



“Zensar Technologies Limited Q1 FY16 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Zensar Technologies Limited Q1 FY-'16 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference call is being recorded. I would now like to hand the conference over to Dr. Ganesh Natarajan — Vice Chairman and CEO of Zensar Technologies. Thank you and over to you sir.

Dr. Ganesh Natarajan: Sure, thank you very much and good evening to all of you and thank you for joining the call. I have with me S. Balasubramaniam, Bala, who is our CFO; Ajay Bhandari, Head of our Strategy and Corporate Development; and Sanjay Rawa who is our Financial Controller. So as always I will make a brief opening statement talking about the numbers for this quarter, the factors behind our growth and success and then I will hand over to Bala, post which we can open the call for any questions.

As all of you have seen we have had an excellent opening quarter in terms of both revenue and profitability. Revenue has grown 7.2% quarter-on-quarter in Indian Rupee term, and in constant currency term the quarter-on-quarter revenue has grown by 5.2%; our year-on-year growth is also very strong with growth of 16.5% in revenues and 36.2% in PAT. Profitability indicators for the company continue to remain healthy; our PAT margins have continued to be double-digit at 10.8% with PAT growing 6.3% quarter-on-quarter.

Talking briefly about business lines, the Enterprise Applications business continues to do extremely well. Quarter-on-quarter, ETS revenue grew by 8.7% and the profitability has also increased by 2.9% both in INR terms. All our major territories have contributed to this growth. US continues to be a dominate growth market for us with ETS US growing at 12.8% quarter-on-quarter and Africa 7.9%. Europe and UK are also growing but at a lesser rate. We are also doing very well at this point in India. Over the last 12-months the Enterprise Applications business profitability has registered an exceptional growth and we expect that momentum to continue.

Professional Access, the company we bought less than a year ago had a quarter-on-quarter revenue growth of 4.5% in US dollar term and this acquisition continues to be very-very beneficial for us because we see increased traction with existing and new retail clients due to our augmented capability, in fact, the product we have launched called PARADE is a joint product in partnership with Oracle and is getting very good

traction in the market which is also a positive sign for our overall Digital Intellectual Property plans.

In the IM business, as a result of our continuing attempts at improving it and changing the profitability profile, the profitability of the business has increased by almost 200% in INR terms in the last 12-months. Q-o-Q INR revenue increased marginally. The good news is that if you look at the components of the business the performance has been really good. The gross margin of the maintenance portion of the business has grown from 20% to 31% and our Services business is expected to grow over 40% this year. As we mentioned earlier there is a conscious reduction of our focus on products for improving the gross margins and conscious increasing of maintenance and services revenue; all these steps have had a very positive combined effect for us.

To summarize, it has been a very good quarter, I mean, if you look at what we call our “3x3x3 cube” which is the services of Applications, Infrastructure and Digital & eCommerce in the core markets of USA, Europe and Africa. And finally, of course, the chosen verticals that we have which is Manufacturing, Retail and Insurance, I think all of them are doing well. The outlook for the year is good because we see good traction with all our customers, we are seeing excellent growth both in the existing clients that we have and also a very strong pipeline going forward. So all in all I think it is a great start to the year and we look forward to your support and we hope to have a very good year going forward.

So I am going to stop here and request Bala to give any specifics that you would like to communicate and then we will throw the floor open for Questions.

S. Balasubramaniam: Thank you, Ganesh. Good Evening to you Ladies and Gentlemen. I will give you some specific data points which will be useful so that you can take in this data and if there are any questions that you have they can be pre-empted. As of end June, our cash balance was Rs.359 crores, we have repaid \$6 million on the Akibia loan, so term loan we have on the books is 6 million; we have got \$12 million of working capital in the ETS business and \$2.8 million of working capital in the IM business, so our total debt is \$20.8 million which translates to Rs.128 crores, so our net free cash as of 30th June is Rs.231 crores. In terms of our debtors, we are very well positioned, our days cover is only 55 days and the absolute amount of debtors is Rs.474 crores. In terms of CAPEX this being the first quarter, CAPEX has been Rs.4.63 crores. Coming to forward cover, we have hedged plain vanilla forwards of 42% or \$33 million at an average rate of 66.95. In terms of the exchange movement, we had an exchange gain of Rs.11.57 crores in this quarter as compared to an exchange loss of Rs.4.54 crores in

the previous quarter. So these are the data points I wanted to share with you. I will now switch back and hand over the floor to Ganesh.

Dr. Ganesh Natarajan: Thank you, Bala. We will now open the floor for questions, anything at all you would like to know about industry, about the status, outlook, and, of course, the company numbers, feel free to ask.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah: I had a few questions; firstly, I actually joined slightly late, so I do not know whether you have thrown light on the reduction in the IMS business on a quarter-on-quarter basis. So if we can just know the reasons why that business degrew quarter-on-quarter?

Dr. Ganesh Natarajan: Dipen, thanks, I mentioned it earlier that what we have been focusing on as you know in reduction of the product part of the business, the gross margin of the Maintenance business, which has grown very smartly this year, and the Services of course has been very good, in fact, we expect to see probably closer to 45% growth in IM Services this year. You are right. Because of the delay in a couple of projects being billed, there has been a slight quarter-on-quarter decline but I think that is purely a quarter issue and you will see not only good performance and growth this year but much better profit. So I think IMS is also turning around, and, of course, the stars have been our other two businesses — Digital and Enterprise.

Dipen Shah: Any further update on Cisco like we had some pricing changes which had happened, so how is the account progressing and how can we expect that to grow in the current year?

Dr. Ganesh Natarajan: Our top account has grown, in fact, there is a 3.5% sequential quarter growth in that account, and, in fact, all our top-20 accounts have grown this quarter. So that is very good news. It is very difficult to predict because we all know vagaries of the markets in the US, but at this point of time it certainly looks like we are very well in all the accounts including Cisco. So I do not have any concerns at this point of time.

Dipen Shah: We had some realignment in the number of employees during the quarter. The March employee number is slightly different from what it is displayed in the current 'Investor Update.' So, was it just a statistical realignment, anything like that?

Dr. Ganesh Natarajan: I think it was also because of some subcontractors which got converted into employees, etc., so, yes, in terms of actual growth it has been growing steadily. We have almost 800 people being trained around the country which we will add on, not all 800, but may be 500 to 550 of them. So I think the growth of these numbers is very much on track and of course as I was mentioning, may be before you joined, we have also been very successful with the launch of PARADE which is our IP, a lot of automation work is going on all the processes. So while the number of people growth will continue I think the focus on automation, the focus on Intellectual Property building, all that is also very strong at this point.

Dipen Shah: Just trying to relate the number of employees and the revenues, we had a de-growth in number of employees slightly in this quarter even on a revised basis, we had utilization level which was marginally up and when I see the Services revenues they have actually increased by 5% or more on a quarter-on-quarter basis. So just trying to correlate both the things as to what actually led to this 5% growth when the efforts were kind of almost stagnant on a quarter-on-quarter basis?

Dr. Ganesh Natarajan: We actually do not read too much Dipen in the quarter-on-quarter numbers. Probably you will get a clearer picture if you compare half year-to-half year. So I think, yes, you are right, productivity is improving, in fact, there are a couple of good eCommerce Digital projects where the productivity has been higher, but do not read it as a trend because I think we will continue to deploy more people, but as I said obviously, we have a strong focus on both productivity, utilization as well as profitability improvement. So there will be a gradual increase but what you may see in one quarter may not be a trend on a quarter-on-quarter basis.

Dipen Shah: So the difference is largely the productivity increase of about 500 basis points?

Dr. Ganesh Natarajan: Productivity and some delayed billing which have got billed, it is a quarter-on-quarter aberration that we are spotting there.

Moderator: Thank you. The next question is from the line of Jayesh Parekh from JMP Capital. Please go ahead.

Jayesh Parekh: I have one small question on client data in category of \$5 million plus. The number of clients have reduced from 9 to 4. So, whether any specific client has left us in this particular quarter who are \$5 million plus category?

Dr. Ganesh Natarajan: I will ask Ajay, our Chief Strategy Officer to answer that.

Ajay Bhandari: There has been no drop in the number of customers, in fact, even the revenue is really very close to 5 million in all the customers where there has been a drop, the revenue is between 4.8 to 5 million, but just because we are kind of recording it correctly we have not shown it in the 5 million bracket but you will see it in the 5 million bracket in the next quarter. So there has been no loss of account, in fact, all accounts have grown, it's only because we are just being honest about the numbers, so it is around all of these accounts where there is a drop is the revenue is between 4.8 million and 5 million.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Can you throw us some light on this Digital Solutions business, how do you see the traction ahead in this Digital foray of India and how we become the part of that?

Dr. Ganesh Natarajan: I think a very good question. If you look at Digital globally we are seeing tremendous traction because in US, Europe even South Africa they are doing a lot of work on what they call "omni-channel" which really means that people are able to now either buy as customers or interact with their supply chain partners using a variety of channels, could be the internet, could be social media could be mobility, cloud, etc.. So I think the good news for Zensar is we are playing very well in all these areas; as you probably know, 12.6% of our revenues last year were in Digital and eCommerce and I think we are on track to increase and scale that substantially. So I think that has been good. Even in India; and I am glad you asked this question; I think thanks to Prime Minister Modi's launch of "Digital India", we see a number of opportunities. In fact, we played a significant role in the launch of "Digitized India" in terms of building a cloud sourcing platform which was launched as one of Prime Minister's five key campaign areas. The second is of course we are also now in communication with a number of state governments to build Cloud Solutions because as "Make in India" goes forward I think there will be a lot of opportunity for Cloud Manufacturing. So I would think that if you look at our verticals — Manufacturing, Retail and Insurance — globally, as well as India there are going to be multiple opportunities for deploying new solutions, and given our investments in Digital, given the fact that Professional Access, the eCommerce company is doing well, I think we would definitely be one of the leaders in this space, and this space, as all the industry players have said, is the most significant opportunity for Indian IT companies and I think we are very well positioned.

Sanjay Shah: Right now, are we working with government organization or Municipal Corporation like that and all?

Dr. Ganesh Natarajan: We are working with both; we are working with Pune Municipal Corporation, we are working with DEITY which is Department of Electronics and IT, Government of India, we have just signed a fairly large deal, which you must have read about, with CIDCO to actually help them in their SAP transformation. We are also talking to a couple of state governments for the Cloud-based solution. So I think wherever there is an opportunity to do good work in India we are doing that, but, of course, the core markets presently remain USA, Europe and South Africa.

Sanjay Shah: So, what portion of your revenue should be our target? Right now we are doing around 12.6%. We have achieved remarkable growth in a few years. What would be your guidelines?

Dr. Ganesh Natarajan: Our goal is that over the next 3-years almost 20% of our revenues should come from Digital and eCommerce, this year difficult to say but it could be between 14% and 15% and it will keep growing because as I mentioned earlier Digital is growing extremely well for us and our investments are all in the right areas. So it should be very successful.

Moderator: Thank you. The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.

Bharat Seth: During the quarter we came out with one press release where we stated that this Digital and eCommerce and ERP implementation and support which is roughly currently around 33% of revenue which works out to around Rs.900 crores, in FY18 we expect it to grow to Rs.2, 000 crores. Just what are the strategies and which area will play out?

Ajay Bhandari: Bharat Bhai, as we discussed last time, if you look at our Digital business, it covers the eCommerce business and in general all the growth we are seeing in Mobility, Analytics, etc. Enterprise business is the business which is largely Oracle and SAP for us. Oracle and SAP put together this year we expect to end around 170 to 175 million and plus Digital put together we are seeing that Digital has a pretty good growth because of our investment in Oracle and Digital and both of them are growing fairly fast. We see no reason why it should not be a large part of our revenues going forward.

Dr. Ganesh Natarajan: We are also investing, as you know, heavily in the Oracle partnership, as we are now an Oracle Platinum Partner, we want to take that to Oracle Diamond partnership. So I think what we had talked about was that Oracle, SAP, which are core enterprise platforms, areas like SFDC which is a CRM platform and the whole Digital space will change customer interaction. I think that is the focus area of Zensar and that is the focus for most customers as well, because today the IT services buyer, as most of you would

have read, is not just the IT Director or the CIO, but is also the CMO, the Chief of Supply Chain and fortunately, I think we are in a position to offer solution to all these other buyers as well, which is probably the reason why I think you are seeing good traction in our business.

Bharat Seth: Remaining balance of this AMS business which is roughly around Rs.1,000 crores, so where do we expect that to grow over the next 3-years during the same period?

Dr. Ganesh Natarajan: Definitely, there will be growth also, because if you look at the three dimensions of AMS or four dimensions, there is Application Development, Application Maintenance, then there is Application Testing and then there is Migration from old solutions to new solutions. New development itself with more and more packages coming in, more and more Cloud- based solutions that may be less but Maintenance and Testing will continue because especially as more and more Applications move to the Cloud, there will be need to manage that through Managed Services approach and migration from older systems to new systems with Mobility, Digital front end, all that will continue. Maybe the Package business for the next 2-3-years grows faster because a lot of people are now implementing bought out packages rather than development. But, on an overall basis I think the whole IT industry continues to be very heavily dependent on Maintenance and Testing and that will continue. There was even a time when our Oracle business was mainly new implementation. Now almost 55% is maintaining and enhancing. Similarly, even for eCommerce if you look at our ATG business of Professional Access, 2-years back they were only doing new development and new implementation, today they are also doing a lot of maintenance work. So I think the combination of Maintenance and Testing with new implementation will continue and we are fortunate that we have good solutions in all these areas.

Bharat Seth: For IMS Service business what kind of growth that you are anticipating for the full year?

Dr. Ganesh Natarajan: 40 to 45% growth in the Services part of IMS.

Bharat Seth: Which was around 95 million, so that 40 to 45%...?

Dr. Ganesh Natarajan: Look at the three businesses — one is the Products business which we are reducing, the second is the Maintenance or the Multi-Vendor Services business which we are maintaining at the same level but improving the profitability substantially and the third is the Services part of the business. So we can send you exact information on what is the exact numbers we are chasing because as you know the Services business comes

from both the infrastructure sales unit as well as the enterprise unit, so we can send you later the specifics on how much we are targeting to do this year both together.

Bharat Seth: Overall, this IMS business if we really look which is around 120 including product and 120-125 million last year, so where in three-years horizon would you like that to be?

Dr. Ganesh Natarajan: Three-years horizon I think we should definitely be looking at over 200 million in the IMS business, this year it would not be growing so much because as I said the Product business will come down while the rest will grow, but we are still looking at 5 to 6% growth in the Maintenance business while the other business will grow much faster which is why the overall growth profile is very good for the company. But we just want to make sure that this year we completely fix the profitability as well as the right constituents of the IMS business and that is the attempt, in fact, we are already seeing good results of making that happen.

Bharat Seth: Bala, our number of days' receivable has come down at the first quarter end say from 68-days to 55-days. So, what really is sustainable that we are looking for?

S. Balasubramaniam: 55 is a good level, I will try to maintain between 55 and 58 depending on how much of that is related to government receivables and as the business grows short term when there is a business growth the receivable kind of has a lag effect of reduction. If you recollect, two quarters back our receivables were higher and I had mentioned there that this is just a one-time thing and we will be collecting it, more so because if we have a fairly large and significant license deals towards the closing of the quarter, it immediately translates into receivables, but if you look at it purely from a 'trade receivable', if I can use that term, that is purely for our services, we have constantly been excelling in the working capital management over a period of time and we will continue to keep that focus.

Bharat Seth: Our other operating income which has a decline substantially YoY as well as QoQ, so any specific number?

Sanjay Rawa: Primarily, we had certain provisions and all the write-back into the last quarter. So that was primarily the reason.

S. Balasubramaniam: Yes, that typically happens. Being the last quarter of the year, you will have a fairly large other income, but that is very incidental to the financial accounting practices.

Bharat Seth: YoY also it has declined. So just any particular reason?

- S. Balasubramaniam:** What happens is that there is a certain element of bonuses which is no longer eligible, it will get written back in the first quarter after the year gets over.
- Bharat Seth:** This year it is not there?
- S. Balasubramaniam:** That is right.
- Bharat Seth:** Full year tax rate that where do we expect because in this quarter the tax rate is a little higher?
- S. Balasubramaniam:** As I explained, I am focusing my efforts to bring it between 27 and 29% and this quarter was 29%. It again depends on a multitude of factors, but our focus is to keep it in that range ballpark and that is what we are working on.
- Moderator:** Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** Just wanted to ask on your segmental break-up, what is driving the growth in Application Management?
- Dr. Ganesh Natarajan:** Application Management: I think we are probably in the right focus areas. In Application the only areas which have not grown in the last 6-months are probably telecom and oil and gas and those are not sectors that we play in. In fact, our core sector is Manufacturing, Retail, Insurance, a little bit of Banking in South Africa and Europe. I think they are all growing smartly, US particularly has been very robust, as I mentioned, we have 12% sequential quarter-on-quarter growth, and even Europe where we do a lot of work with the United Nations, there are a couple of new deals that we have signed in the UN. So I think we just probably have the right sweet spots that we are playing in and that I do not see any reason why that will not continue because all the verticals and all the regions for application looks very strong at this point of time.
- Mohit Jain:** A lot of companies and industry bodies are talking about the slowdown in Application Management Services. You are not experiencing any of that?
- Dr. Ganesh Natarajan:** Not at all, I think the pipeline is good. There will always be some quarter-to-quarter fluctuation and especially in the package areas, SAP has been doing very well for us, Oracle is excellent, even we have included, as I mentioned earlier, along with Oracle ATG, which is an eCommerce platform, Endeca, quite a few new areas that we are investing in and where we are seeing traction plus even in the Applications space, if

you look at areas like DevOps, and a lot of new application methodologies that we are now investing in, I think all these will continue to scale, we have no concern of continued growth in Applications.

Mohit Jain: There is no specific region or area where you are seeing this kind of explosive growth, it is fairly spread across all?

Dr. Ganesh Natarajan: Yes, this point is very much spread across, in the sense, we are very bullish about what we are doing with the United Nations especially in Europe, Vienna and Geneva. So I think that will continue. And apart from that US is a very broad-based secular kind of growth as far as AMS is concerned.

Mohit Jain: On IMS, I would have expected some increase in margins given that our focus is shifting towards more Services-driven IMS. So, what is happening there and when should we see that?

Dr. Ganesh Natarajan: I definitely believe that if you look at it in the second half of this year the margins will go up. If you compare it same quarter last year to current quarter this year, first quarter last year was a loss and we have kind of moved from there.

Mohit Jain: I was looking at it from a QoQ point of view?

Dr. Ganesh Natarajan: QoQ as I mentioned there have been some delays in some projects billing happening, the Product business has been flat. I find it difficult to compare QoQ, but definitely if you look at it on a half-year-to-half-year basis ...

Mohit Jain: Last year was really bad so...?

Dr. Ganesh Natarajan: Yes this year is certainly going to be better than last half year and even I see a lot of good things because we have a very good pipeline in the Services business, maintenance also is fully optimized in terms of both revenue and profit, we will see a very good second half, I am pretty confident about it.

Mohit Jain: What kind of growth should we expect on this IMS revenues run rate because one business is shrinking or you intend to shrink, the other one is growing, what will be the net impact?

Dr. Ganesh Natarajan: Our goal is still to grow in the 5% to 8% area, very difficult to predict at this point of time, and it all depends on how quickly some of these services contracts come in and we start actually billing on that, but definitely there will be growth in spite of the

shrinkage of products, that growth as I said will be through much healthier Maintenance.

Mohit Jain: So we can assume that the current rate is the base rate that you are looking at and you may build on top of that?

Dr. Ganesh Natarajan: Yes, absolutely.

Mohit Jain: Any change within IMS Services, the nature of services that you are offering or any changes.

Dr. Ganesh Natarajan: So as I mentioned there is a lot of focus on Cloud, a lot of focus on End User Experience Management (EUEM) which is a very hot area, storage systems and really managing both onsite as well as Cloud platform through what is called a "Single Pane of Glass" which means we have a single service including security. So I think there is constant shift in the IM business and fortunately we have good teams, we are staying ahead of the curve and we are able to get our share of business, which is why we are very bullish about the growth in the Services business.

Mohit Jain: Are you sharing a per cent of Cloud revenue within your IMS?

Dr. Ganesh Natarajan: We do not have a specific number on that, we have lot of work which is partly Cloud, partly on premise, but I can find out.

Mohit Jain: But it will still be majority on premise?

Dr. Ganesh Natarajan: At this point, yes, but if you look at data center services projection over the next 2-3-years I think a lot of it will be Cloud-based.

Mohit Jain: There is no change in billing rate I guess between Cloud versus On-Premise?

Dr. Ganesh Natarajan: Maintenance there is no real difference, difference comes when you are doing a platform as a service or software as a service business, maintenance does not really matter whether you are maintaining on the Cloud or maintaining on premise.

Mohit Jain: Both on the volume side as well as on the pricing side?

Dr. Ganesh Natarajan: Yes, definitely not.

Moderator: Thank you. The next question is from the line of Forum Parekh from Khambatta Securities Limited. Please go ahead.

- Forum Parekh:** I just wanted to know what would be the total order book of the company?
- Dr. Ganesh Natarajan:** Order book is a difficult question to answer because a lot of our contracts are multi-year, 5-years, etc., just to give you a sense we probably need to book and bill may be another \$40-\$50 million to meet this year's numbers, this year's numbers is almost 96% visible at this point. So that is the nature of our business because it is all based on long-term contracts we have signed. If you look at the pipeline I think the pipeline is over \$350 million today. So I think given the pipeline is very strong and the remaining orders that we have to sign and bill is not very substantial. So I think it is fairly good in terms of where we are going.
- Forum Parekh:** Professional Access looks a little low. I wanted to know the order book in terms of Professional Access, if you could specifically tell me?
- Dr. Ganesh Natarajan:** Even Professional Access if you look at the sequential growth, it has been 4.5% and we are targeting to do between 50 to 53 million in the pure eCommerce part of Professional Access. So I think that looks good, order book is there, there is a good pipeline, and as I mentioned we have two new service areas which are fully launched, the Endeca Service which kind of adjacency to ATG and we have also launched PARADE which is our Rapid Application Development platform for eCommerce. So I think given the fact that we have a very good base in large retailer segment, PARADE is helping us to get into the small and medium retailer segment and we have all the adjacent opportunities plus we are now starting to mine some of the large e-commerce clients to see whether we can get other retail business. So I think the overall what we call the one-retail strategy is working very well and I think that will become very integral to what we do in eCommerce and in Retail.
- Forum Parekh:** With this kind of outlook, I just wanted to understand what would be the CAPEX in 2-3-years down the line?
- S. Balasubramaniam:** Normally, we maintain our CAPEX close to our depreciation because we are not intending to build any major centers as of now, so whatever investments we will do, it will be only in creation of technology solutions in computer, hardware, network and the required licenses and things like that. So at this point of time on the drawing board we do not have major quantum of CAPEX beyond that of a depreciation. So basically our depreciation is roughly about Rs.44 crores, our CAPEX will be close to about Rs.40 crores to Rs.42 crores.

- Forum Parekh:** Actually I just heard that Digital revenue expect to contribute 20% of the total revenue. Could you just tell me by what timeframe do you expect it to reach to 20%?
- Dr. Ganesh Natarajan:** We are fairly conservative, we are saying that by FY-18 it will be 20% at least, it could be higher, but this year the target is to do as high as 15% and then take it to 20% over the next 2-years.
- Moderator:** Thank you. The next question is from the line of Ritesh Vora from Incedo. Please go ahead.
- Ritesh Vora:** Some of the analysts predict that license revenue for the ERP, like Oracle and SAP is going to go down from 8% to 14% this year. License revenue of the ERP package provider, does have any impact on the service provider like our company?
- Dr. Ganesh Natarajan:** It is a very good question you are asking and what you are saying is absolutely right that even you get companies like Oracle, they are now massively moving towards the Cloud, in fact, last year at the Oracle Open World Conference, Larry Ellison himself talked about Cloud being the main focus and a lot of the sales people are being incentivized almost 3-4x normal incentive to sell Cloud-based services. Coming to the implication for us; in terms of license resale we do very little, so that is not a problem at all. What happens is you have to also be able to provide services to the medium sector because really it is the medium sector of clients who will adopt Cloud immediately, so you are right. Just to give you an example, a medium retailer if he implements Oracle will probably spend not more than \$400,000 on services and platforms, whereas a large retailer may spend \$1 to \$1.2 million, it is probably going to come down, but there are many more opportunities. Just to give you a retail example there are close to 6,000 medium retailers who could become potential candidates for PARADE or Cloud services. So I think the ability to chase larger number of may be smaller ticket-sized deals is really what we have to get used to. So there will continue to be large clients on premise and Cloud and then there will be medium clients who are largely Cloud and some on premise. So it is just the sales mix has to change to be able to cater to all these and partner with Oracle and SAP to make that up. But, what you are raising is a very important point and that is of course the excitement of the continuing nature of change in this industry.
- Ritesh Vora:** But what percentage of business revenue comes from these two ERP implementation? And do you see in this change of shrinking a pie when you move to the Cloud or the pie will grow, what is your opinion on that?

- Ajay Bhandari:** As far as the Oracle license is concerned, it is very negligible because we have not traditionally sold a lot of Oracle licenses. So from a license stand point it would not impact. But, just to continue what Ganesh said, so the movement to Cloud as far as Oracle and SAP is concerned, in many respects, is in a market segment where we do not really do a lot of work. So there are these real small businesses where Zensar does not even do any work, then there are medium-sized and large-sized businesses and large and medium is where Zensar does most of its work. And in this space there are still a lot of on premise spending and little bit of Cloud spending especially in certain areas like HRM and CRM, etc. So the impact on revenue, as far as Services is concerned, we are not feeling as yet. But, going forward if Cloud becomes really popular and core mainstream applications which people traditionally have kept on-premises that also starts moving to the Cloud then there may be a more fundamental impact on our business but we do not see that happening for at least another 3-years.
- Ritesh Vora:** One was about the license which you said is negligible, but generally license sales occur it occurs with a Package Implementation. So, what percentage of our revenue is the Package Implementation?
- S. Balasubramaniam:** Roughly, around 28 to 30% of our revenues is package implementation which is the Oracle and SAP, but license revenue of our total Package Implementation is less than 3%.
- Ritesh Vora:** No, so my question was precise that, sir, if there is a downward movement in the sale of licenses, naturally, the implementation of those licenses also will go down?
- Dr. Ganesh Natarajan:** But you still have to implement on Cloud, just because they are availing it on Cloud there is still implementation support for the Cloud platform, as I was mentioning earlier, the ticket size may be small because there is as much work to be done on a Cloud implementation, but it will still continue, so we just have to continue to sell and irrespective of whether the customer implements on premise or Cloud, there still be service opportunities everywhere.
- Moderator:** Thank you. The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.
- Bharat Seth:** On this IMS side, we have been hearing that even all Indian players are also gearing up and they are facing a tough competition from a company like Amazon and all. How is that competitive scenario is building up and what is our USP we would like to increase our revenue?

- Ajay Bhandari:** What Amazon provides is what is called as infrastructure-as-a-service. Essentially what it means is that instead of you owning your own center you will rent hardware from say Amazon. Now, we in the past never really sold hardware or are in the business of hardware. It does not really impact us anyway. What we are right now doing, which is actually very attractive services of Zensar and is doing very well as well, is that we are helping customers move their data centers from their own premise to Amazon. So when people talk of Cloud Migration, Hybrid Cloud, Public Cloud, it is basically moving data centers from their own premises and instead taking data center services or hardware requirement from Amazon or any other Cloud provider. So in a way our bread-and-butter business that is a lot of our Services revenues is actually moving coming from customers from on premise data center to Cloud data center.
- Bharat Seth:** But that is say one-time, once it move...?
- Ajay Bhandari:** No, there is a lot of work, because while the hardware is still with Amazon, typically, when we do that, there are lot of allied services, still those continue to remain with you.
- Bharat Seth:** That also includes maintenance service also it will be helping us to grow?
- Ajay Bhandari:** Maintenance is the maintenance of hardware parts which are out of warranty. So typically what happens is it does not matter to us whether the hardware part is with the customer or with the Cloud provider. Even if it is with the Cloud provider at some point warranty will end, so we will start providing support to them, so it does not really matter to us where the hardware is moving. As long as there is hardware there is maintenance and there is MVS business for us.
- Bharat Seth:** As you rightly say that now hardware will be with a company like Amazon and all, so do we expect that they avail our Maintenance Services?
- S. Balasubramaniam:** Absolutely, we are already providing Maintenance Services to some Cloud providers.
- Moderator:** Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.
- Gaurav Rateria:** Just a clarification needed; this license revenue when you talked about a 3% of total revenue is that on premise license are you talking about and if that is the case then what is the remaining 25% of your revenues within the Package Implementation?

Ajay Bhandari: No, no, what we are saying is that 28-29% of our total revenue is Package Implementation, so it would be around say 140-150 million assuming. Of the 140-million only 3% is license, rest is Services.

Dr. Ganesh Natarajan: If you look at, there are a few cases where the customers also wants to buy the package from us, to give you an example, Maharashtra State Electricity Distribution, when they wanted a full-fledged SAP implementation, they gave us the services but they also wanted us to supply the packages, so it is a resale agreement from SAP. But there are a very few cases like that, because we are purely positioned as a consulting firm. If somebody buy their software directly from SAP or Oracle or **SFDC** and still engage our services as the implementation support partner. I think what we are saying is there is a small component where we have to sell the package as well, but it is a very small component.

Gaurav Rateria: What I am trying to figure out is that remaining portion of the business is that not at all impacted because of all the movement to Cloud and all this is independent or led by Cloud movement?

Dr. Ganesh Natarajan: No, as I told you, the ticket prices of implementation if somebody is implementing on Cloud might come to maybe one-third. So, if you were earlier getting \$2 million for a very large Oracle on premise with implementation, it might come down to \$700,000 or \$800,000 which means you have to chase more. But Oracle is aggressively booking the Cloud services for medium scale, it also opens up a new market. In fact, one of the reasons we are excited about partnering with Oracle potentially even for our IP, PARADE, etc., is because that will open up a new market for Oracle and because they are opening up a new marketing for Oracle, we will also open up there. So there will be an expansion of the market because people who earlier could not afford an Oracle license certainly become potential customers. And even if the ticket size of our implementation is lower there, it is a new market we are tapped. So, in a sense, the market expands.

Gaurav Rateria: But that is true for all the new business which may come, but the existing business will have some impact...?

Dr. Ganesh Natarajan: Yes, absolutely, I am just saying that it is not as drastic, sometimes you see some consulting firms saying, "The whole Indian industry is dead because of Cloud." Not true. It is just a question of you having to stay ahead of the curve and you have to make sure that whether it is on premise, whether it is co-located, whether it is on the Cloud, we are able to support. So there will be some cannibalization, no doubt about that. But

so long as you are able to offer new services, omni-channel is a big area for us in retail, so then you are adding mobility services, you are adding social listening services, we today have a social command center in our campus in Pune which is actually helping clients to look at how do you really listen to what customers are saying and craft new solutions. So, there is a whole set of new services because of social media, the whole SMAC stack that is happening. So I think whatever you lose in traditional onsite implementation can be more than made up if you have a proper Digital and eCommerce strategy in place.

Gaurav Rateria: Second question on Digital, you talked about Digital being 12.5-13% of overall revenue. So does it also include any application migration to cloud or do you have any specific way of classifying revenues as being Digital?

Dr. Ganesh Natarajan: In Infrastructure Management space especially, we are actually helping a lot of people, along with the partner of ours in US called NaviSite. NaviSite and us, we work jointly on migrating stuff to the cloud. So that clearly is a collaborative opportunity. As far as software is concerned, I see software-as-a-service as almost like a new area because we are currently in discussions with a couple of people to build or maybe using Force.com to actually move applications from on premise to the cloud. So, that is a new area. The third of course is building a pure software-as-a-service platform. As I mentioned earlier, we are in deep discussions with one of the governments in India to build a complete cloud-hosted platform for the entire SME manufacturing in that state which would really mean that manufacturers will avail this complete end-to-end ERP platform as a service, instead of paying let us say Rs.50 lakhs to buy the software, they might be only paying Rs.15,000 per month and availing the software. So, these are the new opportunities, new implementations which we are looking at. As I mentioned earlier, it is an exciting market because there is a lot of convergence between what is happening on premise and the Cloud and so long as we are able to play in all the spaces, whether in Infrastructure, or Platforms or Software, I think it will always be a new opportunity.

Gaurav Rateria: The whole industry appears to be moving from more offshore to onsite, be it efforts, and be it revenue share. Is this because of having more Digital presence you need to have onsite presence as well or is it because of the right skill sets available at the onsite locations?

Dr. Ganesh Natarajan: You all heard about this concept called “Bimodal IT”. Today, IT consumption is happening not only by the traditional CIOs or IT managers who are availing the usual services like system development life cycle model, where maybe analysis is done

onsite, design, development, testing is done offshore. So that is maybe 60% of the business. But 40% is happening because people are using more Agile method. When you look at a mobility solution, not an app-based solution integration, they want it onsite, and the buyer also is different. There are now three types of buyers – the CIO, the CMO or the Chief Supply Chain Officer and the Chief Digital Officer. Chief Digital Officer wants everything to be done close to their office, the CMO also would want maybe analysis, design, iteration, prototyping to be done onsite, which is the reason why we are saying that there will be as more and more work is done in Digital, there will be a large component of onsite, but eventually I would still think like we have seen in the ERP space, that was initially all implementation for onsite, then a large portion of the implementation and the support move to offshore, if you look at Professional Access, they still have close to 600 people working out of India, although it is a pure eCommerce software company. This is a perpetual oscillation between onsite and offshore. So initially, yes, I would expect that for the next 12-15-months there will be more onsite opportunity but eventually it will stabilize and the offshore business will continue.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the conference back to Dr. Ganesh Natarajan for his closing comments. Over to you, sir.

Dr. Ganesh Natarajan: Thank you, all. I think many of you have been with Zensar for a very long time and I thank you for that. I think we are entering a very exciting phase in the story of Zensar. As I mentioned many times, thanks to our 3x3x3 strategy, I think we have all the building blocks in place for the company. This quarter is probably an endorsement of what we are doing is right, has all the right hot buttons as far as customers are concerned. So going forward, we are all excited and we look forward to having you with us on this journey. Thank you very much.

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