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“Zensar Technologies Limited
Q1 FY '24 Earnings Conference Call”

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MODERATOR: **MR. DEVANG BHATT – IDBI CAPITAL MARKETS AND SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Zensar Technologies Limited Q1 FY '24 Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Devang Bhatt. Thank you, and over to you, sir.

Devang Bhatt: Thank you, Dorwin. Good evening, everyone. On behalf of IDBI Capital, I welcome you all to Zensar's Q1 FY '24 Earnings Call. We have with us Mr. Manish Tandon, CEO and Managing Director of Zensar Technologies; Mr. Sachin Zute, Chief Financial Officer; and a few other members of the senior management team. Before I hand over the call to Manish, I would like to highlight that the safe harbour statement of the second slide of the earnings presentation is assumed to be read and understood. Thank you, and over to you, sir.

Manish Tandon: Thank you, Devang. Hello, good morning, good afternoon and good evening, everyone. Thank you for taking the time to join us today to discuss Zensar's financial results for the first quarter of FY '24. With me on this call are my colleagues, Vijayasimha, who's the Chief Operating Officer; Sachin Zute, who is the CFO; and Vivek Ranjan, who is the CHRO.

With that, I will turn to the summary of quarterly results. For the first quarter of FY '24, we registered a service revenue of 149.2 million, representing a sequential quarter-on-quarter growth of 2.4% in constant currency. Our overall revenue stood at 149.3 million, representing a sequential Q-o-Q growth of 1.3% in both reported and constant currency terms.

In line with our stated strategy, we continue to be focused on pass-through revenues. Let me walk you through the performance of our geographies and verticals for the quarter. All growth numbers are in constant currency and correspond to services revenues only. The U.S. region posted sequential Q-o-Q services revenue growth of 1.3% and a Y-o-Y decline of 0.2%. The Europe region registered sequential Q-o-Q services revenue growth of 6.0% and Y-o-Y growth of 3.4% in constant currency. We continue to have good traction in the region from both long-standing and new clients. The South Africa region saw good growth momentum with sequential Q-o-Q services revenue growth of 3.4% and Y-o-Y growth of 19.6%.

Our sustained focus through our data experience at engineering and cloud mix capability has led to a steady growth on the back of new project ramp-ups at some of our key clients in the region. Coming to the verticals. Banking, Financial Services and Insurance reported sequential Q-o-Q services revenue growth of 4% and a Y-o-Y growth of 13.2% in constant currency. We are witnessing consistent growth in this vertical over the last few quarters, aided by new deal wins at some of our key clients.

Hi-tech, including emerging registered sequential Q-o-Q services revenue decline of 2.6% and Y-o-Y decline of 4% in constant currency. Manufacturing vertical registered sequential Q-o-Q services revenue decline of 0.5% and year-over-year growth of 8.2% in constant currency. Consumer Services registered sequential Q-o-Q services revenue growth of 11.5% and Y-o-Y decline of 7% in constant currency. In the Hi-tech manufacturing and Consumer Services

vertical, we continue to see softness in the overall demand environment as clients continue to defer or optimize their capital spend and scale back their budgets. This has resulted in reprioritization of spends at client side with discretionary projects, witnessing a reduction in scope or getting deferred. For the first quarter FY '24, our gross margin stood at 33.6%, representing a sequential Q-o-Q increase of 170 basis points.

Our EBITDA stood at 18.7%, a sequential Q-o-Q increase of 420 basis points. The order book of Q1 FY '24 stood at 154.2 million, supported by healthy renewals and multiple wins across verticals. As per our usual wage hike cycle effective first July, we gave our wage hikes across the organization. I am pleased to share that for the first quarter, our last 12-month attrition declined to 15.9% a sequential improvement of 390 basis points. In quarter, attrition continues to see a downtrend on account of easing supply side issues and our employee-centric policies. As one of our core principles, we continue to drive client centricity across the organization. Our annual customer engagement score for FY '23 has seen a 13.6% improvement to 66.5 in FY '23. And this is something that we are most proud of.

With that, I will now invite Sachin Zute, our Chief Financial Officer, to provide an update on critical financial data. Sachin?

Sachin Zute:

Thank you, Manish. Good day, everyone and thank you all for joining this call. In addition to Manish talking about the business, I will take you through some of the key financial metrics for the quarter ending June '23. The revenue for the first quarter of FY '24 stood at 149.3 million in the U.S. dollar terms, reflecting growth of 1.3% sequentially in reported terms as well as in constant currency terms.

Services revenue for the quarter grew by 2.3% sequentially in reported terms and 2.4% in constant currency terms. EBITDA for the quarter stood at 18.7%, an increase of 420 basis points from previous quarter. This includes onetime benefit of 100 basis points, primarily on account of research and development credits received during the quarter.

Improvement of EBITDA for the quarter was primarily driven by utilization improvement from 81.4% to 82.5%, which is 1.1% increase quarter-on-quarter basis. Ongoing operational efficiencies program has helped the cost of delivery during the quarter. Resizing of sales and support functions also helped us to improve the EBITDA for the quarter.

As communicated in last two quarters, we continue to focus on improving efficiencies in sales and support functions, current improvement in sales and marketing costs will be reinvested in the business through capability building and strengthening sales organization further. LTM attrition levels have shown continuous improvement over quarters and stood at 15.9% for Q1 FY '24, lowest amongst recent quarters.

DSO for the quarter continues to remain healthy at 74 days. For the quarter ended, cash and cash equivalents, including investments, stood at USD 233.8 million, USD 32.3 million increase from last quarter and USD 70.2 million increase year-on-year. The effective tax rate for the quarter is 25.7%, an improvement of 50 basis points quarter-on-quarter. The total amount of outstanding

hedged as on June 30, 2023, were equivalent to USD 246.7 million against USD 173.7 million in Q4 FY '23.

On ESG front, we continue to make progress in line with our published ESG vision and mission. As of Q1 FY '24, our global green energy component is 17.9% of total energy consumed and our carbon emission from Scope 1 and Scope 2, saw significant reduction of 49.3% compared to our base year of FY '19. We continue our journey on water positivity with water regeneration exceeding water consumption at our Pune campus.

A weeklong celebration of World Earth Day marked on April 22, with various contests for employees and World Environment Day on fifth June, with plastic clean-up drives across our India location and local shoreline clean-up activity at Milpitas in California. With that, I now invite Vijayasimha, our Chief Operating Officer, to provide updates on business operations. Thank you.

Vijayasimha Alilughatta: Thank you, Manish, and Sachin. Greetings, everyone. Manish has provided insights about our business and Sachin just shared details about the key financial metrics. I will provide inputs about our operational efficacy and performance of our service lines. As part of sharpening our operational excellence, we continue to focus on pyramid optimization, managing utilization in an optimal range, calibrated usage of subcontractors as well as managing our on-site mix.

Disciplined execution on these initiatives enabled us to reduce our overall cost of delivery. Enhanced fulfilment trigger enabled us to minimize the impact of volatile demands that we see due to the macroeconomic situation. This rigor enabled us to increase the billed headcount and also improve our utilization, as mentioned by Sachin, by 110 basis points.

Service lines, we continue to partner with our clients to help them deliver high-value services to their customers by leveraging the innovative offerings from our service lines. This quarter, we saw good growth in most of our service lines. On a quarter-on-quarter basis, in reported terms, our data, engineering and analytics service line registered an impressive growth of about 12.6%. Advanced Engineering Services grew by 5.5%, Foundation Services grew by 6.7%, and Experience Services grew by 2.5%. Application Services and Enterprise applications registered a decline of 4%.

Our key service lines, advanced engineering services, data engineering and analytics and experience services continue to scale up well, making up close to 33.8% of our total revenues. We are witnessing notable movement in our digital engineering capabilities, our generative AI engineering services offering termed AI engineering body is now listed on the Azure marketplace. In our data engineering and analytics practice, our experience-led approach to cloud data, engineering has resonated extremely well with our clients. We continue to focus on improving our offerings further around generative AI for data engineering, improving customer experience through AI, supply chain analytics and so on and so forth. With that, I now hand it back to Manish.

Manish Tandon: Thank you, Vijay, and thank you, Sachin. In conclusion, ladies and gentlemen, our disciplined program on improving margins along the identified levers has given us meaningful results over the last 3 quarters. While the near-term demand environment continues to be challenging, resulting in delayed decision-making and slowdown expense.

We are certain that the long-term secular growth in IT industry will not diminish. Further, over the last 2 years, we have increased our addressable market through our service line investments. We are working on gaining mind share with our clients through these service lines and our conversations continue to remain positive. Our experience to engineering to engagement proposition is echoing well with our clients. Net new and alliance function is shaping up well, investing for sustainable long-term growth remains our top priority. With that, we can open the lines for any questions.

Moderator: Thank you very much. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Congrats on the great numbers. A couple of questions. So first is, Manish, could you give us a sense on how the outcome on cross-sell initiatives, any interesting things that you have seen so far and how it's looking like? The second is your thoughts on -- so far, the results that have come out in terms of the rest of the industry, I think they have been calling out weakness on a going-forward basis and so on so forth.

Do you think that sort of raises the risk of sort of any revenue declines in the near term? Or do you think from a portfolio perspective based on the rigor we should still be in positive territory relatively. If you could give some colour on the consumer vertical as well and Hi-tech. And finally, what do you think could be the wage hike impact? How should we think about that Sachin? And if you could also give a sense on the net new wins during the quarter. So those are the questions.

Manish Tandon: Nitin, thanks, thanks for the positive commentary on the results. I think your first question was around cross-selling. So cross-selling has been positive for us. We are seeing a good amount of green shoots there. One of the ways that we measure cross-selling is how deeply we are penetrating certain accounts, and we continue to see very positive momentum on that. And our storyline around experience to engineering to engagement is showing results.

We are cross-selling a lot of our services into these accounts. Downsides on revenues, I don't think that I can comment more than what my larger peers have commented, the market remains tough. But we continue to execute well, and we are hoping that the execution would lead to consistent results as we move forward. Consumer and Hi-tech, they remain weak spots for us, they are still work in process. I don't think some of the weakness will go away. And every day, different sorts of technology companies are declaring some amount of slowdown or furloughs or letting go of people.

So, these 2 verticals remain work in process for us, but we are seeing some newer deals in these 2 verticals. And if 1 or 2 of them can get converted, that will be very positive for us. Wage hike impact, I would leave it to Sachin to answer.

Net new wins, we had opened 9 new accounts this quarter, which is slightly more from a run rate perspective than what we have done in the past.

Sachin, you would like to comment on wage hike impact.

Sachin Zute: Sure. Thanks, Manish. So, Nitin, as you know that usually, our wage hike cycle is from first of July, and we have actually given a hike to across the bands starting from first of July. And given the current market condition, I think we have benchmarked the wage hikes and based on that wage hikes have been given. Obviously, we don't want to make any forward-looking statements, but I can only say that given the market has softened a bit as compared with last year, the number could be slightly lower than what we did last year.

Moderator: We have the next question from the line of Mukul Garg from Motilal Oswal Financial Services.

Mukul Garg: Manish, just a bit of colour also on the BFSI space. This quarter, BFS appears to be fairly strong, so how are you seeing there has been a fair bit of roaming around BFS spending across all the industry. Is that something where you to see strength on a near-term basis? Or can that take a pause after the strong run which has happened? And Sachin, on the margin side, how should we look at the cost changes which has happened this quarter? I know you elaborated a bit, but on an absolute basis, there has been a meaningful dip in both employee expenses as well as on case and marketing side. What has really surprised you on the spread? And how should we look at this going forward?

Manish Tandon: Thanks. So, I'll answer the first question, and Sachin can take the next one. So, on the BFSI sector, the commentary I would agree with the commentary that the competition has provided. The market remains tough. But again, you have to look at it in our context, where we in most of our accounts in BFSI space, we have a relatively very small market share. And as -- BFSI sector is looking to cut costs and so on. They are sometimes looking at suppliers like us who are smaller, more agile, and can deliver same or better results at a lower price point. And I think we are benefiting from that approach.

Sachin?

Sachin Zute: Yes. Thanks. Thanks, Manish. So, Mukul, as you know, for last 3, 4 quarters, we've been running a very systematic program on cost optimization. And I think the results of that continues to flow in and few of the things which has affected it is obviously the pyramid corrections, which we are seeing. The N minus 1 hiring program, which we initiated a couple of quarters back that has definitely contributed to the overall cost of the company. Apart from that, you would have seen that our utilization has also moved up in the right direction from 81.4 to 82.5. That has also contributed a bit.

Also, one of the focus areas for us has been the reduction of the cost of agency hiring. That is also something which is one of our primary focus areas. And over there as well, we have seen some movement, and that has helped correcting the overall cost structure in last 3 quarters, and the results of that is being seen in current quarter.

Moderator: Mukul, does that answer your question?

Mukul Garg: Sachin, just a bit of a follow-up on that. You guys have been guiding for mid-teens profitability, does this materially change that?

Sachin Zute: So, Mukul if you remember, we've been talking about this cost corrections and what we are doing over here is wherever there is a fat we are trying to take that fat out, create headroom for investment into growth. So as part of my opening script, Mukul, I said that the current drop, which you have seen in S&M, we will try to reinvest back into the business in further strengthening the sales engine for the company.

Manish Tandon: Yes. Sachin has reduced so much fat, that even I have lost weight.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Congrats on a very good execution despite tough macro, especially on the margins and services growth. So, Manish, the first question is in a tough macro to see more than 2% growth in services are also a positive growth of 1% despite client specific issue is very heartening, so do you believe the cross selling up-selling efforts will help you to keep maintaining the group momentum even in the near term despite the tough macro as a whole?

Manish Tandon: See, again, as far as macro is concerned, I will reiterate that-- we are such a small player in such small market shares in our clients that macro should have limited impact on us if we are executing well. Simultaneously, as I have mentioned before, with our new service offerings, we have significantly expanded the addressable market.

So we are relying on these 2 things to try and continue our sales and growth momentum. Last 2 quarters, we have been successful. Let's hope, this success continues as we go forward.

Sandeep Shah: And my follow-up is the green shoots about the order intake growth will help you to get the lead indicators about the growth momentum further increasing or not. So how are you looking at order pipeline, order intake, whether the investments efforts have resulted into this? Or do you still believe there are 1 or 2 more quarters in terms of investment and effort before we start seeing uptick in the order intake? And what is the percentage new business within the order intake?

Manish Tandon: So, Sandeep, thanks for that question. We track our order book based on 3 broad categories: EE, which is renewals; EN, which is existing clients, new business; and NN, which is net new clients. I can say that on EN, which is existing clients, new business, we have had the highest order booking in the last 2, 3 quarters, which continues. This means that we are executing well on the cross-selling program that we have and trying to penetrate deeper into accounts. I hope that answers your question.

Sandeep Shah: Okay. And just last thing on the margins. Just wanted to understand now the normalized margin at the EBITDA level would be 17.8 if I step out the onetime gain of 100 bps, so is it fair to assume whatever further increment we may actually have, we may invest back in the business and we can continue in this range of 17%, 18% EBITDA margin going forward. And is there any further scope for facts to be reduced? Or do you believe we have optimized on that?

Manish Tandon: So, Sandeep, that's a great question, and that is a question I ask myself also as I look back. See, as a new CEO, I have not had a chance to go through a complete cycle of 4 quarters, right? So, we have not seen Q3 impact of furloughs, how it will impact us. The slight slowdown that happens during holiday periods and especially in Q4, we have not seen that. So, if you ask me what is the equilibrium margin of the business?

I would continue to say that I would like to make sure that it doesn't go below mid-teens, which has been the promise of the company till now. And we will invest some of the margins into revenue growth and in building up our employee skill base. But as I said, we will continue to make sure that the margins do not go below mid-teens as promised by the company before. And anything positive, I'll be as happy as you are.

Sandeep Shah: Okay, yes. And just last thing, Sachin, what is the nature of onetime R&D credit? And will it continue every year in the first quarter or?

Sachin Zute: So this R&D credit is subject to certain government grants, which we get in overseas jurisdiction and it's completely dependent on their cycle of pay-out. Like just to give you example, the similar R&D credit we got in Q3 of FY '23. But fortunately for us, it came in Q1 itself for the current fiscal. So it completely depends on their cycle, and there will not be any predictability in that right now.

Sandeep Shah: So, it can come once in a year.

Sachin Zute: Generally, that has been the cycle which we have seen historically.

Moderator: We have the next question from the line of Devang Bhatt from IDBI Capital.

Devang Bhatt: Congratulations on a good set of numbers. So last time in the Analyst Meet, you said that there are a lot of cross-sell opportunities. So, in terms of time mining, where do you see the opportunities? And which service line specifically are seeing more traction in our clients. Secondly, on overall basis, where do you see services line, do you see that will be a key driver of growth in the long term?

Manish Tandon: I would say to answer your first question, we have gone to the market with this theme, that we are the best company out there who can do right from research to experience, to engineering to actually engagement, both on products and on projects. And we are seeing a lot of traction on our experience services business because of cross sales.

In fact, our revenues from acquired entities has actually grown at a faster pace in this quarter than the rest of the business. So, we are seeing traction there. We are seeing traction in enterprise

SaaS space, which is SFDC, Oracle. We are seeing traction in advanced engineering services, and we believe that advanced engineering services will continue to be a growth area for us, especially with the advent of ChatGPT and LLMs and AI. So, I would say the newer service offerings obviously, you will see faster growth than as they should, as far as overall growth is concerned.

Devang Bhatt: Great, sir. And secondly, on you said that you will focus more on not the commoditized annuity, but the other part of the annuity business. So where are you in that? And how are we progressing on that part?

Manish Tandon: So I think what we are trying to do, see annuity, first of all, please don't get me wrong. I love annuity business; we all do in the industry. And what I meant when I said that was -- the traditional annuity business is a large infrastructure deal or large application development and maintenance deal, etcetera. These we may not be as competitive as some of our Tier 1 players, but in the newer areas like Experience services, where we sign up with clients for our total number of 10 pods of 100 people for the next 2 years kind of deals. Those are the deals that we are very interested in, and we are making good progress on those deals.

Devang Bhatt: Sir, any number on what annuity right now we have or?

Sachin Zute: Generally, we have not made that number public. We internally track it, but that's not a number which we generally disclose.

Moderator: Thank you. The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Congratulations for the strong performance. Manish, I wanted to get your sense with regards to our margin optimization, given the kind -- given what we've seen with regards to our headcount metrics as well as the improvement in terms of our offshore delivery. How should we be thinking about these 2 aspects over the next 12 to 18 months timeframe.

Manish Tandon: Sachin, do you want to take that?

Sachin Zute: So Manik, as you know, , so obviously, we've been working on multiple levers in the last 6 to 9 months on improving our EBITDA margins. And as you know that over the last 3 quarters, they have definitely given us desired results. Now it's very difficult for me to give you guidance for next 2 quarters because, as you know, that we don't provide guidance. But as Manish rightly said, the objective will be to maintain the EBITDA margin in a narrow range around mid-teens. And if we have anything above that, objective will be to invest back into the business in capability building and sales on a required basis.

Manish Tandon: Vijay, do you want to add anything to this?

Vijayasimha Alilughatta: Manish, I think largely, Sachin has covered. The only thing from an operational perspective that I would like to add is that we are focused on those 3, 4 important levers, pyramid optimization as well as utilization management.

We think at this point of time that like we will operate in a narrow range when it comes to utilization, especially considering the fact that we have a fair bit of whatever macroeconomic stuff that could create volatile demand situation. So that's pretty much the only thing that I want to add apart from what Sachin has already commented.

- Manik Taneja:** Sure. And have you disclosed the value of deal wins in the current quarter?
- Sachin Zute:** We did. it's USD 154.2 million in the order book, which we have reported -- it's part of analyst presentation.
- Moderator:** We have the next question from the line of Nitin Padmanabhan from Investec.
- Nitin Padmanabhan:** Sachin, the employee costs on the BSE release, actually down 4% sequential, headcount is sort of flattish. So, what sort of explains that difference? so that was one. And second, I wanted your thoughts on where this R&D benefit is sort of recorded on the P&L. So those are the 2 things.
- Manish Tandon:** So, Nitin, employee costs primarily is due to a couple of reasons. One is definitely the pyramid correction, which I spoke about. Every attrition, which we've been having for the last 2 quarters, we've been filling it with N minus 1 level. And that is something which is helping the overall employee cost for us. Also, if you look at our focus on melting the fat which was there on-site. And I think that is something is also giving us some benefits as part of the overall employee cost optimization and attrition on a quarter-on-a-quarter basis has been dipping. And I think the impact is also flowing through in the 4% number which you are seeing.
- Nitin Padmanabhan:** Okay. And on the R&D expense, I mean R&D revenue.
- Sachin Zute:** So it's part of the gross margin for the company.
- Nitin Padmanabhan:** It's part of the gross margin. So within the SG&A, there is nothing unusual. That's more like a sustained rate. Or how should I think about that? That's a sharp drop.
- Sachin Zute:** Broadly you can say that. Yes, Nitin, SG&A benefits, you can say there is no significant onetime aspect right now there.
- Nitin Padmanabhan:** Okay. So it's only in the gross? Perfect.
- Sachin Zute:** Yes, yes.
- Moderator:** The next question is from the line of Pratap Maliwal from Mount Intra Finance Private Limited.
- Pratap Maliwal:** Congrats on great margin performance this quarter. So, I just wanted to ask, last quarter, I think we had said we had some right shifting of revenues, particularly in the Europe geography, which seem to be reflecting in our numbers this quarter as well. So, could you just help me with quantifying the revenue, how much was that?

- Sachin Zute:** So obviously, that revenue, which we spoke about last quarter has been realized in this quarter. But it's not going to be possible for us to exactly specify how much that is in current number.
- Moderator:** The next question is from the line of Darshil Jhaveri from Crown Capital.
- Darshil Jhaveri:** Congratulations on a great set of results. Sir, most of my questions have been answered. So I just would want to know in the upcoming year, what kind of player do you see in terms of what a macro environment or what -- when can we expect a bit better inducive environment for us to keep or start growing, maybe it can happen next year or this year? what trends do you get from your interaction with clients and everyone?
- Manish Tandon:** I wish we had a crystal ball is all I can say. I think, there is a lot of talk in the U.S. of hard landing, soft landing, semi-soft landing, interest rates. And still the economy is very resilient, at least in our largest market. In some of our smaller markets, we are seeing more impact of inflation and so on. But frankly, I don't think that things will materially change in the next 6 months at least. And that is perhaps the best I can say.
- Darshil Jhaveri:** Fair enough, sir. I think everyone is in the same boat. I just wanted a flavour if possible. So it's the correct thing -- it's is very difficult to guess. Yes. So I think you have that answer my question and all the best team.
- Moderator:** The next question is from the line of Sandeep Shah from Equirus Securities.
- Sandeep Shah:** Yes. Just a follow up to what Nitin has asked. If you look at run rate of sales and marketing expenses, it used to be between INR90 crores to INR100 crores. It has fallen to INR77 crores in June '23. And Sachin, your answer to the earlier question, it believes that this run rate can continue, right? So, 6.3% as a percentage to revenue in terms of sales and marketing costs can continue despite we are looking for investments going forward.
- Sachin Zute:** So as I said, the objective of the current correction which you are seeing in the sales and marketing costs, we are in process of investing back into the business through the appropriate hiring, which we need to do to look at the growth for the future whenever the cycle turns around. So those investments has already started, Sandeep. So, from that perspective, we want to invest in capability building inside the organization and ensure that we are ready for the growth when things start moving in the right direction.
- Manish Tandon:** I mean just to answer your question, we are not cutting back on sales by any stretch of imagination. Even as we speak, every week, we have 2 or 3 new salespeople joining us. They are coming in with a lot of new ideas and a lot of energy, and we are excited to have them on board. We will not cut muscle. We will cut fat..
- Sandeep Shah:** Okay. And just Manish, you sounded slightly bearish on consumer -- the consumer this quarter has done well. So is there a one-off projects, which may not repeat going forward? And is there any large client-specific issues in any of the verticals that you foresee or this is more to do with macro versus anything else across industries.

- Manish Tandon:** Well, I think, look, at least for consumer, I had told you guys last time that I think the worst is behind us, right? And the team that we have is a very resilient team. They will not let go of easily. And they are opening new accounts, they are farming existing accounts, and they are doing a wonderful job despite the environment.
- Sandeep Shah:** Okay. Okay. And then no large client-specific issues in any of the verticals?
- Manish Tandon:** No large clients with any big issues in any other verticals. We don't comment on individual clients, but you can get a sense of where issues are or not there based on our top 5, top 15, 20, whatever you guys' measure that from.
- Sandeep Shah:** Okay, okay. And last thing, as a summary, is it fair to say apart from Hi-tech and manufacturing, we have started witnessing some green shoots or better demand payments in the rest of the verticals.
- Sachin Zute:** I don't think at this point of time, we have seen any broad green shoots. So, the macroeconomic environment, which is there for others continues to be for us as well. So I think given the current situation, we are trying to see what best we can do in current environment.
- Manish Tandon:** It's all about executing well. With our size, if we execute well, we will continue to do well.
- Moderator:** The next question is from the line of Manik Taneja from Axis Capital.
- Manik Taneja:** Sachin, if you could detail out what you meant by replacing the existing workforce with N-minus-1 workforce. Because when I'm looking at the employee metrics that you disclosed in your annual report, it appears that the proportion of lower wage employees has only gone down for us in FY '23 versus FY '22. So it will really be helpful if you could detail out what you meant by that.
- Sachin Zute:** So Manik, as we know that one of the programs which we have been running is every attrition which happens in the company, we are trying to see wherever possible; how can I fill that with the junior employee, which helps me to correct the cost structure on an overall basis.
- Historically, we did see that the pyramid was kind of a diamond. And over the last 3 quarters, we are trying to get it in the shape. So, if you look at from the Q1 of last year to now, it has definitely improved in shape. So the comparison which you might be seeing must be from the FY '22 to FY '23, Manik.
- Manik Taneja:** Sure. Just to confirm, between FY '22 to FY '23, when I see the numbers in the annual report, the sub-30-year age segment essentially has reduced to about less than 41% of the total workforce versus 46% as of end of FY '22.
- Sachin Zute:** We can get that checked, Manik, I can touch base upon it with you offline.

- Manik Taneja:** S&M basis, is the understanding that you guys are giving, is that we will step up the S&M investments as we continue to invest in the business from the current run rate that we see in the current quarter?
- Sachin Zute:** Yes, Manik. That's correct understanding.
- Moderator:** The next question is from the line of Anand Agrawal from Balaji Investments.
- Anand Agrawal:** Congratulations for the wonderful set of numbers. I hope I mean, in the last 3, 4 years and not in 3, 4 years, I mean, this has been the best ever performance in terms of the PAT numbers, though the top line has not grown substantially. So my question is that since company is sitting with a lot of cash. So what is the plan to deploy this cash going ahead so that the revenue and further business can be enhanced?
- Sachin Zute:** Thank you for the question. As you know, as we have earlier stated as well, we continue to look for opportunities to scout for targets, which adds to the capability of Zensar, and we want to continue on that journey. At any point of time, we keep on evaluating 3 to 4 targets. Once we find the right one, we want to use this cash in buying the right company. At the same time, our dividend policy as part of capital allocation continues to be what we have done historically.
- Anand Agrawal:** And sir, 1 more question, last question. Just a broader picture. I just want to understand what kind of -- I mean growth in terms of percentage you are seeing going ahead, maybe a year or 2 kind of that -- just a broader question.
- Sachin Zute:** As Manish also said that if we would have had a crystal ball, it would have been wonderful. But unfortunately, given the current scenario, when the visibility on the business is relatively low, it's very difficult for me to actually make any comment from that perspective. But I can only say that the IT spend globally has only shown positive direction over last decade, decades and a half, and we all believe with the changing technology landscape, the prospects for the growth in this industry continues to be relatively strong.
- Moderator:** The next question is from the line of Sarang Sunil from RW Investment Advisors.
- Sarang Sanil:** Congrats on great set of numbers. So my first question, is the INR10 million reported as purchase of traded goods, net of this R&D credit? And if not, how has this number gone down substantially? And my second question is on the employee side, can we expect this to stabilize around this range and ramp up as good demand comes in? Or can we expect this to go down further on a net basis? And my final question -- is it possible to give some color on how you are able to bring down the attrition level to this range? And Manish, is something you feel Zensar is doing differently compared to other companies? Those are my 3 questions.
- Sachin Zute:** So can you just repeat your first question, please, because we could not get that clearly.
- Sarang Sanil:** Sure, sir, the INR10 million number reported on the financials as purchase of traded goods. Is this net of R&D credit that you received?

- Sachin Zute:** So there is no linkage between R&D credit and INR 10 million traded goods, which you are referring to. The R&D credit benefit which we got is currently factored into the gross margin. And the INR10 million -- INR10 million traded good is part of the revenue line item, which we have reported. Now for the attrition question, I'm going to request my colleague, Vivek to comment on.
- Vivek Ranjan:** Thanks a lot, Sachin. Thanks, Sarang, for the question. Yes, you are right that what we have in terms of our retention, it is best in class. And as Manish mentioned, we have very employee-centric policies combined with the initiatives which we have taken that helps us a lot. And from the perspective of our culture, we are very strongly focused on creating a happiness ecosystem, where employees learn and thrive. That has helped us a lot. And also, we have taken a set of initiatives to ensure that there is a high level of investment in learning and there is a culture of recognition and managerial capability build, all of which has ensured that we are best-in-class when it comes to retention, and we stay focused in this pursuit.
- Sarang Sanil:** Okay. So also on the employee count, what do you expect?
- Sachin Zute:** On the employee count, the hiring will happen depending on how the demand shapes up. We are very closely working out the current demand environment. And given that the attrition across the industry has slowed down, our ability to fulfil in a very short time has definitely improved. So, depending on demand environment, we will be taking that call.
- Moderator:** Thank you. Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Mr. Manish Tandon for closing comments. Over to you, sir.
- Manish Tandon:** Well, I would like to thank you all for being on this call. There were a lot of results today in this sector. I'm pleased to see that you've decided to attend this call. I'm sure, as you go through the results, you will have more questions and we have an excellent Investor Relations team, who can help in answering all these questions. So thank you, once again and thank you for congratulating us on our good results.
- Moderator:** On behalf of Zensar Technologies and IDBI Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.