



“Zensar Technologies Q4FY14 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Q4FY14 earnings conference call of Zensar Technologies Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Ganesh Natarajan, Vice Chairman & CEO of Zensar Technologies. Thank you and over to you Dr. Natarajan.

Dr. Ganesh Natarajan: Thank you very much and good morning to all of you and thank you for joining this call early in the morning. I have with me Bala who is our CFO and Ajay Bhandari who is our Head of Strategy and Corporate Development and Sanjay who is our Financial Controller. So what I will do is make a brief opening statement where I will try and deconstruct the numbers for you, I mean both in terms of what we have done this quarter, the pluses and the minuses; the whole year how it is kind of developed and why we are ending on a very positive note and finally the outlook in terms of what we expect to do this year, current year in terms of not so much in terms of financial numbers, but in terms of the areas that they are going to focus on.

So to start with the quarter, you have seen the numbers. So 603 crores which is roughly 18.6% growth year-on-year, good quarter in terms of profits, you have seen 41.3% profit jump. The very good news is the continuing robustness in the Enterprise Applications business which also includes some infrastructure management for enterprise clients. So if you look at ETS US which has grown sequentially 9.0% and ETS Europe on a lower base which has grown 16.3%. Those are very encouraging signs. South Africa continues to be a good territory for us in terms of ongoing growth. Middle East which was struggling for some time has revived, in fact this quarter we have a sequential 3% growth and I am very confident that we have a very strong team in place so they will continue to grow. The stragglers—continue to be Asia and India for the application services business, but again I think given the order book we have and what we see going forward, India definitely will revive strongly next year. Asia, we are still watching, we have just hired a new leader so that is what it is.

The IM business of course has been disappointing, although the services business both in terms of order book and pipeline is good and the fact is that projects have already started to deliver. So the dual shore services business is I think very positive. We had a weak quarter for MVS which is our multivendor services business which is the data center business, but that I expect to revive. What we have done I think consciously is to reduce the dependence on products. In fact even next year, the goal is to have not more than 8 million per quarter as product business because we want to progressively reduce the dependence on the very variable nature of the low profit product business and focus much more on to a certain extent data center services and largely on the remote infrastructure services which is where the real strength of the business lies. So now if I move to the year, I think the year has been good in terms of profit growth over last year and for the first time we crossed Rs.300 crores PBT for the year. Also decent in terms of the revenue growth, though obviously the revenue declined because of all the reasons that all of you are

aware. The IM business has spoiled the party a little bit, but the Enterprise Applications business continues to be robust. More importantly, I think if you look at the IM business again, the dual shore services which I mentioned earlier, we have seen a 9.1% growth on a full year basis and I think today where we are is that 30% of our IM business is now in the dual shore services area and the product business or the product contribution has been reduced to 30%, the rest is data center and multivendor services and going forward, in fact even if you look at this year, we expect that given the pipeline that we have, the services business will grow very substantially. So I do not see any reason to doubt that the changing profile of the business will continue.

In terms of outlook and I just want to end with that, I think we very clearly have a good year ahead of us. I do not want to guess on the numbers, but definitely all businesses, all territories look like strongly being able to deliver a double digit growth that we are planning. We have a \$200 million pipeline in IM both from the enterprise side of IM as well as the traditional IBU ex Akibia business. The pipeline in the other areas is also looking very good. In fact if you look at Oracle and SAP, we have just hired a very strong leader. I think the enterprise business will continue to grow. Good business booking in the Application Management business. So in fact if you look at our portfolio, we are probably one of the few companies in the industry which has a totally balanced portfolio between the ERP business, the Application Management business and the infrastructure management business. Also we have in the last 4 months started off on the product engineering business. In fact we have our first contract in place from the US which is just starting execution and this I had mentioned before is going to be one of the focus areas for Zensar going forward. So I think that is good.

Finally, I just want to spend a few words on this whole area of digital transformation. As most of you know, this is the excitement area for the entire industry. We have been very fortunate in the sense that we have at least two clients for whom we are now doing a formal consulting and workshop series and if you look at where we were at the beginning of the year, hardly 2% of our business was coming from digital services, today it is close to 5%. The goal is to move it to almost 15% in the next 3 years and I think with the kind of traction we are seeing in Cloud services and that is both moving infrastructure to hybrid Clouds as well as in the software as a service which is also part of the Cloud business that is one. Mobility, we have had good projects coming in from almost all our customers and that will continue. There we are now focusing on is the whole Big Data and the Analytics space, in fact we have just hired a fairly senior person to look at that area and finally Social Media. Many of our businesses if you look at retail, if you look at insurance, social listening or really understanding the impact of the environment on the business of the company is becoming important and a lot of our clients are using us to really understand what social listening and Social Media do to that.

So just to conclude, it has been a very encouraging quarter. IM the outlook seems to be good because of the focus towards services and less on products. The year has been good, though we have had challenges as all of you know in the IM business, but next year as I mentioned earlier, when I say next year this is FY15, FY15 should be a good year. The markets are looking very robust at this point of time, particularly our core markets, if you look at US, UK, Western Europe

as well as Africa. As I mentioned earlier, in the emerging markets we are now strengthening our sales teams and with IM coming to the party, I think we have no doubt that we would have a good year going forward. So I am going to hand it over to Bala to give you any additional financial commentary that you may require and then we are all available for any questions that any of you may have.

S. Balasubramaniam: Thank you Ganesh and good morning to everybody. I will give you some of the data points which I regularly give so that we can avoid the questions.

The CAPEX for the year was Rs. 26.85 crores. In terms of days covered, we closed the year with 58 days debtors cover. In terms of forex, we have as of end March approximately US \$23 million covered which is roughly 40% of our debtors at an average rate of Rs. 63.47. In terms of tax percentage for the year, it was 30.1% and that is all I have as the standard data points which I normally cover at the initial parts of the call.

Dr. Ganesh Natarajan: So thank you very much and I think we will open it up for questions and anything at all that you want to know about industry, Zensar, our plans going forward, happy to answer.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-answer session. The first question is from the line of Karan Taurani from IFCI Financial. Please go ahead.

Karan Taurani: Sir congrats on a good quarter. Sir my question was pertaining to FY15, would you beat the NASSCOM guidance for the growth this year in terms of dollar terms of the revenue?

Dr. Ganesh Natarajan: I would find it difficult to answer that Karan because it is very difficult for me to project exactly where it will be. I know for a fact that in at least two areas, I mentioned IM services earlier. Definitely in IM services, we are looking at least 20%-25% growth and similarly if you look at our core markets, Europe, US and Africa, at least in terms of targeting, we are definitely targeting high teen numbers, but I think probably around middle of the year we will be in a better position to say whether we expect to grow 12%, 13%, 15%, 18%. So right now I would not want to comment on whether we can beat the NASSCOM guidance. It looks positive. We have no stoppages in any of our business areas or territory. So we are pretty confident.

Karan Taurani: Sir coming to this quarter, you achieved a good growth of 2.2% dollar term like this was probably driven by the large deal which you won, the multi-million dollar deal from your manufacturing client. Any such large deals in the pipeline now which you expect to close in the next 1 to 2 quarters and how is the growth basically happen in the next year. Q1-Q2 obviously will be stronger quarters, so what kind of deal signing, what kind of closures, what kind of pipeline do you have to get such kind of attractive growth going forward as well?

Dr. Ganesh Natarajan: Today our pipeline, Karan is almost \$270-275 million and even if you look at the growth, it has been broad based. There are two large deals. Of course one was this multi shore IM deal we signed and the other is the deal for the manufacturing company. Both have been very significant

deals because they are new business areas for us, but if you look at the overall growth as I mentioned earlier, including some of our existing clients, I think they have grown very well and given the outlook in the US, I do not see any reason why we would have any weakness in any one area. So I think it is a combination of signing large deals. We have a plan to sign close to \$100 million in large deals. When I say large deals, it could be \$5 million to \$15 million, but the rest of it been also focusing on the \$1 million clients because I think it is important for us to move some of our clients who are may be \$500,000-\$600,000 to \$1-\$2 million. So I think it is going to be broad based from that point of view. So I think overall it looks good and I would not say that this will be because of one or two large clients. I think the outlook definitely for retail, insurance and manufacturing looks good at this point of time. So you will see a combination of regular support deals as well as smaller deals as well as the occasional large deals.

Karan Taurani:

So you said you will be reducing the dependence on the product business in the IM side. Your margins for the full year have improved about 100 basis points, but we expect a much more significant improvement in FY15. Any range if you can give for your EBITDA margin improvement going forward?

Dr. Ganesh Natarajan:

I do not think we have range at this point of time because obviously it also depends on currency and so many other things, but one thing I can definitely say is that given the plan that we have to keep the product business in the region of \$32-\$35 million for next year, the overall margins of the IM business will improve very substantially. So I do not see any reason from this year, it will be a substantial jump in terms of margin improvement. As far as the rest of the business is concerned, I think we are not seeing any price pressure from any of our clients. So I would think that margins will continue to be good. We are happy that this year we have come back to double digit profit after tax percentages and which was a problem for the last 3 years because of the acquisition, but the expectation is that unless there are some external factors that we will continue to grow our margins and hopefully grow the profits faster than we grow our revenues.

Moderator:

Thank you. The next question is from the line of Kavita V from Nirmal Bang. Please go ahead.

Kavita V:

Thanks for taking my questions and congrats for a good quarter sir. Sir if you look at overall FY14 performance, in dollar terms growth has been almost flattish or negative growth. So like you mentioned previously, you are going to give a guidance somewhere in the middle of the FY15 you said, but as of now when you look at FY15, you think you can touch a double digit growth in dollar terms. As of now, what is the outlook?

Dr. Ganesh Natarajan:

The answer Kavita is absolutely yes because as I said the hump is over in terms of the decline in some of the segments of the IM business. So at this point of time, double digit growth is very much in the cards. What I was saying was exactly where we will end up next year, I think depending on the markets and depending on how some of the businesses like Middle East, Asia shape up, I think we will be in a better position, but I think what we want to do is demonstrate by performance rather than just talking that it can be done. Now we have kind of resolved some of the issues and we have a very steady path going forward for all businesses, all territories.

- Kavita V:** And could you give us your total order pipeline in various businesses of yours?
- Dr. Ganesh Natarajan:** As I mentioned earlier, roughly \$ 270-\$275 million and a large portion of it almost 70% of that is IM which is really what the focus of our acquisition was all about and the rest of it is a mix of application services etc., but as you also know we have a very strong annuity base, I am not even including that because almost 60% of our revenues are already booked in terms of going forward with 3-year, 4-year contracts. So I think even if we convert as we normally do about 50%-60% of this pipeline, we are in good shape for good growth in next year.
- Kavita V:** Sir finally outlook for the tax rate in FY15?
- S. Balasubramaniam:** It will be between 30.5% -31. %
- Kavita V:** Almost in line with FY14.
- S. Balasubramaniam:** This is what I see at this point of time.
- Moderator:** Thank you. The next question is from the line of Shravan Goyal from UTI Asset Management Company. Please go ahead.
- Shravan Goyal:** Sir we have announced two deals, one with the US specialty truck and military vehicle company and another one in dual shore. So can you spell out the scope and size of these deals and when these deals are expected to ramp up?
- Ajay Bhandari:** So the first deal is basically a US based manufacturing company and largely focused on defense. So that is basically a deal of integrating multiple applications. So it is an application integration deal using Oracle as a technology and that is a long term deal with more onsite initially and over the next 18 months moving completely to offshore. I will not be able to give you the size, but it is a large deal in terms of an overall number. Second basically is an insurance company. It is based out of UK, but we are now taking that business global. So now US as a region is attached to that and once that is done, then we will attack other parts of Europe as well. So both deals are looking good in terms of, you will soon find them in our \$5 million, \$10 million customers. They are not there currently.
- Shravan Goyal:** So whether these deals will ramp up by this year end, FY15 end?
- Dr. Ganesh Natarajan:** The first one definitely will, the manufacturing company. The second one is a little slower, but yes, both of them will ramp up. From the current point, it will ramp up at least 100%.
- Moderator:** Thank you. The next question is from the line of Hitesh Zaveri from Birla Sun Life. Please go ahead.
- Hitesh Zaveri:** Good morning Ganesh and team and congratulations on good set of numbers. My question Ganesh is actually just probably picking up thread from the last time with regard to our

conversation on the Digital Enterprise. Just a question with regard to, what kind of solution frameworks you would have kind of prepared and this in the context of what kind of rollout that you are looking to do even in your existing client base and plus path say for 15 and 16 as you want to grow this business as one of your focus areas.

Dr. Ganesh Natarajan:

Thanks Hitesh. That is a good question. So let me try and answer that as simply as I can. See the first area, if you look at the overarching theme is that Digital Enterprise is all about integrating the physical and the digital. So in terms of being able to get data from literally anywhere in the ecosystem, analyze that using Big Data and Analytics and then feeding it to various parts of the organization is really what we are looking at. So what we are looking at is how this whole extended data Analytics can affect the supply chain for a manufacturing company, can affect how they deal with new customers and target potential customers for a retail or an insurance company. So the framework they are creating is first of all how to capture these multiple data sources. So which is where I mentioned in the earlier part of this call, social listening that even any information happening anywhere on the internet or twitter or any other format which reflects on the company, I think grabbing that through a formal BPM service, then doing the Analytics and then making that available to the Chief Marketing Officer. So we are actually targeting a lot of Chief Marketing Officers and Chief Supply Chain Officers when we talk to companies today. Even the workshops we are doing, insist that a CEO and the Chief Operating Officer should be there in the room unlike in the past where we only needed the CIO. So that is to make sure that they understand the value of Analytics and data. Then moving to an IT perspective, I think the big opportunity obviously is to, which we have all talked about many times, is to convert CAPEX to OPEX. So a lot of work is happening in terms of both software being moved to the Cloud. So tools like salesforce.com or force.com which are very important. Then we are also looking at which I mentioned earlier, our IM business has actually partnered with a very effective company called NaviSite and along with NaviSite, we are now working on projects which are moving large data centers to either private Cloud or public Cloud or hybrid Cloud. So in many cases that is happening. So I think the two parts to answer your question: One is to make sure that we are serving the needs of the Chief Marketing Officers of the company in terms of revenue growth. The second is to ensure that we are serving the needs of the CFO of the company in terms of cost reduction through much more rapid transition to the Cloud. Then of course there will be extensions like mobility etc. that are coming in. So that is the kind of framework we present to any customer when we do a workshop on digital transformation.

Hitesh Zaveri:

Sure. So Ganesh just to take this briefly further, how are you progressing on the metrics as you kind of rollout inside of your three verticals and the various business do in turn to your customer base. The metric in terms of what kind of purchase decisions are being made? What kind of traction do you get and over the next couple of years in terms of business targets. How optimistic do you feel about being able to make robust business out of this?

Dr. Ganesh Natarajan:

I think I feel very optimistic because if you look at FY13, we were doing hardly \$6-\$7 million business in this area. This year, we will close at about \$20-\$21 million in digital. We are looking at moving that up to may be \$35 million in the current year in terms of digital transformation.

Pure consulting probably around \$2.5-\$3 million and the follow-through in terms of Cloud, Social Media etc. another \$31-\$32 million and as I mentioned earlier, the goal is to aggressively see whether its 15% of our revenues 3 years from now can come from digital and that is so to answer your first question, we are actually encouraging all the sales persons to look at their company. We are doing major account planning exercises, primarily focused on digital for all our 40 large customers and each of our verticals is preparing a blueprint for digitalization which we are now sharing with the sales team and then we are taking it forward. So I think we are now taking this very seriously. We have built an ecosystem of around 12 partners, some of whom have very good products. Some of the small NASSCOM product companies which we have evaluated - almost 40 of them - we have chosen about 12 of them and we will probably add more. So the idea is to go to the market with an ecosystem that you can actually offer a quick product solution or a template and in addition become what Gartner called the Cloud broker. So the Cloud broker or the systems integrator for digital that is really where we see our position going forward.

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

Bharat Seth: Good morning to all of you and congratulations on good set of numbers. Ganesh on this IMS business, can you give in dollar terms how much was total revenue, service and product for FY14 and as you said that going ahead product is going in range of 20-30 and service is how much and you are saying that around it is likely to grow 20-25% correct? So can you give us a bifurcation of the product sales for FY14 in dollar terms?

Dr. Ganesh Natarajan: In dollar terms only, so what I said was that we have reached the stage where roughly 30% of the revenue is coming from products, it used to be 33% last year. Similarly the dual shore services which really means providing local support, helpdesk and remote infrastructure that has gone up to 30% of our revenues which used to be only about 26% at the beginning of this year and if you look at multivendor support which is really where we work with large OEMs and support the data centers that remains static. So that is why I was saying that going forward if we can grow the services business by 20% which is what we plan to do, we would expect that the end of next year the dual shore services itself will be more than a third which means 34%-35% of our revenues in IM. Products will decline further because we want to bring it down to may be as I said \$32 million. So it would not be more than, may be 27%-28% of the revenue and the rest will be MVS. So basically what we are doing is slowly but surely - and if you look at our pipeline that also is largely services - we are changing the mix of the IM business from low margin product business and medium margin MVS business to a much higher margin dual shore business and I think that process will take another 2 years to reach the same level of profitability as application, but that is where why we bought that company and I think we are headed in the right direction. As all of you know there has been a bit of a delay in making the transition to a better service profile, but that is beginning to happen and I am very confident of continuing that.

Bharat Seth: Do we see going quarter-on-quarter improvement in topline as well as EBIT margin for this IMS business, which is currently in mid-single digit.

- S. Balasubramaniam:** No, that is correct. Just to add on to what Ganesh said, you wanted in dollar terms. Product business is \$39 million. So we are going to reduce it to 32 and the rest of the business was 68 million. So that business we will increase. So that is fundamentally what we are doing. Because product business is almost 50% lower gross margin than the services business, you will find significant improvement in EBITDA going forward.
- Bharat Seth:** And Ganesh on EAS business, during 9 months there was a substantial decline in Asia Pacific and was it because mainly on account of this Japanese market or which are the market data is affected in first 9 months and you said that in Q4 we have grown.
- Dr. Ganesh Natarajan:** No, Q4 we have actually grown sequentially in Middle East. So Asia is still a problem for us in the sense that we shut down Japan.. China, we are using primarily as development center for some of our European and Australian clients. So Asia is weak because Singapore was our main base and there in fact two of our clients, we were doing work with, were actually declining. So Singapore is low. So the hope is Australia. So we are now investing in Australia. We have two sales people there. We are adding one more person there. So I think the revival of Asia will happen probably towards the second half of this year and that will happen primarily to Australia which is an excellent market. Middle East every quarter you should see better numbers going forward and similarly India also every quarter you should see better numbers. So basically what I am saying is all the markets will grow quarter-on-quarter except for Asia which will probably be slow for the first 6 months, but then I think we have the plan in place with Australia to take that forward. So that is where it is.
- Bharat Seth:** And how do you see EBIT margin for EAS business going ahead which has improved this year by 220 basis points. So still is there any room for improvement in EBIT margin of EAS business?
- Dr. Ganesh Natarajan:** I think there definitely is. The problem is implementation always is lower margin, but as we are doing multiple implementations now and that is most into the support level. Support is always the highest margin. In fact if you look at any IT business, you will find that AMS, Application Management especially the support part has the highest margin followed by Remote Infrastructure Management followed by Enterprise Application Support. So I think we are moving into a zone where 60%-70% of our business will be in that area and only 30% will be new implementation or others. So that is really where we are reaching Bharat and I think you will see the change reflected in the numbers going forward.
- Bharat Seth:** One last question for Subramaniam. Bala, this other operating income which we are reporting in reported results which we are clubbing in investor presentation below EBITDA margin. So what is exactly nature of this other operating income. Is it related to operation or because this is giving us some decrease in the EBITDA in investor presentation.
- S. Balasubramaniam:** This is purely dividends and interests.

Bharat Seth: This other operating income.

S. Balasubramaniam: Yes.

Bharat Seth: So why we are showing in, other income is consists of what?

S. Balasubramaniam: You are talking in the investor note or you are talking in the schedules

Bharat Seth: What reported number we have in published results.

S. Balasubramaniam: Published results is as per the SEBI format and this investor this thing we are following on a consistent basis to give you a better understanding of the operating results.

Bharat Seth: So this Rs. 19 crores of other operating income for the full year which we have reported is it for dividend and interest?

S. Balasubramaniam: It has got a little bit of write back of incentives and other things which happen generally at the end of the year after the year is over. What we will do is we send you all the details.

Bharat Seth: That will be grateful.

S. Balasubramaniam: I will send it by tomorrow.

Bharat Seth: And what is the CAPEX plan for FY15?

S. Balasubramaniam: CAPEX plan for FY15 is Rs. 37 crores.

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

Abdul Karim: Good morning to all and congrats for this set of numbers.-. Just I wanted to know about Akibia, Akibia which you acquired in FY12. After that, there has been a single digit revenue growth in the last 2 years. So probably this also you would finish it off on a flat basis and -1% growth last year. So what kind of ballpark number would you give for the next year in terms of dollar revenue?

Dr. Ganesh Natarajan: Let me just first explain a little bit because when you look at Akibia, there is what we call the infrastructure business unit which is really Erstwhile Akibia. So that will probably deliver about, just to give you a number, it will be about \$110 million of revenue next year, but in addition to that, we have the infrastructure business that is generated by other unit which is the enterprise business unit where they sell integrated solutions so that will be another \$20 million. So to answer your question, the global infrastructure management business we are looking at doing about \$130 million of business next year. Out of which, \$110 million will be from erstwhile Akibia and \$20 million will be delivered by the Application Services Units. So definitely there

will be growth and I think the growth as I mentioned earlier should be except for the product business which as Ajay said we are planning to reduce from \$39 million to \$32 million. The rest of it will be all multivendor services and infrastructure services both delivered in the US as well as delivered offshore, but you are absolutely right. We have had problems in the last 3 years to transfer the model from a very largely onsite business to a dual shore business. Because of the order input that was excellent in the second half of this year, we are starting to see the results. Even if you look at sequential quarter, the services business has gone up and that is the trend that we expect to see continuing right into next year and thereafter.

Abdul Karim: And how are the Cisco accounts growing and what are the prospects of that?

Dr. Ganesh Natarajan: The prospect of both our large accounts, we expect to obviously grow less than the rest of the company because they are very mature accounts. So we would expect that to grow between 7%-10%, two of our large accounts and the rest of the business to grow faster.

Abdul Karim: Just I want to be confirmed, recently I got some news flashed by some media entity, major Cloud services provider in Asia dropped their prices for core services dramatically. How it will impact Zensar Tech?

Dr. Ganesh Natarajan: I think if you look at any Cloud service, the whole purpose of the Cloud service is to substantially drop the investment by a single customer. For instance, today in India, we are talking to one of the state governments about setting up a full-fledged Cloud for the state which will integrate hundreds of small and medium manufacturing companies and may be the companies will pay less than Rs. 50,000 per month each to avail the service. So I think the per unit price dropped because of Cloud, but because of the scale at which we can operate with the single instance of Cloud, I think the profitability goes up. So I would not worry about the price drops. Definitely the pricing per company will drop when you provide a Cloud service, but the overall profitability improves.

Abdul Karim: On head count front, any hiring guidance for FY15?

Dr. Ganesh Natarajan: Pretty much. I think we are looking for 600 people to be hired in FY15. As I mentioned earlier, I think about 300 will be freshers both engineering and non-engineers and some MBAs because of our Digital Enterprise strategy. The rest of it will be lateral and we have a very strong hiring team which is not only looking at hiring in Pune, Hyderabad and Bangalore, but also looking at global hiring which is something we are starting now because we see a lot of demand for resources in all the markets as well as our three locations in India.

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

Bharat Seth: What we are understanding that many renewal deal which was of large deal, now clients are breaking it down to smaller deal and so how we are placed to, can you give some sense on that?

- Dr. Ganesh Natarajan:** Couple of the deals in fact we have signed in the last 6 months have been where when it came up for renewal and we have been able to compete and win it against the incumbent competitor and that will continue. Like every other company, today we track what are the deals that are coming to completion across all geographies including places like Middle East and we send that list to our sales people and the sales people look at if there are opportunities for Zensar to offer a better value proposition to the customer, we will certainly go in with that. So that is very much part of the marketing plan and the marketing approach that we take Bharat Bhai.
- Bharat Seth:** So larger deals are broken into smaller deal and where we are placed better, correct?
- Dr. Ganesh Natarajan:** Nothing like that. That is also true, but suppose it is \$5 million per year multiyear deal and it comes to an end, we are eminently qualified to bid for it. If somebody has been giving a \$100 million per year deal, we may not compete in that space unless they break it up, but break it up may happen in about 20%-30% of the case. That is why as I said we look at all deal closures coming up and when we send it to our sales team and then they strategize and decide where they want to bid.
- Bharat Seth:** And in IMS, how we are ramping up our ticket size, can you give some sense. We are getting \$5 million or \$10 million or \$15 million type of, how we are qualified or we are getting a RFQ?
- Dr. Ganesh Natarajan:** The large deal that we signed recently was close to \$10.6 million and there are multiple deals we have signed which are over \$5 million. So typically when you look at a 3-year infrastructure management support engagement as I mentioned earlier that includes typically desk side support across the client's location. Will also include a helpdesk service which is centrally managed either in US or in India and then it includes moving the support to India wherever possible because the remote infrastructure management is all about managing service and managing pick on sale services from India. So I think it is a mix of doing work at client locations offsite in the US and offshore which is why we call it dual shore services.
- Bharat Seth:** And when do we expect to be really qualified or we start getting RFQ for deal size of around \$30-\$50 million kind of ticket size?
- Dr. Ganesh Natarajan:** \$30-\$50 million is not a problem. In fact we will be looking at those, but sometimes they start with a like even \$10.6 million contract that we sign, potentially it is a \$30 million deal, but we are starting with this and then will take on more business. So it is more of 10 million moving to large deals. So I am sure we will be looking at \$20-\$30 million deals, but it is also a question of if you convert this deal into a 5-year deal, it becomes larger. So I am interested in what we call annual contract value. So if we can continue to get annual contract values of between \$3-\$8 million that is really where the benefit comes to the company.
- Moderator:** Thank you. The next question is from the line of Pratik Gandhi from IDBI Capital. Please go ahead.

- Pratik Gandhi:** Thanks for the opportunity. Ganesh, if you can elaborate more on the manufacturing, retail and distribution vertical. How are you seeing the potential over there because I see in the metrics that from around 54% of your revenue, it is now around 64% of revenue on a YoY basis. So what is helping us to get this kind of ramp up over there? Thanks.
- Ajay Bhandari:** So if you look at our manufacturing vertical and I think Ganesh when he started, he said that we have the most balanced services effect among all our competition where we are equally good in Oracle and SAP, Infrastructure Management and in the Application Management business. So in the manufacturing and retail side, this is dominated by ERP and both in Oracle and SAP in comparison, we are almost in Tier I. So there is a recent report by Forrester which places Zensar ahead of even Infosys, Capgemini, in some cases Tier-I players on the Oracle practice. So we lead with Oracle. So a lot of our business in manufacturing we get through Oracle and then cross-sell other services and as far as the industry is concerned, there are not too many companies who focus on manufacturing. So Zensar actually is a very strong MRD focused company. So that helps us open new doors as well as cross-sell new services.
- Pratik Gandhi:** Fair enough. So I think out of roughly 6,800 employees, how many of those would be part of the Oracle practice team?
- Ajay Bhandari:** Currently the Oracle practice is slightly exceeding 1,500 people and if you add another 400 of SAP, we have around 2,000 people working on Enterprise Services, which is largely Oracle, SAP and JD Edwards.
- Pratik Gandhi:** Fair enough. I hear your commentary actually on your IMS practice which is quite pleasing, just wanted to get more sense over there in terms of the margin profile of these deals. So I think Ganesh was alluding to the earlier question that I think you have signed one large deal with ticket size of around \$10.6 million. So typically how the margin profile of these deals are when you start ramping up say first 6 to 9 months and again 6 to 9 months. Do you see these margins converging to that of your applications margins?
- Dr. Ganesh Natarajan:** Absolutely. See I think what happens is because there are some large deals where people have been actually paying money in the sense that they have taken on the migration cost initially. We have not done that in any case even this large deal. The client is paying us for all the migration services. So there is no investment from our side, but obviously initially there is a teething time for everything. So I think the first 6 months may be low margins, but I think second year onwards in any of these deals, you will find that the EBITDA margins are approaching the typical Application Management layer which is really where I said that the future of our business lies which is the reason why we are in IM is to make sure that we maximize the dual shore service. Following that, we make sure that there is services component and we minimize the product component. So I think we are very much headed in that trajectory and you will see the margins into business inherently going up and approaching the higher levels that we want to reach in the next couple of years.

- Pratik Gandhi:** Just to get more clarity over there, I assume that these kind of deals would be more fixed price in nature. In that light I think if I look at your component of that metrics, it is largely static. So how do we read this?
- Dr. Ganesh Natarajan:** It would not be fixed price in nature because even the client appreciates that when I say \$10.6 million, that is the kind of size of the contract as estimated, but you will keep having change request. We are currently adding 4 more people to helpdesk. So I think all clients appreciate that it is very difficult to exactly predict how the transition of our large engagement will go. So I think that is very much variable depending on and SOWs will get created as and when there are new requirements. So I think that is an ongoing discussion. It is not fixed price. The more likelihood of a fixed price is that somebody asks for let us say an Oracle R12 implementation and gives you \$1.8 million. So that is the typical fixed price whereas in maintenance as well as in Application Management, there is an estimated price and there is a cap, but beyond that it is based on budgetary estimates and SOW release from time to time.
- Pratik Gandhi:** So if I understood correctly, I think between IMS and Apps, I think you see that the Apps would be having more fixed price contracts in nature.
- Dr. Ganesh Natarajan:** Apps definitely normally. Especially in implementation stage, if they tend to try and make it fixed price, you are right whereas in IMS and AMS, AMS if it is development over discrete measurable projects that is fixed price, but the minute it moves into support, maintenance, migration, they tend to be more time and material.
- Pratik Gandhi:** Fair enough and I think the last one would be on your revenue side. I think the industry is guiding for around 13%-15% dollar growth rate. I think your commentary will definitely better and sounded quite positive. Any sense in terms of whether you will be able to beat NASSCOM guidance for the current year? Thanks.
- Dr. Ganesh Natarajan:** As I mentioned, all our businesses, all our geographies are looking at double digit. So now double digit as is obvious can be anywhere from 10%-20%. So it is very difficult for me to predict at this point. So I do not want to kind of stick my neck out here because it all depends. We are in the first month of the financial year, but certainly it looks positive. Some of our business I mentioned earlier that the IM services will certainly grow more than 20% and the rest of it, if you look at some of the big territories like Middle East, again will grow in very high digits. There are some mature businesses. So we will have to wait and see. I think I would be in a better position to gaze where we will end up probably by September-October, but definitely the outlook is very positive as I mentioned across the businesses, across the territories.
- Moderator:** The next question is from the line of Abdul Karim from Narnolia Securities. Please go ahead.
- Abdul Karim:** Sir can you throw some color on hedging policies?

S. Balasubramaniam: We have plain vanilla forwards. We have covered about \$23 million which roughly translates to 40% of our receivables as of end March at an average rate of Rs. 63.14. Policy-wise we do only forward covers anything between 40%-60% plain vanilla forwards on a consistent basis.

Moderator: Thank you. That was the last question. I now hand the conference over to Dr. Ganesh Natarajan for his closing comments.

Dr. Ganesh Natarajan: Thank you very much and thank you again for being on the call and I really appreciate many of you on this call the kind of support you have given us over the last many quarters. As you know, we have had a delay of 2-3 quarters in really doing the transition from IM traditional business to services. I am glad that it is happening and the fact that we are positive about the future is because not only is our Enterprise business really firing on all cylinders and even in the weak markets we see the way forward in terms of growing it and also of course the IM business is now as I mentioned earlier coming to the party. So we are very confident that we have a good future ahead of us. We look forward to your continuing support and thank you very much again for everything that you have done for us.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Zensar Technologies that concludes this conference. Thank you for joining us and you may now disconnect your lines.