



“Zensar Technologies Q4 FY’13 Earnings Conference Call.”

April 23, 2013



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Moderator: Ladies and gentlemen, good day and welcome to the Zensar Technologies Q4 FY'13 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' line 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 this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. At this time, I would like to hand over the conference to Dr. Ganesh Natarajan -- Vice Chairman and CEO. Thank you. And over to you sir.

Dr. Ganesh Natarajan: Good afternoon to all of you, and thank you for joining this call. I will give a quick summary of the year as well as the quarter, both the positives and the negatives, and give you a quick outlook on going forward, where we see the business heading. So just as a quick summary, which all of you know, the revenues grew 18.6% year-on-year; the profits were lower, and we have had a difficult year during the year for the IM business, because we changed the model from what was largely an onsite data center model to today what is much more a dual shore and multi shore centric. The good news because of that is, that if you look at the last quarter, we had a 7.2% increase in revenues quarter-on-quarter for the Infrastructure Management business. And that has been the turnaround and they are very confident that, going forward we will see a 15% volume growth in the IM business, which means that we have a successful large entity in Infrastructure Management, which is today playing to the kind of theme and the service areas that we wanted it to develop. So I think that is the first good news.

The second good news, of course, is order booking has been excellent, across most of our verticals, primarily with insurance and manufacturing, we have seen good order booking, in fact, and we have had over 17 multimillion dollar deals in the last 6 months. Most of you would have heard about the large deal we signed with Assurant Health, which is really in the Obama Health Care Plan. And I think going forward, that also gives us the confidence that it is a good pipeline and we start executing this quarter, which is the reason why we feel that 4% to 6% of volume growth, quarter-on-quarter for the first quarter, is definitely achievable. The bad news, which of course is there in the numbers, is obvious because we had a revenue decline in the other business which is the verticals, what we call Enterprise Transformation Solutions business, which is unfortunate, because after 7 quarters of steady growth, we had the first decline. But that was primarily because of two or three reasons. First, of course, is in the third quarter we finished some significant projects, which gave us a bump in revenue in that quarter and hence there has been a decline in this quarter. Also, there were some product sales, SAP in the third quarter, which did not repeat in this quarter. And if you look at the profits, not only because of slightly lower revenues in ETS, we have also had one-time tax incurrence of 3crores which is in one of the overseas markets. Similarly, of course, there was a currency swing that cost us almost 18.5 crores to the bottom line, which again is non-repetitive. And some investments which we normally make in the last quarter, we will continue to make this quarter. Today, we have a very competent big deal sales team, which has been installed in the US and UK and also in India, and some heavy hitters have come into join the team, which

again should stand us in good stead going forward. So I think, if I look at the overall quarter, 2 out of 3 parameters have been very good -- the IM business, the order booking and the outlook for the coming year, and the negative of course has been the small decline in the ETS business.

We had a board meeting yesterday, as all of you are aware, and I am glad to tell you the board has looked at a dividend of 80%, which is the final dividend. And again which kind of maintains the payout ratios that we have been committing to all of you in the markets.

Also, we continue to look at acquisitions; in fact, the board was very keen that we should strengthen our manufacturing and financial services story. So we will be looking at companies, in fact, we have started identifying these companies, which will add value to either of these businesses, it could be the manufacturing, pharmaceutical space or it could be in financial services. And this is something that we are fairly confident that during this year we will be looking at. So all in all, it is positive going forward. We are very confident that both the businesses, that is the IM business as well as the vertical ETS business, will continue to grow and grow well during the next 4 quarters, and which is why the initial guidance for next quarter. Of course, like everybody else I must say that the visibility is not very strong, because while we have good deals in the pipeline as well as already booked, the economies are looking funnyup, in the sense that the US I think will continue to stay steady, Continental Europe is looking good; in fact we have good opportunities not only in the Benelux region but also in Switzerland, etc, UK is very dull at this point of time, so UK, Middle East are probably stragglers, in Asia we see Australia doing well; Singapore is slow at this point of time; China is doing well; Japan is very slow, and finally, if you look at Africa, we continue to do well in that market. So if you look at our own business, which is 85% dependant on Continental Europe plus US plus Africa, I think that will continue to be robust and we are watchful on the other 15% which is the other markets. But overall I think we can confidently expect a good year going forward. So that is broadly where we are. I will give it to our CFO – Bala, to add any other suggestions that we have. We also have on this call, our financial controller – Sanjay Rawa, our Head of Corporate Development – Ajay Bhandari. And they are available along with me to answer any questions going forward.

S. Balasubramaniam:

I just wanted to add that the final dividend was 45%, with an interim of 35%, taking the year's dividend to 80%. I would also like to give analyst some basic information, so that we can save time on the repeated questions. The CAPEX for the year was 19.72 crores, our debtors for the year is now 335.47 crores, which represents days cover of 55 days, and we have a FOREX cover of approximately 47% at an average rate of 58.09 to the dollar. In terms of cash balances, the year end cash balance is 184 crores, and as of today morning, it is about 215 crores. So these are the standard metrics which I generally comment before the start of the call, and as we move along, we will take further questions.

Dr. Ganesh Natarajan:

Any questions on any aspect of industry or company performance or outlook, please feel free to ask.

- Moderator:** Thank you sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Karan Tarani from IFCI Financial Services. Please go ahead.
- Karan Tarani:** Basically, you gave a guidance of 14% in start of last year before Q1 FY'13, and now you have achieved growth of 5% in dollar terms for FY'13, okay, that is done with, it was a bad year and there are a lot of risk involved in that. But in the next year, this 4 to 6% guidance which were given for Q1. So I just want to know, what is the risk factors basically if you are not able to achieve this, what would basically drag this growth or what would basically happen that we will not be able to achieve this growth?
- Dr. Ganesh Natarajan:** I very much doubt we cannot achieve this, because this is based on order book, and if at all there is a doubt, it is in any execution with it but that does not normally happen. And you are absolutely right, at this time we had expected a 15% growth, unfortunately while the core business, which is the ETS business grew very well, we got completely dragged on, in fact, as you know, there was a decline in the IM business, which I think, we should have anticipated because we were changing the model, we were looking at large deals rather than just having. And as you know, almost 90 customers, we stopped doing business with, because we felt there was no point. So yes, that was a bit of a problem, but going forward in the first quarter, at least at this point of time, I really do not see any risk to that one.
- Ajay Bhandari:** If you just look at our core business, which is the Zensar business that grew smartly almost around 9.5 %. So it is only the Akibia business that just kind of dragged it down at little. So as far as the Q1 is concerned, we have very good visibility to achieving at least between 4% and 6%, which is why we are fairly confident that we will meet that number.
- Karan Tarani:** In the second half, first half any seasonality in Akibia business or it is the same throughout the year?
- Dr. Ganesh Natarajan:** There is no seasonality at all, in fact, if you look at the core businesses, such as multi-vendor support as well as what is today, end user computing, I think that is an ongoing basis, it is really a question of how quickly you can book the orders, and there were booking delays last year, but it was nothing to do with seasonality, it took people their own time to either give us a new business or transit from other vendors to us. As you probably know the last 5 months, we have booked almost 4 times the business we booked in the first 7 months. So it gives you a good indication of what can happen next year.
- Karan Tarani:** Of course, you would not be giving the full year guidance. Just to get a sense of what would happen in the next 3 quarters, the first quarter guidance obviously given. Any sense on if you would be able to meet the NASSCOM estimate or any color on that if you can provide?
- Dr. Ganesh Natarajan:** I certainly think so. Also, we are held to the fact that this has been a weak quarter, so definitely our goal; I would look at it not as guidance but as a target, is to be at the upper end or beat the NASSCOM guidance, definitely. But I think we will be in a better position to give proper

guidance probably after two quarters have elapsed. But as I said the first quarter is looking good; the order pipeline is looking good on all the verticals as well as IM. So at this point of time, we see nothing to worry about.

Karan Tarani: Secondly, just coming to your margins, what is your call on that? Right now it is stabilized at around 13.5-14%. Any key triggers from here on for upside or downside, either ways?

Dr. Ganesh Natarajan: I think there are upside triggers as we have mentioned before, we did engage McKinsey this year, to do a fairly detailed best practices study for us, if you look at the gross margin improvement in the last quarter, I think that is already visible. The McKinsey exercise is over. We certainly expect to see a lot of it carrying to the bottom line next quarter. So definitely in terms of growth of profits, we expect the growth of profits to be to outstrip the growth of revenues, so clearly there will be margin improvement going forward.

Karan Tarani: The tax ranges basically were pretty high this year, full year FY'13. What would be the assumptions for FY'14?

S. Balasubramaniam: We are taking steps to move into the SEZ. We have already hired space, ~~if you see the space column in~~ Hyderabad, and that gives us some leverage. I expect to shave off anything between 100 to 175 basis points, in the effective tax rate, the year going forward. On the current state of onshore/onsite mix, if you obviously improve our offshore, percentage could be little more better. That is where we are.

Moderator: The next question is from the line of Deepen Shah from Kotak Securities. Please go ahead.

Deepen Shah: Just to carry on from the previous question, first of all, in terms of the overall macro, if you could just throw some light on how is the actual decision-making process happening? You have just alluded to some part in your opening remarks, but some more color on that?

Dr. Ganesh Natarajan: If you look at our key markets, and across all the areas where we are getting business, whether it is manufacturing, in fact we are now getting good retail business inflows in the US, which was not historically a good market, insurance is continuing to do well, financial services has been a little slow, which is why I alluded even in my opening remarks, that if we can look at some acquisition which has some value for us in terms of getting us into a lot of the financial services institutions, which we have not been entering in the past, that is something we look at. So I think, US is good, I cannot see a single sector, including healthcare, healthcare, of course, the decisions cycle tend to be slower but we are currently negotiating 3 deals, I hope at least 1 will close in this quarter. So I think it is good. Europe as I mentioned, today we are working with one of the UN agencies, we are now talking to a few other agencies, I would expect Europe to do much better. The slowness is really in UK, because still there is worry about this triple-dip recession, etc. So that is the market we are watching very carefully. Similarly, Middle East is not scaling very much. But apart from that I think, as I mentioned in my opening remarks, in the core markets, decisions are happening, we do not see any slowing

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down and people are wanting to spend money, maybe not very large ticket, but I think there is significant multi-year deals that people are discussing and we are negotiating today.

Deepen Shah:

On the revenue front, we have seen that in this quarter, we have a 3% fall in revenues. Now in the last quarter also we had an impact on revenues because of scale downs in about 4 projects. So, just wanted to understand, how are those projects progressing, has there been any ramp up, and if yes, probably the quarter's performance should have been better as compared to a 3% fall, so may be your comments on that?

Dr. Ganesh Natarajan:

Actually there were two large projects, which both peaked in November-December, so that is one that is not repeating in this quarter. So that is really why you see that fall, but apart from that, in fact, there were also two large deals that we signed, which currently are in knowledge transition phase. So there was cost incurred this quarter but the commensurate revenues have not come. The good news is that both these have started the billing, which has already started, which is why I am saying that this quarter some of the aberrations we saw last quarter will probably not be there at all. But you are right, it was unfortunate that a combination of circumstances led to a much lower profit and marginally lower revenues, but I do not see that happening this quarter because things have already started happening.

Deepen Shah:

If you have to look at an overall basis, what proportion of your revenues would you term as project-based and how much of it is now getting into the annuity mode going ahead?

Dr. Ganesh Natarajan:

I know it is much lower than last year but, do you have a number on what is the annuity, and vis-à-vis project based?

Dr. Ganesh Natarajan:

We send you Deepen, but as a gut feel I would say project based revenue is less than 20%, but we will just calculate that also. The only point I would like to make is of the last six months close to \$70million of deals that we closed were all annuity based. So that is going to impact

~~**Deepen Shah:S. Balasubramaniam:** The only point I would like to make is of the last six months close to \$70million of deals that we closed were all annuity based. So that is going to impact our Q1 and Q2 significantly.~~

~~**Deepen Shah:**~~

And can you just fill up us some more on Cisco, how is it progressing and how did it do this quarter?

Dr. Ganesh Natarajan:

This quarter was fine. We do not expect too much growth next year, because I just was in a meeting with John Chambers last week in Delhi, and clearly, the outlook while they continue to outperform their competitors, it has got to be slow for the entire network equipment business. So we are not anticipating any great revenue growth, in our own internal calculation, even if we do 5% growth in Cisco next year, be comfortable, and that is really the basis on

which our entire calculation is worked out. So we are not expecting any miraculous growth in Cisco.

Deepen Shah: And as the low margin rationalization business done with, you have said, you have discontinued about 90 clients. Is there any impact further which we should expect or now that is almost done?

Dr. Ganesh Natarajan: It is all done, in fact we are now working with 293 active clients, which is I think, a good client. There is no further reduction, all the cutting that we had to do both in business types as well as in customers I think we have completed that by February, so no further reduction.

Deepen Shah: And one question for Bala. In this quarter we have seen the absolute employee expense go down despite we adding about 1% employees, about 67. So, could you just fill us in as to what happened in this quarter and whether we should take this quarter's number as the base or was there any one-off?

S. Balasubramaniam: No, there were no one offs. This is essentially our ongoing productivity improvement and operating efficiency initiatives that we had started about 4 quarters back. We are seeing the benefits and we are working to sustain it at this level as we move forward.

Deepen Shah: Yes but then, an absolute fall in the employee cost, I was slightly surprised because we have added number of employees but still the employee costs are down quarter-on-quarter. So may be just I was thinking as to what led to the absolute fall in the number of...

S. Balasubramaniam: No I think you are looking at it from a totality of employees. This quarter we had about 125 management trainees into the system, so it is just not like-for-like. But as I told you, the overall we have looked into it, it is the essential operating efficiencies initiative, which Ganesh also have mentioned which we had started about 4 quarters back, and that is what is helping us as we move forward.

Ajay Bhandari: You can take this as a basis. There are two things happening; one is McKinsey exercise showed us the best-in-class indicators for offshore delivery. It is also the fact that we have signed lot more annuity managed service contracts for the last 6 months. So we have got the occasion to flatten the pyramid a lot more than say 6 months back. So if you look at the people pyramid it is much flatter, so therefore there is replacement of a lot of high cost resources with low cost management trainees. So to a certain extent, the data that you are pointing out has happened because of that. If you look at it, even gross margins are up because of that.

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

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- Srivatsa:** This is Srivatsa here. You had a very strong order book in the last 6 months. So is this some kind of an existing orders getting renewed or these are all new orders which is coming into the pipeline?
- Dr. Ganesh Natarajan:** I would say about 20% is existing orders getting renewed and also, because we have kind of bundled in other services, like in one of the contracts that I mentioned, about 30% is existing orders, which would have happened, but we have now added Infrastructure Management and a couple of other services. So to that extent, you could broadly say that additions to the order book, about 70million is new business, could be with the existing clients or with new clients and about 30million as existing orders which would have otherwise carried on. So it is really 70 million of new business and the balance is existing.
- Srivatsa:** From the existing clients or you have taken on board new clients?
- Dr. Ganesh Natarajan:** If you take 70 million, about 50% of that 70 million is from existing clients and the balance 50% is from brand new clients. Especially in the IM business, most of the clients are new clients. thus many of the clients are existing clients.
- Srivatsa:** And it has been two years since we have acquired Akibia. So can you just take us through as what is the integration level you have achieved and is it as per the plan when you started off year, year and a half back to integrate both the entities?
- Dr. Ganesh Natarajan:** Yes, that was a good question. In fact, at this point of time, it is 100% integrated. So just to give you a picture of the company, we do not even have Akibia, in fact, the building in Westborough outside Boston, which was the Akibia headquarters, is now formally branded, it has the Zensar flagship. So in fact the Akibia name has been eliminated. Any Akibia services are now called the IM business unit in the US. So that is really what they do. To answer your question on how the integration happened, as you know in the first year and a half, we just focused on brand integration, HR policies and so on and so forth. And it is only in the last 1 year which was part of our agreement with the promoters that we really came in and said, let us change the business model. And which is the point I was making earlier that we were probably a little premature to assume that, that would not have an impact on the revenues, which is why we have this hit in the revenues. But the good news is that, as I said we saw the dip in the 1st, 2nd, 3rd quarter, the business model transition is complete, the business is now led by Vivek Gupta, who is Zensar veteran, and the team now consists of two brand new people who have been hired, three existing people who are now handling different portfolios. So it is a complete Zensar business unit at this point of time. The revenue growth has been good in this quarter, and going forward we are very confident that will go on. So I think the integration has been as planned to answer your question, has had some hiccups which was not planned, which were the revenue drop in the first 3 quarters but at this point of time it is completely on as per the schedule.

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Srivatsa: I noticed there has been a very sharp fall in the Infrastructure Management services, margins. Is it because of this change in the business model that you are talking about, is it the impact of that?

Dr. Ganesh Natarajan: Since the revenues have dropped, since we were turning away some of the existing data center business, which is why overall margins would have dropped, but in this quarter, we are back to where we should be and it will still be lower margin at least for the next 4 quarters as compared to the other business but margins will be decent and what you will see this quarter will be in fact repeated and accelerated going forward.

Srivatsa: Talking of change in the business model, does it mean that Akibia is kind of moving from its multi vendor support and focusing more on say, remote infrastructure or desktop management, can you just guide us on what is the change into business model?

Dr. Ganesh Natarajan: If you look at the business model last year, we had three, which was data center support, then we had software product, which is more of the whole information security products, you had remote infrastructure management as four different pillars. What is happening, there is not that much change, but what we are now saying is that we will do data center business but we will do large data center support, which is not only in US but also in Europe and other markets. We are also continuing MBS, in fact MBS, we have two large OEMs, which are now very happy partners with us, where we are providing multi vendor support services not only in Europe and US but also in Asia Pacific and to a certain extent in Latin America. And of course end user computing is also there. So if you take each of these three, multi vendor support, data center, end user computing and products, remote infrastructure management is now a layer that cuts through all of them. So we do not see RIM as a separate business, but RIM or multi shore services is the way we are delivering the business. So with this kind of model change, what has happened is that everybody is looking for opportunities to do work offshore except for obviously the products business, and I think that will result in larger contracts, better revenues and better profitability going forward. So I think that is really what it is. So cosmetically there is not too much of a difference. It is the way we sell the business and the way we are executing the business, that has been different, and the fact that, as I said, we have stopped taking on two bodies in one data center in Atlanta, those kind of businesses we have either stopped doing and even stopped in existing contracts, because it was not adding value at all.

Srivatsa: And what is the progress in kind of cross selling our services to Akibia clients, because from whatever you have told there has been a good amount of success in cross selling Akibia services to your Zensar clients?

Dr. Ganesh Natarajan: ~~It is still like that only,~~ the success in cross selling IM services to existing clients of Zensar has been very ~~very~~ good. The success in selling a large ERP solution, etc. to an IM client has not been that good, primarily because the IM business unit has been talking to a different type of profile of persons. So we are typically talking to the infrastructure people in that place and not really to the CIO. So I think there is still work to be done. There are three or 4 clients

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where we have now started having that conversation at a higher level, in fact two clients in Boston and one in New York, should happen, but again that is not going to be a very big part of our business going forward, whereas the IM business into existing clients, will be a very significant activity.

Srivatsa: In your top 10 or top 20, would you say a fair amount of them have now taken to the IM business of Zensar or still you have a lot of work to do in the top 10, top 15?

Dr. Ganesh Natarajan: There is still work to be done, if you look at Cisco for instance, they are not consuming any IM from us. With a large Insurance service Provider~~If you look at Assurant Health~~, we are currently pitching for a fairly large IM engagement, which should happen, a couple of our retail clients are already looking at us for significant IM, especially in Europe. So I would say about 40% of our top 20-25 clients are either considering seriously or have already acquired IM solutions from us. And the goal is to increase that steadily as we go forward.

Srivatsa: The order intake you have announced, is there any kind of an employee rebadging which you have taken from the clients or these are all pure orders which will be executed from Zensar employees?

Ajay Bhandari: There are deals of that type. So we do what we call, total infrastructure outsourcing where we take over the assets, the people, the data centers and we manage them as a complete managed service. So you are right, there are deals of that kind as well that we are doing.

Srivatsa: And you would be quite active in this area?

Dr. Ganesh Natarajan: It is not like big deal, big ticket item, but in certain cases, yes, where you have to take over the people or take over assets, we are doing that. But it is not a very big part of our plan, to answer your question.

Srivatsa: Okay and the other thing, I noticed year-on-year the employees have actually come down and given the fact that our utilization are at high levels as well as we are anticipating a good growth. So are we kind of covered enough for the growth and ensuring that we do not fall short of employees when the growth is there?

Dr. Ganesh Natarajan: Yes, we are, because I think as Bala was answering Deepen, there has been employee additions in the last quarter. What has happened is, which is really part of the McKinsey exercise, because the non-billable or even the utilization of existing people who are product management in terms of ensuring that they had some utilization, that has what enabled us to probably reduce 600 people. But I think the additions of both engineer trainees as well as non-engineer trainees have happened. In fact, we intend to hire another 400 trainees in the next 6 to 9 months. So clearly, we are not going to compromise in terms of the ability to deliver to projects. That is not a problem.

- Srivatsa:** And in terms of the benefits of the consulting, are we seeing any improvement in the productivity or in the cost structure?
- Dr. Ganesh Natarajan:** What you saw already in terms of the reduction of people or the optimization of people, that is one. The second is, you see the impact on the gross margin. And definitely as I mentioned even last time, next year, since do not have the cost of the engagement, but we will see the benefits, I think a lot of the benefits will be baked into a higher profitability that we will achieve next year, because of all the improvements that we have seen. This year is cost neutral, as I mentioned last time, but going forward, I think we will see a lot of benefit in terms of the overall profit improvement of the company.
- Srivatsa:** One trend I observe at least in the large cap result is, there is a lot of pricing pressure in the Application Services, especially for the top 2-3 companies. So are we also seeing some pricing pressure, because there would be a competitor for us, in our top 5, top 10 accounts or our rates are quite low, so we are not immune to those kind of pressures?
- Dr. Ganesh Natarajan:** We have not seen pricing pressure to answer your question because we have been having conversations with companies where may be an Accenture or one of the Indian companies is playing. Barring one case where they are changing the model, where they are using a third-party project management company, which has kind of resulted in a 1% drop in pricing. But apart from that on a regular basis, neither in the ERP business nor in the Application Management business we are seeing any negative bias on pricing.
- Moderator:** Thank you. We have the next question from the line of Pooja Swami from Pan Capital. Please go ahead.
- Sudhakar:** This is Sudhakar here. My first question is regarding the opportunities you are seeing in healthcare space in US and what are the services Zensar is offering?
- Ajay Bhandari:** In healthcare, we are looking at largely two areas. One is the whole ICD area which is the whole ICD-10 conversion the codification business. While some of the healthcare providers have started, a large population of healthcare providers have still not begun the whole ICD remediation process. So there is a lot of business coming from there. And the other area where we are focusing right now is meaningful use. So we have IP which we have developed for meaningful use. They are meaningful use analytics dashboards which we are selling to healthcare providers. So these are the two areas where we are seeing a lot of business.
- Sudhakar:** My second question is on the margin front for the next year. What kind of improvement in margins do you see next year and what are the levers?
- Dr. Ganesh Natarajan:** There are almost six areas where we have identified. One was productivity. Second is more usage of not only more engineers, in fact, our pyramid is much more optimized today than it was in the past. And in some cases, like in application support as well as an infrastructure

support even the ability to use non-engineers which is now of course a big trend in the industry and has been reported in a lot of places. Then in terms of specialists which I mentioned earlier, sometimes we have vertical specialists in banking or insurance or manufacturing, making sure that every specialist has at least 50% utilization, and then overall contract management, in fact, we now have a full contract management team which has come from very large contracting organization. So they are looking at every contract and seeing whether we have leaving any money on the table and that has also helped. So there are multiple margin levers I cannot give you an exact number, but definitely the profit improvement as a percentage will definitely be superior to the revenue improvement which really means that the profitability given tax stability will certainly go up next year vis-à-vis this year. Our overall expectation is that once we optimize IM as well as use all these profit levers that over a two year period we want to come back to as close to double digit PAT as possible. And I think you will see definitely upward movement in that direction during this financial year.

Sudhakar: And how are you based on your 1 billion revenue target which you mentioned a couple of quarters back?

Dr. Ganesh Natarajan: We still have that, in fact, we have 16 quarter plan which I am quite happy to share with you at some point if you are interested in terms of how will we move from our current level. Literally, what it means is in the 16th quarter we should be approaching 250 million which is really what the 1 billion run rate is all about. So we have a fairly granular plan to make that happen which include some acquisitions in key areas. So I think we are very much on plan. And as I said that was a directional thing that we wanted to look at. Obviously, we have not done as well this year as we would have liked to do. But still very much part of our plans to grow at a much faster clip, including organic, some inorganic, big deals which we have not chased in the past and that is part of our plan, and as I said, we will be quite happy to have a detailed discussion with you if you like to come to Pune and have a chat with our team.

Sudhakar: My last question is to Bala. Any thoughts on goodwill amortization because your goodwill is now close to 260 crores-290 crores. So what is the company's policy of amortizing the same?

S. Balasubramaniam: We have a net worth of approximately (+700) crores and we have 204 crores goodwill. One way of looking at it is to ~~take write it off~~ take write it off over maybe a 10-year period but we do not get any tax benefit in doing that. So at this point of time we are evaluating all the options available to us but we have not really come to any specific conclusion because M&A is a part of life for us in our charter to growth and whether you kind of amortize it over a period of time or you leave it as it is, bankers and analysts make their own computations. Because we do not have a tax shield per se, we are not really very keen to amortize it over a period of time.

Moderator: Thank you. The next question is from the line of HR Gala from Quest Investment Advisor. Please go ahead.

HR Gala: I was just looking at the press release which you have given. All through our onsite component of revenue has remained at around 70%. What are the specific plans to increase the offshore portion of that?

Dr. Ganesh Natarajan: That is a good point, because as I mentioned earlier, even in our IM business we are now looking at dual shore or what we call remote infrastructure management as being one capabilities at every one will start selling irrespective of whether we are supporting data centres or supporting end users or servers. So I think that is one lever that we have to improve offshore. You are right absolutely we have to improve our offshore percentage because it also improves profitability. And I think you will start seeing the upward movement this year because as Ajay mentioned sometime back a lot of the contracts we have signed are application support contracts and IM support contracts which will happen largely from offshore. So I think you will see the mix being much better in favor of offshore this year as well as in successive years.

HR Gala: My question was actually with reference to this new immigration law that is being talked about in US, where I understand that in the onsite component the IT companies based outside of US will not be able to place their own employees' onsite. Is that going to be hindrance in case say for example, our process of offshoring is slightly delayed, maybe on account of what client wants or other factors?

Dr. Ganesh Natarajan: One of the reasons why our onsite percentage is high because if you look at a company like Akibia ~~which we bought is eSupport~~ purely onsite organization. Just to kind of allay one fear you have, it was not based on people moving from India onsite, it was the existing onsite employees which kind of depresses profitability and it is not good in a long term. In the long term our model has indeed I would think any company's model would be that they will have to comply with the 50/50 regulation if it comes in which means that 50% of your employees working in America will have to be either citizens or green card holders. In fact today if you ask, Zensar is as close to be in compliant as any other company. In fact, we are probably much better off. And if we do a couple of more acquisitions, we will find it very easy to be compliant. But that is not the point. The point is that we should also be able to do a lot more work offshore. Rather than having visa people going up and down and working on projects in the US I think 50/50 compliant work force in the US supported by a significant offshore base is what we would ideally be looking at.

HR Gala: Sometime back you talked about that you are also looking at some inorganic opportunity to grow faster and become a billion dollar company within 16 quarters. If that be the case, looking at our reserves and the cash position, how can we have a large meaningful acquisition?

S. Balasubramaniam: As I explained to you, it will be a combination of growth and acquisition as we move along. We are generating close to about 200-220 crores cash every year and as we move forward this number will go up and I do not see any problem given our strengths of the group to raise resources to move forward.

- HR Gala:** And what typically you will be looking at in such acquisition? Will it be acquisition of some engineering skills or any vertical specific or domain expertise or that kind of stuff?
- Dr. Ganesh Natarajan:** I think in the short term we will certainly be looking at domain expertise. As I mentioned earlier, it will either be in the financial services area or in the manufacturing area. Because of our capabilities in healthcare and the kind of foray that we are making there, healthcare, pharma kind of combination is also good. In the longer term, to answer your question, it will be to strengthen our overall capability in terms of engineering services, embedded systems, etc., but I think in this year we will probably be looking at companies more in the vertical improvement and then look at capability improvement and product engineering or embedded systems.
- Moderator:** Thank you. The next question is from the line of Bharat Seth from Quest Investment. Please go ahead.
- Bharat Seth:** This first quarter QoQ growth we are saying 4-6%. So it will be which segment, IMS is how much and how much is Application Services?
- Dr. Ganesh Natarajan:** We would expect both to grow to the same extent. For instance, just to give you a sense, the IMS business itself we are expecting to grow in the region of 6-6.5% and in the others also maybe 4-5%, so that is really where it is. And as I mentioned earlier, in this year, I think you will see a balanced growth between the IMS business and the AMS business and that is really what we expect to see continuing. So, no particular segment. Obviously, we expect Financial Services or Banking to be slow in this quarter because that is not going very far. Even last year if you look at our growth we had 28% rupee growth in both the manufacturing segment and the insurance segment. I think manufacturing and insurance worldwide as well as retail ~~and in~~ and in America will probably be the growth drivers for the vertical business and IM will continue to grow.
- Bharat Seth:** And now going ahead, our business mix this year has skewed, I mean, Application Services and IM business which was earlier say 60-40, now has become 67-33. So how do you see going ahead this revenue mix likely to be?
- Dr. Ganesh Natarajan:** In an ideal situation probably 25-30% being IM is really what we would look like at. So you can expect 70-75 will come from application management which is the entire gamut of whether it is Oracle, SAP, Testing, Application Services and 25% will be from IM support and IM implementation. So that is really the longer-term plan. But this year probably it might vary between 25 and 35 depending on which business we emphasize.
- Bharat Seth:** And just how much that money we paid to McKinsey which will not be there in part of FY14 which we have paid in FY13?

- Dr. Ganesh Natarajan:** That is kind of recovered in the cost improvements that we have seen this year. Next year there is no payment to McKinsey or any other consulting firm that we are looking to.
- Bharat Seth:** Whatever we have recovered, that gain will remain and...?
- Dr. Ganesh Natarajan:** The gain will remain and there will be no cost.
- Bharat Seth:** How much we have paid to McKinsey approximately?
- Dr. Ganesh Natarajan:** Unfortunately, we are not at liberty to disclose because we have confidentiality contract. They do not let us disclose the fees paid actually.
- Bharat Seth:** But so that will not be reflected in other expenses next year, correct?
- Dr. Ganesh Natarajan:** Absolutely, no payment to any large consulting firm next year. This was a one-off exercise we did to do best practices.
- Bharat Seth:** Just on newer technology that we were talking. So how we are shaping up to take the advantage of newer technology where we are talking let us say last few quarters investment.
- Ajay Bhandari:** Are you referring to the whole SMAC?
- Bharat Seth:** Correct.
- Ajay Bhandari:** If you look at all four areas, Social, Media, Analytics and Cloud, it is in a way impacting every business of us. Whether you look at AMS, Infrastructure Management, BPO, Testing, there is this element included everywhere. So everything is moving to the cloud. Everything has got mobility extensions and we have a mobility practice, we have a cloud practice and right now we are helping customers, transform their applications to make it more social enabled, mobile enabled and look at analytics, both from their existing applications as well as in some cases use manufacturing execution systems to get data. So, if you look at the entire SMAC stack and you look at our existing customers we are practically doing work for all of them.
- Bharat Seth:** Is it possible to identify how much revenue has been coming from this sector and going ahead how do you see?
- Dr. Ganesh Natarajan:** Just to give you an example, like mobility, today, is part of almost every application services contract we do. So we have a mobility team that works with our applications [growth](#) and they will make it happen. Similarly, even if you look at Infrastructure Management, some of the deals we are doing is taking over an existing data center, co-locating 40% of the data center and moving 60% of the data center to the cloud. So in a sense, it is a seamless integration of cloud or mobility or social media capability. So you could do an estimate of how much of it is specifically mobility, but it almost does not matter, it is like what one of the analysts is very

fond of saying that mobility is like putting a hinge on a door. Nobody will buy the hinge but if you buy a door today it will come with the hinge. So mobility extension will be part of any application going forward. So that is the way we see this entire social media, analytics, etc., and I think that is how we have been successful in getting the message across to customers.

Bharat Seth:

Ajay, while was talking of healthcare business, he spoke about the IP that we have created. So how much IP really we have created and how much is contributing to our top-line?

Dr. Ganesh Natarajan:

For us IP is a door opener, in the sense, we do not sell IP as Microsoft would sell their products. So IP for us is really templates which we use to accelerate execution. So even for the last 5 years, in our SAP business, we have been working with pharmaceutical companies, manufacturing, retail, textiles, dairy, and all this is pre-created templates for implementation. Similarly, even this IP we played is called ICANP which is for the healthcare segment is something that we have already deployed in one of our customers. We are currently talking to two of the three customers will use this IP. So the IP will be a part of our overall solution delivery and not standalone. But I would guess that. If you look at our own goal going forward we are saying that at least 10% of our value should be derived from the IP and 90% maybe from services around the IP and that will keep going up as we have more and more IP and more and more solution and as I think even NASSCOM was saying the future is more platforms and solutions and products and less of services but that will be a slow transition for the entire industry and for Zensar.

Bharat Seth:

How much CAPEX we have planned for FY14 and how much total borrowing are there in the book?

S. Balasubramaniam:

First, I will take the CAPEX question. We spent 19.72 crores in FY13 and the CAPEX budget is roughly about 28 crores for next year. In terms of borrowings, we have \$36 million in the US balance sheet because this money was borrowed in the US, we borrowed \$48 million, we have repaid \$12 million this year that is FY13 and therefore we have \$36 million. And that is roughly converts to about 184 crores which more or less matches our free cash balance which is 184 crores.

Bharat Seth:

So we are almost zero debt?

S. Balasubramaniam:

Which is what I said in the last quarter, by the end of the quarter our debts will be equal to the free cash that we have. This is after paying the interim dividend of 22 crores. So if we have not paid interim dividend then it would have been excess but that is just an equation.

Bharat Seth:

On acquisition side, what is the ticket size that we are really looking, how much have we...?

Dr. Ganesh Natarajan:

I will answer it in a different way. We are maybe looking at an investment of between \$30 million to \$50 million in acquisition. So depending on the nature of the company that could get us either \$60 million or \$100 million of revenue depending on the kind of company that we

acquire. But in terms of actual investment and acquisition, between 25 or 30 and 50 on the higher side during this year subject to of course getting the right company, etc.

- Bharat Seth:** So we plan to spend the full \$50 million acquisition subject to happening in this year itself?
- Dr. Ganesh Natarajan:** That is the maximum, but as I said it depends on whether we get the right company or not.
- Moderator:** Thank you. The next question is from the line of Kavita Vempalli from Nirmal Bang Securities. Please go ahead.
- Kavita Vempalli:** Most of your peers have got worries for higher visa cost this year. So what is your take on the same?
- Dr. Ganesh Natarajan:** Absolutely, we have almost like 6 crores visa additional cost this year. So there will be a lot more H1B visa that we will be filing and we have already filed, and depending on when we get the visas and how many visas we get there will definitely be higher cost for visas.
- Kavita Vempalli:** So with this as well we still expect better margins for FY14?
- Dr. Ganesh Natarajan:** Yes, absolutely. There is always an impact of doing business but definitely that should result in also more revenues which is ~~the~~ ideal.
- Kavita Vempalli:** Just two more data points. What are your hiring plans for FY14 if I missed?
- Dr. Ganesh Natarajan:** We should be looking at upwards of 400 people to be hired and probably closer to 500 people. About 70% of them will be freshers which really means engineers and non-engineers trainees and the balance 30% maybe around 150 to 175 will be laterals which are hired just in time for projects.
- Kavita Vempalli:** And this Q1 guidance you have given, that is in constant currency basis, right?
- Dr. Ganesh Natarajan:** Absolutely, it is in constant currency, 4-6%.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to hand the floor back to Dr. Ganesh Natarajan for closing comments. Over to you sir.
- Ganesh Natarajan:** Thank you all for very good questions because we have been completely open in terms of what the quarter has been and what we expect. And just to repeat what I said earlier, what gives me great satisfaction is that after some heartbreaks we have completely turned around the IM business with fully under Zensar management, the integration is complete. The order booking as I mentioned has been excellent and given the pipeline we expect that to continue. As I also mentioned after 7 quarters of growth we had a decline because of various reasons in the revenue of the ETS business last quarter but again I think this quarter and going forward that

should continue. So in spite of the economic outlook not being very certain I think we are still confident that this will be a much better year going forward than the previous year and the first quarter should be good and going forward I think we will continue to look at new business, new opportunities, some acquisition as I mentioned and that will continue to be the growth of Zensar. So thank you very much. We always appreciate your support. And any of you would like to come to Pune, get much deeper into the business, meet some of our verticals heads, we will be delighted to host you.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Zensar Technologies that concludes this conference call. Thank you for joining us.