



“Zensar Technologies Limited Q1 FY-18 Earnings Conference Call”

July 21, 2017



**MANAGEMENT: MR. SANDEEP KISHORE – CHIEF EXECUTIVE OFFICER
AND MANAGING DIRECTOR, ZENSAR TECHNOLOGIES
LIMITED**

**MR. MANOJ JAISWAL – CHIEF FINANCIAL OFFICER,
ZENSAR TECHNOLOGIES LIMITED**

**MR. AJAY BHANDARI – CHIEF CORPORATE
DEVELOPMENT OFFICER, ZENSAR TECHNOLOGIES
LIMITED**

**MR. AZFAR – GLOBAL CHRO, ZENSAR
TECHNOLOGIES LIMITED**

**MR. SANJAY RAWA - GLOBAL FINANCIAL
CONTROLLER, ZENSAR TECHNOLOGIES LIMITED**

**MODERATOR: MS. PRIYA ROHIRA – RESEARCH ANALYST, AXIS
CAPITAL LIMITED**



Moderator: Good day, ladies and gentlemen and a very warm welcome to the Zensar Q1 FY18 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participants' 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 the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. I now hand the conference over to Ms. Priya Rohira from Axis Capital. Thank you and over to you, ma'am.

Priya Rohira: Thanks, Ali. A very good afternoon, good evening and good morning to various participants joining us from various time zones. It is with great pleasure I welcome you to the first quarter FY18 earnings conference call for Zensar Technologies Limited.

We have with us Mr. Sandeep Kishore – Chief Executive Officer and MD; Mr. Manoj Jaiswal – Chief Financial Officer and other senior management team from Zensar Technologies.

The call will begin with a brief management discussion on the performance for the quarter ended June 2017. This will be followed by an interactive Q&A session. The conference will get archived and the transcript will be available.

I will now handover the floor to Mr. Sandeep Kishore – CEO and MD for the initial presentation. Over to you, Mr. Sandeep.

Sandeep Kishore: Thank you, Priya. Hello and good afternoon everyone. Thank you for joining the call. I have with me from Zensar management team Manoj Jaiswal, our CFO; Ajay Bhandari – Head of Strategy; Azfar – Global CHRO; Sanjay Rawa, our Global Financial Controller.

I will provide you a brief overview how the first quarter Q1 of the fiscal 18 went for Zensar this will then be followed by Manoj on some key financial details after that we will open the floor for questions.

I trust all of you have had the chance to go through the financial details and the fact sheet that we released yesterday July 20. From this quarter onwards you would have noticed that all of our financial reporting is in alignment with IndAS reporting standards and we have also given all the comparative metrics in the results on a retrospective basis as well.

So let me take this opportunity to present some key details from our results and business performance of Q1 FY18. Overall Q1 was a good quarter for us. We had a sequential revenue growth of 3.1% in dollar terms. In constant currency revenue grew by 2.5% QoQ and 1.7% on year-on-year basis. We saw good growth in all our key markets. The organic US, Europe and South Africa business continued its growth throughout the quarter. We are also happy to report that both our acquisitions Keystone and Foolproof are doing very well in terms of new client addition and penetration of digital stack into several Zensar accounts.



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Q1 FY18 number includes Keystone. Foolproof has been a part of our company from Q3 of Fiscal 17. Gross margin and operating margin grew sequentially by 2.5% and 33.7% respectively in the dollar terms. Net profit grew sequentially by 374.8% and dipped 33.9% year-on-year basis. Digital revenue accounted for 36.3% of overall revenue, a growth of 8.8% sequentially and 33.3% year-on-year.

Our core application services business grew at 1.8% sequentially on a constant currency basis. The infrastructure management business grew 5.4% sequentially in constant currency terms primarily driven by the growth of services; the IM could businesses which grew 9.6% sequentially. Our maintenance business had a marginal growth of 0.2% QoQ.

There was some softness in manufacturing vertical which we believe is seasonal because of some project completion. There was also softness in our commerce business largely due to weakness in Oracle ATG market. Our strategy of pivoting the business more to UX/CX that is the customer experience and user experience and analytics and micro services led omni channel deployment is helping us built new opportunities in pipeline.

Oracle continues to push cloud as the most important offering to clients and we are working with them in both platform as a service and software as a service. From a geography perspective Africa continues to perform well growing at 7.3% sequentially in constant currency. US registered a growth of 4.1% on constant currency sequentially. Europe had a marginal decline of 0.9% due to currency impact.

Financial services and retail vertical experienced strong growth of 9.3% and 8.9% respectively quarter-on-quarter in constant currency. This was driven by the wins we have had through the last year with marquee BFSI clients both new and existing and addition of retail synergies through the acquisition of Keystone Logic. Digital continues to be more strategic focus area for us as we have mentioned during our earlier call over the last couple of quarters we have rigorously been working towards becoming a 100% digital run company. We have developed digital platforms which improve the productivity of the organization with the help of analytics and over 30 native mobile and cloud applications covering the complete array of business processes.

We have now taken this platform to all our major clients through Zensar's return on digital offering and we are seeing significant traction. Across the solution we launched in fiscal 17 we continue to see a lot of interest from our clients. We have won multiple deals for implementation of our robotic process automation solutions and many of our BOTs went live during the quarter.

We also have multiple ongoing client conversations for our solutions like Vinci which is the cloud orchestration and automation platform, digital workplace and our analytics called ZenAnalytica. More than 50% of our wins during Q1 18 were based on digital stack. We won



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various deals in the experience design services and digital supply chain as a result of the strengthened capabilities through Foolproof and Keystone acquisitions respectively.

Among the other deals we won included a payment and money transfer Solution Company, an American multinational biopharmaceutical company, a US space provider of online trading services, a UK wealth management company. We also won a digital commerce services deal for Mexico arm of a leading American multinational, an artificial intelligence modernization deal for a global lifestyle retailer in the US. In our core services an application management and development deal from a global media company, IM Cloud Services from non-government organization focused on global development and poverty eradication.

These were some of the deals which we have also called out in the detailed press release which is there with you. From a pipeline standpoint, we continue to have strong pipeline across regions and service lines. We have however seen some delays in the ramp up of booked business and are currently it tracking quite closely. Our utilization increased in Q1 from 79.6% in the previous quarter to 83.2% driven by our rigor on optimization.

Our onsite offshore revenue distribution also improved by 2.7% in favor offshore. Our capabilities across the core and digital service stacks continue to gain recognitions from leading industry analysts. Zensar was included across multiple reports published by Gartner, Everest and ISG. Zensar has made it to the Gartner magic quadrant for datacenter outsourcing and infrastructure utility services in North America. Zensar was included in Everest Group IT infrastructure automation market update and peak metric assessment for solutions. Zensar is also included in Gartner digital commerce vendor guides 2017.

As we have mentioned in our previous calls, we have revamped majority of the client engagement team in the US and they are settling in quite well.

With that let me call Manoj Jaiswal, our CFO to provide update on key finance data post which we will open the floor for questions.

Manoj Jaiswal:

Thank you, Sandeep. Good evening, everyone. Welcome to this call. In addition to Sandeep talking about the business I will take you through some of the financials on the P&L as well as balance sheet. We have reported revenue for the quarter at Rs. 7,367 million which reflects a sequential reduction of 0.9% while in USD terms we have reported \$114.3 million, a growth of 3.1% sequentially and 1.2% year-on-year. The exchange realization during the quarter has been Rs. 64.45 per dollar as against Rs. 67 per dollar in the previous quarter.

We have been able to maintain the gross margin at around 27.6% despite the Forex headwind that has impacted the gross margin by 1.2%. The factsheet for the current quarter is reported and is aligned to IndAS accounting and all prior figures have been adjusted to that effect.



We have deconsolidated the revenue of our 100% subsidiary within a gross revenue of Rs. 0.9 million for the quarter and Rs. 3.7 million in the last year. The CAPEX during the quarter is Rs. 5.4 million mainly on account of capitalization of our integrated command center Zen Labs and few other investments that we are doing. The DSOs stood at 64 days. The total hedges as of 30 June stood at Rs. 48 million versus Rs. 35 million as on 31 March 2017.

The MTM gain on cash flow hedges to the extent of Rs. 9.8 crores is carried forward in the balance sheet as OCI gain. The cash and cash equivalent at the end of the quarter was Rs. 66 million versus Rs. 83.6 million in the previous quarter. The reduction is mainly on account of payment for acquisition of Keystone and reduction in short term loans which is largely facility towards pattern credit.

The ETR for the quarter is around 32 as against 32.6 in quarter last year. With that I come to the end of this presentation and opening the house for question and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Sandeep just wanted to understand if we exclude the impact of Keystone in the quarter the revenue seems to have declined on both QoQ as well as YoY basis. So if you can help us understand the impact of the different segments which led to this weakness. And also has the product business which impacted last quarter the IMS service portion has it recovered or should we take the current run rate as the new normal?

Sandeep Kishore: Yeah sure happy to answer that question, Mukul. Actually, if you take a look at our ROW business in both year-on-year as well as sequentially that has declined from 6.6% of the total business in Q1 FY17 to now 2.4%. So that has been a part of the strategic shift that we have been doing. We have always talked about that the core market for us is US, UK and South Africa and that is where our entire pivot and focus has been. The acquisition of both Foolproof and Keystone are part of our digital growth strategy and they have integrated quite well.

Product business did better than last quarter. Last quarter we saw pretty low performance from the product business. It improved quite well actually this year and we do think that it will stabilize at the current level. That also is the reason on why you have seen the growth in the core IM business by 5.4% sequentially. So I think the product business will stabilize. We will continue to invest into US, Europe and South Africa. ROW we are working towards stabilizing this currently although our growth sectors are US, Europe and South Africa.

Mukul Garg: And just to follow through on that when do you think would be a right timeline for stabilization in the client pruning and I mean the focus shift towards US, Europe and Africa? Should we expect that in FY18 or is that more of FY19 targeting now?

Sandeep Kishore: It is a continuous process. Actually, if you see the number of active clients, it includes the clients of Foolproof and Keystone. That is why that number has gone up from 183 which were in Q1 of Fiscal 17 to 243. But on the core strategy of reducing our long tail accounts we are more or less done with it. We have reduced over 30 accounts in the last fiscal from what we call LTA. There are a few left, but I think by probably the second, third quarter of FY18 we should be pretty much done with it.

Mukul Garg: And if I may ask one more question, you alluded to that in your opening remarks that the Oracle ATG market remains weak. So want to understand how much we have of Oracle exposure at the moment, and by when do you expect this to stabilize? I think it is probably mostly in manufacturing side?

Ajay Bhandari: So Mukul, this is Ajay here. So the ATG has been from even I think last quarter Oracle has stopped selling ATG they are selling only cloud solutions and a lot of our large retail clients are on the ATG platform. So traditionally we used to have at least a couple of large implementations in the ATG and that has basically not been there for the last three quarters which is why there is some slowness in the ATG business. Having said that, nobody is moving away from ATG, it is just that the new business has kind of come to an end. So as far as our commerce business is concerned we are trying to move to more what is called UX/CX based and micro services based commerce deployment.

That is because most large retailers both online and offline retailers are building customized e-commerce platforms which are loosely coupled open system architecture based e-commerce systems and since the world is moving away from packages, our own capability has also moved towards lot more analytic UX/CX based commerce system. So we have already started that around nine months back. Almost all our new wins are in commerce base. They are only along those lines. Even a lot of our existing ATG customers are moving to more micro services based commerce sites. We expect the ramp up to take at least maybe two to three quarters even as the ATG business stabilizes. So we are looking at still maybe three quarters down the line.

Moderator: Thank you. We will take the next question from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: If I understood right last quarter deficit in the infrastructure business was on account of implementation delays. Should not this have ideally caused a pop during 1Q or are we seeing more delay in ramp up?

Ajay Bhandari: We are still seeing some holding back on beginning of projects. So lot of the projects we have closed and especially in Q4 of last year have still not begun in earnest. We are hopeful that

they will begin in Q2, sometime in Q2 and its real impact probably will be seen in Q3. But at the moment, there is still a bit of resistance to start some of the large projects. There is still enough happening as far as keeping the lights on kind of a mode, I mean everybody is continuing to do that and we are seeing growth there actually. The large-scale projects that were planned those all seem to be kind of on hold which is why there is still I think slow movement at least in that aspect.

Sagar Lele: Also if I look at the segmental margins that you have disclosed, while infrastructure margins seems to have bounced back from the last quarter, application margins seem to be pretty low this time. So any color on why that decline has been caused in 1Q?

Sandeep Kishore: Let me add that, Sagar, this is Sandeep here. If you actually notice we have been investing heavily onsite. The employee data let me call that out Q1 of FY17 to Q1 of FY18 there is a ramp up of close to 300 headcounts onsite largely in the US, give or take about 100 is Foolproof in UK. So one third and two third, two third of that is actually there in the US. So there are lots of investments we have done in and around the digital stack in US and in the initial period as we all know some of these have impact on the margin. And as the project starts to ramp up and the business becomes a little more voluminous we do think that this will even out.

Moderator: Thank you. We will take the next question from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: Sandeep, my first question relates to the deal pipeline we are seeing. You seemed to be optimistic last quarter too. You had \$800 million odd deal pipeline numbers. If you can share and which are the areas you are seeing this pipeline increasing actually?

Sandeep Kishore: So from a market segment perspective you would notice retail for us after the acquisition of Keystone now stands at over 28% of our business, which is probably the highest in the industry. So our expertise is now in and around omni channel which is a part of our well thought out strategy because that is where we think the clients are investing and spending. Particularly in retail business everybody is competing with Amazon and everybody has their own strategy of Amazon, but the entire digital supply chain analytics experience, cloud it is given. And the investments and capabilities have actually led both organic as well as inorganic growth particularly in the retail and consumer segment and our pipeline remains strong.

It is not strong, on what Ajay was referring earlier, on the ATG side. So there is softness because that has come through an acquisition couple of years ago. It is moving more towards open systems, micro services, custom port development, experience lead and analytics lead. So that remains strong. Financial services which is largely insurance business for us also we have seen some very good traction in and around cloud and robotics process automation and core maintenance and support of the policy administration system.

There is some softness in the manufacturing business; you have seen manufacturing actually declined for us two consecutive quarters. This quarter it declined by about 4.6% and last quarter also it has declined by 3.1%. So softness in manufacturing continues and there are some delays in ramp up. But overall, I think we still maintain the pipeline of still around \$800 million even now.

Priya Rohira: Second thing is more in terms of the margin profile. What do you think should be the sustainable EBITDA margins we should look forward to?

Sandeep Kishore: We do not give any guidance. But in Q2 there will be some wage impact which will come. Our wage increase happens 1st of July which is Q2. We are expecting about 1.2% to 1.5% impact on account of that. And as we go through the remainder of the year we think we have enough operating levers available on efficiency curves to recover that. But that is the work in progress which continuously has to happen.

Priya Rohira: Sure. But any sustainable margin what you have seen in the past like 13%, 14% of which one could look at in some quarters once this client pruning comes to a stop actually?

Sandeep Kishore: No Priya, we do not give any guidance on EBITDA or any number for that matter.

Priya Rohira: Sure that is helpful and lastly if you can help us on Vinci in terms of the deal wins or client traction and maybe more also with respect to digital in terms of the penetration with say your Tier 1 accounts and how has the average deal sizes been increasing in digital?

Ajay Bhandari: Priya, Vinci a lot of our IM outsourcing deals, referring back to Sagar's earlier question of whether there is ramp up happening, all of them have been sold on the back of Vinci, so Vinci is an integral part of lot of IT outsourcing that we do. Vinci being a cloud orchestration platform, any cloud deal especially in the infra we may have Vinci and our ICC built in all those solutions. So it is basically integral to all of that. As far as digital is concerned, if you look at our wins, large part - more than 50% - of our wins are digital. They are all smaller deals actually and they are closer to \$ 0.5 Million size but most of them - since they are experienced led - if done properly have a huge windfall when it comes to the downstream deployment. So however right now the deals size that we are closed small even though they are new.

Priya Rohira: Sir, any color on the penetration because last time you had mentioned that 70% of the top fifty accounts were penetrated with digital. Any heads up over there in terms of the penetration with the top fifty or top hundred accounts?

- Ajay Bhandari:** It is gone up a little higher than that, Priya. So it is now closer to 75, yes, I mean we are taking now both Foolproof as well as Keystone to every client. In fact in some of Foolproof clients we sold Zensar services as well; so all that is very much going on at the moment.
- Priya Rohira:** Sure. And just last two bookkeeping questions for Manoj. Manoj, what should be the sustainable I mean what should be the tax rate assumption we should take and second thing is, Foolproof at the PBT level was in loss, was there some Forex related impact on account of Foolproof?
- Manoj Jaiswal:** No, so Foolproof had more or less a one-time impact because they have moved to a new office and there is a onetime utilization impact. But otherwise Foolproof does not have any Forex related thing because it is largely all onsite operations that Foolproof has. What was the other question?
- Priya Rohira:** The tax rate and just one more thing on Foolproof. Is it possible for you to share this one-time impact so that we can assume that going forward the margins will be much better in coming quarters?
- Manoj Jaiswal:** It is really tough to really comment about it, that one-time impact as a number. But going forward we should expect the Foolproof margin to be in line with what you saw earlier, I mean that is in a nutshell I would rather say. Now around the tax on the ETR if you look at the ETR for the current quarter is 32% versus 32.6% the previous year same quarter and 31.6% around in the full year basis. There is a small impact because of the accounting of the ETR the way it happens in IndAS but that is rather what it is.
- And other than that we should be in the range of maybe 31%, 30% is what has been our range. We are consciously increasing our footprint in SEZ which should, over a period of time because the shift will be gradual, lead to improvement of the ETR marginally but in a short term it will be in the similar range.
- Priya Rohira:** Sure. And was there any one off in the depreciation in this quarter because it just inched up from around Rs. 13 crores under the reinstated IndAS financials to Rs. 18 crores?
- Manoj Jaiswal:** Yes. So if you notice last year we did the business combination accounting because of IndAS for all our acquisitions and that has a million dollar impact on depreciation and amortization for the current quarter.
- Priya Rohira:** So it should then stabilize back to say Rs. 14 crores, Rs. 15 crores in the coming quarter?
- Manoj Jaiswal:** No, it will continue right. I mean this is I would put like it is a change of an accounting methodology and therefore every acquisition will have an impact and it will be carried forward across. So from a profitability perspective it has no impact but from a depreciation amortization there is an impact.

Moderator: Thank you. We will take the next question from the line of Madhu Babu from Prabhudhas Lilladher. Please go ahead.

Madhu Babu: Sir, regarding the weakness in the top accounts the top client which was weak quarter-on-quarter or were there one or two more accounts?

Ajay Bhandari: So Madhu, actually the top client is still pretty strong. So we are not seeing any weakness there. The weakness has been only in the erstwhile Professional Access or the DCS accounts because there is a ramp down in ATG. As ATG deployment gets over and they are moving to support those revenues are actually tailing off. So the weakness is only there, but just to give you some detail - because lot of you may have a question on that - in the top five, ten, twenty we have actually not lost a single client, they are all more or less in the same range barring three or four accounts from DCS that we have in the top twenty. And one large Indian government client which is where the project is coming to an end over the last three quarters. So otherwise more or less the revenues are kind of the same. I mean there is marginal movement up and down for example in the top twenty this year more than 60% of the accounts have actually have a higher revenue as compared to the earlier quarter. So they are more or less kind of flattish.

Madhu Babu: And sir, we have replenished the US sales team eight months ago approximately. So how have been the results I mean are we seeing any new deal win starting to flow in?

Sandeep Kishore: Yeah, I think it is early days. The US sales team has been a continuous work in progress, they are settled in I think the hiring is almost 90% complete. The pipeline is looking pretty good. US even outside of the Keystone acquisition, was flattish so it did not decline. That is a good sign. Including Keystone acquisition the growth is what we reported earlier on 4 plus percent sequentially. So early day's pipeline is looking good, so I do hope that in the next two or three quarters we will start to see some significant wins from there.

Madhu Babu: Okay sir and lastly on the retail omni channel I mean Oracle and Microsoft Dynamics is the other big ERPs if I am right. So how is Oracle cloud I mean shaping there in the omni channel for the retail side?

Ajay Bhandari: So Oracle, Madhu is doing reasonably okay. Though if you look at omni channel we have like I said earlier pivoted to a lot more custom and combining it with IBM Sterling commerce and Manhattan. Sterling commerce we build organically as part of our commerce business and Manhattan is something that we got from Keystone. And these days we are doing a lot more omni channel work in all our existing clients because of these two capabilities. So we actually do not see too much of Oracle there. It is a lot more supply chain work, omni channel work because of Keystone and order management work from Manhattan and Sterling commerce.

- Madhu Babu:** So we are not present in Microsoft Dynamics or we have that competency also?
- Ajay Bhandari:** No, we don't have it, we actually have a large Microsoft practice, we do a lot of work in Azure .net development but we do not really do Dynamics.
- Madhu Babu:** Okay sir lastly on the M&A, I mean we were looking at M&A to strengthen some of the gaps in BFSI space. So how is that progressing?
- Ajay Bhandari:** We will continue to look for acquisitions to strengthen our insurance vertical, Madhu. So of course every acquisition needs to have the right management, the right price everything but yes, if we get a good target which has good capabilities and aligns with our insurance strategy we may look at it.
- Moderator:** Thank you. The next question is from Ashish Chopra from Motilal Oswal Securities. Please go ahead.
- Ashish Chopra:** Sandeep, as far as the manufacturing vertical is concerned so are you seeing this slowdown primarily because of some of the delays as mentioned or is there also a kind of a pipeline issue because of some macro factors playing out over there in your client accounts?
- Sandeep Kishore:** I would say, Ashish, it is a combination of both. So if you take a step back, digital is the center of our strategy and it's build in and around the analytics, experience, cloud, client 360, and hence the question we have to ask ourselves is if we are building these capabilities organically and inorganic which sector lends itself to it. And the answer hence eventually will come that it is more aligned towards retail and insurance financial services and high-tech part of the manufacturing.
- So high tech manufacturing, insurance, retail I think the pipeline is quite good, very strong actually. There are some delays which have happened in manufacturing which I think are seasonal. The softness for us is in the industrial side of manufacturing. Both on pipeline as well as on ramp downs.
- Ashish Chopra:** Got it and how much would high tech be as part of your manufacturing just a ball park?
- Sandeep Kishore:** So high tech would actually be almost 70% of our manufacturing business.
- Ashish Chopra:** Okay. And would the delays also have hampered any other verticals like retail given that the broader commentary from the larger players in retail has been on the softer side because of clients own troubles or for you it would be relatively smooth?
- Sandeep Kishore:** I mean I wish I can call it smooth, no it is not smooth. As Ajay explained the old ATG part of the business has its own share of softness. The front end and the analytics, the supply chain omni channel, experience led is seeing pretty robust growth.

Ashish Chopra:

Got it. And just wanted to also understand your outlook on growth maybe a couple of quarters down the line. So what I understand is that some of these delays in deals may resume in the second quarter and if not then in the third quarter, and then also the tail accounts pruning like you mentioned should be done with in the next couple of quarters or so. So should that logically lend itself to a much better sequential growth scenario for Zensar or do you think there may be some more baggage out there that may still take a little bit longer?

Sandeep Kishore:

Tail account pruning Ashish is a continuous process. I will tell you why because when we started with the original account we did not have the Foolproof and Keystone acquisition. We have completely more or less 90% as I said done away with the original set of LTAs but with the two companies that we acquired we have to again look at once they stabilize on which accounts are more strategic for us to grow and which accounts we cannot grow and hence we should do away with. And that is a process we will start some time end of this quarter because by then it will be six months of Keystone and almost nine ten months of foolproof acquisitions. So that is a continuous process.

Revenue guidance we do not give. Our focus is to make sure that we continue to expand our digital footprint into the clients that we work with and that is where all of our investments have been focused in terms of solutions and client facing teams. All the people that we have hired in the United States as I mentioned earlier 200 people in the last twelve months period largely on the digital stack, client centric - it is a lot of investment. And we are quite hopeful that they will start to turn the needle into the client wins.

Ashish Chopra:

Right that is helpful. And just one clarification on the margins for the quarter just to understand it a little bit better, because if I recollect correctly in the last quarter we had this MVS restructuring of close to \$3 million. And then there was a onetime provision of close to \$2 million so that was almost a \$5 million of impact on the EBITDA.

And this quarter we made up for the currency through levers such as utilization and greater amount of offshoring. But the EBITDA net is up around \$2.5 million. So I guess if Manoj could clarify the breakup of the movement at the EBTDA level sequentially would be helpful?

Sandeep Kishore:

Before Manoj comes in let me just add a commentary on the MVS business which is the maintenance business as part of our infrastructure stack. Yes, last quarter which was Q4 was not a good quarter. We had to do some clean up as we had talked about it. This quarter was flattish it kind of grew about 0.2% that I mentioned earlier and most of the cleanup of that is done. Although it is a pretty interesting business and there are continuous support which we have to provide to much larger customers and we have to keep a very close eye on that. It is also not a very core business to us as we have always been saying.

And hence as Manoj will walk you through the financials, I will just expect you to keep in perspective that in this business the cleanup is not yet fully done. We may still have some more

clean up into MVS business. Smaller part of our business but there is some more cleanup maybe about 10%, 20% still left. Manoj?

Manoj Jaiswal:

Yeah so Ashish, first of all I do not think we said last quarter itself is a 3 million cleanup. A significant portion of the cleanup happened through the year rather than the quarter alone. Last quarter we did have one-time cost, few of them coming and hitting us especially in the opex line item as well as some in the direct cost line item. So therefore, I mean to some extent, yes, that cost not being there mitigated the impact of Forex as a onetime cost. In addition to that utilization upliftment created the movement.

So if you do the math with the 3 million in perspective, you may not get the exact math right but on an overall one timer basis negated and Forex impact may be compensating it is where the numbers are.

Ashish Chopra:

Last question from my side, so as far as the tailing off or slowing down of Oracle ATG is concerned, so just wanted to understand while it is a deterrent or a headwind to growth, but is there a very significant leakage of revenue also getting created as a result of that at the moment?

Ajay Bhandari:

Ashish, so there what happens is we have to transition all the implementation deals to support and that is where it will start plateauing because support is steady revenue and as part of the support we are also taking additional enhancement projects to move clients to microservices. So the decline you are seeing which will taper off actually in another two quarters is because of the reduction in the implementation revenue and its transition to support and support deals are smaller than the implementation. So you are going to see a plateauing of this in the next couple of quarters because new customers are not coming in on ATG and existing customers projects are kind of coming to an end.

So just to give you an example, over the last two quarters one of our largest customers has gone live and a large part of the project team has now moved to support over the last two quarters. Earlier that ramp down would get taken care of because there will be some other implementation we had closed which has not happened this time. But it is plateauing because most of our customers are now slowly moving to support so there will not be too many implementations left, only on ATG. There are new business coming up as far as Micro service is concerned but not on ATG.

Moderator:

Thank you. We will take the next question from the line of Romil Jain from JM Financial Services. Please go ahead.

Romil Jain:

I just have one question on the digital side. We are seeing a lot of focus by many companies around the digital strategy and we are also seeing decent growth as well as investments on that side made by you also and all other companies. So with that are we seeing lot of competition in

this segment and hence some pricing pressure or you see that the overall digital strategy benefits will be actually back handed?

Sandeep Kishore:

So Romil, let me address this question. This is Sandeep here. First of all digital is a pretty broad word and everybody is probably defines it quite differently. We have been very clear about our articulation of what constitutes digital stack and it is there in the analyst deck and the presentation we have always maintained that. We have also done the acquisition in and around the stacks that we have defined which is as follows. It is, as Ajay explained earlier, about customer experience, user experience, omni channel the whole cloud orchestration, Vinci, the analytics part of it, the process automation, little bit of IoT and we are just starting to see as you saw one of the wins we announced on AI and machine learning and FinTech.

Now for these stacks there are different levels of proposition and also competition into each one of the stacks. I do not see one organization competing with us when we are in the market bidding for programs which is common across all. There are niche companies which compete with us in the CX/UX probably nine out of ten times. So is there pricing pressure, yes, the answer is there is pricing pressure so you really have to demonstrate higher value for the clients and the investments that we have done in region for 200, 300 people that we talked about US and UK combined I think that our credible competency is building that we have demonstrated to our customers which we will hold in good stead.

You heard also in the last quarter the announcement that we did of both Zenlabs as well as ICC which is our Intelligence Command Center. These are phenomenal investments strategically aligned to the growth of the company. So in the core cloud stack we see mainstream competition. Everybody you can think of is there in the core cloud stack here because that is so core. If you then take a look at process automation which is a BOT segment and we have now as I mentioned earlier in my opening comments we have had several BOTs which have gone live across our customer base in South Africa, UK and US.

There we compete with platform vendors as well as system integrator depending on what the clients are looking for. But it is a varied segment of competition. There is no one segment that I could call out and the market is actually quite intensive. So I do think the pricing pressure is there and you have to really demonstrate major value to the customer for winning.

Romil Jain:

Right. And just a follow up on this as we gain more experience and as we become much better in services that we are into, do you think that our pricing can also start moving upwards, any sense on that?

Sandeep Kishore:

Well, we all hope so, over a period of time I do think it will move although in the short period of couple of quarters, no, it will be pretty stable.

Moderator:

Thank you. We will take the next question from the line of Shekhar Singh from Excelsyor Capital. Please go ahead.

Shekhar Singh: I just wanted to understand like revenues have come down and your margins have also been very soft. And what I gather is like digital is going to be the new or the main focus area in terms of strategy. Now digital whatever we understand the projects are pretty small and therefore like just too basically replenish your whichever projects are ending, you will have to have a very strong sales force.

So I just want to understand like is it going forward, I realize you do not give a guidance but say two, three years forward, will we be in a position to match industry growth or we are slipping?

Ajay Bhandari: So the endeavor always is to do well so while at the moment in certain areas the deal sizes are smaller but typically deal sizes are small when people are doing a lot more experimentation. And digital solutions become more mainstream they get bundled with a lot of other services and the deals get larger. So in many areas where the deal sizes are small they at the moment especially in certain areas like say Oracle cloud or Foolproof services there the deals are small, when we say small means less than a \$1 million.

Those is because lots of the companies that are doing these kinds of exercises in the cloud space are smaller customers. The larger ones are slowly getting there in the sense for example the largest cloud deployment in the US for Oracle is being done by Zensar at the moment. But those are few and far between, majority are still are on premise kind of solutions. So yeah, I mean as the larger players get into cloud and as it becomes more mainstream deals will get larger, they will get integrated with other systems and we will be stitching much larger deals.

So I do not see any reason why growth will be commensurate with the size of the deal in future. At the moment, it is much smaller we have to do a lot more customers, lot more deals to maintain revenue and which is why there is the illusion of slow or low growth.

Moderator: Thank you. We will take follow up question from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Manoj, just wanted a few clarifications on Keystone. Can you help us understand the impact of Keystone on margins? The reported PBT for Keystone was unusually high and also what was the digital exposure if we exclude Keystone? Is Keystone completely digital or is there a portion which you can break out?

Manoj Jaiswal: So Keystone is significantly digital and I want to clarify that first. And in terms of the profit of Keystone if you look at the number it is called out in the financials. And that is where Keystone in terms of PBIT is concerned was included in the financials.

Mukul Garg: No, in the financials the PBT margin for Keystone is about 35% and if you remember the Keystone Publication it was closer to 16% the EBITDA margin. So which number should we follow for going forward?

Manoj Jaiswal: So Keystone margin is higher because we have been able to ramp up Keystone post-acquisition and therefore the margin is higher. We have ramped up a significant amount of offshore business but over a period of time I guess it will moderate it to more a little bit lower than this as and when we invest in that business and we grow that business.

I mean and some of those factors will play on the margin. As of now say Quarter 1 we have pushed it hard to ramp up the business and also create offshore businesses and therefore the margin is higher.

Mukul Garg: Great and the second question was on the margin levers. There were lot many pulls and pushes in the first quarter and you were able to compensate for the wage hikes through utilization and onsite increment. So do you think there is still scope left in improving these materially or do you think the pickup in margins going forward is going to come from somewhere else?

Manoj Jaiswal: So Mukul first is the compensation increase is happening effective July 1st that is point number 1. Point number 2 is in terms of profit levers there is a continuous work that is happening as we talked about offshore business getting pushed and utilization getting pushed and you also heard Sandeep talking about a significant investment in terms of the onsite head count which was application business margin impact. So some of those levers are being completely worked upon to be able to further push the margin levers better and up.

Ajay Bhandari: Mukul, this is Ajay. So if you just look at the last two years our Q2 gross margins have been higher than Q1 despite of wage hikes. So we are conscious that there is a wage hike coming up so we are also conscious that it should not impact margins. So we would always look at levers to ensure that the cost impact of wage on margin is neutralized in whatever way. In many cases for example we have rate hikes with clients which is commensurate to the wage. So we will find ways and means to ensure that the cost is neutralized.

Moderator: Thank you very much. That was the last question in queue. I now hand the conference over to Ms. Priya Rohira for closing comments.

Priya Rohira: Thank you everyone for joining in this call. On behalf of Axis Capital, I would like to thank the senior management team of Zensar Technologies for giving us great insights and would now like to handover the floor to Mr. Sandeep Kishore for the final remarks.

Sandeep Kishore: Thank you, Priya. Thank you everyone for dialing in and for being with us. Thank you for your support. And talk to you again next quarter.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.