



## “Zensar Technologies Limited Q4 FY-15 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the Zensar Technologies Limited Q4 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Dr. Ganesh Natarajan – Vice Chairman, and CEO of Zensar Technologies. Thank you and over to you sir.

**Dr. Ganesh Natarajan:** Thank you and good afternoon everyone and thank you for joining this call. I have with me Nitin Parab who is the Chief Executive of our Applications business based out of California US, Bala who is our Chief Financial Officer, Ajay Bhandari who is heading Strategy and Corporate Development and Sanjay Rawa who is our Financial Controller. As always what I will do is make a brief opening statement talking about the numbers for the year and for the quarter and also request Bala to add some data to that. Then we will ask Nitin who is the person on the market to really talk about the future of our business including Digital and e-commerce which is, obviously as you know, the more significant future for most IT companies; so we will talk about that. And then we will take any questions that you have on the business, on the future or on industry etc.

To begin with I think we have ended FY15 on a strong note because both in terms of revenue and profitability we have seen good growth, thanks again to a lot of kick from the Digital and e-commerce area. Revenue has shown 13.5% growth year-on-year for the year in Indian rupee term and 13.1% in constant currency term. PAT has also grown 11.4% compared to FY14. Q-o-Q PAT has, that is from Q3 to Q4, grown by 3.3% in Indian rupees terms. As you have seen the revenue has seen a secular decline because on the infrastructure management side we had a small decline in Services but also we have consciously, as I mentioned many times before, decided to now restrict the product sales to not more than 5 million per quarter which is really what it came in at. So we had a big third quarter Q3 at 10 million because of some pent up demand from customers but now not only this quarter but going forward also we are targeting not more than \$20-\$21 million for the year in the product business. As product you know is the least profitable of all the portfolio businesses in infrastructure management, so this conscious decision on our side will also improve the profitability of IM and the overall business.

So that is one reason. We also had one client for whom we had to give an exceptional discount in the fourth quarter because of which it affected both revenues and profits

but that is a not a repeatable issues. We saw a marginal decline in the revenues of the e-commerce business from 12 million to 11 million but this quarter will again go back up in the enterprise business; and there is a decline in the infrastructure management primarily because of product. So this is the reason for the revenue decline but it doesn't worry us at all because outlook for this quarter, Q1 FY16, looks pretty robust. Just to give you details sectorally – the enterprise business has shown good growth for the full financial year FY15, both in revenue and PBT, ending the year with 11.3% growth in revenues and 4% growth in PBT – both in INR terms. The Q-o-Q growth in PBT was 20% despite revenue declining. As I mentioned, our top account showed flat growth in revenues throughout the year and I had mentioned this in the previous quarter also. But if you look at the three major geographies that we focus on – Europe, USA and Africa – all of them have reported very strong growth in constant currency. US constant currency revenues grew by 25.3%, Europe by 19.1% and Africa by 11.9% and there is a very healthy sign for the future in terms of our pipeline, our order book and the outlook for each of our significant regions. We also had, of course, impact of currency like everybody else. So if you look at the negative impact of Pound, Euro and ZAR combined it was almost \$5.2-5.3 million during the year. And so that has obviously affected the numbers to a certain extent. Professional Access the company we acquired during FY15 has reported very satisfactory results achieving 126% of its EBITDA target and 9.8% growth Q-o-Q on EBITDA in dollar terms, so it has been a very profitable year for them. This further strengthens our focus not only of Oracle but also on the overall Digital and e-commerce space, and I am sure Nitin will talk more about that as we go forward.

Our IM business has reported a second consecutive quarter of profits which was really in line with what we had reported earlier. Both Maintenance and Service businesses, which are the two Services components of the IM business, have shown healthy improvement in margin, resulting from increased focus on value added selling and cost optimization – both of which have resulted in a better bottom line. The IM Service revenue reported a growth of 11.1% on year-on-year basis and the share of offshore IM basis Services revenues has also increased quarter on quarter from 31.4% to 40.3% which is a very healthy progress. As I mentioned in the beginning of the year and I mentioned on this call also, our focus is on growing the Maintenance business and primarily the Services business which currently accounts to cumulatively about 74% of overall IM revenues and products, as I mentioned, the goal is very clearly to limit to the region of \$5 million per quarter. This much products are required because these are security products which have some impact on security Services which is part of our

Services portfolio but beyond that I think we have completely stopped any unrelated product lines being created into the customer.

Overall if you look at Zensar we have added 39 new logos in FY15 across applications and IMs, also some significant large wins. Our pipeline also includes some very-very large deals which we hope to close in the coming months. Compared to last year the number of clients contributing more than USD 1 million in revenue have increased very significantly. Also we have been able to maintain our utilization levels within expectation and comparable results. All in all I think we are very positive while entering into the next financial year.

We have had a very sharp focus on what areas we are operating in. In fact today Zensar operates in what I like to call a '3\*3\*3 Cube'. So if you look at the top three which are the territories, they're primarily US, Europe and Africa; we are actually downplaying Asia because we do not see profitable growth in that market so we are probably going to do less, we did less in Asia this year and we will probably do even less next year and that is a very conscious decision. If we look at the Services area, Application Services will continue to dominate, infrastructure management focused on Services and maintenances will be our focus. And Digital and e-commerce which is currently running at close to 13% of our revenues will be grown substantially both in terms of its own growth as well as in terms of its contribution to the top line. In verticals our primary focus continues to be manufacturing and retail, in fact there are very big plans for retail next year because of our end-to-end capability right from infrastructure to applications to Digital and e-commerce in the retail segment. We have a couple of very large deals in the pipeline at this point of time and are looking forward to closing them over the next few months. The third vertical of our focus is of course insurance and to a limited extent financial services.

So this 3x3x3 cube is what we believe will not only improve the revenue growth but will also substantially increase the profit growth of the company. Talking about Digital, just a few words, we started our Digital transformation journey about two years ago and at that time we had 2% of our revenue coming from Digital Services. As I mentioned, we have ended FY15 with about 13% of our revenue coming from Digital and efforts are ongoing to increase this share further and this is a very positive sign. Nitin will provide further details on this when he talks. If you look at what everybody has been saying including Mackenzie, NASSCOM, etc., the focus of the entire industry is now moving towards Digital. There is an expectation that there will be some cannibalization of the traditional Services growth and players who are strong in Digital

and e-commerce will stand to benefit and Zensar definitely plans to be one of the leaders in that space.

To summarize it has been a satisfactory year, we are happy with where we have exited this year despite the challenges of weaker currencies and a small decline in revenues this quarter. I am particularly very happy with the momentum we have gained in the key geographies US, Europe and Africa with the turn around in the IM business units and excellent pipeline we have in Applications, IM and Digital and e-commerce. It makes me confident I think that we have a good year ahead of us and we look forward to working with all of you to take this all. So with that I will hand over to Bala for comments on the financial parameters and then Nitin will comment on what he sees as the customer pipeline and the future.

**S. Balasubramaniam:** Thank you Ganesh. And good afternoon to you ladies and gentlemen. I will give you some data points so that you can read our results a little more meaningfully. The CAPEX for the year FY15 has been Rs.38.15 crores as against Rs.33.65 crores for the previous year. In terms of cash on hand as of 31<sup>st</sup> March it is INR 291 crores. In terms of loans we have a \$12 million term loan to be paid, \$6 million to be paid in June 2015 and \$6 million to be paid in December 2015 so that is 76 crores. We have a working capital facility of \$15 million so that translates to 94 crores so the total debt that we have is 170 crores and the net cash that we have is 291 minus 170 which is 121 crores. So we are cash positive by about 121 crores as of 31<sup>st</sup> March. In terms of our hedge book position we have plain vanilla forward covers for \$38.5 million approximately 56% of our receivables and the average rate of 65.81 to the dollar.

We have, as I have always mentioned, made efforts to keep our tax into the manageable levels through two initiatives. Firstly, taking more and more of our billing to the SEZ both in Hyderabad and here in Pune and hence our net tax percentage is 27% this year bulk of which has come in this quarter. Secondly, we also have a tax credit from South Africa. As a result of the combination of these two is why I find the tax provision a lot lower than the previous quarters. Then also the other item that is the other income in which essentially we report our FOREX loss net off against the other income which is covered in note number 5. That netted off figure is 2.5 crores which is coming on the top sheet. So these are the data points I thought I will give as we get into the call and if you have any further questions we will take it as we move along. I will now hand it over to Nitin for his views on the Digital and the other aspect.

**Nitin Parab:** Yes, sure. Thanks Bala. Good afternoon everybody. So if you look at the ETS business which is about 78% of the overall Zensar business it really falls in three buckets, the

applications business did very well and grew by 15.8%. As Ganesh said that the Cisco business was flat, I just want to elaborate a little bit on that. Looking at the work that we do for Cisco, some part of the work is the whole application and maintenance which is all their legacy application, we have reduced the dependency on that kind of business because those eventually are part of what we call as 'Sunset Applications' and replace that with a lot of work which is in where Cisco is investing strategically around a Digital platform and some of the other transformation machinery. So all in all when you look at the mix of the business, though it stayed flat, the quality of the business that we do has now become much better and more future proof. The third bucket is the Professional Access e-commerce business which we acquired last year and that grew by 17.8% so there has been a good growth over there. So all in all if you look at the ETS business the overall growth has been quite good in FY15.

If you go to a foundation of the ETS business it really has three key levers. One is what we call as a strategic deals which are the large deals and there have been some very good wins that we had in FY15 which resulted in almost a \$134 million of order book and that is really the foundation for a robust growth going forward in the next year. So we are serious with what we have done as far as the large deal acquisition is concerned. The other parameter that we follow very closely is the \$1 million plus accounts that we have and I think over there we have had a very successful year in FY15 as against 52 accounts that we had in FY14 which were giving us more than a million dollars of business we closed FY15 at 70 such accounts which are now giving us more than a million dollar business. And this has come through a focus which has meant divesting some of our suboptimal accounts and focusing on some large customers from where we can get higher revenues and finally, what Ganesh was alluding to earlier, is the whole focus on Digital business. I think we are in a very unique position given our investments not only in E-commerce but also in areas like Social command center, the work that we do in Mobility, the Cloud work that we do which has grown the business from what used to be about 3% of our business two years back to now we are aiming for about 18% of our business to be from Digital in the next couple of years. And we expect that to grow because if you look at the cusp of the verticals that we operate, which is manufacturing and retail, are having a very solid e-commerce capability combined with all the other Digital components that we have, put us in a very unique situation the mid-tier company with some very solid capabilities in the Digital space. So that's been the overall three levers which have not just shown good growth in FY15 but also put us in a very good position for growth in FY16. Thank you.

**Dr. Ganesh Natarajan:** So thank you very much and very happy to answer any questions that any of you may have.

- Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah:** Ganesh I had a couple of questions. Firstly if you can just dwell some more on how is the pipeline looking a couple of quarters we had given some number saying about \$400 million so just wanted to get some sense on how is it looking and how is it as compared to the start of the previous fiscal?
- Dr. Ganesh Natarajan:** Just to give you a sense, today if you look at the ETS pipeline that itself is over 400 million, 430 million to be exact. The infrastructure business unit pipeline is 185 million and then of course ETS also include some pipeline for E-commerce so it's looking very-very good Dipen. So while I said there may be some weakness in some markets like Asia but if you look at our focus markets, the pipeline is very strong in US, Europe, including UK, Africa and even Middle East.
- Dipen Shah:** Okay. And can we have the number for Professional Access during the quarter in terms of million dollars or also in terms of margins?
- Ajay Bhandari:** So Dipen they did around \$12 million in revenue for Q4 and their gross margins are around 46-47%, so pretty healthy gross margins.
- Dipen Shah:** Any take on the operating margins?
- Ajay Bhandari:** Their operating margins are closer to 18%.
- Dipen Shah:** Okay, this \$12 million looks to be on the slightly higher side because we had guided for some \$42-43 million and we had already achieved about \$35-37 million.
- Ajay Bhandari:** Yes, so they did around 45 million Dipen and so as far as their annual revenue is concerned that is where they ended and last year they were at around 38 million.
- Dipen Shah:** Okay. So then Ganesh if we have to remove this products business which has de-grown sharply as well as Professional Access, I see the other Services revenue that is IMS and the other application business that actually has de-grown during the quarter on a sequential basis if we have to look at the revenues and break it up so anything specific and how should we look at the next year?
- Dr. Ganesh Natarajan:** In fact we had, as I mentioned, one client where we had to give an exceptional discount which obviously hit both the top line and bottom line directly. IM yes there has been

one client slowdown because of which there has been Services slowdown. So to answer your question I would say that the Services business in IM I don't know exactly for this quarter but certainly if you look at the first half and the second half there will be a definite sequential growth which is the reason why we are confident of reducing products. And as far as both Professional Access and ETS business is concerned, we definitely expect to see them not only back to Q4 level but probably high. Nitin you want to comment on it?

**Nitin Parab:** Yes. So you're right Ganesh. The one time aberration that we had in Q4 was because of one of the large account major discount we had given but if we were to track where we are with regards to our orders in hand and the forecast that we have for the next quarter we will see pretty good growth over there. Pretty much in line with what we have seen in the previous quarter.

**Dr. Ganesh Natarajan:** We definably expect this to be a very good year in terms of growth. Quarter-to-quarter is always difficult to predict but definitely if you look at half year H1 and H2 you will see substantial growth on all Services parameters in both this half and the next half.

**Dipen Shah:** Okay. And may be question for Bala the software development expenditure in this quarter has fallen sharply by about 35 crores no a quarter on quarter basis anything specific we should look into that?

**Sanjay Rawa:** This is primarily because of the revenue from the ETS part where we have the license revenue, so the cost on license revenue has come down to that extent.

**Dipen Shah:** Okay. And also Ganesh may be slightly talking more on this product and license revenues. In the last quarter we were guiding for some \$30-32 million of annualized revenues from this business, and we had achieved about 40 crores so we have achieved nearly \$7-8 million in this quarter and now you are saying that next year it should be an average of 5 million per quarter so, how much further downside can we look at this because last quarter we were assuming \$30-32 million to be the bottom. Now it is actually coming off by \$10 million more.

**Dr. Ganesh Natarajan:** It is actually a conscious decision we have taken and by the way the 5 million is only for the IM products so we have targeted around 20 to 21 million for IM. There will be products business because sometimes you sell Oracle or SAP along with the licenses that could also be another 5-6 million but I would say that in terms of calculation, I think we assume that the overall products business will be not more than 25 and 28 million next year. Which includes 20 to 21 million of IM and the rest could be that we



are selling along with Services, so that is what it is. We actually discussed this even in our board meeting yesterday and I think it's a general consensus that the product business is fairly under rated then it is talking away the attention that should be given to Services. We may forsake a 5-6 million of revenue next year but it will do well for the profitability and probably do well for the future. So that was the decision taken, so you can assume 27-28 million next year through the overall product category.

**Dipen Shah:**

Okay. And in the note we just saw that you have written about the Digital and e-commerce business, I am not able to understand that sentence currently like it says that Professional Access has exceeded targets and it contributes to Digital and e-commerce business, which stands at 12.6% of Zensar revenues so, this 12.6% I understand is refereeing to the Digital access revenues? I am sorry Professional Access revenues.

**Dr. Ganesh Natarajan:**

Yes, Digital and e-commerce together is 12.6% of our revenue and Digital is also growing smartly because we currently are focusing on a number of areas. We have set up a Social listening center right here in Pune which is helping some of our clients to measure Social impact of many of their campaigns, etc. Mobility we have always done decent work, Cloud of course it's difficult to measure now a days so we don't measure too much of Cloud expect if it's specifically Cloud migration but so both Cloud, Digital, and Social as well as of course what we are doing in Mobility in the cover is the Digital plus the e-commerce. Which is why I said that if you look at our trajectory next year we hope to do over 15% of our revenues from Digital and e-commerce and over a three years' timeframe we want to reach 20%. My belief is that if we do 20% by FY18 it will probably be amongst the best in the industry in terms of Digital transformation.

**Dipen Shah:**

So Nitin was referring to some 18% revenues coming from Digital so what would that be as compared to this 12.6%?

**Nitin Parab:**

That was the number that we were talking about for next year and that includes what we also called as Big Data, Analytics over and above Mobility, Cloud, and e-commerce revenues and that is what we plan to do for next year.

**Moderator:**

Thank you. We have the next question from the line of Harith Shah from HDFC Securities. Please go ahead.

**Harith Shah:**

I just wanted to have one clarification your Digital revenue and how much percentage is that I think is it 18 or I think I probably missed something out there?

**Dr. Ganesh Natarajan:** Digital and e-commerce as we mentioned it's just under 13%. And that is what I said it started to grow all the way up to 20% by FY18.

**Harith Shah:** Yes, okay. So basically just wanted to understand out here in this particular space, is it mainly a project based kind of deals or is it more annuity based deals like we have seen in cases like your Application Maintenance Service how would you define that and what would be the deals sizes as such at this point in time and you expect that to increase going forward?

**Dr. Ganesh Natarajan:** It's a mix of both projects as well as annuity, there are some streams that if you look that in case of Social there are long-term contracts whereas if you look at implementation of **e-commerce** Services, implementation of Analytics those tend to be more project, but I would say that in the initial phase it does tend to be a little heavy on the projects but as we go along and as we implement those projects we will start seeing the annuity part of the business also.

**Harith Shah:** Sure, any kind of color on how much percentage of your Digital revenue would be annuity base and project base at this point?

**Nitin Parab:** So if you look at the mix that we currently have, it has about 60% around projects and about 40% annuity.

**Harith Shah:** Sure and 60% is project you are saying?

**Nitin Parab:** Yes.

**Harith Shah:** Right and any color on the deal size at this point and you think any of these in for that to go up?

**Nitin Parab:** The deal sizes are widely varying. As we have just said if you have an annuity deal for Social this thing, that will be in the region of may be 1 to 1.5 million. Professional Access has always been doing deals which are very significant ATG implementation which could range from \$2.5 to even \$4 million in terms of these. We are also as we announced some time back **that** the fact that we have today a complete intellectual property created called PARADE which is the rapid implementation on the Oracle platform but much less expensive than ATG. So, I think that is something that the deal sizes may be smaller but we expect to see a lot more deals coming from the mid-market and B-to-B e-commerce clients which might be in the lesser 1 million space. So I think it's the combination of let's take it a \$4 million, full blown ATG Endeca kind deal down to local IP sitting on top of an Oracle platform, down to may be as small as a

\$150,000 Mobility deal so that is the nature of the beast far as Digital e-commerce is concerned. But as it goes along it is very similar to what we saw in the Oracle space in the last 10 years it will result in more and more annuity because there is the Cloud brokering requirement, there is a system integration requirement. All this will really what we want. It is the long term maintenance so far as the industry is concern.

**Harith Shah:** Right, sure. And one last question some of your peers have mentioned that given that Digital is a new emerging area of growth they are seeing some kind of issues with reference to people fulfilment and the availability of skilled talents so how is Zensar placed on this front at this point in time?

**Dr. Ganesh Natarajan:** If you kind of dissect it into two parts, on the e-commerce side I think we are proud of what Professional Access has done. Truly outstanding people, some of the best people in e-commerce in this country are working for Professional Access both in Bangalore as well as in their smaller centers in Hyderabad, Noida, and Mumbai. So that is very good. As far as Regular Digital is concerned we have some very bright consultants both in the US and here who are actually being trained on articulating the Digital story but having said that like you said given the growth of Digital and the need for talent and the fact that there is obviously a lot of pull towards startups and e-commerce companies it is going to be challenge. So we will continue to retrain some of our existing people as well as hire people from the market not only in India but also in US, but at this point of time it's not a very big issue. As we go along all of us have to face the.

**Moderator:** Thank you. We have next question from the line of Bharath Sheth from Quest Investments. Please go ahead.

**Bharath Sheth:** Ganesh just I wanted one broader perceptive if you look at Services side sales have improved but EBIT margin has declined whereas in our IMS business sales of course is almost flat or little lower but margin has improved. So what do you really attribute and how going forward because Y-o-Y I am talking not quarter-over-quarter or full year to full year. So what really you attribute to that and although I mean Nitin said that Cisco side our quality of revenue is improving though it's flat so instead of really improving margin side it is little decline in trend I have been seeing. On Service side, so can you just throw or give some sense as to what is going ahead, what has really this attributed and going ahead you see?

**Nitin Parab:** This is Nitin let me answer that. So going back to the point I had made on Cisco the quality of the business – yes we are moving from Sunset Applications to Sunrise

Applications so margins are pretty much intact or may be little better but what has really impacted the EBIT is the discount that I had mentioned earlier which is a one-time discount that we had to give to Cisco. Secondly, there has also been a currency impact so if you look at Europe accounts at large all put together on the Applications Services business there has been impact of close to about \$4 million, combination of these two.

**Bharath Sheth:** Sorry I missed it can you repeat how much total impact?

**Nitin Parab:** \$4 million because of currency on the Application Services business and close to about \$5 million of discount on Cisco business that is really what has impacted the EBIT.

**Bharath Sheth:** So this 5 million is in this quarter?

**Dr. Ganesh Natarajan:** It's total annual but a major portion of that did come in the last quarter.

**Nitin Parab:** Currency impact was around 5.4 million in both businesses throughout the year.

**Bharath Sheth:** Okay, so overall you mean to say that total is 10 million impact we have seen correct?

**Dr. Ganesh Natarajan:** About 9 million.

**Nitin Parab:** Yes, about 9.5 million.

**Bharath Sheth:** And how much are you seeing that discount to this Cisco will continue going ahead?

**Dr. Ganesh Natarajan:** It's difficult to predict but we obviously do not expect any discount, there is nothing much to be done because as I mentioned it has been a flat year, there has been only a marginal growth in that account. But at this point of time we have good pipeline even with that client as well as with other clients so I don't see the flatness continuing next year but as I said it's difficult to predict but at this point of time it looks very positive.

**Bharath Sheth:** Okay, and second thing Ganesh can you throw some light on Automation side how much in traditional business that Automation we are doing and what level currently we have and going ahead looking at the pricing pressure?

**Dr. Ganesh Natarajan:** If you look at Automation you look at three levels – one is non-linearization of revenues. It is happening through our investment in intellectual property. As I mentioned before we have today good IP in PARADE which is the Oracle E-commerce play. Our SAP business is always been based on templates which actually deliver 40%

of the value on day one, so that is happening. In terms of Process Automation like all other companies I think we are very strongly focused on that. There is a lot of reusability, Process Automation making sure that wherever there is no need for additional programming input it is done by Automation so that is an ongoing process but I do not believe contrary to what you may have heard from some other companies that this is going to completely change the parameters of this industry. So there is always going to be the need for people. You can expect that may be at an industry level there will be much less employment in the next three years than there was probably in the last five years. But it doesn't mean that the industry is going to change overnight. So the Automation process is something that we are definitely doing. The creation of intellectual property absolutely is part of what we do and productivity improvement in terms of retraining of people, making sure they can deliver agile projects in Digital much faster – so we are very conscious of all these three t and our entire team in all the centers is focused on how we can deliver more productivity because of these.

**Bharath Sheth:** And can you give some sense what the current level of this IP as well as Automation is contributing topline and going ahead where do you see in one or two year?

**Dr. Ganesh Natarajan:** Basic purpose is to make sure that we maintain our profitability. As we have mentioned in the release we are happy that we are back to 10% PAT, I think my expectation is that by improving the quality of the mix including less products that will be one ticker for better profitability and similarly what you mentioned Automation and use of IP all that will also contribute, so right now it is difficult to put a number on it, I would say almost 30% to 40% of our business is either being IPiesd or there is Automation going on in the process but the exact impact of that on bottom line I think we will try and make sure that we continuously improve our bottom line over the next years and that will be in spite of man power cost and everything else that goes into it. So I think we are in good shape in terms of our planning for both Process Automation and IP.

**Bharath Sheth:** Okay. And on this Digital and Professional Access, Nitin mentioned that 60% of the business is coming from the project and 40% from annuity base typically what is the duration of this project and what kind of a winning rate that we need to maintain to sustain our growth over there?

**Nitin Parab:** If you look at the e-commerce engagements they tend to be a little longer in duration anywhere starting from 6 months to 14 months' time frame but if you look at the rest of the engagements the Analytics, the Mobility, and Cloud engagements, they tend to be shorter in life cycle some of them are even as short as 30 days proof-of-concepts

and then from that point they can increase to anywhere from three months to six months.

**Bharath Sheth:** So officially to sustain the growth what kind of winning rate do we need to maintain because otherwise in one quarter if there is some dip in winning rates then there could be a dip also correct?

**Nitin Parab:** But the thing is that volume of those engagement we have seen massive increase not only in our own customer base but outside also. If you look at what people have been doing traditionally in their legacy applications, a lot of spend that organizations have is now being routed towards Digitals. So to that extent the value of the engagement would be lesser but you will see many more of those engagements than what you would see as a traditional large ERP engagement that we saw in the past.

**Dr. Ganesh Natarajan:** But you are right Bharath Bhai there will obviously be some dip on quarter-to-quarter basis. The minute you have a large project component which is true today in e-commerce, there will be a dip. Like as I mentioned Q3 we did over 12 million in e-commerce business, this quarter under 12 million but I think the volatility will not be 40-50%, you will get some volatility where some quarter may be little lower. Like this quarter again we expect to do about 12 million in E-commerce because of some project completion. But as we go along, as the annuity component increases and as Nitin was saying clients invest more and more in Digital, so I think there will be a smoothing effect in terms of revenues in e-commerce also.

**Bharath Sheth:** Is there any room to improve over margin of profitability in those spaces?

**Dr. Ganesh Natarajan:** There always is, as I said the minute you use more IP, the reason today our India business is growing very well and is profitable is because we are relying a lot on IP so similarly even overseas if you look at this PARADE implementation that I talked about the more IPs that we use the more predictability there is, the margins will go up. So I think clearly there are levers for margin improvement everywhere and I think that is always the benefit that we have with Zensar that we see multiple levers for improving margins going forward and we are pretty confident that can happen not only this year but even in the next three years.

**Ajay Bhandari:** And if you just refer to the point Nitin made, the number of million dollar accounts have gone up to close to 70 now, the average deal size which was between \$3 to \$5 million two years back is now hovering around 10 million. Now as the deal size is increased in the larger accounts it also gives us more occasions to flatten the pyramid.

So the margin levers are many and some of it will even come from the flattening of the pyramid because we have now more million dollar plus accounts, in fact next year we expect the number to further go up. And the deal sizes in these are going to get larger and larger and so we also have more occasion to flatten the pyramid and hence that is another lever that is there.

**Bharath Sheth:** Okay. Ganesh in IT industry lot of bullishness is prevailing in Digital side so what are the real challenge that you people see and what could be spoiling the?

**Dr. Ganesh Natarajan:** The biggest challenge, if you look at from the industry perspective Bharath, is that there is no doubt that in the next five years the traditional Infrastructure Management and Application Services will probably go down by 20 to 25% and that is a large hole as you can imagine. So whether Digital and e-commerce will grow fast enough to replace that revenue is the question mark that everybody has. Also remember that Digital projects that we have discussed tend to be smaller so it is quite possible that the pie itself will shrink so which is why it is extremely important for all providers including Zensar to be ahead of others in the game. Today we are fairly confident there are one or two large companies who are doing extremely well, I don't need to mention them, there are couple of American companies who are doing very well in Digital and e-commerce but I think among the Indian providers, given the early start we had, kind of joint project we did with Boston consulting group to actually do workshops on Digital for many of our clients from CEO downwards I think we are very well-placed and couple that with the acquisition of Professional Access which has given us a good fillip. We are also looking at seeing whether we can make strategic investments in other smaller Digital companies which is not too much in terms of cash flow but that is probably part of what we will try and do in terms of strategic investment this year. I think there was very clear road map on how to make sure that we do not lose out in the process and on the contrary we built better market share in Digital than many of our competitor.

**Bharath Sheth:** Okay. And last question on IMS side our restructuring is over or and going ahead how do you see because last year we have announced several deals so how you see the growth as well as on profitability side going ahead in FY16 and '17?

**Dr. Ganesh Natarajan:** Our goal is, as I said, move from 94 million and grow beyond 100 million. But the good news is that growth will come with much lesser product revenues as I mentioned earlier so the Service component will continue to go up and this year the profitability is already up because we have already seen good services. So I think we again, like in other places, have a clear path in IMS over the next two to three years to reach 8 to

10% PBT and I think it will eventually become a 14% PBT business. We started making profits last two quarters this year and there will certainly be decent profits and then we will move on to higher and higher levels of profitability and these are the levers we certainly have to improve the overall profitability of the Zensar business.

**Bharath Sheth:** Okay. And this question for Bala. Bala going ahead what will be the tax rate because this year it was because of one-time write-off it has come down but going ahead how do you see?

**S. Balasubramaniam:** As I always mentioned Bharath we have two, three levers which we kind of constantly are working on, one is the utilization of SEZ as we get more and more new projects. The other one is the onsite-offshore mix. And third one of course is that the overall tax rationalization depending on the revenue mix coming from which territory or which geography, as you know some geographies have lower tax and there is a growth in that geography to that extent overall consolidated the tax percentage comes down. I have always maintained that Zensar will target between 27 and 29% so that is my endeavor and progressively as you would see last year we had our YTD tax percentage of 30.1% and this year we have been able to bring it down at 27.7% and we will try to keep it between 27 and 29 depending on how things shape up as we move along in the next 12 months.

**Bharath Sheth:** And this debtor receivable has increased this year considerably so is there any worry or again we will be able to bring it down?

**S. Balasubramaniam:** The debtor's receivable actually is 57 days excluding Professional Access when you compare the data between last balance sheet and this balance sheet it's 63 day including Professional Access. We are quite comfortable at 57 days that is excluding that doesn't have business so this is just figures are not really comparable.

**Bharath Sheth:** But in Professional Access we will be able to bring it down?

**S. Balasubramaniam:** We will as we move along it will be our endeavor to keep this slightly the same range between 57 to 60.

**Dr. Ganesh Natarajan:** Like you know in India especially with government contracts the receivable days tend to be a little protracted, in Professional Access there are couple of Mexican projects which tend to be longer but I think as we go along we will probably see that also reduce.



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

**Dr. Ganesh Natarajan:** Thank you very much I think it was a very good set of questions which kind of covered the entire gamut of our operations so just to conclude, as I said we are happy with what has happened last year. It has been a good year in terms of all our strategies have paid off, in terms of Infrastructure, Digital, and e-commerce everywhere. We are very confident given the strength of our pipeline and the order book that we are chasing that we very clearly can do much better this year. Look forward to as I said earlier partnering with all of you and making sure that we deliver on these numbers. Thank you very much.

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