



“Zensar Technologies Limited
Q2 FY’21 Earnings Conference Call

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ANALYST:

MR. RISHI JHUNJHUNWALA – LEAD ANALYST IT SERVICES –
IIFL INSTITUTIONAL EQUITIES

ZENSAR

MANAGEMENT:

MR. SANDEEP KISHORE – CHIEF EXECUTIVE OFFICER &
MANAGING DIRECTOR

MR. NAVNEET KHANDELWAL – CHIEF FINANCIAL OFFICER

MR. VIVEK RANJAN – CHIEF HUMAN RESOURCE OFFICER

MS. PRAMEELA KALIVE – CHIEF OPERATING OFFICER

MR. HARJOTT ATRII – GLOBAL HEAD OF DIGITAL
FOUNDATION SERVICES (DFS)

MR. NACHIKETA MITRA – GLOBAL HEAD, BFSI

MR. SHIRSHENDU DEB – GLOBAL FINANCIAL CONTROLLER

MR. RISHABH MISHRA – HEAD OF CORPORATE
DEVELOPMENT

Moderator: Ladies and gentlemen, good day and welcome to the Zensar Technologies Q2 FY'21 Earnings Conference Call hosted by IIFL Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishi Jhunjhunwala, Lead Analyst IT Services at Internet Sector from IIFL Institutional Equities. Thank you and over to you Sir!

Rishi Jhunjhunwala: Thank you Janis. Good morning everyone. It is a pleasure to host the senior management of Zensar Technologies for this Q2 Fiscal '21 earnings concall. Today, we have with us Mr. Sandeep Kishore, MD, and CEO of Zensar; Mr. Navneet Khandelwal, the CFO; and other senior management team members. With that, 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 a brief update on the Q2 results. Over to you, Sandeep!

Sandeep Kishore: Thank you, Rishi. Hello and Good Morning everyone. First and foremost, I hope and pray you and your families are doing well, keeping healthy and safe in these challenging times. Thank you for joining us today to discuss Zensar's financial results for the Second Quarter of FY21, ended September 30th, 2020.

On the call, I have with me from the Zensar Management team – Navneet Khandelwal, CFO; Vivek Ranjan, CHRO; Prameela Kalive, COO; Harjott Atrii, Global Head, Digital Foundation Services; Nachiketa Mitra, Global Head BFSI; Shirsendu Deb, Global Finance Controller; and Rishabh Mishra, Head of Corporate Development.

All of us at Zensar continue to send our deepest gratitude to everyone on the front lines of the pandemic, all around the world. Our thoughts and prayers are with everyone who has been impacted by COVID-19. I also want to personally thank all our employees who continue to work so hard for our clients and their businesses. As COVID continues to present great risk and uncertainty to individuals, communities and businesses, empathy, agility and resilience has become a hallmark of our response to it.

Before I take you through our Q2FY21 performance, I'd like to announce that we recently divested our global Third-Party Maintenance (TPM) business to Service Express LLC as part of our long-term strategy to focus on our core business which comprises of Digital, Cloud and IT services. Service Express is a U.S. based leading provider of TPM services and is suitably placed to grow the TPM business.

Last year we had divested our RoW (Rest of the World) business and with TPM business being divested, we are at an even better position to execute on our strategic priorities and meet changing demands of the marketplace and our customers. As disclosed in our filings with the stock exchange –

the estimated loss from this transaction will be in the range of USD 11 to 13 Mn. This business contributes approximately USD 6 Mn a quarter to Zensar's revenues. However, it is dilutive to our EBITDA and PAT margins. The transaction will improve our liquidity & our margin profile.

It has been 2 full quarters since COVID was declared a pandemic and we rapidly moved to a 100% work from home model. This enabled us in ensuring safety of our associates as we mobilized to monitor and provide 24*7 support and assistance through our digital native platform. As a part of our response, we had instituted the COVID Nerve Center, which focused on six broad themes: Associate wellness, Business continuity, Client management, Cyber security and data privacy, Business opportunity and Cash, liquidity and cost management.

With systematic structure and rigorous cadence in place, we have become better equipped in dealing with the new normal. At the same time, we continue our efforts in improving operational efficiency and launching client first initiatives to drive effective client mining. In a highly uncertain environment, where economic activity was restricted by global lockdowns, we executed well and delivered strong operational performance in the second quarter. We posted solid margins and robust cash flow while strengthening our balance sheet, innovating for our customers and investing in the future.

Zensar posted a 0.6% increase in its revenue which stood at USD 131.6 Mn. This puts us back on the positive-growth trajectory and we believe we are strongly positioned to continue this growth trajectory. Our digital revenue continues to grow as a percentage of total revenue and now stands at 61.0% of our total business and witnessed a sequential increase of 3.2%.

Q2FY21 was marked with unprecedented improvement in our margin profile. Our Gross Margin in Q2 was 34.1% of revenue compared to 28.8% in Q1, a 19.2% increase sequentially and 1.2% on yearly basis in USD terms. We surpassed the 15% EBITDA target delivering a 18.8% EBITDA margin in Q2. This is a staggering 440 basis point increase on a sequential basis. Our teams continue to focus on cost conservation, leveraging the key-levers across the spectrum optimizing the direct as well as operational costs. Our core EBITDA stood at 19.4% which is a 450 basis points increase on a sequential basis.

We posted our highest PAT margin in the past 8 quarters at 9.1% amounting to USD 12.0 Mn, marking a growth of 24.0% sequentially and 5.7% on a YOY basis in USD terms. This does not take into account the negative impact of exceptional items on account of the TPM business divestment amounting to USD 11.9 Mn. PAT margin for the core business stood at 9.4% of revenue.

While Navneet will talk more about our cash status, our collections have just been phenomenal, thanks to our teams and our clients. We continue to focus on improving our collections which have improved significantly in the past few quarters. Our DSOs stood at 76 days at the end of Q2FY21, which is an improvement of 26 days on a YoY basis.

Our pipeline continues to be very strong and healthy at USD 1.5 Bn+ with several large deals in the mix. We continue to see traction in the demand side environment with an increased demand for digitization and cloud services across our clientele. Our order bookings in Q2 was solid at USD 175M, with some impressive wins – both net new as well as new wins in existing clients.

Europe and South Africa regions grew significantly on a sequential basis at 8.1% and 6.0% respectively in US Dollar terms. We saw continued traction in our existing as well as a few new accounts which provides us hope of a stabilized and renewed demand side environment. A favorable exchange rate environment helped the growth in Q2. Our retail vertical had bottomed out and this quarter, we saw an uptick, recovering by 12.8% QoQ.

This quarter, we saw the early signs of stabilization as our clients are slowly bouncing back. The situation that COVID has created has made it certain that digital and cloud is where the growth is. COVID is accelerating digital economy and we expect to see the impact on our cloud business with healthy deals in pipeline. To commemorate launch of our Digital Foundation services, which is aimed at helping our customers in their journey towards digitalization and adoption of Enterprise 4.0, we organized a Virtual Launch Event on August 18th which was attended by 64 External Attendees, 52 Analysts & Advisors, 10 Investment Firms. The feedback on the event showcasing our capabilities and strategy received outstanding feedback. DFS grew by 11.4% on a YoY basis while Next Gen Infra services grew at 33.0% YoY, all in US Dollar terms.

Client centricity continues to remain the cornerstone of each and every initiative Zensar undertakes and forms the very core of our strategy and go-to market. We have left no stones unturned to be relevant and value accretive in every conversation that we have. Our revenues from one of our top 5 customers declined during the quarter. This was primarily because of slowdown in the customer's own business. Other than that, we saw an overall quarterly growth of 2.8% in revenues from the rest of our top 20 customers. Our number of 5M+ clients continues to be at 24.

Our global headcount at the end of Q2FY21 was 8614. Our voluntary attrition declined sequentially and stands at 11.7%. It was 13.5% in Q1. We also welcomed our new batch of associates from top B-schools in India and strengthened our teams by hiring at various leadership positions to expand our business strategically. Last quarter, we had pioneered and onboarded 112 associates under work from anywhere model and I am glad to inform you that all of them have been integrated with client projects across the spectrum.

In these difficult times, we have made a mark by being extremely empathetic to our clients' needs and have focused all our efforts to provide them tailor made solutions for their evolved requirements, focused on cost conservation and rapid digitalization and cloud movement. Therefore, we feel confident in our ability to come out of these challenging times and continue to deliver value to our clients and community.

With that, I will now invite Navneet, 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. I welcome you all to our Q2 FY'21 earnings call. I hope you and your families are keeping safe. In addition to Sandeep talking about the business, I will take you through some of the details on financials.

In Q2 of FY'21, we have reported revenue at Rs. 9,794 million which reflects a sequential decline by 1.2% and a year-on-year decline by 8.7% in rupee terms. In US dollar terms, the reported revenue stood at USD 131.6 million for Q2 reflecting a 0.6% sequential growth and an annual decline of 13.6%.

In constant currency terms, the revenue declined by 0.6% sequentially and 12.8% annually. The US dollar realization during the quarter has been 74.4 per dollar against 75.8 in the previous quarter. The year before in the same quarter, it was Rs. 70.4.

Our gross margin for this quarter was 34.1% as against 28.8% of previous quarter. Expansion in GM by 5.3% sequentially was largely driven by operational efficiencies resulting in direct cost optimization, improved utilization and favorable exchange rate impact.

Our offshore revenue mix has improved sequentially by 3.1% and 4.7% on a year-on-year basis. The effective tax rate for the quarter is at 26.5% as against 26.2% in the previous quarter. For the quarter ended September 30, 2020, billed DSO increased to 55 days as against 49 days in the previous quarter while DSO including unbilled increased by one day to 76 days as against 75 days in the previous quarter. Compared with the same quarter, a year before, it has reduced by 26 days.

For the half year ended Q2 FY'21, operating cash flow grew by 154.8% to Rs. 4810 million against Rs. 1888 million for the corresponding half year of FY'20. This demonstrates our continued focus on collections and better working capital management. Our operating cash flow as a percentage of EBITDA stood at 147% as against 63.8% in the half year ended Q2 FY'20 and free cash flow as a percentage of EBITDA was 137.8% as against 48.2% in the half year ended Q2 FY'20.

Cash and cash equivalent including investments in mutual funds net of the borrowings increased by USD 16.2 million from USD 101.1 million in the previous quarter to USD 117.2 million in the quarter ended September 30, 2020 which is an increase of USD 103.9 million on a year-on-year basis.

The total amount of outstanding hedges as of September 30, 2020 was equivalent to USD 172 million against USD 152.6 million in Q1 FY'21. As of September 30, 2020, we have classified our TPM business as an asset held for sale, consequently a one-time charge amounting to USD 11.9 million being the excess of carrying amount including goodwill over the recoverable amount has been recognized in the P&L as an exceptional item.

We expect the disposal of this business to be concluded upon fulfillment of the closing conditions during the quarter ended December 31, 2020.

With that I come to the end of my presentation and open the house for questions and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Thank you and congratulations on a really good margin performance. Sandeep, I wanted to start with that element on this quarter, you have taken a massive improvement in operating margins, if you can help us understand how sustainable that is because when you look at the drivers, it seems like there is a big contribution from offshore shift as well as the lower employee count, both of which might have hindrance in growth unless you will move in the other direction, so if you can just help us understand exactly how we should look at it over a longer period of time?

Sandeep Kishore: Thank you Mukul. I will get Navneet to give more color, but you are right, we are very pleased with the overall margin performance, it was a significant improvement, as I called out, of 440 basis points over the last quarter and roughly about 480 basis point year-on-year. There are many levers of that, off-shore is one as you know, from the beginning of the pandemic a lot of work has increased particularly on the digital side and the cloud side and the only way you can get it done at capacity is leveraging offshore. It is much easier done during the pandemic because anyways it was work from home even at an onsite. So, I do believe that there are levers available for us to maintain and put it in the range but let me call Navneet to give you next two to three levels of details on why we feel positive about the margin. Navneet, do you want to add some color on this?

Navneet Khandelwal: Sure Sandeep. Mukul, our margin expansion is largely based on the direct cost optimization which is evident in the gross margins completely and that is through the continued focus on operational efficiencies, tight cost control measures and driving key operating parameters in aligning our cost with our revenues. You will see that we have been able to optimize headcounts which has gone down by 413 people quarter-on-quarter, 267 out of which is at onsite. A good chunk of this reduction at onsite has happened in our subcontractors, actually our subcontracting cost as a percentage of revenue has declined from 15.6% in Q1 to 14.2% in Q2. So, our offshore mix has also increased quarter-on-quarter by about 3.1% which has added a positive impact on margins. We continue to put our efforts in automation and digitization to enhance productivity, which has helped in driving our operational efficiencies. We also have benefited from reduction in travel and other discretionary costs which has come down in these times. We believe that even after all travel resumes the costs will not go back to the pre-COVID levels and same will continue. So, in summary while there have been certain tailwinds which have helped improve our margins, we do have sufficient levers to mitigate the impact thereon and we also have a good chunk of our revenues from fixed price contracts which helps to

drive particular actions. So, we look to sustain these margins within the narrow band in the coming quarters is how I would summarize it.

Mukul Garg: Right so, if I look at your margin guidance of 15% that has clearly been breached by a wide margin, is there a new band you guys are targeting now for medium-term or you also believe that the margin will probably go back to the previous guidance band?

Navneet Khandelwal: Mukul our endeavor is to try and show consistency in these margin levels for few quarters so right now we are not setting up a revised target per se, the way we used to articulate earlier. We do monitor this, and we stay fully committed to ensure that we stabilize the margins at these levels. So, going ahead, after a couple of quarters probably we should be able to indicate what could be the long-term margin you should target at.

Mukul Garg: Understood. Sandeep, if may I ask one more question on the growth element, if you look at the growth performance over the last three to four years, it has clearly lagged peers despite continuous robustness in deal wins and deal pipeline so this was more on the longer term, if you can do a bit of crystal ball gazing over the next two to three years where do you exactly see yourself because we have been hearing for a while now in terms of the growth improvement but that clearly has proven a bit challenging?

Sandeep Kishore: I think Mukul, we are very committed to get back to the growth as we exit this particular fiscal year. There is a complete rehash of our financial services strategy, that is why we have Nachiketa on board to completely redo it. Also, in our DFS business, which is our cloud business, we have excellent pipeline and hopefully we will win and convert. I think in this particular quarter, and I called this out in my commentary as well, if we exclude the impact from one of our top five customers, the growth actually has been pretty good, it is 2.8% on a sequential basis. That particular customer, one of the largest customers amongst the Hi-Tec customers, has had a challenging business environment and we had talked about it even in the last call, that the business from that client will be paused for near to medium-term. We are trying to see how fast to mitigate it and outside of that customer, we actually do quite well even in Q2. So, we are very committed to get on the growth curve led by our cloud business, financial services and of course the entire investments that we have put into digital, that is why you continue to see expansion in our digital services business as well.

Mukul Garg: Understood. Thanks for answering my question and best of luck for remainder of the year.

Moderator: Thank you. The next question is from the line of Ameya from IIFL Institutional Equities. Please go ahead.

Ameya: Good morning. Thank you for the opportunity. Could you give us some color on the near-term demand trends that you are seeing within each of your verticals and in particular what is driving the strong sequential growth in banking and insurance?

Sandeep Kishore: Our pipeline continues to be very strong, it is about USD 1.5 billion, I think, last time when I talked, it was in the same range, we had won about USD 150 million, this time we have won about USD 175 million. However, the shift actually is that a lot of those deals has moved to much more advanced stages now than they were the last time when I talked to all you. So, I feel very good about the conversion from the pipeline both in our cloud business as well as in our financial services business. The underlying philosophy is, there are some reasonably advanced staged deals in the cloud segment and I will call on Harjott to give you more color on cloud and after that even Nachi can add on what we are seeing in the financial services to answer the second question you asked. Harjott, first you!

Harjott Atrii: Thanks Sandeep. We have significant number of deals in the pipeline which are in the back of stage set for Q3 and Q4. There is a lot of demand and these deals are in Next gen and high margin profile. We are doing well as a DFS business there. A lot of our business is primarily experience centered with regards to employee experience, customer experience as well as cloud transformation services and multi-cloud and hybrid-cloud management. So, that is where we are seeing a lot of demand coming for the DFS business and that is across our stated verticals which are BFSI, Hi-Tech and Retail, where we are seeing this demand as well.

Sandeep Kishore: Nachi, do you want to give a color on the growth in the FS sector, insurance and BFS?

Nachiketa Mitra: Thanks Sandeep and thanks for the opportunity. This is my first analyst call. I am very excited to be part of Zensar. I'm still settling down, it has been just a little over three months but during this time I have been meeting lot of the clients, the team, the solutions that we have for the market and I feel very excited about the state of what we have and the opportunities that I see in the market. As far as the growth that has happened, it has primarily been driven by existing clients – we have added two new clients in the insurance segment, but most of the growth has happened from existing clients where we are doing more work and we of course focus on expanding the math, going into newer customers in the space and we will continue to report as we progress.

Ameya: Thank you. That was quite helpful. If I may just chip in with one more, the COVID pandemic seems to have only accelerated the need for businesses to accelerate their transformation initiatives, so based on what you are saying, are you seeing some sort of expansion in the client's technology budgets to accommodate these initiatives?

Sandeep Kishore: Let me take that Ameya. Overall, the short answer is yes. That is all more towards cloud and digital, experience, data and less on the legacy stack. Overall, as you feel, even Gartner and ISG talked about significant activity in the deal size and expansion in the IT spend in the calendar year 2020-21. So, the spend is there, absolutely yes and it is more towards the offerings that we talked about, both on the cloud as well as on the digitization side. It is less on older and legacy side.

Ameya: Thank you. That is very helpful.

- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** Sir, on the top account softness, how should we see 3Q because I think that is again a furlough quarter, so the thing is, you have manufacturing and have furlough there so how is this top account going to stand. Second, on your incremental, I think the net cash has now surged to new heights, so if you are looking at the further bolt on acquisitions, which are the areas where you want to look at? Thank you.
- Sandeep Kishore:** Sure Madhu Babu. Look, we have mentioned it for our top customers as well. Their business is soft as is widely known and we have been able to maintain wallet share in that account and we are holding quite well. Their overall spend has come down and that is the reason you feel softness on that. In spite of that softness, I think in Q2 we did well. You should expect softness to continue for at least one to two more quarters, this anyway is a furlough quarter, but I am just talking from a broad perspective. We are working very closely with these customers to make sure that we are aligned strategically to them in their core business process, in tech ops, in data as a service category, as the customer tries to transition. So, we are working very closely but their business is soft and you should expect softness in the Q3 and Q4. But as we go into the next fiscal year, I think we have seen many cycles that the customers reports. So, we should be able to manage it. Second part of your question is, cash, yes, we are very pleased with the net cash which has gone up as Navneet explained by over USD 100 million and we are an acquisitive company. There are two areas of acquisitions that we are looking at, one is to bolster our cloud business, the digital foundation services as we call it, particularly into the Azure and the GCP stack and the second is in the digital software engineering area and we are very actively looking to do bolt on acquisitions in both of these.
- Ameya:** Secondly on the work from home experience I think we are the only company to get that, we are hiring freshers directly on the work from home, so how is the experience and post-COVID, how do you see the delivery model evolving?
- Sandeep Kishore:** I will get Vivek to answer the experience part first and then Prameela can add the delivery model evolution. So, Vivek first you please.
- Vivek Ranjan:** Thanks a lot Sandeep. Thanks a lot, that is a great question. Yes, we have been pioneering in terms of enabling work from home permanently for freshers and I am pleased to let all of you know that the experience has been fantastic. In fact, it is well received by everybody and all our associates are very engaged and are also assigned to projects. So, to answer your question it has been a fantastic experience, and everybody has given a very positive feedback.
- Sandeep Kishore:** Prameela, you want to add to that.
- Prameela Kalive:** Thank you. I will just add to what Vivek has mentioned. We are seeing that delivery models may evolve very differently post the pandemic. While we all move to the 100% remote working model, we

believe when the pandemic opens up, the model will mature more towards something between 100% remote versus centered around our centers – it will be largely much more than what we have seen in the past. We are already moving towards distributed agile teams working partially from home, partially from different locations globally. As we see this model settling in and we are seeing a lot of innovations on the digitization phase as well, which is going to allow us to continue to drive this large remote model and we are seeing the innovation of Zensar is also gearing up a lot towards continuing to be in this distributed delivery mode.

Ameya:

Thanks.

Moderator:

Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala:

Thanks for the opportunity. Sandeep, one question around your deal wins. First of all, clarification if these deals include renewals, but more importantly you have talked about one and half billion dollars of pipeline and if I just annualize the deals that you are recording right now it's almost 50% kind of conversion. So, where do you think that conversion rate could move up to and the pipeline could move up to over the next 12 months to 18 months and what steps you are taking to do that?

Sandeep Kishore:

Thank your Rishi. First is yes, it does include renewals, we have been very consistent about our deal wins for several quarters now - the way we have reported includes renewals because of some very large customers and also because renewals are largely through competitive process, so it is not that we just take renewals on the face value. So yes, it does include renewal. Also, we track roughly on an average of 45% to 55% renewal and new wins. It has been trending reasonably in the same narrowband for several quarters so half of it you can assume are new wins which are instrumental and the other is renewal of existing business. Our bid to win is actually quite good, our endeavor is to expand that 1.5 billion size itself. You would recall, and we have been publicly talking about it as well for several quarters now, it used to be about under a billion, then it trended up to a billion and last two quarters it has been a billion and half, we have stabilized it. As we expand more into our financial services, as Nachi settles in and he has now hired an amazing team, I do feel very confident that both financial services and are our cloud business should start to see an upward trend in the pie of the overall pipeline. We strive to maintain our win rate; our win rates should look up as we go into the next 12 months or so.

Rishi Jhunjhunwala:

The other question goes back to the relation between or the balance between the investments and margins so two part question to it, one on the headcount side we have seen significant reduction over the past 12 months, utilization also are kind of already at 83% to 84% levels, so the deal pipeline in mind with the kind of recovery that you are seeing, do you think that we need to go a bit more aggressive in the hiring side and in which case, how do you intend to manage the gross margins and any potential wage hikes that are upcoming in the next two quarters to three quarters?

- Sandeep Kishore:** A lot of questions, but let me try and answer and if I miss something then please do remind me. I think the last question first, yes, we are going to do wage increase from January 1, 2021 for Zensarians around on the world. The business has stabilized. We have done very well as we know on the margin and the cash size. So, we are going to be doing the wage increase from January 1, onwards. The second part of the question, on the levers, you are right, I think the utilization is in the band at peak, we are in the 83+ range, there is a little bit of chance to do better there. I think to me, there are a few big levers which I feel very good about: offshore in the pandemic time period actually has increased, it used to be 35% of our revenue, has gone up to 38% plus and I still think there is room to do more there. That is one lever and the second lever Prameela talked about is the automation and the third lever is our wins in the DFS business, which is the cloud business, is largely fixed bid managed services wins and our ability to drive better margin as I have always maintained is much higher when you are running programmes end to end. Close to 90% plus of the DFS business comes in the managed services range. Unlike the digital application business, the enterprise digital, where there is still a lot of capacity and time and material, whereas the cloud business is largely on the fixed scope and managed services and outcome led. So, we still have margin levers available and that is why when Navneet was giving commentary, while we are not reviving our guidance of EBITDA, but based on what has been the performance and based on what we see ahead. We have enough levers available to be in the narrow pack.
- Rishi Jhunjhunwala:** And lastly, on sales and marketing, if you really look at it, you are probably in the lower quota in terms of spending on sales and marketing as percentage of revenues compared to the sector. With the kind of traction, you are you're seeing will you still able to manage this kind of an expense, do we think of doing incremental investment there or are we optimally invested on those channels?
- Sandeep Kishore:** We will invest more. You are right, I think there is room for us to invest more and we will invest more in sales and marketing. As Nachi has settled in, we have already hired there, even in our DFS business, in our consumer tech now that the consumer services business has stabilized so, yes, we will invest more.
- Rishi Jhunjhunwala:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec Capital. Please go ahead.
- Nitin Padmanabhan:** Good morning everyone and congratulations for the solid margins. First is, just wanted your thoughts on, with the deal wins coming through and we sort of being between closer to 50% net new. By when do you think will you be pre-COVID in terms of revenue and start showing year-on-year kind of growth level. Do you think there is still some time towards the end of next year or it is likely to happen earlier?
- Sandeep Kishore:** Nitin, thank you. We are all very committed at this time to win. We have a very good pipeline. So, our immediate focus is to get those conversions done. If you recall, our exit in to the last fiscal was

about USD 140 M or so, that of course included the TPM business. We are some way away compared to where we want to be, but, I feel very good that we should be able to get there sooner than later for sure.

Nitin Padmanabhan: Sure, and I think if you look at the prior year, we had headwinds within the retail or consumer vertical and now for the next two quarters we will probably have headwinds from the top client. Just wanted your thoughts on, from our portfolio perspective, do you think the underlying churn that we have been seeing for so long is largely towards the end of it and we should start seeing the incremental growth and number two is I noticed that there were couple of high-tech based deals in the presentation. Is that likely to counter the decline in the top clients entirely?

Sandeep Kishore: Nitin, the top client if we keep that aside, in the rest of the business, which is our consumer services business, Insurance business, Financial services business or Cloud business, we feel very good that you will see growth. The top client is soft, and I mentioned earlier, will remain sort for at least in the medium term, two quarters or so. We also have furlough in this quarter which normally the top clients any way exercise. So, our focus is, a) maintain wallet share in the top clients, very clearly, b) is to grow as fast as we can outside of the top clients so that we try and mitigate the risk the best we can. The pipeline is very good, our win rates are very good, so, our entire focus from the management team is to complete the win and push the growth curve back to where we need to be.

Nitin Padmanabhan: Sure, and just one last one if I may. On margins, are we suggesting, that despite compensation increases in Q4, will still be in an a narrow band? is that what we are seeing?

Sandeep Kishore: The short answer is yes, we have enough levers, we do not give any forward guidance but based on everything and what you heard from Navneet, we feel reasonably confident that it should be in the narrow band.

Nitin Padmanabhan: Sure, fair enough. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Shikhar, an Individual Investor. Please go ahead.

Shikhar: Can you throw some light on the other exceptional item loss we had?

Sandeep Kishore: Sure, Navneet you want to take that please?

Navneet Khandelwal: Yes, sure. As we have announced, we have identified the TPM business as an asset held for sale and we have signed a definitive agreement around 20th of October for its sale. The eventual sale will happen or the closing will happen towards December, but as an asset identified for held for sale, we have to reinstate it in our books as of September 30th on the net realizable value and basis the excess of the carrying value over the net realizable value, net of all the selling expenses and various adjustments which are required to be done. We have reported a one-time exceptional loss in the current quarter of about USD 11.9 million and that is what the exceptional item is.

- Shikhar:** Alright, is it a part of the strategy, the selling of the non-core assets?
- Navneet Khandelwal:** Yes, this is a strategy we had called out and as Sandeep mentioned initially in his presentation as well that we had identified the Rest of World of business and the Third Party Maintenance business as non-core. The Rest of World business was divested about more than a year back and the Third-Party Maintenance business is what we have divested right now. With this, we have concluded the divestiture of all of the non-core business and going forward, what you will see in the Investor financials typically, after the closure happens, will be only the core business.
- Shikhar:** Okay, got it. So, there are no more assets to be sold or no more non-core left to be sold out. So, it is all complete now, is that right?
- Navneet Khandelwal:** Yes, you are right.
- Shikhar:** And Sir, I wanted to know in the past five years, we have done some acquisition like Indigo Slate, how have those turned out to be, how much have we invested and how much has been the return on capital for those acquisitions, which we have done.
- Navneet Khandelwal:** Sandeep, do you want to talk about it?
- Sandeep Kishore:** Yes, let me give the broad colour Shikhar, I think the last acquisition was Indigo Slate in August of 2018 it has been more than two years, it is completely integrated and is very successful also. The first acquisition that we did was in 2016 which was Foolproof. All the acquisitions have done very well. Retail acquisitions, of course got severely impacted because of the re-classification of the retail business itself. But otherwise I think Cynosure, which is very core part, you have seen the growth in Insurance, you have also seen the growth coming from digital businesses. So, we are very pleased with the performance that we have got from all the acquisitions. We are ready for new acquisitions as I mentioned earlier, we have cash. We are looking actively to acquire new competencies in digital engineering and in cloud.
- Shikhar:** Right, so I hope more to get some constructive detail if it is possible, as an amount, we have for the acquisitions and what has been the return on capital. What is the typical figure we have in mind while going for an acquisition?
- Sandeep Kishore:** Navneet you want to colour that?
- Navneet Khandelwal:** Yes, so all our acquisitions are based on a long-term plan with respect to looking at what are the benefits we get directly and all the synergistic benefits that we can derive and basis that we do an evaluation and go ahead with the particular acquisition. In the long-term our objective is to see how these acquisitions can help us improve the ROCE over a period of time. So, I would not be able to share a particular number because that is very difficult to track and show that separately in view of the fact that all of these have been integrated pretty well. But as Sandeep called out, we are seeing very

good traction coming out from these acquisitions which have been integrated and should continue to reflect in the performance of the Ccompany.

- Shikhar:** Alright. Thanks for answering my questions. That is, it from my side.
- Moderator:** Thank you. The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.
- Mukul Garg:** Thanks again. Sandeep, this was basically on the Q3 colour, while we understand that you do not provide forward guidance, but if you look at last four quarters you have had a negative top line growth and where Q3 usually is a quarter, as you highlighted yourself, impacted because of Furloughs. Given this and the low base of last four quarters, do you think the business will grow next quarter or because of the top line defect and Furloughs you will again probably have a bit of a weakness here in Q3?
- Sandeep Kishore:** Mukul, the furlough picture will actually become clearer in the middle of the quarter, we have not seen anything unusual on furlough as of now but the pandemic is still there and you have seen various reports coming from Europe particularly, UK, France, Germany, US has not seen so much. But I would not be surprised if it takes a different turn. So, furlough we should actually keep it aside because the underlying business fundamental is what we focus on. Furlough will be there this quarter and we have a situation as I called out for one of the top five accounts here. So, our objective is that we want to grow, clearly, we know that there has been softness in the business and focus is through the growth lever that we have which is the financial services and the cloud business, we really want to win businesses and grow. It is difficult to call out, but our intention is, as we go in to the second half of the year you will see growth coming back, absolutely yes.
- Mukul Garg:** Okay, thanks again for taking my question.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Rishi Jhunjhunwala for his closing comments. Over to you Sir!
- Rishi Jhunjhunwala:** Thank you. On behalf of IIFL Institutional Equities I would like to thank Mr. Sandeep Kishore and the entire management team of the Zensar Technologies for giving us the opportunity to host the call. With that I'll just pass it on to Sandeep, in case he has any closing remarks for the investors and analysts. Thank you.
- Sandeep Kishore:** Thank you Rishi, pleasure to talk to all of you. Please continue to be well and please be safe. Look forward to talking to you again next quarter. Thank you very much.
- Moderator:** Thank you. On behalf of IIFL Institutional Equities that concludes this conference. Thank you all for joining, you may now disconnect your lines.