



“Zensar Technologies Limited Q1-FY14 Results Conference Call”

**July 18, 2013**



**MANAGEMENT:**

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**Moderator**

Ladies and gentleman, good day and welcome to the Q1 FY14 results conference call of Zensar technologies limited. As a reminder for the duration of the conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing \* followed by 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference to Dr. Ganesh Natarajan Vice Chairman and CEO of Zensar technologies. Thank you and over to you sir.

**Ganesh Natarajan**

Good afternoon to everybody. We also have on this call, our CFO Balasubramanian and our Chief executive of the enterprise business who is based in San Jose, California, Nitin Parab. What I will do is I will give a broad outline of where we are as a company and also talk specifically about the infrastructure management business and then ask Nitin to really explain to you the prognosis for the enterprise business going forward and then Bala will also comment to you on small changes being made in our hedging and currency management policy. And then we will throw it open for questions. This is quick summary. I think we had a good quarter in the sense that if you look at our core business the enterprise business which Nitin will talk about. In America, it has grown nearly 6% on volume quarter on quarter sequential quarter basis. In Africa again we have had a 7% growth. Our 2 major accounts have both shown very good growth and I think we see good prognosis going forward.

The disappointment this quarter was the infrastructure management business. In fact we were hoping to do a 4% overall volume growth. Did not happen because the Infrastructure Management Business stayed flat but as I mentioned before, this is part of our plan because if you look at the first quarter of the previous financial year, we had touched \$30.7 million in the Akibia Infrastructure Management business. Then we did this full integration and we consciously decided to shave off from \$5 million of quarterly business primarily because they were in the old model supporting data centers, very low value business. From there onwards from Q2, the revenues came down from 30.7 to 27.4 million, went down further and then we had a clean company which was talking about 26 – 26.2 million quarterly and then we started re-building based on higher value added, higher gross margin business and it went up to 28.2 billion as many of you know in the final quarter of the previous financial year. This quarter we were on target to do about 29.5 – 29.7. But some of the deals have got deferred which have actually been closing in the July - August time frame. So I think that is why we stayed flat at 28 million. But given the pipeline we have, which continues to be over 100 million in the infrastructure management business, including at least 2 deals of over \$20 million which we are chasing. I am still very confident about that business.

The overall pipeline of the company is extraordinarily good. In fact this time last, year our pipeline was less than \$ 200 million. Today our pipeline is \$ 340 million with a number of large deals in place. So I think we are pretty confident about what is going to happen. The

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other good news is that we have substantially changed our own model because till about 2 years back we were largely focused on managing existing applications, what we call systems of record which is your traditional application, ERP applications like SAP and Oracle and Microsoft. In the last 2 years we made significant investment in consulting, and the net result is that we have very strong solutions today in business intelligence, analytics, cloud computing, mobility and social media and we are now really in discussion with many customers and almost 15% of the pipeline is what we call system of engagements where customers can engage better with their ecosystem which could be their suppliers, their partners, customers etc. So, all in all, the health of the business is extraordinarily good at this point of time.

We have had about almost 3.5 crores of additional investment this quarter which was obviously not there in the previous quarter for Visas. Because we have filed over 300 visas in the US given the shortage we expect to see in Visas. We have also invested in a Big Deal team which consists of 2 pretty heavy hitters who come from outstanding background in the US and in Europe. Also added a contracting, pricing and big deal team in India. And this will I think stand us in good stead. As we continue to chase larger deals of \$20 – \$30 million in size. So I think all in all a good quarter. The pipeline is solid. We are seeing very good growth in the current markets of US, Africa and Europe where we get most of our business and by Asia at this point of time is little soft we have added kind of strength there. So I think you will see a better story in Asia going forward. So I think its good and I am going to ask Nitin to comment on what signs he sees in America because that is where he lives and that is where most of the business comes from and of course in any item you would like to add upon.

**Nitin Parab**

Good afternoon everybody. If I may, I would like to take this opportunity to make a statement. For all these years that we have been operating in the US market, you must have heard companies talk about cautious optimism as far as the economy is concerned. I think I would for the first time say that its moved from cautious optimism to being optimistic. It is very clearly seen in the vibes, our discussions with our customers and overall industry. And really what is driving it is, Ganesh, just mentioned about this,, all these technologies whether it is mobility, cloud or predictive analytics or social media or ecommerce, all of them existed in silos but for organizations they are really for the first time coming together and saying that they need to build their digital future and in order to build their digital future they need to bring all these technologies together and that is where they are spending money. And I think we see that as a big opportunity for us. A lot of other companies have also seen that as an opportunity for investment. We began in that area about 2 – 3 years back and we are starting to see results of that. So what does it really mean for us and where are we seeing tractions? Staying very committed to what our strategy was which really was pivoted around 2 important points. One was the focus on verticalization and we are seeing the benefits of it because when you talk about the digital future of an organization, it has to be linked directly to the business outcomes and that is resulting in super sizing of our accounts. If you look at the quarter 1

result that we had a lot of it not only came from the new accounts that we opened but also supersizing of the accounts that we already had so growing our footprints leveraging all these new technologies. The other element which was part of the strategy which you heard from us before also was this whole big deals and focus on large strategic deals. And I think the timing for that has been perfect because all the large contract that have been in existence for the last 4 – 5 years, as those contracts have come up for renewal in the last 12 months, many of them had been broken into smaller sizes contracts and spread out between the company. I think that has been the good play for us. Because the moment that has happened it has come within our sweet spot and with the focus on verticalization, combination of the business outcome focus, the industry focus and the deals which are now been cut into smaller sizes but still part of strategic managed service deals make a play for a company like us far better. So a combination of this has resulted in as I said, supersizing of the account that were already existent as well as some of the new account acquisition.

**Ganesh Natarajan**

Thanks Nitin, Bala, would you like to comment on the financial matrix.

**S. Balasubramanian**

I will first give you the data with regards to cash balances. We have as on end June Rs.217 crores of cash. We have a debt in our balance sheet of \$30 million. We paid \$6 million this quarter. It is a half yearly payment this end June. So we have \$30 million outstanding. Which converted at the closing rate of 180 crores. So net - net we are cash positive. In terms of our hedging policy, Zensar has always followed a very prudent policy of covering about 50 – 60% and leaving the rest open. So we had stayed on with that policy. And that gives us good returns in terms of a fairly strong exchange gain this quarter but what we have done in this quarter is we have stepped up our hedge in plain vanilla forward from 50% to 85% this quarter. So as of end June I have \$53 million of our debtors covered at an average rate of 60.58 and going forward we will watch the situation and accordingly keep on covering. Keep covering anything between 3 – 6 months and little bit in 9 months. So that it is spread out very evenly and that is our hedging policy. We have stepped up our hedging policy from 50% to 85% and our CAPEX for this quarter has been 7 crores. I think more or less covered most of the common questions that keep coming in analyst's calls and we are here - Sanjay Rawa, my controller is here with me and we will take any questions on the financials that you may have.

**Ganesh Natarajan**

As you would have seen in the note we sent out, we have added employees this quarter. The goal is to add close to 500 – 550 people this year out of which 65 – 70% will be freshers, both engineers and non-engineers and the rest will be lateral hiring. And hiring is going on all markets as I mentioned and I think we are pretty confident about this financial year definitely. So thank you very much. I will stop here and throw the floor open for any questions that any of you may have about any aspect of our business or about the industry.

**Moderator**

Thank you very much sir. Participants, we will begin the question and answer session. We have our first question from the line of Mr. Karan Taurani from IFCI Financial services. Please go ahead.

**Karan Tolani**

My question pertains to the guidance which you gave last quarter regarding 4 – 6% sequential growth for Q1. You have obviously not met the guidance; your dollar term growth seems to be 1.3%. You have lower exports for Europe. So you would not have so much of cross currency impacting in terms of negative of that but even then it is way below your guidance. So what went wrong there?

**Ganesh Natarajan**

As I mentioned earlier, our main issue was in infrastructure management business where potentially we would have done about 30 million because that was the order pipeline at the beginning of the quarter but 2 of the deals got closed only recently which is literally the last couple of weeks. This is why we lost 2 million of potential revenue there. I mean we came in at less than 28 where it should have been 30. The US, Africa and our 2 major customers exceeded the 5.5% that we are expected them to do. We also had a disappointing quarter as far as Asia was concerned because 2 of our large banking accounts are not really going anywhere. In fact they both dropped off our \$5 million client list. So that has been slow. We have been replacing them with new clients. So I would expect that what we expected to see last quarter should definitely happen this quarter. But as I said the signs are good and yes, we came short primarily because of infrastructure management but given the order pipeline we have and the order closing we have seen. That should get corrected this quarter.

**Karan Tolani**

This has been happening for quite some quarters now. And even last quarter I clearly questioned and asked about the risk factors for this kind of guidance and you mentioned that the risk would be negligible and you would be mostly on track on achieving this. Again you are saying probably 1 – 2 quarters delay in terms of order flow. How long could this happen and I could build in my forecast because the growth trajectory looks very muted for this year with a dismal performance in Q1?

**Ganesh Natarajan**

I do not think that should be a problem at all. As I said the order book is good and as Nitin mentioned earlier all the conversations we have had with our clients in fact I have been to US twice myself in the last quarter. It looks very good and I mentioned it earlier. We mention it again that we should definitely be at the upper end of whatever figures to overall industry achieved because we also compared notes with other companies. So I do not see any issue at all. As I always maintained it is very difficult to exactly predict quarter on quarter because some projects get delayed in starting and so on and so forth. As you know the revival which I mentioned even in the last quarter call has been slow in infrastructure management business. But today we stabilized at 28 by end of the year we definitely see that we will stabilize more at \$30 – 31 million for that business. And once that takes off given the pipeline we have, the gross margins have substantially gone up in the IM business. So I think the direction is right because we have kind of under emphasized low margin although they were adding revenue business and gone to a much higher margin regime and as Bala was mentioning even apart from currency and other fluctuations I think we should see a next 3 quarters. So I am pretty confident about that. Of course only time will tell how much we can achieve.

- Karan Tolani** Coming to the margins you said that IMS margins have improved but again it is not reflecting the overall console margins because they have come down. There are some operating expense which is increased this quarter. If you could explain the reason behind that plus you have not given the salary hike this quarter. So next quarter would again see roundabout, 250-300 basis point dip just because of that. Do you see margin going to probably 11% if the rupee probably comes to 57 or something of that sort. So what is your traction on the margin front because if you are extremely weak I expected some kind of improvement because there were no salary hikes this quarter?
- Ajay Bhandari** Largely like you rightly pointed out, bulk of the increase has been in the opex actually the gross margins have gone up but as Nitin in his summary mentioned that we have made a lot of investments in building a large deal team and even added some new sales team. Sales teams are yet to fire. So lot of investments in opex have been in areas where we see lot of our future coming up especially strategic investments we have made in large deals. So some of that we have eaten into opex you probably see the benefits of that only in the subsequent quarters.
- Karan Tolani** But what are the triggers, what are the levers for margins which would offset your negative impact of salary hike?
- Ganesh Natarajan** Levers clearly are 2 things. One is of course if you look at our utilizations, it remains above 80% and we are also investing in the whole IP frameworks. That will happen. More important, I think the levers are order closing. Today the business looks good. Most of our customers, both our existing business and new business is good. So the best lever to improve margins obviously is to get the orders and start executing them. Which I think you will see happening. I am not saying this quarter will be able to overcome the impact of all the salary increases. We have an average of 7% salary increase off shore but as we have always done year on year. I think by the 3<sup>rd</sup> or the beginning of the 4<sup>th</sup> quarter, that has fully overcome by new business as well as productivity.
- Karan Tolani** And coming to your IMS I just expected a really good quarter from that front and in terms of contribution again it has come down from 24% to 23% this quarter. What is the reason for that? Again I expected IMS we bottomed out last quarter, what is dragging the performance?
- Ganesh Natarajan** IMS has bottomed out as I mentioned earlier.
- Karan Tolani** Since we are talking about IMS being bottomed out but that is not the case. Even this quarter has been dismal performance. Exactly where do you see growth?
- Ganesh Natarajan** I would not like to comment on words like dismal. For the simple reason that we have consciously reduced our dependence on data centre business which was really the low margin business and if you look at the order pipeline and the order book today, we are actually closed over 5 multi million dollar deals over last 4 months. So I think you will have to wait and watch

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in terms of improvements both in the revenues and the margin profile of that business. We are very confident- both in terms of our business in America as well as in Europe, the kind of deals we have signed but obviously when are looking at setting up and executing a multi year contract in infrastructure management which includes data center, which includes security, end user computing as well as remote infrastructure management. It takes us time to fire. So in terms of bottoming out absolutely it is done because whatever low margin business we have to divest that is already been done by the end of the 3<sup>rd</sup> quarter of last year and these 2 quarters, the order booking has been good. Business is taking off in terms of new areas and I think you will clearly taking the impact both in the current quarter and next quarter.

**Karan Tolani**

Hope so. You have added around 9 new clients in the 1 million plus category and the 10 million plus category one client has come down and \$5 million 2 clients have come down. You had a strategy of targeting towards larger clients. What is this then? This addition of smaller clients again, what do you read from this?

**Ganesh Natarajan**

When you have added clients in the first year of business and we are looking at the last 12 months. Even if you sign a \$12 million deal, its not going to impact a \$5 million category in the first year. The 2 clients you are talking about are both Singapore based private banking clients, I do not want to mention the name, but those have been declining anyway for the last almost 8 quarters and that is what I mentioned earlier has been replaced by existing business. The \$10 million client that has become in the last 12 months is that there were 2 large projects we were doing for one of our major retail clients in the UK. We have actually now signed a brand new deal with them. So that will go back to 10 million plus, as we go now and we are very hopeful that our top 2 clients will both be substantially higher this financial year.

**Karan Tolani**

One last small question the enterprise technology services which grew 6% sequentially, what's the contribution of that business in overall revenue?

**Ganesh Natarajan**

If you look at our ETS business there are only 2 business streams, one is ETS and the other is IMS business. So ETS what is the contribution Ajay? That's 65% of our overall business and that will continue to be there and we expect even steady state that around 70% will come from enterprise services and products and about 30 – 32% will come from IMS. So enterprise is 65% with the moderate dependence on product which is really SAP re-sale. This is what is likely to continue.

**Karan Tolani**

I am just saying that the application?

**Ganesh Natarajan**

Are you talking of ERP or talking of enterprise transformation?

**Karan Tolani**

ERP.

**Ganesh Natarajan**

ERP is 15% of the overall.

- Karan Tolani** So that grew 6% sequentially right?
- Ganesh Natarajan** 6% sequentially is the enterprise transformation division which Nitin heads which includes ERP, application management, testing, it includes everything outside of infrastructure management.
- Moderator** We have our next question from the line of Mr. Dipen Shah from Kotak Securities. Please go ahead.
- Deepen Shah** A couple of question first of all, could you just throw some more light on the top 2 clients and give us some more color on what kind of traction you are seeing in them please?
- Ganesh Natarajan** As far as our Top client is concerned; we are back on the growth path. At one point in time there was the challenge of cap that we had which some of you are aware of but given the discussion that we have had with the client, and also the discussions that we have had with another large partner over there, we have had a joint strategy which has been developed between our client, the partner and Zensar which is now leading to most of the new work which is emanating from our client to be routed to both Zensar and the partner. So if at all anything our position from where we were which was strong has only strengthened. And therefore in terms of guidance you will continue to see growth in our Top Client. As far as Our large Insurance Client Group is concerned we signed a large contract with them which is already in progress but over and above that and since that contract was with only one company in the group, there are other larger Companies in the group and now we are in discussion with them to try and do some consolidation whereby they can leverage in a shared services mode. So therefore as far as this client is concerned, over and above what we already have with them there are other opportunities now under discussion with them. So I think both the accounts are poised for growth in line with what we have set for the company this year.
- Deepen Shah** And the Insurance large contract was \$24 million which you won a couple of quarters back, is it?
- Ganesh Natarajan** It was more than that. Only thing is we cannot officially divulge the exact numbers but yes the 5 year multi contract deal for the Obama Health Care plan
- Deepen Shah** And in your top client we had been guiding towards flattish FY 2014 but now we can expect some growth coming out on a year on year basis?
- Ganesh Natarajan** Absolutely, we are looking at about 5% growth. But again our clients business is very volatile, depending on each quarter of there. So at this point of time definitely there is growth, exactly how much, I think that we will have to find. But internally yes, we are definitely looking at a 5 – 6% growth.



- Deepen Shah** And coming to margins the other expenses which have actually gone up by Rs.16 – 17 crores was there any one off provisioning or expenditure which you incurred in the quarter or was it all operational?
- Nitin Parab** There are provisions as you know March, is year end, and we write back lot of our provisions ,because by that time we collect all the dues . In the figures we had about 4 crores write back in March but we have in this Quarter, provided close to about 5 crores strictly as per our policy and most of these are government accounts with money will come later on. So we have provided as per the policy and as Ganesh said we have one off visa cost which is about 3 crores then we have incremental cost because of the big deal team. So those are the major big ticket items.
- Deepen Shah** And just may be Ganesh last time we have been talking about the overall Mckinsey restructuring and how it is expected to bring in about 40 crores of benefits this year. How much of it do you think has already started coming in and how much further improvement we can expect in margins because of this?
- Ganesh Natarajan** I do not want to put a number exactly for expect in increase in margin but definitely both the utilization levels that you have seen as well as what we call lean production method for managing projects, it also contributes to overall better utilization. I think that is happening. As I mentioned last year if we look at the start of the McKinsey exercise to what we expect to see 40 crores is very much on the cards. I think so far we have realized about 15 – 18 crores and the target this year is to realize an additional 22 – 23 crores and I think we are on track to do that and if ever you in Pune, you are most welcome to come and meet the team. They can explain to you all this 6 levers that is happening to make it happen.
- Moderator** We have our next question from the line of Mr. HR Gala from Quest Investment advisors. Please go ahead.
- HR Gala** This quarter onwards you have started giving separate segmental results for the products and licenses. I want to know why the PBIT margin is so low in that business. Normally we would have pre supposed that products and licenses will give much higher margins than what our other businesses are giving?
- Ganesh Natarajan** Not at all. It is actually the reverse. Because for the simple reason the only reason we do product business in the infrastructure management business is because these are security products. Security and assurance products, margins are very low as you can see.
- HR Gala** These are all the hardware part?
- Ganesh Natarajan** Not only hardware but also small security products and the reason we are showing that separately so that you get a better understanding of the business. That part of business has no

real intrinsic value in terms of margins but where our margins, helps us to get into new clients, helps us to cross sell other data centers support services to them. Similarly even if you look at the enterprise business, it is much smaller. We do occasionally have to also resell an SAP license or an oracle license at the implementation deal. So these are not great ideas in terms of products. We still have to do it to get the services. So our focus is as you know is services business whether delivered on premise or through the clouds.

**HR Gala**

I thought it was probably, it was to do with the IPR that we are building on?

**Ganesh Natarajan**

It has nothing to do with the IPR. In fact most of the IPR gets embedded in to our services business solution, so it is not the IPR.

**HR Gala**

Now for FY14 having seen that in first quarter we did have some set back in IMS and Asian markets and all that. Going ahead what kind of growth trajectory now you would like to guide?

**Ganesh Natarajan**

It is difficult to provide a guidance because of all the changes in the market and as you know all of us are waiting for what is the final impact of the US Immigration Bill. We do not expect that there will be draconian. To give you a quick summary I think there will be some increase in visa fee that is expected. Visas will be more than readily available and we are fortunate that we are one of the sense we are one of the few Indian companies who are complaint to the 50 – 50 provision. Which means that out of the total (+700) employees we have in America, over 50% of them are American citizens or so that we qualify. There are 2 clauses which we do not expect to see in the house of representative version of the bill which is what is called the outplacement clause which would inhibit placement in customers and the displacement clause which would ask for a declaration for the customer that American citizen would not be displayed. So both these we do not expect to happen. It almost comes in the way of the free rights of various people to work. So if that does not happen, I think that will be fine. Given that if things go on track and the NASCOM there is 12 – 14% have met we certainly expect to be in the same league. If things go lower because of some adverse responses in either markets could be in Africa or Europe etc, it could be lower but we certainly expect to do equal to or better than the industry average.

**HR Gala**

But this NASCOM guidance, is it dollar terms or is it in rupee terms?

**Ganesh Natarajan**

Constant currency.

**HR Gala**

And you think you will probably be able to meet this?

**Ganesh Natarajan**

It looks very much feasible because as I said the pipeline if extraordinarily good at this point of time. If deal closures do not get impact, I think we will be better position to give you a full guidance probably after the next quarter is over. But October - November I think we will have

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a better sense because by the time the immigration bill issues would have been resolved and our whole visa application, we will know what the status is. So that is the time we can actually calculate how much of the business that we have booked can be executed in this financial year.

**HR Gala**

How much will be the total CAPEX. Nitin did give the figure of say 8 crores of what you have spent.

**Nitin Parab**

We normally spend CAPEX equal to our depreciation. So this year we budgeted roughly about 43 crores and generally it picks up in the second and third quarter. So first quarter we have spent about 7 crores.

**HR Gala**

And just last question from my side. The effective tax rate will be same at around marginal rate of 33%.

**Nitin Parab**

It depends on the mix of onshore offsite and also how our US business in terms of our total profits because we realize that the US component is very good 40%. But we are making efforts to move into our SEZ and my own way of looking at it, by end of the year it will be about 32 – 31% because some of these SEZ will kind of transition into fresh billing depending on new orders. So you can expect the year end exit rate for that quarter to be about 30 – 31%. But as I said I do not expect it to go lower than that for this particular year primarily because our US territory is doing very well

**Moderator**

Our next question from the line of Mr. Minit Jhaveri from CNI Research. Please go ahead,

**Minit Jhaveri**

I just wanted to know from last 2 – 3 quarters infrastructure space is not doing well. So what is the thing, what the next 2 – 3 years will plan for the infra space?

**Ganesh Natarajan**

When we first got into the infrastructure business, we were primarily doing remote infrastructure management which is supporting from India. When we bought this company Akibia 2.5 years ago they were primarily doing only onsite work in certain data centers and some product supply. So what we have now done is we have got rid of many of the low margin and low scalability business. If you look at our business today, the dual shore infrastructure management which is both supporting in US and Europe and of course from India is a constant theme that runs through that business and within that we have solutions both in end-user computing, server management, data center support. Today we have a good practice where we are actually helping clients with large datacenters on premise to move to the cloud. So whether somebody wants to move into a private cloud, hybrid cloud, public cloud, we are making that happen. So cloud services, infrastructure services, some amount of production support services in security and compliance, and finally remote infrastructure management so this is the current business - which is the reason and this is very recession proof because this is what they call lights on business. So if you look at applications support

and infrastructure management, we intend to keep that combination at may be 60 – 65% even over the next 3 years. And then the other 30 – 35% as Nitin rightly pointed out would be through ERP implementation, new areas of cloud and mobility, etc. So that is the kind of business. So infrastructure management is a strong pillar of our business today. It has been as you rightly pointed out slow, primarily because we were changing the entire business model. But I think business model has been achieved in terms of changed order booking is good. The pipeline is over 110 million in that business today. So we are very confident of going forward that business will continue to drive new revenues and good profits for them.

**Minit Jhaveri**

And one more question how is global market going on and the IT sector. Just wanted to know the global market?

**Ganesh Natarajan**

See if you look at Gartner projection as recently as last week I think they are still expecting that there will be growth in spending. The growth in spending will be choosy as Nitin mentioned in his earlier commentary we are not expecting to see many \$100 – 200 million deals unless there is acquisition of in-house data centers by somebody. But apart from that if you look at there are enough of \$15 – 20 to \$30 million deals around and today we are positioned to grab some of those. So I think those will happen. Overall, if you look at IT spending, I think we are expecting to see about 2.5 to 3% growth. Within that off shoring will be much more. There is going to be significant growth in the offshore market and I think the good companies will capture their share.

**Minit Jhaveri**

What is the order book of Enterprise Services?

**Ganesh Natarajan**

As I told you the total order book of course there are many orders which go beyond 3 years. So in terms of the order book that we have to execute in this year, I think we probably need to may be book another \$30 – 35 million during this quarter which should happen. But apart from that the order pipeline is almost as I mentioned 340 million. Some of it will be executed this year depending on how it ramps up and then as a pipeline closes, we have enough of starting order book even for next year so that is the plan.

**Moderator**

Our next question is from the line of Mr. Deepen Shah of Kotak Securities. Please go ahead.

**Deepen Shah**

Just one data point. Last quarter you had given the amount of orders one in second half for FY13 as about \$100 – 110 million. Can we get number for this quarter? How much of order actually been won if you are giving out that number?

**Ganesh Natarajan**

We have closed 12 contracts this quarter and I do not remember the exact number but I think what is also exciting as I said is order pipeline. So we can calculate that and give it to you. There is lot of renewals of existing large contracts which probably does not get included in these 12 contracts. So we can actually send you the numbers.

- Moderator** Our next question is from the line of Mr. Sudhakar Prabhu from Span Capital. Please go ahead.
- Sudhakar Prabhu** My first question would be on the FOREX gain of 28 crores, what exactly are these?
- S Bala** Roughly about 10.5 crores is realized gain and the balance is coming out of currency conversions both the debtors getting converted, the branch getting converted and the cross charges getting converted.
- Sudhakar Prabhu** So you are saying 10 crores is the realized one and 18 crores is basically the translation thing?
- S Bala** That is right.
- Sudhakar Prabhu** And my second question would be on the margins, Ganesh have you seen the margins for the entire year, year end and how do you see the margins for next 2 – 3 years as they scale up?
- Ganesh Natarajan** I will comment on both margins and the overall profitability of the business. If you look at some of our mature clients including the top 2, we are seeing overall profit before tax or EBITDA at close to 18 – 20% which is obviously optimal and if you look at some of our interest structure management business came out from literally 4% PBT and it became very low because we got rid of some business. So to give you a longer term perspective in 2 years time, I would expect that we will not do any business which is less than 12 – 13% PBT or EBITDA. Having said that if there are some businesses which are higher, I would expect that you should look at over 2 – 3 year period especially if Bala is able to maintain tax rates about 32 – 33%, that will be steadily back in double digit profit after tax and add to that whatever tax to PBT. Gross margins will improve. As lot of investments I think Ajay, my strategy head, talked about are not going to be repetitive so gross margins are steadily improved as we optimize and grow the revenues. I think it also see a cost being a push in larger revenue. So I am very positive on the margins not only during this financial year but even over the next year to keep going up.
- Sudhakar Prabhu** And lastly on the inorganic front anything happening on that?
- Ganesh Natarajan** We are in discussion but as I said we were talking to a few companies. 2 of them are still in discussion. I mentioned even on a CNBC call half hour back that we are in no hurry because given the fact that our organic business is doing well. If we get the right fit either infrastructure management or an SAP or product engineering. I think we will then do an acquisition. So it could happen in the next 4 – 6 months. It need not happen. So everything I talked about is without inorganic. And if we do inorganic it will very much be part of our strategic fit in terms of businesses we want to grow and the geographies we want to grow.
- Sudhakar Prabhu** And it would be 50 – 100 million within that range or lesser than that?

*July 18, 2013*

**Ganesh Natarajan**

Not really. If we do anything strategic yes it will definitely be less than 50 million. So if they are infrastructure management companies then typically you will find that their revenues to what we pay are probably in the range of 40 – 60%. So even a 40 million investment could get us a 90 million company. But if it is in strategic space, let's say product engineering or SAP contract then it could be 1:1, so we might buy a \$40 million company. So there are multiple options we are looking at. But you should assume that not more than 25 – 40 million will be the actual cash invested in acquisition this year even if it happens. And I think today we are well placed in terms of liquidity as well as our cash positions to make something like that happen. Thank you and all the best.

**Moderator**

Our next question is from the line of Mr. Pawan Kumar from Capital Markets. Please go ahead.

**Pawan Kumar**

My question pertains to the revenues from Government and Health Care Utilities has been sharply declined from 10% to 2% in the current quarter on Q-on-Q basis. What exactly had happened? And my second question relates to margin front. You earlier told that utilization will be one of the margin level, the current levels is around 81 – 82%. How much we can foresee the improving the utilization level and which level we will be comfortable?

**Ganesh Natarajan**

I am very comfortable with current levels because anything above 80% utilization, which is where we are today, 81% is comfortable. So we have reached and maintained that level. As we go along I mean obviously there will be new trainees being added to the system but we still try to maintain the utilization between 78 – 82% every quarter for the next 3 – 4 quarters. So that is one. The second is you made a valid point on the Government and Utilities business. We had a fairly large Utilities contract in the US which was a one time contract that came to an end. Similarly we are doing two large government projects, one for the electricity distribution company and other for municipal corporation. So both these are implemented and we are now waiting for full implementation sign off to do some invoicing which could happen in the first two quarters. We are currently not chasing too many Government deals for the simple reason that we find that getting both sign off from government and payments from government is becoming quite excruciating. So I do not think we will have a great focus on government during this financial year though we are open to good contracts as we go forward. Utilities we will definitely come back because Utilities are now part of our manufacturing verticals and you will definitely see a lot of manufacturing work in Utilities. They have built some specific solutions around smart metering, for instance, which is why we valued not only in UK which a core Utilities market but also in the US whatever work we do in India. Utilities are very important to us but not government.

**Pawan Kumar**

And Health Care contracts we have?

**Ganesh Natarajan**

Healthcare we have 2 contracts going on. In fact we just signed a contract with one of the university hospitals in the US. Health Care is now integrated with our overall Insurance

business because of the Obama Health Care Plan, there are very similar requirements for Insurance companies in the health space and Health Care. So that is becoming part of the overall BFSI and Health Care practice. So it is slow but there are good contracts. There is an existing contract which has now become over a million dollar, in terms of annual revenue and the new contract with the university hospital will also scale. So I think we are cautiously optimistic about the growing healthcare segment as part of the overall Insurance strategy.

**Moderator** Our next question is from the line of Mr. HR Gala from quest investments. Please go ahead.

**HR Gala** You had mentioned in your press release that we are doing something on the mining front also in Africa. So can you just give more color as to what exactly do we do in the mining space?

**Ganesh Natarajan** It is actually a SAP implementation. In fact we have been chasing mining clients for the last 3 – 4 months and the 1<sup>st</sup> contract we have signed is with a prominent South African mining company and that opens the doors because mining is an industry both in Africa and in Australia where they follow the leader. So once we finish the SAP implementation, mining like Utilities can become a significant part of our manufacturing vertical.

**HR Gala** Probably there you can do lot of work on the GPS and other things?

**Ganesh Natarajan** That is not really a core competency.. If at all there are opportunities like we did even for one of our UK clients, when there was GIS opportunity so in GIS, we actually collaborated with another company. If there are collateral opportunities we will certainly look at them. But I think the core oracle SAP implementation opportunities in mining clients will be substantial and like healthcare, it will be slow but have good potential for future growth.

**HR Gala** A little while ago Nitin gave some numbers that we have collected from 15 – 18 crores out of 40 crores. What was that pertaining to I missed that point?

**Ganesh Natarajan** We have that McKinsey initiative that started last year. Those were the savings. So that is what I had mentioned that we have already accrued around 15 – 18 crores since we started that exercise in terms of savings and we expect to accrue another 22 crores because of the lean production systems that we are implementing.

**HR Gala** So at least in current year although your other expenses have increased for different reasons, which you have explained but this large payment which is lying in the professional and legal fees in our balance sheet that would not be there this year. Am I right?

**Ganesh Natarajan** That would not be there. McKinsey payment definitely would not be there. We of course continue to invest in what we call analyst as there are multiple recommending agencies for large client deals as well as analysts which will be there. So there will be some amount there but clearly it will be lower than last year.

- HR Gala** And this 40 crores is a total saving that we expect or it will be per annum?
- Ganesh Natarajan** **There** will be visa fee also because last year we had not applied for so many visas. This year close to 350 visas we have applied for. So that might add on. You rightly said the organization transformation initiative we took in place. Last year was an expense item this year we will see savings accruing because of that.
- HR Gala** This 40 crores will be per annum type?
- Ganesh Natarajan** This will be the total that we expect around 18 crores already accrued. We expect this year another 15 – 16 crores will accrue.
- HR Gala** And then we will come in the next year?
- Ganesh Natarajan** It will actually get embedded. So it is better utilization, better way of doing business which is what we will be doing.
- Moderator** Our next question is from the line of Mr. Minit Jhaveri from CNI Research. Please go ahead.
- Minit Jhaveri** I just missed a point on Insurance. I am personally very bullish on that sector. So can I understand the Insurance space and how is Zensar doing there?
- Nitin Parab** If you look at the BSI sector one of the fastest growing sector is really the Insurance space for us. So we have strengthened the team both in the territories as well as over here in India. We have hired a person who has come on board from TCS who was managing fairly large insurance portfolio. He has come on board building the team and the pipeline for Insurance is going over there. Even in Europe where we are primarily working with only 1 insurance customer, that portfolio has now expanded to 3 insurance customers in UK and both the potential of growth is significant. We are also in discussions with very large Insurance Company, one of the largest Insurance Company in Europe and these are in the fairly progressed stage of discussion which everything going well it happens, we should also on board them as customer. By and large my outlook is that as far as our BFSI sector in concerned, the portfolio will start showing increased business in the Insurance space for us.
- Moderator** Our next question is from the line of Mr. Pawan Kumar from Capital Market. Please go ahead.
- Pawan Kumar** This is on earlier data point. You told the order pipeline from IMS is USD100 million and once again you told order pipeline of USD340.
- Ganesh Natarajan** So it is roughly over 100 million in IMS and over 200 million in the Enterprise space. If you want the exact figure it is 340 million is the order pipeline. And even if assuming based on our



normal closure rate, if you close 30 of that pipeline that gets converted to orders. I think we are looking at the fairly healthy order book build up for the next 2 – 3 quarters.

**Moderator**

There are no further questions. Would you like to add any closing comments here?

**Ganesh Natarajan**

Thank you very much for your support for Zensar and your ongoing conversations that we have been having. I would actually invite any one of you who are interested and may be end of August early September, we do plan to host an investor meet at our campus and we will be delighted to show you and get you to meet some of our vertical heads. And as I mentioned earlier, yes there have been some delays in revenue accrual especially in the Infrastructure Management space but given the pipeline, given the confidence we are seeing amongst our customers I have no doubt that this will be an excellent year for Zensar and we look forward to your support going forward. So thank you very much on behalf of the entire team at Zensar.

**Moderator**

Thank you sir. On behalf of Zensar Technologies Limited, that concludes this conference. Thank you for joining us.