



## “Zensar Technologies Limited Q3 FY-16 Earnings Conference Call”

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**MODERATOR: MR. SANDIP AGARWAL – EDELWEISS FINANCIAL SERVICES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Zensar Technologies Limited's Q3 FY16 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 Mr. Sandip Agarwal from Edelweiss. Thank you and over to you, sir.

**Sandip Agarwal:** Good afternoon to everyone. On behalf of Edelweiss let me welcome you to the Zensar Technology Q3 FY16 earnings call. We have with us the senior management of Zensar headed by Dr. Ganesh Natarajan – MD & CEO along with other senior members of the team. Without further ado, I will hand over the call to Dr. Ganesh Natarajan to start the proceedings. Thanks. Over to you, sir.

**Dr. Ganesh Natarajan:** Thank you very much, Sandip and good evening to all of you. And thank you very much for joining us on this call. I have with me from the Zensar management team Bala, who is our CFO; Ajay Bhandari who is Head of Strategy and Corporate Development. Pinaki Kar who is based in Westborough in Boston and he is the Chief Executive of our infrastructure management business and Sanjay Rawa who is our Financial Controller.

We also have Sandeep Kishore. Sandeep is taking over from me next month as Managing Director of the company. So he is also on this call.

As always, what we will do is I will make a brief opening statement, which will talk about the numbers and the overall outlook for the company for this quarter and then I will handover to Bala for any facts regarding the finances and accounts. After which of course we can open up the call for questions.

As all of you have read this was a moderate quarter for us, which has been the trend with the third quarter of every year mainly due to holiday seasons and as you know customer furlough which happened in two of our large clients. This particular quarter we also had an exceptional situation in two of our large clients where big projects have finished in September and the next step which is more of maintenance and support is going to ramp up in January-February. So there was a bit of a lull in this quarter.

So overall if you look at our businesses the digital business continues to do extremely well and I will talk a little more about the kind of business we are doing in digital and e-commerce towards the end of my opening talk.

The applications business was weak for all the reasons that I mentioned because both the large customers are part of the enterprise applications group and the two customers where it was slow this quarter is also part of that group. It was mitigated to a certain extent by an

improvement in the maintenance business and I will talk about that. If you look at the actual numbers, the lower revenue for this quarter was primarily due to furlough of the customers and fewer number of billing days, which accounted for roughly \$4.1 million down over the previous quarter.

There was also a cross currency Forex swing of \$2.2 million so cumulatively the negative impact was \$6.3 million. This was mitigated to a certain extent by revenue gain due to IM. IM was largely new products in the security space, which was an additional \$3.9 million over previous quarter and new customers, which contributed \$0.8 million. So the positives were \$4.7 million. So the net impact or the net negative impact for this quarter was \$1.6 million.

Despite the moderate quarter we have maintained a very good YTD performance. So in fact for the 9 months ending 31<sup>st</sup> December 2015 on a year-on-year basis our revenue has grown 12.6% in Indian Rupees; 8.6% in constant currency terms and our profitability for the same period has increased 23.9% in INR terms.

The star of this quarter has been our commerce business. In fact, if you look at our digital and commerce business it is really in three buckets. The e-commerce business, which is digital commerce primarily in retail, is through the acquired company called Professional Access. Digital is the kind of work we are doing in terms of the digital transformation and primarily around social, mobility, analytics and cloud. And third of course we are also helping many of our customers including one of our largest customer to build out their own e-commerce platform so that's software for e-commerce.

So all these together if you look at the overall basis I think we have seen a 16.6% increase on an year-on-year basis. The profitability has more than doubled and what I would like to point out to all of you on this call is that our digital business is moved beyond that initial stage where there were lots of testing and some applications being developed on mobility and social media etcetera; it has now become very mainstream. To give you an example one of the very large retailers in the US has given us \$13.5 million contract for building out their complete e-commerce platform and in fact another of our large retail customers in the US, where we have finished the contract in September, has now converted that in to a \$30 million year-on-year maintenance enhancement contract.

The reason I am mentioning this is because digital is obviously part of every narrative of every company anywhere in the world but in our particular case it has moved mainstream. It is very similar to how our ERP business which used to be Oracle Projects moved from just doing may be \$500,000 to \$700,000 projects to becoming a very significant dual shore business and we are seeing the same thing happening for digital which is why we are very bullish that given the fact that today 26% of our revenues are through digital and we expect that will grow to probably 30% in the next 3 to 4 months and will continue to grow. So this is one of the very strong points of the Zensar story at this point of time.

So as I mentioned IM has also improved and while it is marginal, I think as we have said for many quarters the reliance on more of services business, primarily cloud oriented dual shore business, that is going up. The MVS business, the Multi-Vendor Services business, continues to be profitable. In fact, the profit profile is improving as we increase revenues and the product business of course continues to be seasonal and as I have mentioned before we will downplay the products business this year and probably also in to next year. So the products will only happen where it is integral to the services portfolio for the organization.

As I mentioned in digital and e-commerce we are constantly working with all our customers which we started by doing multiple workshops with our key customers last year. Developing digital divisions, looking at opportunities where the software as well their infrastructures can move towards the cloud and providing what we call a single pane of glass service, which is that irrespective of where their services and their applications are based really providing them a single view of how they can manage, enhance and maintain their applications.

So to summarize, although it has been a moderate quarter for us obviously in financial terms, particularly if you look at the sequential quarter declines, it was an expected occurrence. We do expect that the very good trend we have for year for the YTD growth will continue because next quarter will be a normal quarter rather than this quarter and we expect that with a lot of investments we are making in new digital, new ideas, big deals etcetera we will continue to see a good growth track record.

In fact, we closed over \$75 million of large deals in last quarter and that was in all our three markets. I mean we closed a fairly large deal with a bank in South Africa a very large deal with a retailer in the UK and as I mentioned quite a few other deals with retailers as well as manufacturing customers in the US.

So that has been good. The overall pipeline is the highest we have seen in the history of Zensar. In fact, the total pipeline today adds up to \$592 million out of which the enterprise pipeline is \$413 million and the infrastructure pipeline is \$179 million. And the good news is that almost 20% to 30% is either directly digital and e-commerce or it is digital enabled like I mentioned in terms of cloud, mobility extensions and so on and so forth.

So I think overall just to conclude it has been a decent quarter in terms of the growth of the key businesses. It is not a very good quarter in terms of financial performance but as we go forward I would believe that we have all the points in place in fact all the pillars in place to continue to grow well in our business.

I am now going to hand you over to Bala to give you some other financial indicators of the business and then we will come back and answer any questions.

**S Balasubramaniam:**

Thank you Ganesh and good evening to everybody at the call. I will give you some financial metrics so that we can kind of avoid some of the questions and focus on the general issues. The

CAPEX for the quarter is Rs. 7.71 crores or \$1.15 million. So the YTD CAPEX has been Rs. 24.84 crores or \$3.68 million. In terms of the outstandings in the balance sheet it is Rs. 574 crores or \$87 million.

In terms of DSO we are at 73 days as of end December. The cash balance as of 31<sup>st</sup> December is Rs. 400.50 crores or \$60 million. During the quarter we repaid the last instalment of the Akibia loan, which was \$6 million and we also have working capital line of credit, which we have drawn which keeps going up and down. So this quarter end it was \$22 million. In terms of the Forex hedging we do plain vanilla forward hedges and as of end December we have \$47 million hedge at various quarters for 3 months, 6 months, 9 months and 12 months and the average dollar rate of our hedges as of 31<sup>st</sup> December has been 68.46 which is approximately 52% of the receivables.

These are the data that I wanted to give. I hand it over back to Ganesh.

**Dr. Ganesh Natarajan:** Thanks Bala and just to add to what I said, I wanted to introduce Sandeep Kishore. As most of you know Sandeep has already joined Zensar and will be taking over on the 15 February as the Managing Director of the company. Sandeep, would you like to just say a few words to your background and I know it is early days for you to comment on the company but on yourself.

**Sandeep Kishore:** Thank you Ganesh and good evening everybody. Great to be here at Zensar and today is actually my day 8 here so I feel very good about whatever I have seen and the meetings that I have been having with the team. And more importantly the opportunity which we have at Zensar in the digital world that Ganesh explained and where the strength of the company lies. So we really have to align our offerings and our propositions to what the customers out there are asking for which is to really make digital as the mainstream of the business. So digital is the business across our chosen market spaces. And I look forward to talking to all of you in little detail, particularly in the next analyst call which I will be hosting. But I will be happy to answer any questions if you have.

**Dr. Ganesh Natarajan:** Thank you Sandeep. So I think we will stop here. And any questions you have at all about industry; about our business; about digital we are very happy to answer. So back to you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session.

We will take the first question from the line of Dipen Shah from Kotak Securities.

**Dipen Shah:** I just had a couple of questions. Firstly, just wanted to ask on just a book keeping number, if you can just give us the number of Professional Access, how much did you do during the quarter?

**S Balasubramaniam:** You want the topline Dipen?

- Dipen Shah:** Yes.
- S Balasubramaniam:** So in dollar terms, Professional Access was \$14.72 million revenues.
- Dipen Shah:** And anything on the profitability?
- S Balasubramaniam:** The PBT was at \$5.43 million.
- Dipen Shah:** On the other side Ganesh, on the products business, this has been one of the better quarters for the products and licenses business. I just wanted to get some further details. I know it is not a focus area but that business was supposed to be about \$25 million for the year and for the nine months you have already reached \$30 million. So anything further on that business as to how do you see it growing, are we really defocusing on it, or are we seeing more demand for this?
- Dr. Ganesh Natarajan:** See, a good question. Dipen, what we have really done is we have ensured that because we used to have a separate products team completely and now what we are doing is we are selling even the products as part of the services business. So although we are still measuring it separately because that is the way we have been accounting it but we are finding that by ensuring that we focus on products which add value to our services business, that is really what we are doing. And as you rightly pointed out December is always the bump month for the products business because lot of US CIOs have budgets, which they want to spend. But overall as I mentioned in the beginning of this call, you will find that we will continue to defocus on that business and today we are tracking well in both the multi-vendor services, MVS, as well as Services business and I think you will see that going forward the reliance will be much more on the IM Services business. Pinaki is here who is running the IM business. Pinaki, would you just like to comment on what is the trending and what new services you are offering?
- Pinaki Kar:** Thanks Dipen, Pinaki here. I think this quarter the good thing is that as Ganesh mentioned the IM services business as opposed to the MVS and the products business from the IM portfolio; the IM services business is currently tracking at 40% of the portfolio of overall IM. And MVS is around 30% and the rest this quarter was products which was mainly on account to the seasonality but all were sort of strategic, security and compliance products which leads to the system integration business which we are getting downstream in the next quarter. To your number of \$25 million, that is the number we had actually taken for IM only and the \$30 million that you had tracked, that is inclusive of all the licenses that happens across Zensar. So if you take only a part of IM we are tracking close to the number that you have mentioned. I think for the year not at \$25 million but we will end between \$26 million to \$28 million.
- Dr. Ganesh Natarajan:** It is right now \$19 million, Dipen and the additional \$11 million is Oracle licenses which we have sold both in US and in Kenya as part of our service business.
- Pinaki Kar:** And on the margin profile, which you had asked last time also, the good part is that if you see on the maintenance business where we have taken mode of a margin enhancement player the

margins have consistently increased by 9% or 10% over the last few quarters. And on the IM services, which is where we are putting disproportionate focus; there with the introduction of the new propositions like hybrid IT, which is in the cloud space and end user experience management, that business has already come to around 40% of our portfolio. Over the next few quarters you will find that to be actually by any means having the dominant market share in the IM portfolio.

**Dipen Shah:**

Also just a related question. If we look at the pure IM business, which you report separately and which was about \$20 million in the current quarter, we have seen that business remaining at around these levels for the past seven to eight quarters now. So any further comments on that, Ganesh?

**Dr. Ganesh Natarajan:**

No, I do not think you are right. I mean the scaling has been slow and we would certainly like to accelerate that which we are working on. In fact we are just finishing our strategy for next year. So there are a couple of new services that we are looking at, which is all related to cloud and new digital areas of IM. So you will, I think, find that the growth of the services component will be substantially higher in the next few quarters and I think we have good reason to believe that the pipeline is now much more services oriented because of our defocus on products. So Dipen, bear with us, I am sure you will find very good outcomes on services in the next few quarters.

**Pinaki Kar:**

If I may add to what Ganesh has told that the \$20 million that the stagnancy that you were looking at, again if you see the pure IM services, the services portion of the business, that would have gone up from \$7 million to \$11.2 million and actually the maintenance business which was at \$13 million at that point of time that we have reduced because we are rationalizing and expanding the margins there which is giving the profit uptick that we are aiming for in the IM business.

**Dipen Shah:**

And one more thing on Cisco, if you can just throw some more light on how is Cisco doing and any further updates on how does the calendar 16 look for that business?

**Dr. Ganesh Natarajan:**

See for all three of our very large accounts, we are seeing good growth. In fact Cisco itself I think we have been looking at a decent growth next year. So the original stagnancy that used to happen is not there. So I think you would not see a problem there. The furlough has caused a lower quarter but overall the business is good. The order books we are getting from all three of our top clients is good. So I have no concerns about that. And as I was mentioning even on a CNBC call this morning the farming efforts that we have undertaken in our top 10 clients are yielding results. So we are getting good new business from there plus of course the focus on digital as we all said has helped in both the existing business and the future business.

**Moderator:**

Thank you very much. We will take the next question from the line of Mohit Jain from Anand Rathi.

- Mohit Jain:** If you could just explain the revenue part again, is it lower this quarter because on a YoY basis also I think our growth has come off sharply and therefore what should be billed for the next year?
- Dr. Ganesh Natarajan:** Yes, it is a good question. Let me clarify the second point also because just to again repeat what I said. The lower revenue this quarter vis-à-vis the previous quarter has been both the furloughs and fewer number of billing days amounting to \$4.1 million, Forex was \$2.2 million which was because we had a Rs. 18 crores benefit last quarter and came down to Rs. 2.2 crores this quarter. So that is roughly \$2.2 million. It was offset to an extent of \$4.7 million by new business so which is why the net impact if you look at sequential quarter was \$1.6 million.
- Your question is good that you know even in terms of the fourth quarter of last year why has there been nothing great happening, that was primarily because as I mentioned earlier, two of our large clients where we are doing some very large projects they finished in September. So we have had a much lower uptick in this quarter. We also had a license deal, which happened in Kenya in the previous quarter and that was obviously not there this quarter. So I think those combination of circumstances has made this quarter a weak quarter but as I said the parameters of the business both in terms of what we are doing in digital and in the other services look very positive. So I have no reasons to doubt that this was one poor quarter and we will come back to normal growth as we go along.
- Mohit Jain:** So on 17 basis you are still looking at a high growth number, is it?
- Dr. Ganesh Natarajan:** FY17 certainly looks good because given the pipeline I mean and the conversions that are already beginning to happen, I do not see a problem. And fourth quarter of course it is too early to comment but there is no doubt that we will come back to normal growth this quarter and look at a much better growth both in revenues and profits for FY17.
- Mohit Jain:** Second thing is in terms of realization, it looked like your volume growth was there in this quarter despite furloughs because headcount went up, utilization went up, so it looked to me that there is some pricing pressure also in this particular quarter apart from the usual volume drop that happens on account of furloughs. Is that a fair assumption or?
- Dr. Ganesh Natarajan:** Not really, in the sense while volume growth was there one thing that has happened is we are ramping up for quite a few projects in South Africa and South Africa is obviously given the pressure on the RAND which hence is nowhere near as profitable as the US. So US the enterprise business was lower because of the furloughs and the slowdown in certain business. The volumes happened in other markets but I mean the volumes in US are always the most profitable, especially when it comes from large clients. Broadly what you are saying is right but it is very specific to each market.
- Mohit Jain:** Regional mix, which is shifting probably in terms of?



- Dr. Ganesh Natarajan:** That is right.
- Mohit Jain:** Second thing is on employee expenses and also SG&A. On a QoQ basis these expenses have come off, so employee expenses particularly have come off despite headcount going up. So any specific reason for that, that was something billed in the last quarter which was not there in this quarter?
- Dr. Ganesh Natarajan:** Sanjay, any thoughts on that?
- Sanjay Rawa:** Sub-contractor costs.
- Dr. Ganesh Natarajan:** Sub-contractor costs have come down, so we are actually in the process of replacing a lot of sub-contractors by regular employees. So that would be one of the reasons.
- Mohit Jain:** Is it like a onetime thing, which is done or should we expect some decline?
- Dr. Ganesh Natarajan:** No, I think we will continue to move on that plus this project ramp down that we talked about from the third quarter to fourth quarter, so that also creates its own impact. So I think many of these are very quarter-to-quarter kind of changes. But on an ongoing basis I do not think you will see too much of change.
- Mohit Jain:** So on an average basis your cost should remain same or maybe you think that the increase in onsite proportion of work?
- Dr. Ganesh Natarajan:** Absolutely. I think that is what again depends on what work we do onsite, whether it is offshore. I mean as you can see the onsite revenues have been higher this quarter. So all that affects.
- Mohit Jain:** That is why I was little surprised on lower employee cost and higher onsite proportion of revenues.
- Dr. Ganesh Natarajan:** But onsite again I mean because the product sale that happens in December is always accounted for in onsite revenues, which is why you cannot really measure the profitability or the productivity based on that.
- Moderator:** Thank you very much. We will take the next question from the line of Ashish Maurya from Cholamandalam Securities.
- Ashish Maurya:** Just a couple of questions. If I remember sir, in last con call you mentioned that you are looking for acquisition in analytics space, so I want some color on that. So can you give us some color on that as I see the trend in past 5 to 10 years, after 2, 3 years we went for acquisition?

**Dr. Ganesh Natarajan:** So let me answer your question. I mean first of all I am glad to tell you that the integration of Professional Access, which we acquired in August of 2014, so that is totally complete and both in terms of the integration of people and in the four India locations; Bangalore, Hyderabad, Navi Mumbai and Noida. So that has been done. We are also integrating the sales team and with Sandeep coming in, we have a strategy for building a full-fledged digital front which will include the whole digital commerce space. So I think that is going extremely well.

In terms of new acquisitions, yes we are always in the market for adding to our digital portfolio. We have evaluated a couple of analytics companies but not really been very happy with them and we do not really need to or want to do an acquisition unless it falls into our sweet spot. So yes, analytics will be an area we will continue to look at. We will certainly look at customer experience, which is the whole user experience side of it. And at this point of time we are just drawing up a charter with some help from Apax who is our private equity investor. We are trying to see what is the right types of boutique bankers who can help us to find these. So I think we are not in a hurry we will do acquisitions but we will do it in a graduated and thoughtful manner.

**Ashish Maurya:** And the second question I have, what is your pure consulting revenue in this nine months like in three quarters of FY16 or at this quarter-on-quarter if you can give me?

**Dr. Ganesh Natarajan:** Sorry, just say that again. When you say consulting revenue what exactly?

**Ashish Maurya:** Consulting means like last quarter to last quarter remember it was \$2.5 million and \$3 million almost so if it comes up to your consulting how much we drive from because I see in consulting the price we will get from the market is higher and margin is also higher?

**Dr. Ganesh Natarajan:** No, actually if you look at it, if you look at the whole e-commerce business itself, I mean there both the pricing and the margins, I mean pricing definitely is substantially higher. Like I mentioned this, \$12 million to \$13 million deal we have signed and there the margins are almost, I mean the pricing both for offshore and onsite services is almost 30% to 35% higher than the norm. So the way I see it is I mean you are right, there is a lot of consulting in the digital and e-commerce business and as we press the pedal on that part of the business you will find more consulting revenues. We however do not track that separately. Like in any e-commerce deal you probably have close to 15% is pure consulting in terms of how do you really build the user experience, how do you track the movements of customers, etcetera, etcetera. So that consulting piece is embedded in what we do. So we do not have, like some others, we do not have a separate consulting group. We have a digital consulting group but they get involved in the projects as well. So it gets integrated in to the entire proposition.

**Ashish Maurya:** And last question that I have, are we chasing any deals in the range of like higher end, more than \$25 million to \$50 million range?

**Dr. Ganesh Natarajan:** Yes, in fact there are quite a few deals, which are fairly large deals. And as I said our deal chasing has moved from what used to be our sweet spot of \$3 million to \$10 million and now it is much more \$10 million to \$25 million, \$30 million. So I think we are looking at large deals and there is a team that is working in India, US and UK for these large deals. And as I mentioned recently we signed a \$38 million deal, which was actually for \$24 million of new business and about \$14 million of existing business. So there is a fair amount of focus on large deals and I think that we will continue as we go forward.

**Moderator:** Thank you very much. We will take the next question from the line of Nandish Dalal from IIFL.

**Nandish Dalal:** A couple of questions from my side. Ganesh, you have mentioned your top clients decline and the four of your clients. But if I see the overall bucket the top ten, it seems there is a broad based revenue decline across your clients because the growth decline has been much sharper than what the company has seen. Could you just help me understand as in, is it broad based or something, which other top clients, the four clients you mentioned have seen much more sharper decline than usually what should be there?

**Dr. Ganesh Natarajan:** So if you look at the four clients I mentioned, two with furloughs and lower billing days and two with where the big projects we were doing has not been there this quarter. I think all these have contributed to the top ten decline but again as I mentioned in an earlier context, if you look at the kind of mining we are doing with existing clients including the two clients who are on furlough, I do not think there is a problem at all. And you will probably see that over the next one year, our top ten percentages would probably be the same as the best you have seen in the last few years because there is very good traction with our existing clients. And as I mentioned even the \$38 million deal was with one of our top five clients. So no reason to believe that our revenue percentages would decline next year in the top five or the top ten.

**Nandish Dalal:** On the client finding thing, just a follow up on that. Sir, could you just elaborate the steps what you guys have taken maybe to just ensure that you have a steady state kind of revenue or maybe more of annuity kind of number, so that you do not see this kind of volatility in your quarterly numbers? Could you just help me with this?

**Dr. Ganesh Natarajan:** See there is always an attempt, I mean this used to happen with us in the Oracle business because as I mentioned earlier, Oracle used to be a number of projects both in terms of upgrades and in terms of new implementations, which we very logically moved to a maintenance and management process. Today with digital, we cannot avoid it because digital does tend to be lot of new projects. As I mentioned earlier, the project sizes are going up which is good because transformation projects will tend to be initial consulting, lot of implementation but some of these are already being moved into maintenance and enhancement. So very similar to what happened in ERP, I would think that if you look at it over the next two to three years, you will certainly see a lot of annuity streams in digital. Sandeep, you have any comment on this through your experience on how digital is moving?

**Sandeep Kishore:** I think the opportunity for us is clearly to go across to not just the top ten, the top twenty and top thirty customers where the traditional businesses have been strong and really put a lot of focus with the new proposition around digital, around cloud and with our new capabilities on the IMS tag. We now also have the possibility to bring the entire application and infrastructures tag to take our customers through the clouded option. So we feel pretty good that these clients are large clients.

Today in a lot of them we are doing what is traditionally called as Horizon one services and hence, as Ganesh was explaining earlier, the opportunity in Horizon Two and Horizon Three is available for us to mine. And we are going to be leading in with our digital propositions, the integrated application infrastructure from a hybrid cloud as Pinaki explained earlier and also from the whole business process management stack, which is largely around the analytics the marketing analytics and the web analytics stack. Those are the areas of growth and opportunities, which are fundamentally transforming the business that our clients are in and we think pretty good that we have great propositions, which we are going to be leading in into our top clients.

**Nandish Dalal:** Just another quick question. Ganesh, you had mentioned that FY17 you expect a good growth. Could you just help me with how much revenue from your existing business which you tend to exit and maybe it could be these products or the APAC region something how much of the revenue gap you have to fill in terms of in FY17?

**Dr. Ganesh Natarajan:** Well you will have to assume that we will have to fill in the region of \$17 million to \$18 million of revenue gap, I mean depending on because there will be some overhang business because we have some long term contracts even in clients, I mean even in countries like India, or Singapore or Australia where we may not want to do too much of new business. So I do not think there will be much more than a \$15 million that we have to fill in terms of new contracts which is not a big deal if you are looking at close to a half a billion dollars.

So that is not going to be significant, obviously it means more hard work but our belief is that if we focus the attention of our 75 plus sales team on the three territories that we are very strong in and where we are seeing good traction, I think we will do well even in Europe where we have just chosen to work in a few specific accounts. UK, US and South Africa, I think there is enough opportunity, our sales teams are well engaged. So the sheer focus on these territories by management will probably drive higher revenues and higher price points.

**Nandish Dalal:** This maybe early for Sandeep to answer but just taking my chances. Sandeep, do you see any shift in the organization structure though you have just been a week, do you see any big radical changes in the organization, which you tend maybe looking at in the near term?

**Sandeep Kishore:** So Nandish, actually you answered it yourself. Yes, this is too early to answer, I am just settling in. Obviously I have a view of where the growth opportunities are. So give it some time and I will come back obviously with what the new strategy will be looking like, which

fundamentally will be market aligned and we are going to be focusing clearly on arrow heads which have big growth drivers behind them. So it is early and when I talk to all of you in the next quarterly release and earning call we will have all of that in place.

**Moderator:** Thank you very much. We will take the next question from the line of Nitin Padmanabhan from Investec.

**Nitin Padmanabhan:** I just had a couple of questions at least. Of the deal signing that we have done so far, the \$75 million odd, what is the tenure of the execution for those deals?

**Dr. Ganesh Natarajan:** Two of them are three are contracts and one is a five-year contract and the five year contract is the retail client that I mentioned. So all large deals typically range between 3 to 5 years and that is really the case here also. Even some of the new deals we are chasing especially in the annuity maintenance kind of thing will be in that range, mostly 3 years and some of them will be 5 years.

**Nitin Padmanabhan:** And the second thing was with digital revenues growing, it is 26% now and it will go to 30% going forward, I am just trying to understand the revenue replenishment cycle in that part of the business because I tend to understand that initially the projects are small and it is only over a period of time that it becomes large. So do you sort of envisage some sort of difficulty in sort of predicting the business for the near term with high replenishment rates maybe over the next 6, 8 months because of a higher proportion of revenue from digital?

**Dr. Ganesh Natarajan:** See that is a good question and as I have constantly maintained, I mean if you look at Zensar over the last 15 years and break it up into 30 half years you will see growth every half year. But clearly it is impossible to see growth every quarter and that is always because there is a projects portion of the business like what happened this quarter with two projects coming to an end, the maintenance cycles will start in January, February and this quarter gets hit. So if you are looking at predictability quarter-to-quarter I think that will always be a bit of a challenge.

If you are looking at predictability in terms of growth half year to half year, you will continue to see that and even in spite of the fact that digital projects will tend to be projects initially. As I mentioned since we are already seeing the beginnings of these projects converting to transformation maintenance cycle, I think the annuity business will start balancing out the projects business. I mean having said that we will continue to chase large projects in e-commerce and digital but I think there will be a softening of the project impact as the annuity stream start to kick in. It happened to us in ERP and now today we do not even discuss that in Oracle in the last five years and I think over the next two years you will find that that is the trend in digital.

And this is particularly true for us. As I mentioned earlier, what I am very proud of is that our digital revenues are very solid in the sense that they are transformation and strategic revenues and not just onesy-twosy projects here and there. And given the fact that we are doing this and

if we can tie up a lot more \$5 million to \$10 million deals, that will automatically lend itself to large term annuity. So we are very confident about how we are heading in digital and e-commerce with somebody like Sandeep coming on board, who is as excited about digital as the entire team is I think the whole digital plan for Zensar is in very safe hands.

**Nitin Padmanabhan:** From your thoughts in terms of the way it is progressing, by when do you think you will really start seeing those annuity sort of start flowing in at least the initial parts of it to give some confidence. Do you think it is sometime end next year or it could be longer or it could happen earlier than that?

**Dr. Ganesh Natarajan:** As I mentioned, we have already signed this quarter a deal which is over \$30 million and that is clearly annuity for a client for whom we had built out this full digital e-commerce platform. So that is one clear proof point in terms of what we think is happening. We have at least three other clients where the order values in terms of large scale e-commerce implementation has been upwards of \$8 million to \$9 million. So even those will become annuity leads. So to answer your question, given the fact that one good thing we have done in PA is to have an equal focus on new deals as well as annuity and maintenance.

We will continue to see that that is a fairly stable side of the business and I am very confident about that because we have already seen the proof point with this first large deal. There are a couple more in the pipeline. So it is not just next year but literally every quarter we will see some of these happening.

**Nitin Padmanabhan:** Then if you look at the Oracle business, if you could just give some color on how growth has been looking in that business and after this time Oracle World they have been talking of moving everything to the cloud and transition to the cloud and one button transition to cloud and things like that. So incrementally how does the profile of that business look in terms of growth and how do you see that moving?

**Dr. Ganesh Natarajan:** Yes, I will just ask Ajay. Ajay is our Oracle expert apart from being the Strategy and Corporate Development Head. So he is the best person to answer that. Ajay, go ahead.

**Ajay Bhandari:** So Nitin, you know that we are heavily invested in Oracle and we also believe that in the longer run Oracle will do fairly well in the cloud. If you look at the cloud components, I mean whether they have applications, the middleware as well as the platform or the infrastructure they have all three because they have invested heavily in that through the Sun acquisition they got the infrastructure. Also alluding to your earlier question about digital, we are actually seeing fairly decent sized deals now coming through in the cloud space and digital. And we also think that in the long run, thanks to the ownership of the Oracle developer tools as well as Java, it was completely owned by Oracle because of the Sun acquisition, there is going to be a huge movement of custom applications migrating to cloud platforms owned by Oracle, and that Oracle will do fairly well.

So from an Oracle's own standpoint, there may be a rebalancing of license revenue coming from on premise to moving more to cloud. But from Zensar's standpoint the revenue that we used to get from Oracle will continue to happen and grow because the on premise remains as it is, so that as it is falling off the project cycle and moving to AMS there is a whole platform migration of legacy systems to cloud and that is just about starting. So we see Oracle revenues continuing to be good both for Oracle and for Zensar even as they rebalance their portfolio from on premise to cloud.

**Nitin Padmanabhan:** And just one book keeping question if I may. The DSO seemed to have sort of bumped up this quarter, is that because of the product business or?

**S Balasubramaniam:** Yes, you are right. It is essentially because of product business as you know product generally happens towards the last week of the quarter, this being the year-end quarter in the US it is essentially because of that.

**Moderator:** Thank you very much. We will take the next question from the line of Bharat Sheth from Quest Investment Advisors.

**Bharat Sheth:** See on IMS service side business you said that to improve the margin we are running down some of the maintenance business, so can you elaborate more in that because of which our IMS service business has remain stagnated around this level of from last six, seven quarters?

**Dr. Ganesh Natarajan:** Pinaki, any comment on the IMS service? Also I think you may want to repeat the comment on what is the future bump up that will happen in IM service?

**Pinaki Kar:** Yes Bharat Bhai, if you see that overall that \$20 million I think this quarter it is excluding products it is around \$20.3 million. What all you may think it is the same, which it is but if you see there are two things we are doing. The pure IMS services business, which is the infrastructure management services which is cloud, data center management, end user management where propositions are and the five of the big deals that has increased over the quarters from a \$6 million to \$7 million quarter run rate currently this quarter to \$11.2 million. And that is 40% of the business now it is inclusive of products. If we take out products then that itself is more than 50% of the business which is and we will be disproportionately increasing that business quarter-on-quarter. And that is where we are doing the hybrid IT and the end user experience management where we are fighting the Tier-1 players head on. That is the good part.

The other part is the MVS business which is the maintenance business which additionally if you remember because that was which came to us through the acquisition of Akibia, we at one point of time had a sort of a revenue run rate of around \$13 million to \$14 million per quarter. When the other part, the pure IMS services used to be \$5 million, \$6 million, that business we had decided over the last three quarters to get into a profit enhancement because that business was going through lot of churn in terms of because it had a mix of the business that we get

directly as well as alliances business. And due to the direct and alliance split, always the profitability was not up to the company norms. Over the last three quarters if you see we rationalized the business that business is currently around \$9.2 million to \$9.5 million per quarter but the profitability figure if you see over the last three quarters the expansion margin has been up to 10%.

So going forward you will see more topline growth in the IMS business through the propositions because there the margin profile is also as high as the rest of the company or we can take it higher and on the maintenance business which is the MVS business you will see more focus towards profit expansion or rationalization rather than topline growth.

**Bharat Sheth:** And for taking this one question further, this \$9 million revenue which is in maintenance currently, so where would you like to see your rate will stabilize at these levels but I mean profitability will improve or it will further go down?

**Pinaki Kar:** No, \$9 million you will see it will stabilize around between \$10 million to \$11 million; \$9 million to \$11 million you can say. Now it is around \$9.5 million, so it will always remain between \$9 million to \$11 million. We will not take it in the near term beyond \$11 million.

**Bharat Sheth:** So does this mean that you imply that we can assume that in IMS business now going ahead we will see will move out of this \$20 million orbit?

**Pinaki Kar:** Definitely, you will see it very soon. I cannot make a forward looking statement, but the trajectory it is there, you will see it very soon. And with the right quality of business and the expansion of margin profile if you see our profitability figure of IMS, year-on-year, I think that part if you see, you will see the color and you see where it is going to.

**Bharat Sheth:** I mean where do you I mean look at for say in couple of years I mean the profitability, which is currently 9% to 10% rate?

**Pinaki Kar:** It will be difficult to give a couple of year figure but we can tell with confidence that it will be like as you see any other services business of the company.

**Dr. Ganesh Natarajan:** See my own estimate Bharat Bhai, is that I mean if you look at the profit profile of the businesses let us say two years from now, that we are stable then digital or digital enabled services will be the most profitable. So 2% points below that is what you will do in enterprise which is obviously there will be lot of work on the cloud is there and as well over there. And then probably the infrastructure management if you look at the dual shore, the remote infrastructure management services business, that will be almost as profitable. It may be one percentage point or so below the enterprise but overall I think there is no reason to believe that any one of these which have dual shore potential, digital also moving towards maintenance, infrastructure being much more services led, and of course the standard enterprise business.



I think the profit profiles of each of these will be good, which is why I said in the beginning of this call, I think given the investments we have already made and the fact that we now have our digital really humming along, so I think we will see good profit profiles in all these. It just takes as Pinaki was saying a couple of quarters to set some of these proportions right and once that happens there is really no doubts in my mind about the future of the business.

**Bharat Sheth:** And one book keeping question for Bala. Bala. this un-allocable expenses why it is moving, I mean there is a lot of swing, can you explain?

**S Balasubramaniam:** This is essentially the reduction in exchange gains.

**Bharat Sheth:** Then we do not apportion against each segment?

**S Balasubramaniam:** No, we do not.

**Bharat Sheth:** Okay but then in that case I mean our aim is the EBIT margin has declined substantially QoQ, which was say 20.4% in Q2 now which is we have reported 17.4%. So can you explain that?

**S Balasubramaniam:** That essentially because of the furloughs in one of the largest leading number one account where the margins are pretty healthy.

**Dr. Ganesh Natarajan:** Yes as we mentioned Bharat Bhai, the larger accounts tend to be the most profitable which is obvious predictable and once you have a 7-10 day holiday back, I mean that depresses the overall margin profile for the business because they contribute very substantially to revenues and even more substantially to profits. So that is the reason why it is. Once that gets corrected in this quarter you would not see that aberration.

**Moderator:** Thank you very much. We will take the next question from the line of Sandip Agarwal from Edelweiss.

**Sandip Agarwal:** A couple of things, which I wanted to understand. Sandeep, you come from a totally different kind of setup, so what will be your strategy going forward, how do you see Zensar, where does it have a real value offering for the client, what we can do differently, and what will be your view, what will be the things, which you would like to change immediately and in the longer term given a two, three year perspective? Because if you see there are many mid-cap and small cap companies and it has generally been very difficult for them to scale up.

So I am sure you know with your kind of experience coming in, you will obviously try to use a different way or different approach to take the company forward. And also what is your view, which will be the growth areas, I understand digital is a focus area, but other than digital, which areas will be areas where you know you would like to see some low hanging fruit and what will be your priority over slightly longer to medium term?

**Sandeep Kishore:**

So thank you Sandip. As I mentioned earlier by the time I am with all of you same time next quarter, I will actually spend some time explaining our go forward strategy. This is as I had said earlier this is my Day 8 and whatever I have seen so far of the client engagement, the sales plus the proposition, I think it is far more important for us to focus on the go forward propositions which are market aligned.

So digital clearly is a lead proposition, not just from the front end user experience point of view but more importantly how do you actually enable our customers to become a true digital enterprise. And what that means is leveraging our current strength and asset in to the traditional application development and management, both on the custom apps as well as on the very strong heritage and lineage which we have as Ajay explained to you on Oracle. So we are already present in several large enterprises today, with the Horizon 1 services. So our first focus will be to really work with them to move them into the middle office and the front office and then connect the entire organization on the digital backbone.

Ganesh articulated about couple of wins, which we have had. So clearly those are low hanging fruits. I mean these are our existing customers and we are going to be working very closely with the propositioning delivery and the sales organizations to make sure that we pay close attention to moving them in to the digital stack. That is one. The second is infrastructure is a very clear focus growth area for us because the customers are already talking cloud and I think with our hybrid IT propositions as you heard Pinaki explained, it is a fantastic proposition, a very well differentiated proposition. The reason for that is because it has a level of the whole autonomous script and the autonomy built into the run part of the business. So clients are looking to be far more efficient today on their run, so they can save that money and invest it into all of their future aligned investment and we think that with the entire robotics and autonomous stack, that is going to be the second lead differentiator.

And third, clearly is I mentioned a little while ago is on the marketing analytics side. The investment if you take a look at from the customer's perspective, the incremental investment is going to be far more market aligned than IT aligned and with the existing set of customers that we have, we are going to be looking very closely what can we do to the marketing and the business organization rather than working just with the IT organization. So these are as I said early thoughts but I just wanted to share this with you so you have a perspective on what we are thinking as a team. And we are going to put all of this into action and roll out because first of April is the beginning of our new Fiscal and coming up to speed as fast as I can on Day 8 today but hopefully we will give you some idea. And I will give you a little more color into these as well as the way we are organizing ourselves to make sure that we are completely market aligned. The next time I will talk to you on this forum.

**Moderator:**

Thank you very much. As there are no further questions, I hand the conference over to Mr. Sandip Agarwal from Edelweiss.

**Sandip Agarwal:** Thanks everyone for participating in the call. I will now hand over the call back to Mr. Ganesh Natarajan for his closing remarks. Thank you.

**Dr. Ganesh Natarajan:** Thank you Sandip and thanks all of you for joining us in a very participative conference. As I already mentioned earlier obviously it has been a not so good quarter but all the signs in the business are good and as Sandeep also mentioned today we have really outstanding customer satisfaction; outstanding delivery capabilities. The new propositions have taken to the market most of which are meeting with an excellent response. Our quite company peers doing brilliantly. As Pinaki explained the infrastructure management business is tracking well and I think you will see continuous changes in the profile of our business going forward.

So overall the stand as confident as ever been. The order pipeline is excellent. The order closings have been good and in spite of obviously turmoils that we are seeing in the global economy my belief is that in the markets we have chosen which is really US, UK, parts of continental Europe and Africa we will continue to see good traction because we have excellent customers very good engagement. So both in terms of new business and in terms of mining existing business we are pretty confident and with a very strong leader Sandeep coming in I think the business is in very good hand and thank you all for all the support you always give to Zensar and we look forward to your continuing support. Thank you very much.

**Moderator:** Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.