



“Zensar Technologies Limited Q3-FY15 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Zensar Technologies Limited Q3 FY15 Earnings Conference call. As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Dr. Ganesh Natarajan – Vice Chairman & CEO of Zensar Technologies. Thank you and over to you sir.

Ganesh Natarajan: Thank you very much and very good afternoon to all of you. I have with me S. Balasubramaniam (Bala), our CFO, Ajay Bhandari who is the Head of Corporate Development & Strategy, and Sanjay Rawa who is our Financial Controller.

As our normal practice, I will make a brief opening statement covering the results, our outlook and factors behind the growth that you have seen, then hand over to Bala for some numbers and then we will throw it open for any questions.

To begin with, let me say, as is visible to you, we have had a very strong quarter in terms of both revenue and profitability. Revenue, if you look at the overall company, has grown 10.8% quarter-on-quarter in INR terms; 9.6% in constant currency terms. If you look at it year-on-year it continues to be strong, we had a growth of 21.2% in revenue and 37.1% in PAT. Profitability indicators have continued to remain healthy and the PAT margins are at 9.7% with PAT growing 3.3% quarter-on-quarter. As was expected the profits have been impacted somewhat due to a margin decrease of roughly 10.2 crores because of couple of customers having leaves which they call furloughs and some other expenses. Excluding PA the quarter-on-quarter the revenue growth has been 5% in INR terms and 4% in constant currency which, I believe, is best in class in the industry for this quarter.

The Enterprise business has been stable quarter-on-quarter and continues to be on a high growth trajectory over the last 12 months, registering 14.6% year-on-year growth on a YTD basis and 13.1% Y-o-Y growth in Q3. The India business continues to improve steadily while the US, Europe and Africa continue to be our key markets. India has clocked over 100% both quarter-on-quarter and year-on-year growth in INR terms.

Let me give you some information about the IM business – All of you who tracked Zensar have been concerned about IM over the last two years. But you will be glad to

know that we are seeing a smart move upwards in the IM business both in terms of revenue growth and profits. As you know it has been stabilizing in terms of the services area over the last few quarters and the shift towards cloud, dual shore services has all been bearing good results for us. The services revenue has remained stable and I think will continue to grow over the next four to six quarters.

The Product business is where of course we have seen volatility but now we have a good sales team and the focus is very strongly on multiple products that lend themselves to security and as all of you know as more and more companies move data centers to the cloud the biggest concern will be in terms of co-locating servers on the data center and the cloud on how do they manage security. So I think they have a good product suite and security which resulted in a very good quarter. So, as I mentioned before that for the overall year we would expect to do not more than 30 million in Products. This quarter itself has been over 10 million which has resulted in an overall Q-o-Q revenue growth of 21% for the Infrastructure Business Unit; and I think we are on track to meet those numbers that we talked about. You may also recall that in the last quarter we had talked about implementing a leaner cost structure for the entire Infrastructure business unit. This has been put in place including a lot of work being done off shore. This has resulted in a lower breakeven point and hence improved profitability. As a result of the positive impact that sustained in this quarter we have seen a positive PAT of 5.7% for the Infrastructure business unit and as you go along I am sure next year would be even better and we will slowly move it up to levels that we expect to see in the Enterprise business. So all parameters are improving - gross margins increasing quarter-on-quarter from 21.2% to 24.6% and EBITDA increased from 1.1% to 7.3%.

Moving out of IBU and the Enterprise Business – so the company we acquired last quarter which is Professional Access continues to be a star as far as we are concerned, because they continue to be one of the strongest Oracle ATG implementation specialists in the world. As we mentioned before, PA works with some of the top retailers in the world including Kohl's, Sam's Club, Wal-Mart, John Lewis partnership, Mr. Price in South Africa, Urban Outfitters and Walgreens and they currently have a pipeline of good business from some of the biggest retailers in the world, so that is also a good news. This quarter has been the first full quarter with PA for Zensar, its growth has been healthy with 14.2% quarter-on-quarter revenue growth in dollar terms and margins being very much in line with those in the Enterprise Applications business.

So to summarize – It has been a very good quarter especially with the turnaround in the IM business, the continuing growth in Professional Access and the excellent prospects and pipeline we have across all segments of the business. My expectation is that this good performance will continue at least in the foreseeable future over the next four to six quarters. The markets we are operating in, as you know, we today have 76% of our work done in the US. US as an economy continues to do well and I think that will continue, I would see no reason to feel that US will be affected by any of the downturns we see in other economies. Africa has been a little wobbly in the last one year or so, but as you know our leadership continues to be very strong in Africa and we are very confident about that market. Europe, UK has been a little soft but I think that is growing now, our work that we do with government organizations in Europe has been excellent. We have made a couple of breakthroughs even in places like Germany and Holland, so I think overall we are very bullish about how we grow in Europe.

So given the fact that if you take US, Europe and Africa that is almost 96% of our business. I think we are fairly confident that the growth will be good in future also. I would like to call out the fact that we have invested strongly in Digital Transformation and e-commerce; the results of those are getting reflected in our revenue growth and other numbers. Going forward we feel that this will be the continuing strength of Zensar. Many companies have been caught napping, because they have not really adapted to the digital needs of their customer's fast enough; but today if you look at the kind of work we are doing with Beacons in Retail or sensors and Internet of Things in the Manufacturing space, we believe that we have the opportunity to be one of the leaders in digital and that is something apart from the fact that we are strengthening the pillars of our growth which are Enterprise Applications and Infrastructure Management, and continue to make investment and succeed in digital and e-commerce. I think all of this gives us a feeling of tremendous optimism that the future is indeed bright for Zensar. So, I am going to stop here and ask Bala to comment on any other numbers that he normally provides to you and then we can take any questions you have on the industry, the outlook for the business and of course any other parameters of Zensar. So thank you very much.

S. Balasubramaniam: Thank you Ganesh and good morning to you ladies and gentlemen. I will give you some data points which I normally do at the beginning of the call so that further questions can be focused on the other aspects of the business.

The CAPEX for the quarter has been 3.9 crores and YTD CAPEX has been 18.07 crores. In terms of days coverage we are now at 72 days that is including Professional

Access. Excluding Professional Access we are at 65 days cover. In terms of cash balance, as of 31st December our cash balance was 272 crores in cash plus short term investments. In terms of the dues, in terms of loans our debt position stood at 183 crores or \$29 million, all in the US. Out of which \$12 million is after the repayment of \$6 million of the debt that we had taken for PSI. So our total free cash as of 31st December is 89 crores that is 272 minus 183.

In terms of hedging strategy we normally have plain vanilla forwards, we have covered approximately 53% of our dollar and other foreign currency denominated debts at an average rate of 65.20. So that is the position as far as the hedging is concerned. I will now hand over the call back to Ganesh.

Ganesh Natarajan: Thank you Bala. So, I will open it up to questions, anything you would like to ask feel free.

Moderator: Thank you very much, sir. Ladies and gentleman, we will now begin the question and answer session. We have first question from the line of HR Gala from Penav Advisors. Please go ahead.

HR Gala: Can you just throw some more light on your acquisition Professional Access, like how much revenue etc. it had had?

Ganesh Natarajan: Yes, sure Ajay you would like to take that?

Ajay Bhandari: Yes. So, Professional Access in this quarter did revenues of around 12.5 million, 12.62 to be precise. And they had a very strong EBITDA; their EBITDA is very similar to Zensar so their EBITDA was closer to 15% or so.

HR Gala: Okay. And did we acquire it from; this particular period is for Q3?

Ajay Bhandari: That is right, so the acquisition became effective from 14th of August 2014, to that extend this is the first quarter where we have revenues of the entire quarter.

HR Gala: Okay. And where do we include that revenue in our service offerings?

Ajay Bhandari: It is part of the services, the Enterprise Services – it is included in that.

Ganesh Natarajan: What you call Application Services.

HR Gala: It comes under three heads like Application Management, Infrastructure.

Ajay Bhandari: In Application Management.

HR Gala: Okay. Now sir going head how do you see our geographic revenue breakup shaping up, do you think that US will continue to dominate with three fourth?

Ganesh Natarajan: I would think so, because there was a time when we said that may be from US we should be looking at not more than 70%, but given the strength of the US market and the fact that Professional Access also is very heavily focused on the US, I think we would be very comfortable with around 75% coming from US. Certainly if you look at the other territories we are completely defocusing Asia because we do not see enough margins happening in Singapore, and we would probably think that if at all there are some strong pockets in Asia it will be Australia and Middle East which will continue but apart from that I think the focus would be largely on US and Europe, Continental Europe is an area of focus for us. So apart from what we are already doing in Holland and what we called DACH which is the Germany, Austria, Switzerland belt, we would have also been probably looking at Nordics next year because given our focus on digital there is lot of opportunity in Sweden, Finland and Denmark.

But apart from US and Europe, Africa we will continue because we have very strong growth continuing in South Africa, we have just opened our office in Kenya and probably we will look at may be one other country next year and Africa as all of you know would be a good future market. So I would think if you look at Zensar may be over the next two years, definitely strong focus in US and Europe, some focus on Africa and Middle East but apart from that India of course will continue because with the Prime Minister's digital India strategy, we are seeing a fair amount of opportunity in digitization, digitalization and some large public sectors who are looking at significant implementations of large ERPs. So I think all that will be what we look at, but broadly you can expect that the percent profile in markets will not change very much, at least not over the next four to six quarters.

HR Gala: Okay, my third question is what is your man power augmentation plan going ahead?

Ganesh Natarajan: Right now we have crossed 8,000, in fact as you can see in the papers given to you we just crossed 8,000 people. We have already started hiring for next year so my expectation is that we will be hiring between 400 to 450 fresher's which will be 80% engineers and 20% non-engineers for next year. In addition to those 400-450 we will probably expect to hire another 200 in terms of lateral hiring, so I would guess if you

look at the next 12 months which is January through December we would be looking at hiring, across freshers plus laterals, about 550 to 600.

HR Gala: Okay, so this 600 will be the net addition or gross addition?

Ganesh Natarajan: Net addition.

HR Gala: How much is our attrition rate?

Ganesh Natarajan: Attrition rate is actually fairly low in fact in both Professional Access as well as in Zensar it is hovering around 10%, probably a little lower than 10% and our targeted attrition rate is 12% to make sure that there is a refreshal of people as well as that we have strong retention of critical talent.

HR Gala: Okay, just last question from my side this EBITDA margin which is hovering around say 12.6, 12.8, or 12.2% what are the levers which we can employ to increase the margins going ahead?

Ganesh Natarajan: See there are three main levers that we look at, one is of course moving a lot of the projects we are doing in Professional Access towards maintenance because as all of you know the more support business you do the better it is for EBITDA margins. The second is continuing to focus on higher revenues because as I mentioned in my opening statement we already have cut the cost base to what it should be in the Infrastructure Management business and as revenues add up I think a lot of that will flow straight to the bottom line so it will improve EBITDA. And the third is of course we continue to look at all cost levers in the organization so whether it is improving utilization, looking at lowering the pyramid which means more of fresher's being hired and trained; we are actually putting a lot of emphasis on training and skilling of fresher's so all that will happen, so I think a combination of better utilization as well as both PA and Infrastructure Management continuing to increase their profitability. I think both these will be tried, our Enterprise business is already optimized in terms of the kind of profit they deliver and the kind of business they are chasing. But if you look at our pipeline today which is almost \$250 million of future business, I think all of those are contracts we are chasing which are significant sized, which will add to both top line and bottom line, and it looks pretty healthy at this point of time.

HR Gala: That is good. Just last question, this CAPEX how much do you say in this quarter?

S. Balasubramaniam: 4 crores, 3.9.

- HR Gala:** 3.9 crores and cumulative in nine months?
- S. Balasubramaniam:** 18 crores.
- HR Gala:** Okay, next year you will be spending how much?
- S. Balasubramaniam:** We normally spend equal to our depreciation, roughly about 32 crores.
- HR Gala:** This year also you will spend that much because although only 18 has been spent the rest will be spent in the next quarter.
- S. Balasubramaniam:** Yes, we have a quarter to go and fair amount of work is already in various stages in capital WIP, most of it will get closed by 31st March and some of it obviously will go to the next quarter and that is an ongoing feature.
- Ganesh Natarajan:** We are not planning any land and building capital expansion at least not for next six quarters because I think our expansion will be in the existing SEZ where already exist. Like DLF and Gachibowli Hyderabad as well as Eon in Pune. So the CAPEX is more in terms of modernization and renovation of equipment and less to do with any new campuses or anything like that.
- HR Gala:** Do you look at any inorganic opportunity?
- Ganesh Natarajan:** We continue to look at inorganic opportunity, in fact as I mentioned earlier we are looking at strengthening our SAP capabilities so we have been looking at companies in Germany because there is an opportunity to get good companies. Having said that we have not found the right company yet and as I have mentioned many times, our strategy is really not to do acquisitions unless it really fits into our overall strategy, sometime next year we may look at the opportunities in product engineering because clearly embed system, outsourced product development are all key areas of growth for any IT company and also for Zensar and given the kind of work as I mentioned we are doing in the digital space, if you look at Internet of Things and Manufacturing, shop floor automation, big data etc. so all these are opportunities. But I do not see any big bang acquisition in the next four to six quarters. But if it is good companies that add value to our overall strategy, we would certainly be open to looking at that.
- Moderator** Thank you. We have next question from the line of Bharat Sheth from Quest Investment. Please go ahead.

- Bharat Sheth:** Ganesh now on this digital side what is our strategy going ahead, what it currently it contributing including PA and how do we see ramp up in next two to three years' time?
- Ganesh Natarajan:** Thank you Bharat, actually if you look at our goals for this year we would be probably doing between 325 to 350 crores of business in the digital area, when I say digital it includes the work we do in cloud, mobility, social media, big data as well as e-commerce which is PA specialty and so if you look at that I think even if we did about 350 crores you will see that is about 8-9% of our revenues. Our goal very clearly over the next two to three years is to make sure that digital contributes close to 20% of our revenues and as I was mentioning to CNBC 10 minutes back that our goal is to make sure that the digital and e-commerce business grows at 20% plus every year for the next three, four years and given the pipeline, given the trends in the market place we believe that it will definitely happen, but one good thing is that all our investments in last 12 months in both digital and e-commerce have resulted in good opportunities for us, even the kind of work we are doing with many of our customers is helping them to build their digital strategy. So digital is one of our core focus areas so while we strengthen our basis in terms of Infrastructure, enterprise and application, digital is a big focus for all our three verticals and in all our geographies.
- Bharat Sheth:** Post-acquisition of PA which is largely in implementing e-commerce for all the manufacturers who do not have e-commerce platform like many retailers and all, so do we see with Zensar coming and taking over it, we are able to offer a larger spectrum?
- Ajay Bhandari:** You are absolutely right. So because they specialized only in the e-commerce technology but typically in an e-commerce implementation there is integration, there is master data management, there is integration then order management system and in the Oracle space normally this is bundled with an Oracle retail implementation and all these adjacent areas are strengths of Zensar which is why Professional Access that way was a perfect fit for us. So now when we are going to the market we are going as a complete technology provider along with the core merchandizing system as well as integration, so yes the ticket size will get larger as we develop our propositions jointly.
- Bharat Sheth:** Okay. Ganesh in Application Service excluding PA at Q-o-Q there is a decline so is there any one time or specific reason for?

- Ganesh Natarajan:** No as you will notice Bharat in all companies many of the clients go on this 10 day, 12 day furlough which really means that while people are still employed for them they declare a holiday which means they do not pay.
- Bharat Sheth:** Correct.
- Ganesh Natarajan:** So as a result both the revenue and profit growths have been slower, in fact as I mentioned earlier we have had a 10.2 crores profit decline in one of our clients because it is a large client and we have 12 days holiday, obviously it affects that. But that is a onetime thing, clearly this quarter everybody is already back in work and there is no furlough or anything expected. So that is an aberration that happens in the third quarter for every company and of course holidays and Thanks Giving and Christmas, etc.
- Bharat Sheth:** Q-o-Q now in Q4 will be comparatively vey stronger?
- Ganesh Natarajan:** For the application business absolutely in fact the Enterprise business will definitely be very strong, we are hoping that the IM business will continue although the products may not be as high as it was in the third quarter. So, I think as I mentioned earlier in all geographies, all verticals and all application areas I think we should see good growth.
- Bharat Sheth:** And you said that now IMS cost structure has been made leaner so we will see improvement in this particular quarter although product sales was high, service was low, mix wise. Our EBIT margin was 9.3 so what is the aspiration and where do we see end of next year?
- Ganesh Natarajan:** Aspiration for the overall IM business if you look at what we call global Infrastructure Management is to be above 6% PBT next year and that will happen through a combination of large deals coming from our enterprise team as well as the Infrastructure business unit itself. On a longer term basis once we have more services coming from more high quality maintenance contracts in US and Europe over the next two to three years this can go up to double digit PBT which is definitely what we are attempting to do in the IM business. So that is double digit PBT and we have a continuing strength in the Enterprise business. Professional Access as Ajay mentioned is already at that level of 14-15% which is why I mentioned during the call earlier that definitely our goal is to come back to may be double digit PAT next year and it will keep going up in my opinion over the next two to three years.

- Bharat Sheth:** Last one thing, if our larger client are looking for a vendor consolidation in that space for IMS provider to provide the service and service provider to be part of the IMS and all. So where do we stand being a small size company with the other large player?
- Ganesh Natarajan:** We have stood this test very well Bharat Bhai, because if you look at many of our large clients including our largest client Cisco and many of our Utility clients and Retail clients, they have done vendor consolidation in the last many years. We have very rarely lost out, probably one case in Europe where they decided to move everything to a global vendor but then we are still doing work on specific area for them; but in most other cases when people chose vendors we have been among the selected because we have a reputation of being a very high quality high innovation service provider. So given that and the fact that now they respect our capabilities in Digital Transformation I do not have any concerns that we will have any problems because of vendor consolidation, on the contrary it might actually help our position in key customers, so they will chose us as amongst fewer set of vendors.
- Bharat Sheth:** And are we seeing our ticket size increasing or we are getting request for higher ticket size offer?
- Ganesh Natarajan:** Because there was a time when, as I mentioned before, we used to sign primarily \$1 to \$2 million kind of deals but in the recent past I think we have bid for and successfully won many deals which are over 5 million, over 10 million. We are currently looking at couple of consolidation deals in America which could be over 15-20 million and that is definitely on the cards as we go along. So, I think there is enough opportunity for us to have larger ticket size deals and as all of you know if you have a larger deal it optimizes your fixed cost and your profitability is also better and that will be our direction going forward both in Infrastructure Management as well as in the Enterprise business.
- Bharat Sheth:** Okay. And last question for Bala. Bala for nine months our tax rate is almost around 31% earlier we were expecting around little less than 30% so what is your sense for the current year tax rate and next year?
- S. Balasubramaniam:** We were almost at 27-28% and we continue to grow in our SEZ but this is the first quarter with full PA and PA is essentially on the STPI so therefore they are fully-taxed and we are figuring out ways and means of how we can optimize our tax there also. It will be a slightly slower journey there, they being a project company. My own feeling is that the year will end around 30-31 or could be less than 31 and next year also it will be between 29 to 30.

- Moderator** Thank you. The next question is from the line of Deepen Shah from Kotak Securities. Please go ahead.
- Deepen Shah:** I had a couple of questions firstly on Professional Access Ganesh the numbers have been a positive surprise during the quarter where revenues have almost doubled because it is for the full quarter but I understand that last quarter was an aberration we were indicating a kind of run rate of \$40-42 million and now we are at around 50 million. So is there a change in the trajectory and should we expect this as the base revenue or is there any onetime in this current quarter?
- Ganesh Natarajan:** There is no one time Deepen, but one thing you must realize is, it is very similar to what our Oracle business was 10 years back, the projects business. So it is very difficult to expect that every quarter there will be growth in the Professional Access business. So, I think we are still, if you look at the overall PA business for this current year, probably at about 43-44 million for the whole year that is what we expect so what that means is, this quarter may be flat or maybe even a little lower we do not know but looking forward I am very confident of the growth of Professional e-commerce revenues not only through ATG for Oracle but also Indica which is the other platform that they are now building on. They are also building a complete new platform for mid-tier Retailers which is actually an intellectually property solution creation that will be done by Zensar and PA. So, I think given everything, I am fairly confident that if you look at it year-on-year from 43.5 or whatever million they will end up this year I think definitely we are looking at upwards of 50 million next year and so a growth of 15 to 20% will continue. If you add the kind of work we are already doing in e-commerce I think e-commerce business as I mentioned earlier will be a 20 to 25% growth driver for Zensar for the next three years. So it is very positive at this point.
- Deepen Shah:** And the other thing is that you just indicated in the update that the impact was about 10.5 crores because of furloughs that was on the bottom line. So is it the top line also was the same, how much was the top line impact if at all you can make us understand so that it becomes clearer to us about how the next quarter should be?
- Ganesh Natarajan:** Top line Sanjay you have any data on it, it was 10.2 crores in bottom line but what was the top line impact?
- Sanjay Rawa:** It is between 14-15 crores.

Ganesh Natarajan: Yes you take it about 14 to 15 crores because it is as you know one of our most profitable client so there is an impact on the top line.

Deepen Shah: Okay. And as far as the Application Management business is concerned can you just give us some more light on how is the macro scene looking because as somebody pointed out earlier that excluding PA there has been a good de-growth in the business. So, like I understand there were furloughs in the quarter but if you can just throw some more light on the macro as to any particular trends which you are seeing and anything specific on the budgets for the next year?

Ganesh Natarajan: Actually there has been a 15.2% year-on-year growth in the application business so we have no concerns about that. But what we are seeing happening is, as you mentioned there is a lot of application consolidation just to, I do not want to get very technical but if you look at the trends in the market, Gartner calls it Bimodal IT which really means that when people are doing sourcing they are making sure that they get the best vendors for their Infrastructure and applications business to help them to migrate to cloud because cloud purchasing is going to be probably one of the biggest areas, so that is one thing happening. On the other side they are looking at CTOs or even Chief Marketing Officers buying directly in terms of their investments and supply chain optimization, in terms of investments and Internet of Thing or shop floor management. So all these are new technologies that are coming up, if all of you saw the news this morning they were talking about Rafael Nadal in the Australian open using a sensor based racket which was actually telling him he is using how much of backhand. In every area you have sensors coming in so that is the other area, that is why I said earlier that today we are very strong in the core applications and helping them with cloud migration and mobility extensions. We are also becoming very strong in helping customers to think through new applications, for instance in South Africa we are talking to one of our large Retail clients, they work in the wellness space and they actually want to put beacons in every gym in Africa saying that these beacons will actually tell them where their clients are going for exercising, what kind of foods are they consuming. So this kind of big data analysis is really what is happening and I am glad to say that Zensar is playing extremely well in both spaces so the Applications and migrating towards digital will continue and the Digital itself in a standalone I think is an area where we are building tremendous confidence as we speak.

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

- Abdul Karim:** On Product and License segment could you put some more color because it is witnessing some spark on revenue and what would be the margin expansion and what we can expect from this?
- Ganesh Natarajan:** If you look at the product segment clearly the lowest margin you should look at as a bottom edge is about 5-6% margin which is what normally happens, if it is a security product it could be slightly higher, if it is just a resale of an SAP or an Oracle license as part of our services that will be lower because we make more profits on the services. So if you look at that segment standalone, it is quite small. This quarter we did do over \$10 million in that segment. So we want to keep it at a level where it is important because it services our customers and gives us the additional opportunity to sell services but it's clearly not the focus area for Zensar.
- Abdul Karim:** And one thing I missed dollar term growth and cross-currency growth during this quarter?
- S. Balasubramaniam:** The constant currency growth quarter-on-quarter was 4% without PA.
- Abdul Karim:** And as per the recent industry update some noise is coming as billing pressure on Infra segment what is your take and is there any headwinds you are seeing on Infra segment?
- Ganesh Natarajan:** Again not to sound too technical but if you look at Infrastructure support, now there was a time when there were only two options either you could run a big data center in America or Europe or you could dismantle the data center and do a lot of the work through network operating centers in India, so those were the two options. Today companies have three options, which means they can keep some of their critical Infrastructure in data centers in their own premises which is becoming what you said is the low profitable part of the business. Then they are co-allocating which really means that part of it could be done out of India, part of it out of common data center, and part of it there, that is higher profitability. The third which is a trend my expectation is three years later most people will have 70% of their servers and heavy Infrastructure on the cloud which means it will be on an Amazon cloud, or a Google cloud or any third party cloud, that continues to be profitable. So, I think the success of Infrastructure is how quickly you can help your customers to discover the benefits of the cloud, how quickly you can ensure that their security concerns are addressed by better products and services and consultancy and fortunately because of our dual-shore capability with Infrastructure we are in a position to play in that. So, I am not too concerned about profit pressure or margin pressures in that on the contrary you

should expect to see that our margins will continue to improve every six months if not every quarter for at least the next two years.

Abdul Karim: And on utilization front this quarter it is 78% and on what level you are comfortable for?

S. Balasubramaniam: 70 to 80.

Ganesh Natarajan: We have been always targeting 70-80 and because we now hire freshers every quarter, they go into training so that creates a 78%. But if you look at the non-fresher utilization that continues to be above 80%. So, I think we are pretty comfortable at the current level and we will try and keep it that way. If at all Professional Access has a lower utilization because they have been, as I said, a projects company so they hire people may be three months in advance of projects so their utilization is lower than ours. Our goal would be to maintain Zensar utilization where it is and as we continue to integrate PA, we will make sure that the utilization in that area also goes up and there is more predictability of their revenues, with more offshoring and everything happening.

Moderator Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Hi, this a follow up question. Bala in this quarter do they have any one time impact of this cross-currency?

S. Balasubramaniam: No, Bharat Bhai we do not have much of Euro business and most of the other currencies have been either stable or slightly better.

Moderator Thank you. The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: I had couple of question. My first question is I read from here this press release that you are entering into some partnership with Aternity so if you could throw some more light on it what exactly it is and what you intent to do?

S. Balasubramaniam: You must have heard Sudhakar that there is a lot of discussion happening around automation in the Infrastructure space and to a certain extent it is happening on the Application space as well and so certain activity especially like monitoring, etc., is being done through software and hardware rather than through people. And with the help of our partnership in Aternity and partnership in three other products company

called IT360, Nanoheal and ServiceNow, we are now looking at building automation platforms that will take over and reduce human effort in Infrastructure Management especially to the tune of 40%. So the partnership with Aternity is a very crucial component of our automation strategy in Infrastructure Management.

Ganesh Natarajan:

In fact the faster growing segment in this area is what they call end user experience management and I think Aternity is one of the lead players there. So we really plan to do a lot of work in this area. As I mentioned earlier not just data center support but then cloud and then end-user experience. Now the whole IT business is moving towards much more design, design of application or design of experience is more important than the actual programming. Similarly in Infrastructure I think end-user experience management will become probably the most important thing that people want and that is the area we are playing in with Aternity.

Sudhakar Prabhu:

Would you form a different company for this joint venture or something or how is it like, what would be the structure of this work which you do?

Ganesh Natarajan:

No, not at all. I do not think this justifies any equity investment or anything like that. In fact it is part of our overall strategy to build an ecosystem of partners. Even in the digital space we are now working with two partners, in fact we are now setting up a full-fledge Social Listening Center in Pune, if any of you come to Pune do visit it. The Social Listening Centre gives customers a complete footprint of what exactly is being spoken about their brand and this we are doing in partnership with one small company in India as well as the Oracle zone capability in this area. So I think in all these spaces we are saying that we cannot invent everything or we cannot develop everything. So there will be point partners like Aternity, like couple of companies we are working with. Our goal is to have may be 10 to 12 strong partners who we can take to market with us, so we become the cloud brokers or the systems integrators for digital and we would use their solution. So no joint venture or equity investments is envisaged.

Sudhakar Prabhu:

My second question is on order pipeline. So how big is the order pipeline as of December and how do you see it growing?

Ganesh Natarajan:

As of December the order pipeline was just over \$350 million roughly \$200 million is in the Enterprise phase, \$150 million is in Infrastructure business and the PA pipeline itself is about \$20-25 million. So it looks very robust at this point of time and as I was mentioning earlier some of these deals both from existing and new clients are fairly

large deals, so our goal is to go out and close these deals so that we can build a good order book for next year as well.

Sudhakar Prabhu: And Ganesh would you like to give some outlook for next year how confident are you about FY16?

Ganesh Natarajan: Definitely. FY16 our goal would be to look at over 15% growth but at this point of time there is no target. We are just doing our budgeting but given the fact that we are in the right spaces both in terms of the application areas, the verticals as well as in the geography so we do not have a formal guidance at this point of time but if you look at it from an internal point of view definitely looking at over 15% growth is really what our goal would be.

Sudhakar Prabhu: 15% would be in dollar terms right?

Ganesh Natarajan: Yes. We cannot predict currency, it is a constant currency term.

Moderator Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: I just want one data point, I joined a little late. Can you tell me what is the debt and the cash and equivalent on the balance sheet as on 31st December?

S. Balasubramaniam: The debt is 183 crores or \$29 million, the cash is 272 crores.

Sachin Kasera: So the net cash is roughly around 100 crores?

Ganesh Natarajan: 89 crores.

Sachin Kasera: And if you could tell me the debtors' days as on 31st of December?

S. Balasubramaniam: Zensar is on a 65 days if you take the PA also then it is 72 days.

Sachin Kasera: As on December?

S. Balasubramaniam: As of December.

Sachin Kasera: And this cash number is after all the payouts for the acquisition?

S. Balasubramaniam: This is as of 31st December and there are no payouts. Acquisition was done in August.

- Ganesh Natarajan:** Acquisition payout and of course the debt has already been mentioned by Bala.
- Moderator** Thank you. We have next question from the line of Ritesh Poladia who is an individual investor. Please go ahead.
- Ritesh Poladia:** Just one question. Our employee headcounts on the onsite has fallen something and even in the subsidiaries for US, Singapore, and Shanghai they have fallen so any particular reason, is it planned or there is some serious attrition?
- Ganesh Natarajan:** No, it is absolutely planned as I mentioned we are completely de-emphasizing Asia at this point of time. So barring a couple of good customers in Australia and Singapore I think we have consciously decided to go slow and so there is only some clients we are doing work with in China, Japan, Singapore, and Australia. So it is a very conscious decision to downscale in Asia and use that effort that we are doing in the growth markets which is US, Europe, and Africa.
- Ritesh Poladia:** Even on the onsite there is a fall which is also in the US subsidiary?
- Ganesh Natarajan:** I think that is more of a project finishing exercise. I would expect that there will be continuity; definitely it is better for us if the growth is much more offshore but I would expect that that will continue to grow and this is just a couple of projects finishing and because of furloughs. But this will go back up to the September levels both in Zensar Technology Inc. as well as in UK no doubt.
- Ritesh Poladia:** And now in the Infrastructure Management some good orders have come up but so far revenue side it is flattish so can we expect some descent growth for the next year?
- Ganesh Natarajan:** Absolutely. We should definitely do that because as I said the growth that we are targeting we want to cap the Products business at may be \$30-32 million and which is why we are not selling all products, we are only selling primarily security products. So that is where a Product revenue will probably be stable. But definitely our focus is on maintenance, dual-shore maintenance, services which is really the Remote Infrastructure Management and for that as I said the pipeline is very good, nearly 150 million in pipeline so there is no reason why the growth should not be as good if not better than the growth in revenue as an Enterprise.
- Moderator** Thank you. The next question is a follow up from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

- Sachin Kasera:** Sir just a follow up on the debtor thing. Has there been any increase in the number of debtor days as on 31st of March because my sense it was closer to around 55-56.
- S. Balasubramaniam::** Yes, that is right. It has moved up.
- Sachin Kasera:** Any specific reason sir?
- S. Balasubramaniam:** Essentially because of the product sales, the products sale that happened was closer to the last week of a quarter. So you will have this thing but the non-product is pretty okay.
- Sachin Kasera:** Let me put it this way in that case do we see the number coming closer to the beginning year level when we end the current financial year?
- S. Balasubramaniam:** Yes, that is what I am looking at also.
- Sachin Kasera:** Okay, which would be in that cash on balance sheet probably should go up more once again?
- S. Balasubramaniam:** Yes.
- Sachin Kasera:** There should be some release on the working capital side?
- S. Balasubramaniam:** That is right.
- Moderator** Thank you. As there are no further questions from the participants. I would now like to hand over the floor back to Dr. Ganesh Natarajan for his closing remarks. Over to you sir.
- Ganesh Natarajan:** Thank you very much and thank you all for being on the call. As I mentioned earlier this has been a good quarter and probably one of the best quarters across the industry. And we are fully expecting that given the pipeline, given the strength of the order book, and the confidence in our management team that this trend should continue and that we should look at better and better growth over the next six to eight quarters. Confidence is there, of course we cannot predict any external circumstances but we remain optimistic about the future and thank you again for staying interested in Zensar. Thank you very much.

Moderator: Thank you very much sir. And ladies and gentleman, on behalf of Zensar Technologies Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.