollar revenues?

Ganesh Natarajan

I would love to give a ballpark number but I do not want to. But I think the fact that you are seeing in this quarter that Akibia has started moving up which is a good sign and should continue and the fact that we have never had a real problem with ETS business, the Enterprise business either in US, now Europe is kicking in smartly; Africa continues to grow. So I think we will definitely do significantly better next year. So I think the tough times are definitely behind us. This quarter is the first indication of that. As I said this quarter got reduced because of the furloughs and the currency swing. But apart from that we are as confident as we have ever been that all business streams are doing well.

Karan Taurani

Coming to the IMS basically what grew in the IMS was the products and licenses and if you just see the EBIT margins which you report on that business is very low in compared to 18% and 15% to 17% applications it is just 2.5% to 3% so I mean the growth is fine it is one off kind of a thing but if you could justify the margins dip this quarter sequentially in the AMS business it was 19.7% now it becomes 17.7%. So the reason for that if you could just throw some color on that?

Ganesh Natarajan

Just to comment on both one is what you mentioned about the IM business you are absolutely right because obviously the product business is critical because these are all security products and gives us an entry in to larger deals thereafter and there is a lag in that one. So yes, I mean the product business in fact if you look at the margins this quarter one was because two of our large customers I mean one of which you know very well which is our most profitable customer. So when they have an 8 day shutdown and that is \$2 million worth of revenue that to has a very high profit impact because they are our most profitable set of customers. So I think that is one of the reasons why the ETS margins are lower this quarter. The current quarter I think you will find that since both those are very active clients doing that we have just signed

close to \$8 million new business with those two clients we had a shutdown in December. I do not see any problem there at all.

The interesting question you asked about the products business. In fact we do want to make sure that next year the product element of the Infrastructure business unit is not more than \$40 million throughout the year. So if you look at the next year and even if you look at \$120 million you would find that we will limit the product business to may be 35% which will be at lower margins but will be strategic but it would not kind of over shadow the services business in IM which is where the real profits are going to come from.

Ajay, you want add a little to that?

Ajay Bhandari

I think even in the products business the fundamental change that we are doing is that we are moving away from VAR model so typically in a VAR model the margins are low and we are moving to a more consulting oriented model where you will sell a much larger deal with the Product component being very small. So therefore even if they were part of the products business I think overall it will still be much better.

Karan Taurani

You have added one new client in the \$10 million category from Europe has been significantly high. So if I could correlate the client is it from the European region this new client?

Ganesh Natarajan

No, actually the movement in to \$10 million has been from the \$5 million category to the \$10 million. What you will see is a quite a sharp number of multimillion dollar accruals that are happening and given the finance we have had I think both the \$1 million and the \$5 million should move up definitely in FY15 as well. But \$10 million you are talking about is one client which is now moved from the \$5 million category to the \$10 million category and it is in Europe.

Moderator

Thank you. The next question is from the line of Deepen Shah from Kotak. Please go ahead.

Deepen Shah

Yeah Ganesh, just carrying on the previous question about the products business could we just get some more inside in to what the product business in this quarter was because it is good Rs. 20 crores jump on a quarter-on-quarter basis? So whether it was largely reselling of products or whether it was our own products and what was the breakup of Rs. 70 crores in to these two?

Ganesh Natarajan

Largely reselling of products. As you know Deepen, in IM we primarily work with multiple security vendors and resell their products which becomes part of our services.. So you could more or less assume almost everything is part of that because there has been very few SAP Oracle license deals we have done this year. That is why we are de-emphasizing the license business elsewhere. And as I mentioned earlier I mean goal is now that the order booking is good and the services business has substantially picked up you will find that the product

business is probably not going to be more than \$10 million per quarter which is really what we are moving towards.

Deepen Shah

Yeah, that I think you had indicated last time also. Yeah so that stays okay.

Moderator

The next question is from the line of Shravan Goyal from UTI Asset Management Company. Please go ahead.

Srivatsa

Ganesh, this is Srivatsa here. My question was on the Infrastructure business while our margins have improved but still I guess it is much below our potential. So what is the road map there to improve the margins and I guess a lot of this will also have to do with the fact that last part of the Infra business would be in Akibia but what kind of margin road-map you would be looking from a couple of year's perspective on the Infra business?

Ganesh Natarajan

It is a good question Srivatsa and as I mentioned earlier that many of the large deals that we have signed in fact three of them are going to kick off this quarter. So basically the answer lies and if you look at the four dimensions of the business which is maintenance and then the overall services business then what we call multivendor services that we have worked with large OEMs and managed multiple boxes for them and finally the products business. In terms of profit profile the maintenance and the services business are obviously the highest. So as I mentioned earlier once we start kicking off and that scale substantially which is what will happen little bit this quarter and definitely in FY15 the margins profile of the business will improve.

So to answer your question this year the margins are low because of the transition as well as the products but I would expect that I mean over the next five quarters that PBT margins will scale to about 7% to 7.5% at least and in a longer term as we deemphasize products more and more I think approaching double digits is very much possible in the IM business and of course there is no reason whatsoever why the margins in ETS especially with our focus Digital Enterprise will not be much higher. So and as I said many times before once we integrate Akibia one of our goals would definitely be to move back in to double digits PAT and whether that will happen in FY15 or FY16 I do not know but that is clearly the trend that we are seeing given the directions on both sides of the business and the type of pricing environment we see in the market.

Moderator

Mr. Goyal, do you have any further questions?

Shravan Goyal

Yeah, just on the growth on the India part of IMS business I just wanted to have some color on that what would have been the growth in the last nine months on the India part of the business and are we kind of ramping up the capabilities well in that part?

Ganesh Natarajan

I think if you look at business as we moving offshore it is gone up by in double digits I mean I do not know the exact figure but probably 13% to 15% and that is really where the opportunity

lies which we have actually spotted because as we do more and more of these large businesses lot of these services will be delivered out of India and so we are actually scaling up the India part it is now become a full-fledged strategic service unit for us and that will also be a driver of profits in the IM business going forward.

Speaker

And if you take a look at the headcount number there is a gradual increase in the off shore headcount so lot of it is pertaining to IM.

Shravan Goyal

Where are we in terms of integration with Akibia I mean is it kind of over on the revenue front like you are indicated in our meetings last time that a lot of the tail clients you would want to let go off Akibia which is what is causing the revenue drop. Are we over on that and the second on the cost front have you kind of done most of the simple things that could be done in any emanate acquisition?

Ganesh Natarajan

Yeah absolutely good point. I mean this is for those who are not aware of our Akibia As you said I mean we replaced the entire management as and we restructured the management team in January of last year. So it is really been just over a year now and the business is run by one of our senior most person Vivek Gupta and if you look at his team there is a gentleman called Ankit Ghosh who is very much multi shore services person moved in from here. There is a gentleman called Scott Fiore who is the original chief operating officer of Akibia so he now runs the multivendor services and service delivery business and doing very, very well. We have actually strengthened the HR activities there.

What we have done is to actually optimize the inventory operations. In fact we have worked very closely with our internal auditors Ernst & Young and really made sure that the inventory management is now top class and performing to world standards. Is there still an opportunity to reduce cost, the answer is yes. So a lot of these support functions I mean to give you an example accounting is all already majorly done from India, HR has been moved partly to India. The marketing function has been taken over by our global marketing team out of Pune and finally the sales support which is really the pricing and other issues so that is also in the processing of moving. So I would think there are still some opportunity in terms of cost rationalization which will happen in the next five quarters. But apart from that the integration having a single management team we have actually retired the former CEO as well as the former HR head and replace them with people who understand the entire India operations. So absolutely complete. Bala, you want to add to that since you have been there.

Suby Balasubramaniam

Yeah, I think our focus has been over the last three quarters very systematically roll out a plan where we are able to align the business to an India offshore model and that involves as you said Srivatsa let go off the smaller size of the businesses and focus on larger deals, one. Let go off the product sales which are not really strategic and pass through and focus on those which relate to the business parts in the services downstream and three, work on operating efficiencies with regard to inventories with regard to the basic back office which we have already started

and putting the plan together. In the next six months I expect a fair amount of back office activity to be centralized back to Pune and it is an ongoing effort and as Ganesh had already explained. In terms of the people management and people positioning we are complete. In terms of the client alignment we are complete. So the overall aspects of to answer your questions initially have you guys completed it-N the answer is, yes.

Shravan Goyal

So I just had a macro question, Ganesh I mean like what is the sense you are getting from your top 10 or top 20 clients on how the next year's budgets will pan out and in our top 10 or top 20 clients are we running the risk of any kind of a vendor consolidation which might hurt us and lastly I have also seen some decline in your top 5 revenues you said it is because of the furloughs. So do you see those revenue is normalizing this quarter or you expect further pain in the March quarter as well?

Ganesh Natarajan

No, there will be no pain whatsoever in the March quarter. In fact our top 10 customers are all doing well so in terms of your first question I do not see any problem with their doing more business. No threat whatsoever of consolidation in fact on the contrary there are two of our top customers who are planning to move more business to us so it is actually reverse consolidation which will be in our favor. So the answer to your question is, no. In fact the good news is that lot of our customers if you out of the top 10 at least 6 customers have now looked at us seriously not only for looking at Infrastructure Management with us but are also looking at this whole area of Digital Enterprise I talked about and we are having workshops being conducted next month in three of those customers to just figure out what is their new connectedness strategy with customers and supply chain and how can we take that forward. So very robust outlook for top 10 customers and a lot of the new customers that we are looking are also coming in at higher pricing particularly in Europe so which is why I said even in pricing I will expect to see an upward bias next year.

Shravan Goyal

Sir, deal flows what would be the kind of deal wins this quarter versus the previous quarter if you could give us some color on that?

Ganesh Natarajan

See just to give you a sense and I will expand it too because we just closed upto \$12 million of business in the last few days. So I think if you take it as up to today effective of the last quarter I think as we mentioned in the releases close to \$27 million of significant deal I mean actually it is over \$30 million in IM; another \$20 million to \$25 million of new business in the Enterprise business. So in terms of order book we are probably at the highest level today that we have ever been and which is good news and the pipeline continues to be strong. That is over a \$100 million pipeline in the IM business. Similar pipeline for new business in the Enterprise business and as most of you know we have long term contracts with many of our clients I am not even including that in pipeline. So which is why I said I mean I am being honest when I say that this is the best place we have been for the last may be at least two years after started the integration of Akibia. And intend to keep that going, going forward.

- Shravan Goyal** Always talked about acquisition so in the current scenario what areas you are looking out for an acquisition I mean if you are looking out in what geographies or capabilities you are looking out?
- Ganesh Natarajan** See our acquisition strategy has not changed because in the short term we would be looking at if there are opportunities to strengthen in our focus areas which is SAP as well as this whole area of Digital Enterprise we will certainly look at that. Slightly medium term our interest would be in expanding our manufacturing footprint so we have already started doing work in product life cycle management but areas like outsourced product development or engineering services for our manufacturing clients we look at. But we have just hired a very senior person in the US to start that business very similar to what we did with IM four years back. So this person is joining us in San Francisco so he is going to be looking at the product engineering and may be somewhere down the line we will look at that.
- So it is a combination of Digital Enterprise plus SAP and product engineering slightly down the line. The focus markets would continue to be US and we have some bias towards Europe especially in SAP we see a lot of growth happening in Germany and the Continent will gear up now that the markets are picking up. So we will be looking at Europe as well. So it is really US, Europe and within these three segments. As I said earlier no urgency we find the right company which comes in and has the value for us then we will look at an acquisition.
- Shravan Goyal** And sir, in OPD for example would you be looking at an onsite company or you will be looking at a company with delivery capabilities in India or other markets?
- Ganesh Natarajan** See we are not looking for any specific company right now but the answer is that OPD is best done if it is dual show so certainly in terms of architecting capabilities onsite and delivery some proven capability offshore that combination would be ideal. So OPD we would look at that. SAP does not need to be an offshore presence it could even be a good onsite company with good clients either in Europe or US.
- Moderator** Thank you. The next question is from the line of Hitesh Zaveri from Birla Sun Life. Please go ahead.
- Hitesh Zaveri** It is actually pertains to I have more have a mid and longer term question and that pertains to what you have outlined in the annual report about the verticalization strategy and actually my interest stems more from how that strategies playing out in terms of helping more sticky business growth and the billing rate improvement over next two to three years and how are you transforming the company over the next two to three years?
- Ganesh Natarajan** Thanks Hitesh, I think that is a very important question for us and as I said once we started verticalizing our business and today in all markets we are completely selling on a vertical basis and we have vertical domain consultants. So I think where is really worked for us has been in

insurance, retail and manufacturing. And insurance particularly because in terms of what we are trying to do with policy administration systems etcetera is really understanding the pain points and today a lot of people are looking at policy administration platforms in multiple areas and we have very good skills in that area. Retail has always been a core competence area so if you look at omni channel retailing where somebody would actually see something in a shop in Oxford Street in London but actually complete the transaction on their Smartphones so we have built these complete capabilities of both predictable analytics and buying through omni channels. So that is very much there.

Manufacturing as I mentioned earlier we still focus largely on Oracle, SAP etcetera but once we implement our product engineering strategy and product lifecycle management that will add to the Services as well so the answer to your question it is going well. We had a three year plan of being completely verticalized and today our profit centers are the three Vertical centers that I mentioned which is manufacturing, retail and BFSI with the bias on insurance and the sales in all markets sells in to verticals. So I think it has been good we have done it in a timely fashion and it will probably serve us well in the years to come.

Hitesh Zaveri

So Ganesh, the main promise one of the key promise in the context of where Zensar is today is that the verticalization strategy in terms of how the manufacturing is making comeback in North America now and then obviously retail tends to be a huge market in the US what I am wondering is whether Zensar given its current size versus three to four years ago whether you are positioning yourself which much stronger growth trajectory over next three, four years you know?

Ganesh Natarajan

I would definitely think so Hitesh. But the simple reason that even if you look at the deal sizes we are now chasing and getting which are all in the \$5 million to \$20 million kind of category. It really means that people are willing to trust us with a much larger chunk of wallet share. I mean there was a time five years back when our sweet spot used to be to get a \$0.25 million deal and then slowly scaled that which is the way we grew many of our top 5 customers today but today I think we are in a position and we are seeing that happening to get larger deals from the word go.

And obviously I mean the goal is to when I say larger deals I mean we love to look at getting \$40 million to \$50 million deals which are real deals I mean not kind of multiple things put together. So I think that is beginning to happen. So the answer to your question is absolutely, yes. First of all we have to get back on the growth track which has been derailed little over the last two years because of the integration delays we had with Akibia. But having crossed that hump I see no reason why in the next year and in the future years we should not be growing equal to or faster than the rest of the industry.

Moderator

The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

- Bharat Sheth** Ganesh, I have one macro question that I just want to understand that since last six, seven quarters we are stuck our revenue somewhere around \$95 million per quarter. So when we really look at I mean to move out of that range I mean growing in faster what you are talking so just can you give me some sense?
- Ganesh Natarajan** Yeah absolutely. FY15 definitely is going to be a growth year I am hoping since we are starting some of the deals this quarter but this quarter has just 60 days so I do not want to comment on this quarter but FY15 you will see substantial growth. Just to give you a data point we are planning add close to 500 to 550 people and the fresher addition has already started. So I think definitely you will see FY15 and beyond and I am sure you will see the signs of that as we move forward.
- Bharat Sheth** So we expect to grow cross this \$95 million barrier from FY15 onwards?
- Ganesh Natarajan** I am not commenting on which quarters or whether this quarter or next quarter that is not really what I am looking at. But definitely yes and if you break up the revenues in to its constituent part you will note that our Enterprise business in the US, in Europe, in South Africa has continually been growing even over the last six, seven quarters and it is only the IM business which has been a straggler because of change of model. But now with IM having grown close to 12% this quarter and Europe which is our new territory growing 11% I think we are firing on all cylinders. So the growth should happen everywhere.
- Bharat Sheth** Now coming back to this IM business which is drastically contributing if you add up I mean our product business which is more of an IM part only which is roughly contributing around 33% of our top-line and if you really put PBIT number it is a single mid-teen. So where do you see growing ahead and what will be the mix the kind of a growth that we are looking for IM as well as Enterprise solution?
- Ganesh Natarajan** See I think in terms of revenue growth both will be equivalent. So I would still expect three years from now that IM should be contributing 30% of our revenues. What is more important which is what I think I alluded to in the previous answer is that the profitability of the IM business which is low today because of the turnaround and because of a larger portion of products as we limit products to 30% of the IM business and scale the services business which is inherently more profitable.
- So I think the profitability profile of the IM business will also grow. So while the 70% Enterprise Services business continues to be profitable great business, the IM business will also start catching up in terms of profitability and the good news is that as I mentioned earlier today a lot of customers are looking at people like us for servicing three requirements. One is supporting their existing applications which we call systems of record, taking over their Infrastructure Management and moving parts of it to private and hybrid clouds, and finally the new digital transformation. So today I think Zensar is well-positioned to do all three and while

the profit profile of each of the three businesses might be slightly different. Over a period of time they will all be similar and good for the company.

Bharat Sheth

So in this IM business can we look at I mean to say double digit margin in which year we would like to see I mean which is currently 6.5% around if you really add up I mean our product business in to IM business?

Ganesh Natarajan

Very definitely FY16 has to be double digit margin for IM there is no doubt about it and it could be earlier. It depends on how some of the deals how quickly it starts and how we take it forward.

Bharat Sheth

And now we are talking lot on this new technology I mean in that way we are saying that we are investing. So are we seeing some traction in the revenue terms and how big opportunity are we seeing in digitization side?

Ganesh Natarajan

See at least six of our customers who have asked us to conduct full workshops which include their management team and I will say management team but it is above the CIO to discuss how in retail or insurance the whole digital strategy can work for them and I think that is important but some of you on this call even the NASSCOM event this year in February is going to be entirely around architecting the Digital Enterprise where we have multiple CIOs, CXOs, CEOs talking. So this is a matter of great excitement for everybody and I think Zensar is well prepared because we have had a very good track record and Mobility we are doing very well both in IM and application in Cloud solutions. The analytics space which is really Business Intelligence, Big Data that is something they are investing in. So I think we are as prepared as any of our larger competitors to be able to make a big dent in the space. So the answer to your question yes, absolutely the discussions are starting. It is new territory for most of our customers but if we are able to partner them and partner them right from taking their older systems and re-architecting them for new technologies I think we will see a very good traction and very profitable business in this area in the months to come.

Bharat Sheth

So at the moment and since last two years we are in investment mode and it is not contributing much to top-line, correct?

Ganesh Natarajan

No, Mobility is already contributing well Cloud as I mentioned in fact two of our large deals in Infrastructure Management which is in partnership with a very strong American company called Navisite has been to help our clients to move some of their existing data center source partly through co-located Infrastructure Management and partly to the Cloud. So Cloud and Mobility are shaping up. Business Intelligence has been very steadily growing in Zensar for the last three years. So combination of these three what you call is digital strategy. I mean I can give you exactly numbers on revenues for these three areas may be Ajay can send that to you but certainly it is contributed revenue; contributed to profits but we see potential of significant growth in the next two years.

- Bharat Sheth** And last for one thing you said that PAT margin we expect to touch double digit but in the nine months already we have touched double digit. So that we are expect to improve further, correct?
- Ganesh Natarajan** No, what I was commenting on was yeah you are right because nine months also there is an impact of currency but I am saying even if you did not look at currency on a longer term basis which is what I said even two years back that while the profits were depressed because of the IM business sustaining without any help from currency a double digit profit after tax is really what our horizon has been. There will always be quarters where it will be much higher because of currency quarters where it will be lower but on a longer term track I think that is really what we want to get.
- Bharat Sheth** And last for Bala. Is the exchange loss is a translation loss or it is already incurred I mean cash loss?
- Suby Balasubramaniam** It is a combination of realization and translation because when you are hedging three months, six months, nine months so some of these forward hedges on the date of crystallization you would have a loss but you will also have a gain on translation for that part of the realization which is kept opened. So bulk of it is translation losses.
- Bharat Sheth** And in this quarter particularly we have seen that our tax rate has gone down so is that any one off or over longer term so tax rate is going to go down?
- Suby Balasubramaniam** This quarter we had a deffered **tax** benefit of Rs. 6 crores I am sorry I should have mentioned it to all the analysts from the call. But yes, we are making efforts to bring the tax rate down on an ongoing basis and I had explained it earlier quarters also we have commenced fair amount of our movement in to the SEZ both in Hyderabad and in Pune. We are taking one more facility in the Eon in Pune which will get operational from first of April. So a combination of moving in to the SEZ would give us certain element plus we are focused on moving as much of offshore as we possibly can given the dynamics of our business model. So I expect to see a much lower than last year's taxation rate of 33% this year as we move forward. But this quarter is a one-off.
- Bharat Sheth** So this full year will be around the same last year level and then the next year it will go down, correct?
- Suby Balasubramaniam** This full year I expect Bharat Bhai to be slightly lower under 33% may be about a 100 basis points may be 1% or 1.5% lower than 33%.
- Bharat Sheth** And you said this we have covered datas of up to 48% so total how much age we have in a home any quarters we have cover?

- Suby Balasubramaniam** Our total hedge is \$24 million and it is reasonably well spread out, out of that Rs. 24 million part of it is three months part of it is six months, part of it is nine months and part of it is one year.
- Moderator** The next question is from the line of Sonal Kohli from ENR Advisors. Please go ahead.
- Sonal Kohli** Ganesh, my first question was regarding the application part of the business which you said has been doing well but when I look at the numbers in Q1 of 2012 we did a run rate of \$60 million and it has been about eight quarters since then we are at \$62 million. So was there any restructuring kind of activity we did in even in this part of the business? Secondly, when I look at this quarter numbers of Q3 versus Q2 over last four years in 2011 we grew in Q4 in application part of the business by 6% over Q2 in 2012 we grew 4% and last year we degrew (-2%) but this year we have actually degrown quarter-on-quarter 5%. So this relative must have been there in previous also was there any particular event because of it is the decline was Q-o-Q different than in the past in the application part of the business?
- Ganesh Natarajan** Maybe we can do an offline discussion with you Sonal whenever you are ready. But this quarter as I mentioned earlier on the call I think potential revenue loss has been \$3 million because of two customers in fact one other smaller customer also which have shutdowns which is obviously not going to repeat at the current quarter. But overall both in terms of the Enterprise part of the Applications business as well as in terms of the Application Management business I think there has been growth but we can look at the numbers you can send us a mail we can always talked to you about it. No issues on that at all.
- Sonal Kohli** Actually my question that these kind of shutdown must have happened in previous years as well. So it is different in some sense this year the number of working days as compared to past or any particular client getting impacted?
- Ganesh Natarajan** Yeah absolutely. In fact one of our big clients has almost double the number of days this year in terms of the shutdown but we had budgeted 6 and it actually went to 8 days. Another client which we were suspecting would do a shutdown did the shutdown. So in that sense, yes. The impact is probably 2.5x this year as it was last year in terms actual dollar terms.
- Sonal Kohli** And any particular reason if I look at the other IT companies which have also declared results wherein QoQ over two quarter sequential growth our decline is much steeper so is this something related to that is this the largest client which had big shutdown or what explains our performance difference with compared to others because others would have also seen furloughs is this one largest client of yours which got impacted?
- Ganesh Natarajan** I cannot really comment on any other client but you are absolutely right. I mean if you take our top three clients in fact two are the top three had furloughs so to that extent yes, it is probably exceptional for us and these as I mentioned earlier much deeper furloughs than last year. But

quite honestly we are not worried about it because this is part of the unpredictability of this quarter but apart from that and I am sure you will see demonstrated this quarter there is no issues any of the customers there should not be a problem at all.

Sonal Kohli And Ganesh, going forward considering this was a weak quarter can you definitely say we will see QoQ growth from next quarter?

Ganesh Natarajan Well, there is no doubt whatsoever. I just do not want to comment on how much the growth will be.

Sonal Kohli That is fine but you will see a definite growth because as compared to Q2 also because considering the seasonality you said the revenues were down because of that?

Ganesh Natarajan Yeah absolutely.

Sonal Kohli So even compared to a high base of Q2 we will see some kind of growth?

Ganesh Natarajan Absolutely yes.

Sonal Kohli And you are referring to the total revenue and not only the revenue?

Ganesh Natarajan As far as the total revenue both in IM as well as in the Enterprise business and the total revenue of Zensar in constant currency terms definitely this quarter will be good and next year will be even better.

Sonal Kohli And if both of us wants to revert back to would you see some margins increasing because QoQ there is some decline perhaps because of lower growth in same overheads?

Ganesh Natarajan No, growth decline is not an issue at all so definitely we are not planning to over invest in expenses either. So I think both in terms of revenues and profits you should see a constant upward graph definitely over the next five quarters.

Sonal Kohli And when we talk about 10% PAT margins assuming our interest cost is almost similar to other income and that is what you have in mind. Assuming a tax rate of 33% it means that 15% EBIT margin kind of target compared to 13% which we did this quarter. So is my understanding correct?

Ganesh Natarajan Well, as Bala mentioned I think our tax rates also can be optimized to a certain extent so there will be a reduction in tax rate as we move toward the consistent 10% PAT and yes, I mean for all the reasons I have mentioned of this call given the quality of the business the upward bias we are seeing in pricing yes, the answer is yes we can, even the PBT can be higher and the tax

itself can be lower. So that combination is certainly what we will work towards from a financial point of view and from a sheer business point of view.

Sonal Kohli And if I heard you correctly you said that you would expect to grow more or less in line with the industry little bit above and down is fine but that I hear you correctly?

Ganesh Natarajan Yes, absolutely and at this point of time I do not think we have had any discussion on NASSCOM on what next year is looking like but yes, it would expect to grow in line and given the what we are seeing in our own business I think the confidence is very much there that will happen.

Sonal Kohli A general expectation that NASSCOM may come out with more like a 15% kind of guidance for the year so inspite of that kind of high guidance do you think you will be able to grow in line with the industry?

Ganesh Natarajan You are asking to comment on two supposition so I really cannot do that. I have no idea about NASSCOM will come up with. of I can say is that our growth will be good clearly we have had a growth problem in the last two years because of IM. Having corrected that there is no reason why given the kind of strength of customers we have, the loyalty that we enjoy with our customers and the fact that our new deals pipeline is now kicking very strong. I think we will certainly see very good growth.

Sonal Kohli And Ganesh, when you talk about 500 hiring you are referring here to the net hiring I presume?

Ganesh Natarajan Yes absolutely 500 to 550 is net hiring. Our attrition today is very low. It is in single digits but we are not taking that at all. So we just talk about net hiring in absolute terms.

Sonal Kohli And would you expect to improve your utilization from here and as well as the pyramid or that would remain constant?

Ganesh Natarajan Absolutely, in fact as I said our struggle is always been to make the pyramid flatter and given the fact that (a) we have been relatively late entrant and our strength even in the last 12 years we have been in business as a software company has been based on consulting and fair amount of onsite work. So to that extent our pyramid is not as nice as some of the very large incumbents you are right. But yes, absolutely I mean to answer your question on the 550 I think about 300 would be freshers and we are looking at not only engineers but even non-engineers. So that will obviously help the pyramid. And going forward that is a continuing plan that has been move towards more support engagements, more offshore Infrastructure Management engagements I think there is a constant possibility (a) to increase the offshore percentage which we should do and (b) to improve the pyramid not the best but at least in line of many of the other companies.

Sonal Kohli Bala, can you help me with the range of tax rates for FY15 and for FY16 a broad range will do. I understand it is difficult to give an exact kind of number but a very broad range?

Suby Balasubramaniam I will expect it between 31% and 30%.

Sonal Kohli For FY15?

Suby Balasubramaniam Yeah.

Sonal Kohli And Ganesh, just maybe I am repeating this question but just for clarity when you say you will grow in line with the industry next year you are including all forms of businesses as well as the product business?

Ganesh Natarajan Yes absolutely.

Sonal Kohli Because that will decrease you may expect your product business to decrease next year?

Ganesh Natarajan Product business as I said our goal is to keep it at \$10 million per quarter and definitely all other businesses growing substantially both in the Enterprise space and IM Services space.

Moderator Thank you. The next question is from the line of Abdul Karim from Narnolia. Please go ahead.

Abdul Karim Recently, few management guys from different IT companies are confident to track growth from digital enterprises space as an emerging business. Yes, on previous con call you had expressed your aggressive view regarding the transformation to digital space. Already you have put more color on this space. My question is how do you see the digital space regarding the clients' demand and revenue addition going forward and any update in progress by Zensar Tech?

Ganesh Natarajan Yeah, so just to very quickly summarize what I have said earlier digital is the combination of using the Mac technologies which is Social Media, Mobility, analytics and Cloud. As I mentioned earlier we are already fairly strong in Cloud both in the Infrastructure and application space. We have done good work in Mobility. Social media is a new area for all of us but in the analytics space we have already done good work in business intelligence. And as I mentioned earlier we have had good traction. This is already a profitable line of business for us but given the excitement in whole industry I would expect that this will obviously this part of our business will grow much faster than the rest of the business. So the percentage of systems of engagement which is the Digital Enterprise as our overall revenue will continue to grow. I mean I am expecting that the percentage order booking next year at least 10% of our business will be actually be in systems of engagement and will keep growing.

- Abdul Karim** Recently company has entered in to a venture with African firm which is Kapela to protect your existing client and companies also in a position to look for new businesses or order across the Africa as well as with government. And my question is regarding your sort of recovery ventures or what is your plan over next two to three years and how much do you plan to invest?
- Suby Balasubramaniam** This is Bala here. It is a good question because one of the issues that we have set for ourselves in the Africa strategy is to grown Pan-Africa not only in South Africa but also in the adjoining nations like Kenya, Tanzania and so on. So this required us to align with a black partner for meeting the requirements of the Black Economic Empowerment Code. Now this code mandates that entity is in South Africa has to be necessarily having 25% ownership of the blacks. So we tied up with Kapela who is very large investment partners and what the partners brings to the table is their expertise and their understanding of the South African market along with the offerings that Zensar brings globally to the South African market.
- So we have a business which is around \$23 million this year and our ambition in South Africa is to deal the opportunities that are available to us in the Government space and also in all the other spaces in the neighboring regions that I mentioned and take this business to a growth rate which is very aggressive as we move forward and give our entire range of Zensar offerings not only to South Africa but also to the other emerging markets in and around South Africa which are Botswana, Tanzania, Kenya and so on. So we see a fairly good prospects of growth and South Africa along with Europe have been on the upbeat in the last couple of quarters and going forward we are very, very optimistic about both these territories.
- Abdul Karim** And already been under development center there would that center also be the part of that venture?
- Ganesh Natarajan** Yeah, actually you are right because we have been very successful in South Africa because of that the kind of work we have done the black economic empowerment program and very much so. In fact even this new venture we are doing we have two very senior members of the Black Empowered Society as part of our overall company. So definitely the development center which today employs over 120 young black South Africans will continued to be a part of our strategy.
- Abdul Karim** And how are the Cisco and Akibia accounts growing and what are the prospect of that?
- Ganesh Natarajan** See as I said I mean Cisco is one of our very large customers and that is growing without any doubt it is growing this year also. What used to be called Akibia is what we today call the Infrastructure Business Unit and that as you have seen has grown very well this quarter and as I mentioned earlier will continue to grow and all the signs of order booking the pipeline is very good for that business.
- Moderator** Thank you. The next question is from the line of Abhi Dhall from Multiples. Please go ahead.

Abhi Dhall

My question is about this Mac and Digital Enterprise and particularly about Mobility analytics area that you mentioned earlier on the call. If you could share some color around what is the client need that you are experiencing in this segment and generally speaking how are the contracts different in this segment versus the traditional business possibly in terms of duration, billing rates, and recurring nature?

Ganesh Natarajan

So Abhi, you and I should have a separate call for three hours on this it is a very important topic you are raising and also I would strongly recommend you see if you can attend NASSCOM because this whole discussion we are having on the second day around this topic. But very quickly to summarize, I think it is basically customers wanting to engage I have mentioned this before I was in New York on what they call “Cyber Monday” which is the Monday after the Thanks Giving Black Friday. And I was finding that most people are walking in to the stores are understanding what is available and then they are getting back to may be Central Park in New York and on their Smartphone they are doing the buying.

Now a retailer will find it very difficult to cope with this because the retailer always thought that if you give the best shelf space to your best product people will buy and pay at the till and then go out. But people are not doing that anymore so that is a problem customers have. Also how do they reach out to people through Social Media? So I think that is what is happening so because of this we all need to have a very different conversation with customers which is what we are doing. We have just appointed a very, very senior strategic consultant in the US and she is helping us to understand what customers really want nowadays which is very important and she is also in fact one of the speaker at NASSCOM who is going to talk to the entire industry about this.

So the final view point on how our customers engaging? They are engaging at a consulting level, they are engaging at an experimental template level not nobody knows exactly what kind of applications will come up which is why Social Media and Mobility are important. And a lot of the engagements will happen around outcomes. So while they will pay for services and consulting they would expect to see outcomes in terms of better offtake of products etcetera. So I think all of us are still understanding this space it is exciting, it is big opportunity because it is not price sensitive but we will I think see how this space plays out over the next six to nine months.

Moderator

Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Ganesh Natarajan

Thank you very much. And I think it was a very, very interesting call because we have covered pretty much everything to do with Zensar at this point of time and I will conclude by saying that we are grateful to all of you because you have supported us over a few quarters where we were struggling to do the integration. Now that the integration of Akibia is done and we have a very confident team sitting both in the US and Europe and the other businesses are doing fine I

mean we would certainly expect that this quarter as well as FY15 and beyond we would be able to deliver the kind of numbers that we all anticipate. So thank you very much and look forward to your continuing support.

Moderator

Thank you members of the management. Ladies and gentleman, on behalf of Zensar that concludes this conference call. Thank you for joining us and you may now disconnect your lines.