



“Zensar Technologies Limited Q1 FY '21 Results  
Conference Call hosted by HDFC Securities Limited”

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**MANAGEMENT:** **MR. SANDEEP KISHORE – MD AND CEO, ZENSAR TECHNOLOGIES LIMITED**  
**MR. NAVNEET KHANDELWAL – CFO, ZENSAR TECHNOLOGIES LIMITED**  
**MR. VIVEK RANJAN – CHRO, ZENSAR TECHNOLOGIES LIMITED**  
**MS. PRAMEELA KALIVE – COO, ZENSAR TECHNOLOGIES LIMITED**  
**MR. HARJOTT ATRII – GLOBAL HEAD (DIGITAL FOUNDATION SERVICES), ZENSAR TECHNOLOGIES LIMITED**  
**MR. VENKY RAMANAN – GLOBAL HEAD (HI-TECH & MANUFACTURING), ZENSAR TECHNOLOGIES LIMITED**  
**MR. SHIRSHENDU DEB – GLOBAL FINANCE CONTROLLER, ZENSAR TECHNOLOGIES LIMITED**  
**MR. RISHABH MISHRA – HEAD (CORPORATE DEVELOPMENT), ZENSAR TECHNOLOGIES LIMITED**  
**MODERATOR:** **MR. AMIT CHANDRA – HDFC SECURITIES LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Zensar Technologies Limited Q1 FY '21 Results Conference Call hosted by HDFC Securities Limited. As a reminder, all participants' 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Chandra from HDFC Securities Limited. Thank you and over to you, Sir.

**Amit Chandra:** Thank you. Good Afternoon everyone. On behalf of HDFC Securities, let me Welcome you all to Zensar 1Q FY '21 Earnings Call, so we have with us Mr. Sandeep Kishore – MD and CEO; Mr. Navneet Khandelwal – CFO, and other senior Management team. So without further delay, I would like to hand over the call to Mr. Sandeep Kishore to give us an introduction of the rest of the Management team and brief update on the 1Q FY '21 results, and then after that we will open up for questions. Thank you and over to you, Sir.

**Sandeep Kishore:** Thank you, Amit, hello and Good Afternoon everyone. First and foremost I hope and pray you and your families are doing well, keeping healthy, and safe. Thank you for joining us today to discuss Zensar's financial results for the first quarter of Fiscal '21 ended June 30, 2020. On the call, I have with me from the Zensar Management team, Mr. Navneet Khandelwal – our CFO; Vivek Ranjan – our CHRO; Prameela Kalive – our COO; Harjott Atrii – Global Head (Digital Foundation Services); Venky Ramanan – Global Head (Hi-Tech & Manufacturing); Shirshendu Deb – Global Finance Controller; and Rishabh Mishra – Head of Corporate Development.

The world as we know it has changed massively since we last spoke. Our thoughts and prayers are with everyone who has been impacted by COVID-19 especially those who have lost loved ones or their livelihoods. While the pandemic has posed challenges both medically and economically, humanity is putting its best foot forward. We would like to thank all the essential workers on the front line of this crisis. We are and will be forever grateful.

Back in the quarter ended March 2020, we at Zensar were swift in our response to the crisis. We instituted the COVID Nerve Centre, which focused on six broad themes; Associate wellness, Business continuity, Client engagement, Cyber security and data privacy, Business opportunity, and Cash liquidity and cost management. We continue our effort by focusing on our Associate wellness through our digital native platform that we had built back in Quarter-4 of Fiscal '20 to monitor and provide 24/7 support in the system. In the current quarter, Quarter-1 Fiscal '21 most of the Zensarians worked throughout from our respective homes. While we witnessed an all-time increase in the employee productivity, the agility and responsiveness demonstrated by our entire organization has also helped in preparing to seize business opportunities in the new normal. We also launched the Zensar Associate assistance program to provide counseling support to our Associate as needed. We entered Quarter-1 Fiscal '21 with a lot of uncertainty, however, we ensured business continuity and robust client engagement through unparalleled vigor and upbeat cadence and discipline, which helped our client facing and enabling teams to exceed the overall expectation. This was all achieved while ensuring high standards of cyber security and data privacy.

We have reported a revenue of US \$130.8 with a 7% sequential decline in Quarter-1 Fiscal '21 in dollar terms. On a constant currency basis, the decline is about 4.8%, which was primarily due to ramp down on accounts of some of our clients undertaking immediate cost-cutting measure due to COVID-19. On margin front, our strict cost optimization measures have put us in a much better position compared to the past quarters. Our Quarter-1 Fiscal '21 EBITDA margin has attained Quarter-1 Fiscal '20 level at 14.4%, which is a 50 basis point increase over Quarter-4 Fiscal '20 and 20 basis point over Quarter-1 Fiscal '20. It is a solid 760 basis point increase over Quarter-3 Fiscal '20. They were led primarily by direct and OPEX cost of optimization efforts, which is expected to continue. Core business EBITDA was 14.6% in Quarter-4 and is now at 14.9% in Quarter-1 Fiscal '21. Even with an impact of approximately \$10 million on top line on sequential basis, we managed to keep our profit after tax at \$9.7 million with 0.7% sequential growth.

While Navneet will talk more about our cash status, our collections have just been phenomenal, thanks to our teams and clients. We have managed to bring down our DSO by a whopping 29 days over the past one year, this last quarter alone we pulled down our DSO by 12 additional days compared to Quarter-4 of Fiscal '20. This has also helped us in improving our cash position to an all-time high.

Our order booking in Quarter-1 was a solid 150 million TCV with some very impressive wins both net new and new wins in existing clients. We continue to see traction in the demand side environment with an increased demand for digitization across our clientele. Needless to say, we have been extremely empathetic to our customer needs and have focused all our efforts to provide tailor-made solutions for their evolved requirements focused on cost conservation and rapid digitization. All our efforts in this regard have also helped us pull up the pipeline to \$1.5Bn with a billion dollar which constitutes from \$5M+ TCV.

South Africa region has done very well for us in the last quarter with a 19.8% YOY increase in constant currency basis. It absorbed a major chunk of the foreign exchange impact. In constant currency terms, the decline in South Africa business was limited to -0.5% during the last quarter. US and Europe declined sequentially by 4.8% and 8.1%, respectively, on constant currency basis. In Dollar terms, all three geographies have witnessed a decline of -4.8%, -11.4% and -15.9% on a QOQ basis for US, Europe and South Africa, respectively.

Our Cloud Infrastructure Services business is now branded and positioned as Digital Foundation Services which is reflective of the strategic impact that we aim to deliver through our renewed DFS service catalogue. DFS is able to connect with our customers better and is helping them in their journey towards digitalization and adoption of Enterprise 4.0. Apart from that, there is no change in business structure, service line structure, and any financial reporting.

DFS has also built a very credible market facing, solutions and delivery team to win against global and Indian competition. It has shown signs of early success due to recent wins at managing cloud infrastructure operation for a large medical devices company, a US-based payer company, and a leading global pharma distribution company. The feedback from DFS launch

event at Ivanta, ISG, Gartner have been very positive and encouraging. DFS grew by 7.6% quarter-on-quarter in dollar terms and 8.5% on constant currency basis. Next-generation infrastructure services grew at 22.2% sequentially on constant currency on account of few major ramp ups.

Our digital revenue continues to grow as a percentage of total revenue and now stands at 59.5% of total business. Quarter-on-quarter, it declined by 3.3%.

For us, client centricity always forms the core. We institutionalized an extensive client connect process to ensure that we work very closely with them to address and help them in any other areas that we could in these difficult times. We have left no stones unturned to be relevant and value accretive in every conversation that we have with our customers. We continue to consolidate our relationship with larger and growth-oriented clients. 65.2% of our business now comes from our top 20 clients compared to 60.4% in Quarter-4 Fiscal '20. Our \$5M+ per annum clients on an LTM basis remained stable at 24.

As a temperament to our operational agility and responsiveness, we pioneered and launched a 100% work from anywhere model. We have onboarded 112 Associates across 8 Tier-3, 4, and 5 cities in India under this model. We are leveraging our in-house living digital technologies built over the years to the fullest. They are being deployed across all our operations and most importantly have helped tremendously in training, up-skilling, and re-skilling our Associates. We also conducted a first of its kind 4 day 100% virtual and immersive training workshop for our client facing associates globally that saw 50+ business sessions from 60+ industry experts including CXOs from our top customers.

Our global headcount at the end of Quarter-1 Fiscal '21 was 9027. Our attrition has reduced to 13.5%. It was 16.3% at the end of Quarter-4 Fiscal '20.

We continue to bring new solutions to the market in our effort to proactively recognize our clients' needs as part of Zensar's enterprise resiliency framework which defines three impact zones where Zensar offers end-to-end assistance in reducing COVID-19 impact, expediting recovery, and transforming overall business for our clients. We released several propositions including:

- ZenCare that empowers end-users to assess a virtual workplace and collaboration tools in a d environment from any remote location.
- Humane; an enterprise grade solution to help organizations create impact by augmenting their current talent systems and processes with a digital native platform that transforms the employee experience.
- Everywhere experience; an end-to-end virtual experience service offering that provides immersive and virtual experience engagement.
- Infinity CRO; a conversion rate optimization product focused on helping businesses improve their digital real estate, focused marketing spends, and make significant returns on digital.

- ZenTrust allows enterprises to optimize in-flight and planned project costs, ensure business continuity, secure business applications, and digitally enable stakeholders
- Digital Assurance testing; A powerful managed service that allow brands to rapidly deploy, test, and certify their applications platforms and website across a multitude of end points.

Our pipeline in proactive proposition is robust and we have won several deals in some of our top clients transforming their businesses and helping them cope with COVID situation. We undertook multiple initiatives where we contributed to local communities in these trying times. We have also donated Corona testing booth to the Pune Municipal Corporation and distributed over 115k meals to local communities. Further, employee contribution initiatives are launched in India, US, and South Africa, to support local community initiatives respectively.

Despite the challenging environment, our confidence in opportunities and growth remain intact. We are absolutely committed to deliver value to our clients, associates, and shareholders. With that, I will now invite Navneet Khandelwal, our CFO, to provide update on key finance data after which we will open the floor for questions.

**Navneet Khandelwal:**

Thank you, Sandeep. Good Day everyone and Welcome to this call. In addition to Sandeep talking about the business, I will take you through some of the details on financials. In the first quarter of Fiscal '21, we have reported revenue at Rs. 9912 million, which reflects a sequential decline by 2.6 % and a decline by 7.0% in Rupee terms on a year-on-year basis. In US Dollar terms, the reported revenue is \$130.8 million reflecting a decline by 7% sequentially and 14.7% on a year-on-year basis. In constant currency terms for the quarter, this decline is 4.8 % sequentially and on a year-on-year basis, it is 12.1%. The US Dollar realization during the quarter has been Rs. 75.8 per Dollar against Rs. 72.4 in the previous quarter. The year before in the same quarter, it was Rs. 69.5. Our gross margin for this quarter was 28.8% as against 28.9% for the previous quarter. For the quarter ended June 30, 2020, the billed DSO has reduced as compared with the previous quarter and stood at 49 days against 54 days, while DSO and including unbilled reduced by 12 days to 75 days as against 87 days in the previous quarter. This also represents a reduction in our DSO on an year-on-year basis by 29 days. The effective tax rate for the quarter ended June 30, 2020, stood at 26.2% versus the ETR for 27.3% in the quarter ended March 31, 2020, and 28.4% in the quarter ended June 30, 2019. Cash and cash equivalents including investment in mutual funds, net of the borrowings increased from \$59.7 million in the previous quarter to \$101.1 million in the current quarter. Our gross cash position has increased by \$26 million quarter-on-quarter despite repayment of a borrowing by \$15.5 million during this quarter. The total amount of outstanding hedges as of June 30, 2020, was equivalent to US \$152.6 million against US \$163.1 million in the previous quarter. With that, I come to the end of my presentation and open the house for questions and answers.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg:** Sandeep, good performance on both top line as well as on margins and I specifically wanted to focus on the cloud infra piece where you guys saw very impressive growth and something which you highlighted last quarter as well, can you help us understand was there a portion of this opportunity which was from near term reaction from clients as against the long term revenue scheme. How should we read the near term versus long term opportunity in the cloud infra space?

**Sandeep Kishore:** Yes, thank you Mukul, I would make some opening comments and then I will ask Harjott to add some very specific color. We now actually call it Digital Foundation Services, the CIS has actually most into Digital Foundation Services because we have added several new service catalog, for example, we have added digital engagement management, workplace management, cyber security into the erstwhile CIS which was digital operations and digital infrastructure, so we have broadened the competency and the service catalog in line with where we think the next generation investment among our customers are happening, that is one. Second, most of the contracts that we see and what we execute are long-term contracts, so we do expect the robust growth for period of time to come. Third, the pipeline in DFS as we had mentioned and we have been calling this out pretty consistently over the last few quarters is a very focused effort to build us as the next generation cloud infrastructure and Digital Foundation Services company, so our pipeline looks very good right now. As you called out, we have had some very impressive wins. We won three net new deals in our DFS business in Quarter-1 and that is coming at the back of a very impressive performance even last year so from where I see today, I do believe that given everything, our pipeline is given that we have won some pretty significance, we should expect to see robust performance in our DFS businesses.

**Harjott Atrii:** Thanks Sandeep. Mukul, I think Sandeep answered the question, but just to add to what he mentioned this is not a one-time, short-term project, these are all long-term projects which will have lot of downstream revenue impact as well. What has happened is because of COVID, the spend in certain projects which we were expecting in 2021 to 2023 has been pulled forward, so we expect this trend to continue and in fact expand.

**Mukul Garg:** Sandeep, one question on the margin performance and again the margin performance over last few quarters again have been ahead of I think even in your expectations. Just on the workforce reduction, your workforce has declined almost 12% over last three quarters, which all areas, have you optimized the workforce during this reduction and does this elevate the risk on the execution side while the growth will impact?

**Sandeep Kishore:** Yes Mukul, first and foremost, there is no execution risk at all, there is no supply side risk that we see based on everything that we track. We track this if you can imagine pretty much on a daily basis. The reason workforce reduction actually happened is we took a conscious decision in Quarter-1 not to replenish the normal attrition. I also called out that attrition itself went down from give or take 16.5% it went down to 13.5% or so, so we had a pretty good churn out there and because of the softness in retail and in some part of the financial services business, we took a conscious decision that we are not replenishing. I do expect our headcount to actually start growing up in the later half of the year, so we have enough capacity to execute right now. You

saw utilization is at about 82.2% in Quarter-1, it is down 1.3% sequentially, so we have enough firepower to execute and there is no supply side risk at all.

**Mukul Garg:** Which areas were you able to kind of optimize or not sell much. Was it mostly on the legacy side or on the sales side if you can just give us some color on that?

**Sandeep Kishore:** Largely on the legacy side Mukul, if you check the sector reporting, you will see our digital application legacy business has declined about 14.9% sequentially and 36.7% year-on-year on constant currency basis, so most of the decline because that is also where the client investment stops. As Harjott called out you will see increase in the Digital Foundation Services, also there is increase in our digital services on an annualized basis in the application business by about 4.1%, so you are right, the decline is actually in the head count of legacy business.

**Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum broking. Please go ahead.

**Madhu Babu:** Sir, high-tech has been a bit strong and top account appears to have grown, so could you talk more about what are the opportunities in the top account and what has led to the growth there?

**Sandeep Kishore:** I will make some opening comments and then I will ask Venky Ramanan who heads our global high-tech and manufacturing business to add some color on it as well. I think our high-tech growth is broadbased; it is not just on account of the top account, that is first. The second callout there is as in the earning call also, we had mentioned about that much the way we are seeing growth and investment in Digital Foundation Services, there is another track which is driving growth in high-tech which we call virtual systems of engagement. There is a lot of experience-led and collaboration-led investment which the tech companies are doing and based on both the acquisition that we had done, Indigo Slate in the US and Foolproof in the UK, we are positioned excellently to deliver experience-led collaboration platform build and development for the tech company and that is the reason for that growth that you see on high-tech which is 3.5% on a sequential basis on constant currency basis.

**Venky Ramanan:** Thanks Sandeep. Sandeep did allude to the areas or capabilities and scope of work where we saw growth. Answering your specific question, we held steady in the top account and our growth in high-tech primarily came outside of the top account. While in the top account, we are seeing good amount of pipeline and we hope to continue the trend. Thank you.

**Madhu Babu:** Sir, secondly on retail, I mean it has been a continuous downward spiral, so currently even now it is 12% of revenue, so would you say that further decline will be there in retail and one more thing on hiring from work from home that is very interesting, how do you plan to, can you give us more details about the people you are hiring in the Tier-2 cities and how the execution will be there?

**Sandeep Kishore:** I will answer the retail one then I will ask Vivek, our CHRO, to give you more color on a completely new work stream that we have onboarded, the talent of 100% work from anywhere.

So retail drop was in my view pretty much on the expected lines. When COVID hit in the latter half of Quarter-4, we knew that the first impact is on from our point of view at Zensar is going to be retail, we are not that much in travel, hospitality, or aerospace, those are the other big impact zones. We do no business there, so we were quite prepared that the retail is going to be very soft and it came pretty much on the expected lines. I should also callout that I do believe we are pretty much at the bottom level in retail and in the second half of the year you should expect to start seeing some growth, we now call it consumer services, so the pipeline has started building back up. There are investments which are going into the new areas as Harjott called in our Digital Foundation Services and also we are seeing a lot of investments into experience-led analytics, data, the CRO proposition that I called out earlier. It is pretty much aligned for consumer services, now that everybody has no option but to engage more with the digital and mobile and web platform. We think that our CRO proposition is very well timed to drive higher conversion, once the traffic comes on our customer's digital platform, so that is a quick callout on retail. Work from anywhere, Madhu Babu, we have been very pleased. We planned this pretty much for about three months before we launched. We launched this literally a few weeks ago and Vivek can you just throw some more color on that please.

**Vivek Ranjan:**

Thanks a lot Sandeep and thanks Madhu Babu for the question. Yes, indeed in fact as all of us know that the world is moving and shifting towards remote work and virtual workplace, we have taken the lead and we have pioneered what we call it as permanent work from home where we have hired more than 100 associates on a permanent work from home basis and they have been hired from Tier-2, 3, and 4 cities and in many ways what we are doing is path breaking while industry is talking about virtual workplace and permanent work from home, the associates we have hired are more working perspective and permanent work from home perspective are going to take lead for us from company point of view and also from industry point of view and as Sandeep mentioned, extensive work was done before we launched it and also we are engaging very comprehensively to ensure that our clients are well supported and also everything which we do from the perspective of learning and engagement all those initiatives are taken care of.

**Madhu Babu:**

Sir, are these freshers or these experienced people and have the clients given approvals because this is something new and actually we are interested in knowing because every firm is talking, but at least we have been the first to call out that the permanent work from home forces has been recruited, so just I mean on the client approval and what is the profile of this people?

**Sandeep Kishore:**

Let me add and Vivek you can then add on to this. The first is we have been very open and transparent with our customers, they are very open to onboard a new talent. It is the right thing to do for the long-term of our industry and the business. For the first time, we are taking jobs to where people reside rather than people coming to job in bigger cities. This is not going to be an India-only phenomenon, this phenomenon is going to be worldwide. We are piloting it in India in eight cities that we have onboarded with 112 fresher associates and they have been distributed across the two service lines between Digital Application Services and Digital Foundation Services. We are going to put them through eight weeks of training and then they are going to get deployed into specific customer programs.



**Moderator:** Thank you. The next question is from the line of Pranay Jhaveri from JNJ Holdings. Please go ahead.

**Pranay Jhaveri:** Sir, just wanted to understand how our margin profile would look maybe a year down or two year down as in this work from home concept, you will add more resources. Just trying to understand your margin profile?

**Sandeep Kishore:** If you recollect, we have given the guidance that latter half of the year we should be getting at 15% EBITDA, we are pretty much there. 14.9% core business EBITDA, earlier quarter we were at 14.6%. Our first focus is that we get to 15%, which I have committed in the earlier calls as well and I do believe it is going to be a sustainable level. There are some savings which will happen because of work from home, but you will also see some additional investments on training, additional investments on the deal pricing itself which will come because the new talent pool which is going to come in Tier-3, 4, 5 cities are at a differentiated price point and some of that benefit, we would want to pass it onto the customers particularly in specific large deal situation, so we do not call out specific margin guidance, but I think 15% EBITDA is a pretty sustainable level that we expect.

**Navneet Khandelwal:** In terms of this quarter performance on margins since the question has come on this, let me just call out few components on this. Basically there are three principal components to our margin expansion which has happened in current quarter. One is the strong control in our operations where we focused on aligning our cost in line with our revenues. You will see that the total headcount has gone down by approximately 500 people quarter-on-quarter and we did a very good job in terms of managing our workforce to our requirement in an environment where revenue was highly uncertain. Our efforts in increasing fresher availability, increased internal fulfillment, lean and automation too have started giving results. Also over the last few quarters, you would see that there is an increase in trend of offshoring which we believe will continue in the medium term. Second is, we kept a very tight watch on every spend that we do. We also looked at controlling our cost with a zero-based cost approach which has given results. The previous quarter also had certain higher charge on account of doubtful debts which is no longer there in the current quarter. Thirdly, travel cost which have come down in this times have also helped us, so we believe that even after all travel resumes, the cost will not go back to the pre-COVID levels and a good chunk of savings on this will continue on a sustained basis and as Sandeep called out in terms of the work-from-home perspective, yes, it also happens at a differential cost point, but our focus on margin stays and the target which Sandeep talked about is where we will always focus to be there at and that should be the long-term view on our margins.

**Moderator:** Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital Advisors. Please go ahead.

**V. P. Rajesh:** My question was regarding the margins, you were just talking about that 15% is the starting target, so what is the long-term plan and I am not looking for guidance, but I am generally asking

to understand what is the potential margin that you expect in the business let us say three to five years out?

**Sandeep Kishore:** Rajesh, as I mentioned in the earlier response as well that our first priority and the commitment that we have given a soft guidance was to get to 15%, based on everything that I see right now we do feel pretty good of getting that 15% done in this fiscal in the latter half of the year. Once we are there and how the business environment evolves, we are going to revisit it, but from now we are staying with the 15% guidance at EBITDA level.

**V. P. Rajesh:** Second question is on the wins that you had this quarter. Congratulations on that, I am just curious whether these were more penetration in your current accounts or you took market share from somebody else or it was captives being transferred out to Zensar, so if you can just give more color on the type of wins that you had that would be helpful?

**Sandeep Kishore:** Thank you for your compliments. Yes, we are very pleased with the \$150M+ of TCV, also we are pleased that our pipeline is very strong as I called out at \$1.5 billion. You will remember that the last time we spoke on the forum, the pipeline was about \$1 billion, so not only the \$150 million during the quarter, we also increased the pipeline. The win specifically has come as I mentioned from both categories, net new and the DFS which is our best-in-class proposition. In the Digital Foundation Services, we had three net new logos against global Tier-1 and Indian Tier-1, so we are very, very good and very sharp in uniquely positioning our digital workplace, digital engagement, and digital operations business. To give you a rough-cut about give or take 30% of the win is in net new and about 70% of the win is expanding our footprint into existing account and that also is the reason why our revenue from top 20 accounts has gone up. You would have noticed when I earlier called out that the top 20 accounts have gone up from give or take 61% to 65% of the revenue. So it is a clear strategy which we have been talking about on this forum many, many times that we want to work with fewer customers, growth-oriented customers. We are investing on client engagement teams and have trained them. In Quarter-1 we invested close to 12,000-person hours of training to train our client engagement teams to have sharper proposition. We have launched eight new propositions, so I think it is a balanced growth which we met from new and the existing account.

**V. P. Rajesh:** If I could squeeze in a question, the cash we have on the balance sheet, how are we looking to deploy that?

**Navneet Khandelwal:** Till the situation on COVID relaxes, we are clear that we want to continue deploying cash conservation measures and ensure that we have got sufficient liquidity available with us. In the past as we have always maintained that we are an acquisitive company and we are going to be using this cash primarily to look at targets in line with our strategy to fuel the growth, which we have consistently called out in couple of areas which is the digital software engineering area and the second is on the cloud and infrastructure are. So we will continue to look at potential targets in these areas from a growth perspective and that is where the cash would largely be used.

**Moderator:** Thank you. The next question is from the line of Karthik from Unifi Capital. Please go ahead.

**Karthik:** Sir, I am curious regarding the explanation for the core application which has almost reduced to 40 million of our top line revenue, so could you explain me more on why it has almost decreased from 63 million maybe four-five quarters back to 40 million right now and do we expect it to keep going down further?

**Sandeep Kishore:** Yes, Karthik as I was mentioning in one of the head count questions earlier, the decline is largely on account of the legacy work, particularly in COVID. This was anyway a less focus area of our client investment for long time and that trend I do believe is going to continue, so the decline actually has happened there, that is number one. Number two is also the retail impact that has taken place, so combined both of them is the impact on the core application services. Retail as I mentioned, I do believe it has started to stabilize and you should see stability in the medium term and medium-to-long term I think that business will grow up as well, so it is a temporary phenomenon. The investments into the applications for customers will continue, but you will see larger growth happening in the digital services than the core services.

**Prameela Kalive:** Thank you Sandeep. Karthik that is right, all of our customers who in the past have been investing in keeping their lights on their core legacy system have anyway started shifting their investments into digitization and modernizing their own core business. So while the legacy investments and hence what we do for customers in the legacy side is declining. They are shifting the funds and the focus to digitization and that is where we are already working with them, so while it may bring down the revenue from the core services what we will see increasing in the same client account is the digital business from the same customer as we run all the modernization programs for them.

**Karthik:** Thank you so much for the explanation, just to ask for estimation point of view so when do you probably see the growth exceeding the decline or more like now we have almost decreased to 130 million in USD terms from 150, so do you see it turning around and going forward to hit 150 like do you have any estimation, any time?

**Sandeep Kishore:** Karthik of course we give no guidance, but the entire endeavor has clearly been to stabilize the business, be very strong on operations, which is what the entire focus was in Quarter-1. I think we have done an excellent job as we have called out. The business will stabilize depending on how the Phase-2 and Phase-3 of COVID pans out. The pipeline looks very good as I mentioned earlier, so we should start to see some stability and as we had mentioned later half of the year, you start to see some moderate growth coming back in as well.

**Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking Limited. Please go ahead.

**Madhu Babu:** Just on the business structure how much would be attributed to like project based business and how much is more annuity, because there is always a project based filling and an annuity revenue, any metrics on that?

**Sandeep Kishore:** It is very difficult Madhu Babu to probably clearly hear, but if I understand the question you are asking for outlook on project versus time and material, is that right?

**Madhu Babu:** The project based business versus annuity business?

**Sandeep Kishore:** I think it is fair to assume that majority of our DFS business is going to be an annuity business. As Harjott was calling out earlier in the Digital Foundation Services, we are very focused on signing long term, almost committed contract because that is the right business model. It is also a part of our overall strategy to increase the annuity component of our company's overall business by signing close to 80% of the DFS business as annuity, that is first. The second is specifically into the DAS. In the Digital Application Services business, the annuity business is currently largely into the tech sector particularly where we have a pretty strong annuity firm, our Tier-1, Tier-2 customers there and also the banking sector, the banking sector also has a good amount of annuity. Insurance because of Guidewire and retail has its own nuances, they are pretty much on the project. Guidewire is a project implementation which gets done in different modules, but overall strategically I must tell you that our focus is to increase our annuity business over a period of time. If you take another look at the data, you will see that trending, Madhu Babu, coming in reasonably clearly what we call out as fixed price versus T&M. Fixed-price has actually been going up, it has gone up by about I think about 2% point even on a sequential basis, largely driven because of the DFS growth, so it started to show off there, it is also gone up by close to 400 basis points on an yearly basis.

**Madhu Babu:** Sir, one more question, earlier we were acquiring to boost the horizontal capability, now I think with a very large cash balance would we look to add any vertical capability, because retail as such now has become very smaller, so on DFS side would you like to add any capability because DFS has been subscale for us?

**Sandeep Kishore:** All options are on the table, I think we are looking to acquire competencies that we do not have. The clearly called out areas are cloud infrastructure, the DFS business as we called out, and the digital platform engineering which can play into the technology sector as well as the DFS sector, the enterprise CTO as what the industry calls it, so we are looking to acquire unique and differentiated capabilities that can help us into Tier-1 accounts, both in technology as well as DFS. I must also callout that during the quarter in Quarter-1, we have onboarded a new business head for our global financial services business, who has joined us in the middle of June, so we are redoing a very aggressive go to market strategy in the global FS segment.

**Moderator:** Thank you. The next question is from the line of Devang Bhatt from ICICI Securities. Please go ahead.

**Devang Bhatt:** Sir, when you say revenue growth will improve from here on, are you talking about QOQ basis or a YOY basis, and would you be YOY basis positive in this year, do you expect that, and the second question is that you have reduced your debt by a good amount, are you planning to further reduce that debt?

**Sandeep Kishore:** On the revenue growth, we are talking about QOQ basis, we give no forward guidance, however based on all the pipeline and trajectory, you will start to see stability in the near-term and growth also in the latter half of the year, so overall it is very difficult to predict where we will land from an yearly basis, but we are pretty committed to convert the pipeline into deals and wins. On usage of cash, Navneet also called out earlier it is more towards M&A. We are watching the COVID situation very clearly and it is a very conservative approach to make sure we have cash needed for both growth of the business as well as for M&A capability.

**Navneet Khandelwal:** In terms of the debt that we have in our balance sheet as of June 30<sup>th</sup>, half of that is actually a long-term debt which has its own repayment plan and will get repaid in line with that plan and the balance is more a short-term or a working capital kind of a borrowing that we have kept and that is just to ensure we conserve cash during this times of COVID and we are prepared at any point in time to be able to raise any quantum of funding we need to fuel our ambitions on acquisitions. So that is how it is kept and we will keep reviewing it accordingly and take a call. Right now, we do not have any specific plan to make all the debt zero at this moment and we continue to see some component of debt in our balance sheet on a go-forward basis.

**Moderator:** Thank you. The next question is from the line of Amit Chandra. Please go ahead.

**Amit Chandra:** Sir, my question is related to the banking and the insurance vertical, so specifically on the banking vertical, we have seen some softness in last three quarters and particularly if you can give some more color on what is happening on the insurance side and how Cynosure has been performing because we had expectations from that acquisition and also any particular reason for the drop in banking in this particular quarter, was it any plan specific or it is just the impact of COVID?

**Sandeep Kishore:** Thank you Amit, I will take the last question first, it is largely a COVID impact that is first because the projects which get over normally get renewed, but because of the COVID customers who want to preserve cash they delay the onboarding of new programs and new modules and new systems, so that is what has happened here. The first couple of questions that you asked, the Cynosure acquisition is actually doing very well and we are winning. Even in the last quarter we won both in existing account as well as one net new account with our Guidewire competency. As we had earlier called out in the last quarter itself, we have improved our partnership level with Guidewire, so that is another very good sign because we have won new businesses, we have also increased the architect and solutioning capability with Guidewire. Third callout, I mentioned in the earlier question that was asked by Devang is that we are very serious about increasing our footprint into global financial services and insurance market, and with that in view we have hired, Nachiketa Mitra, who is now a public domain knowledge from Cognizant to lead our global financial services business. He is here in New York and we are redoing our entire BFSI strategy. So you will start to see, it will take us a few months, but you will start to see a very renewed and a differentiated focus coming in Zensar on the global BFSI.

**Amit Chandra:** Sir, my second question is related to the onsite-offshore mix, as you said that there is a chance of increasing offshoring, so structurally if you see our business model has been onsite heavy, for

several years it has been in the range of 65:35 percent, 65 onsite and 35 offshore, so what factors will actually lead to of offshoring apart from COVID or is there a change in the delivery model or change in the client requirements, so what are the factors structurally that will drive offshoring?

**Sandeep Kishore:**

I think if you have seen the trending, Amit, even in the year-on-year basis, our offshoring revenue has actually gone up from give or take by 300 basis points or so, so we are driving more and more work offshore by design to improve the stickiness of the business and of course margin of the business as well, that is one. Second, the broader commentary on this is based on the US immigration situation, you will see, I mean there are two point of view. One is of course as a company which does 75%-76% of the business in the US, we are very committed to hire in country, US, UK, South Africa, but the talent supply which is needed for our customers to deliver what they want will need the customers to leverage more offshore as well, so there is a structural shift which is happening and hence what the earlier callout that we had done that we really need to get ahead of the curve and start investing into onboarding and creating a new set of talent pool which is what we call, work from anywhere and that is why we have onboarded pretty much on a experiment basis 112 and as soon as that settles down and they get productive, we are going to speed that up and scale it up, so I do believe given everything that I see offshoring will actually increase.

**Amit Chandra:**

Sir, the last question on the margins bit, in the margins the EBITDA margin scaled up to 15% so in terms of the component thing and also in terms of subcontracting, still the subcontracting is at a higher level for us versus peers, so is there any visibility to cut the subcontracting down and with this immigration issue, can we see the companies structural dependence on subcontracting to increase?

**Navneet Khandelwal:**

So far as on the margin piece, I had called out the various levers that we have worked on and we continue to work on, so we believe on a steady state basis in the long-term 15% is an EBITDA that we will hit and largely it is being done through various levers that we are working on in terms of pyramid correction, lean and automation, and ensuring that we are using internal fulfillment as one of the levers and increased offshoring which also Sandeep called out. In terms of subcontracting mix if you will see in line with the decline that you have seen in revenues, the subcontracting cost also went down on a quarter-on-quarter basis. We keep on looking at that cost to see how there are ways of optimizing it and we will continue to work on that and this should in view of the visa regime and everything else should move in some kind of an narrow band, but from a margin perspective with all the levers that I have already called out, we should be able to sustain the level that we have set for ourselves.

**Prameela Kalive:**

Thank you Navneet, so like both Sandeep and Navneet have called out as we are working towards shifting our onsite-offshore mix driving more of offshore, also shifting our business mix from reducing the dependency on projects and increasing the more annuity businesses, we will see the dependency on subcontractors also come down. Third element we are beginning to see now, our customers are more open because COVID has been a catalyst for them to be more open to allowing us to drive more offshore, so that trend also we see in this new term. It will help us

in driving the subcontractor cost down, so I think it is a trend that in the medium-term we do will see the shift.

**Moderator:** Thank you. The next question is from the line of Deepak Mehta, Individual Investor. Please go ahead.

**Deepak Mehta:** My question is as the L&T Infotech as compared to big competitors such as Infosys, Cognizant, and other is a small player, so there will be vendor consolidation at the client side, so how well our company is planned and positioned, and my second question is that if you know that recently Cognizant has been attacked for ransomware, how prepared is our company?

**Sandeep Kishore:** Sure Deepak, I assume you meant Zensar so I am going to answer this question on Zensar behalf, I think vendor consolidation is as much an opportunity as it is a threat, it is a business reality. Our focus is very sharply in the existing, we have 24- \$5M+ accounts, we want to grow that foothold and these are all large global 1000 companies by and large. There are enough opportunities in those companies of the vendor consolidation of companies which are even smaller than us. Most of these are large Tier-1 banks or insurance or technology or even the retail companies and we are seeing very good traction, based on the digital work, the cloud infrastructure work and the experience work that we do, so currently everything that I see I think from a Zensar point of view it is a significant opportunity for us to grow market share in all the three regions in South Africa, UK as well as US.

**Navneet Khandelwal:** As you are aware, there is an increased level of attacks which are happening post the COVID crisis and the risk around this has increased, however, we have also strengthened all our systems and processes around it, so we understand that there are challenges on account of insecure home networks or malwares and ransomwares, phishing emails, and unauthorized access, so to curtail all of this we have put a complete comprehensive program to ensure that, number one, from a technical perspective all our firewalls and our monitoring and the technological interface that we have is best-in-class, so that upgradation towards that has been undertaken, that is one. Number two is we continue to have a vulnerability assessment and penetrative testing of our server and network environment both from a defensive and offensive security perspective where we use ethical hackers to hack particular systems and see whether there are any vulnerabilities and identify and fix them. In terms of also work from home, there are additional enhanced security measures and monitoring tools which have been introduced, so that we are not prone to any such attacks. The third most important element is awareness and that is what is also a big focus from a personal awareness perspective that all the employees are aware as to how do you deal with particular emails you get and there are associate trainings which each of the associate is asked to go through and certifications associated with it which they have to necessarily take, so with this we have done a comprehensive view of our entire security landscape and we believe that we have a pretty robust system and mechanism. In addition to that, we always look at various external measures in terms of reviews from external agencies with respect to how our security protocols are and ratings which agencies give which are also at par or better than the industry average is what I would say.



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**Moderator:** Thank you very much. Ladies and Gentlemen, that was the last question for today. I will now hand the conference over to Mr. Sandeep Kishore for closing comments.

**Sandeep Kishore:** Thank you very much , great to talk to all of you and wish you and your family to be well and healthy and please keep safe, talk to all of you again next quarter. Thank you so much for joining us.

**Moderator:** Thank you very much. On behalf of HDFC Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.