



“Zensar Technologies Limited Q2 FY24 Earnings
Conference Call”

October 17, 2023



MANAGEMENT: **MR. MANISH TANDON – CEO & MD**
MR. SACHIN ZUTE – CHIEF FINANCIAL OFFICER
MR. VIVEK RANJAN – CHRO
**MR. VIJAYASIMHA ALILUGHATTA – CHIEF
OPERATING OFFICER**

MODERATOR: **MR. PRITESH THAKKAR – MOTILAL OSWAL
FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 Earnings Conference Call of Zensar Technologies Limited, hosted by Motilal Oswal Financial Services Limited.

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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pritesh Thakkar from Motilal Oswal Financial Services Limited. Over to you, sir.

Pritesh Thakkar: On behalf of Motilal Oswal, I welcome you all to Zensar Tech's Q2 FY24 Earnings Call. We have Mr. Manish Tandon – CEO and Managing Director of Zensar Tech; 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 harbor statement of the second side of the earnings presentation is assumed to be read and understood. Over to you, sir.

Manish Tandon: Hello, good morning, good afternoon, and good evening to everyone. Thank you for taking the time to join us today to discuss Zensar's Financial Results for the second Quarter of the Financial Year 2024.

With me on this call are a few distinguished colleagues; Vijayasimha – Chief Operating Officer, Sachin Zute – Chief Financial Officer, and Mr. Vivek Ranjan – CHRO.

Our Q2 performance shows continued strength and demand for our service lines, particularly around Experience Services, Advanced Engineering, Data Engineering and Analytics. Q2 revenue crossed \$150 million, a sequential quarter-on-quarter growth of 0.6%. Our PAT registered a sequential quarter-on-quarter growth of 130 basis points and year-over-year growth of 940 basis points. Earnings per share saw a growth of 11.3% quarter on quarter.

Let me walk you through the high-level performance of our geographies and verticals for this quarter:

The Europe and South Africa region has shown good growth momentum on account of our service line diversification and new wins across long-standing and new clients.

We saw a decline in the US region due to project closures in a few key customers.

On the vertical front, I would also like to take this opportunity to update that we will start tracking Healthcare & Life Sciences as a separate vertical. In the last four quarters, we have identified certain key strength areas, Healthcare being one of them. We see a long-term potential

in Healthcare and have already identified leadership around it. It is an existing business for us and we have realigned our verticals to that effect.

Apart from this, we have also realigned our other verticals in line with our leadership structure.

Coming to the sequential Q-o-Q constant currency growth for the verticals:

Our services revenue in Banking & Financial Services grew by 3.0%, Manufacturing & Consumer Services grew by 6.7%, while Hitech declined by 8.3%, and Healthcare & Life Sciences saw a decline of 1.7%.

I am pleased to share that for the second Quarter, our last-twelve-months attrition declined to 13.1%, a sequential improvement of 280 basis points.

This quarter, we gave salary increases which was better than the industry average and has been very well received by our associates across all levels.

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

Sachin Zute:

Good day everyone and thank you for joining the call today. In addition to Manish talking about business, I will take you through some of the key financial metrics for the quarter ending September 2023.

The revenue for the second Quarter of FY24 stood at \$150.2 million in US dollar terms, reflecting a growth of 0.6% sequentially in reported terms and 0.2% in constant currency terms.

Gross margin for the quarter stood at 31.8%, a decrease of 180 basis points quarter on quarter. The decline was primarily due to a wage hike impact of 190 basis points, reversal of one-time benefit of 80 basis points, which was mentioned in the last Quarter's Earnings Call. It was partially offset by the exchange gain of 30 basis points and utilization benefits of 50 basis points.

SG&A has improved by 170 basis points. Wage hike had an impact of 30 basis points on SG&A, which was compensated by a reduction in discretionary spends. Further, during the quarter, we had finalized our annual management bonus of FY23, which had a one-time positive impact of 160 basis points on SG&A. Normalized SG&A has remained flat quarter-on-quarter basis.

EBITDA for the quarter was at 18.6%, lower by 10 basis points against last quarter. Net of one-timer, EBITDA would have been close to 17%. After Q2 of last fiscal, we have consistently improved our EBITDA margins. This was a result of rigorous efforts driven across the organization, which involved several tracks including improving commercials, focus on services revenue, optimization of subcon, improving utilization, control on attrition, and reducing talent acquisition cost resulting in a Y-o-Y improvement of approximately 10 percentage points on EBITDA.

These measures have enabled us to make investments into focused areas of business.

Our objective continues to maintain margins at mid-teens trajectory for the financial year despite current demand softness.

LTM attrition levels have shown continuous improvement over the quarter and stood at 13.1% for Q2 FY24.

DSO for the quarter stood at 79 days.

For the quarter ended, cash and cash equivalents including investments stood at \$227.1 million, a \$6.7 million decrease from last quarter. Quarter-on-quarter decline is due to advanced tax payment, dividend payout, and annual bonus payout of FY23 in Q2 FY24.

Order book was 194.8 million for the current quarter. This also includes some spillover from the previous quarter and certain renewals which closed earlier in this quarter itself.

Effective tax rate for the quarter is 22.7%, an improvement of 300 basis points quarter on quarter. ETR improved due to credits received at foreign locations during the quarter, part of which are expected to continue for the balance of the year.

Total amount of outstanding hedges as on September 30, 2023 was equivalent to \$289.1 million against \$246.7 million in Q1 FY24.

On the ESG front, as of Q2 FY24, we have taken specific initiatives to increase green energy component and reduce energy consumption to achieve our goal to reduce Green House Gas emission by 11% compared to FY23. We have achieved approximately 25% green energy component in our energy mix globally. We continue our journey on water positivity with water generation exceeding water consumption at our Pune campus.

With that, I now invite Vijayasimha – our Chief Operating Officer, to provide updates on business operations.

Vijayasimha Alilughatta: Greetings everybody. Manish has provided insights about our business and Sachin has shared details about the key financial metrics. I will share details about our operational efficacy, service line performance, and capability enrichment initiatives.

We are continuing our journey on operational excellence and making good progress on key imperatives like pyramid optimization, managing utilization in an optimal range, and calibrated usage of subcontractors while managing our onsite mix. Disciplined execution on these parameters enabled us to minimize the impact of wage increase on cost of delivery.

Enhanced fulfillment rigor enabled us to minimize the impact of volatile demands due to macro-economic situation. This rigor enabled us to improve our utilization by 60 basis points.

This quarter, we saw good growth in many of our Service lines.

On a quarter-on-quarter basis in reported terms, our Advanced Engineering Service line registered a growth of 7.8%, Experience Services grew by 3.1%, Application Services and Enterprise Application Services grew by 0.2%, while Foundation Services remained flat. Data Engineering and Analytics saw a decline. Our key Service lines continue to scale up well, making up to 34.0% of our total revenues.

We are continuing to deliver value to clients via our “Experience-Engineering-Engagement” continuum of service offerings. As part of this, we have developed multiple assets that can help our clients navigate the complex AI ecosystem. These assets help our clients identify the right set of use cases and technology solutions to achieve competitive differentiation. We are accelerating our Talent Transformation journey to increase the depth and breadth of subject matter expertise of our employees on emerging technologies as well as appropriate business domains.

With that, I now hand it back to Manish.

Manish Tandon:

There are signs of continued softness due to the difficult macroeconomic environment impacting customer technology spend decisions. We are carefully watching the demand environment and continue to stay close to our clients so as to respond to their needs and accordingly adapt our investment plans.

Over the last 4 quarters, our thrust on client centricity, execution excellence, and employee-centric policies have yielded positive results.

Continued focus on execution of strategy through accelerated go-to-market partnerships and sales rigor with the goal of investing in long-term growth remains our top priority.

With that, we can open the lines for questions.

Moderator:

We will now begin the question & answer session. The first question is from the line of Mr. Nitin Padmanabhan from Investec.

Nitin Padmanabhan:

I had a couple of questions on the deal wins. I think on the face of it, the deal wins look strong at 1.3x book to bill. Normally I would assume that this would lead to a strong Q4, but I think you made a few qualifications there saying there is a spillover and the renewals. Could you give some color there? And assuming a strong Q4 with these deals flowing through into Q4 revenue, is that a wrong assumption? Just wanted your thoughts on how to think about this.

Sachin Zute:

Nitin, as I said that \$194.8 million order book which we reported has spillover from Q1. There are certain deals which got spilled over from Q1 to Q2, and there are a couple of deals which we were expecting to sign in Q3 got signed in Q2 itself. So, the normalized run rate could be very close to what we reported last quarter. It will be better than the last quarter. As far as Q4 is

concerned, Nitin, I think it's too early for us to give you any flavor given the circumstances which we are dealing with, and as Manish specifically called out, the demand environment continues to be challenging, and I think we will be only able to comment on that as we move forward.

Nitin Padmanabhan: So, here's the challenge. The broad thought process was that margins will improve – we have done extremely well on margins – and growth should be tail-ended. And at least on the face of it, it looks like based on the deal wins that it could be. What are the concerns that you have? I did notice that Hitech is down sharply and maybe Q3 is soft because of furloughs. So, I just wanted your thoughts on how to think about this. Do you think that these deal wins will not convert to revenue or there are possibilities of delayed convert to revenue?

Manish Tandon: The way we report the order book, the deal wins will convert and the entire \$194.8 million is going to convert to revenues. The question is that you are filling the bucket from one end, but we don't know what will be the leakage of revenues due to furloughs and due to lower number of working days and so on and so forth in the quarter. You can be assured that if we are showing 194.8, 1. it's a very precise number and 2. we will get those numbers.

Nitin Padmanabhan: Lastly, before I exit the floor, what are the areas of worry from a vertical standpoint at this point in time? And when do you think Hitech can potentially bottom out?

Manish Tandon: I think if you look at our performance overall, except for Hitech as a vertical, we have done very well actually. We have done well in Africa. We have done well in the UK and Europe. We have done well in financial services. We have done well in consumer services. Our Experience services business is growing. Horizontals, we are seeing growth, pretty much everywhere. Except for Hitech as a vertical, the growth has been very very promising across the board. But when will Hitech recover? I think that's a trillion dollar question, not even a billion dollar question because as you know, today 70% of the capital spend in the US economy is on technology and technology related products. And as we are seeing elevated interest rates and quantitative tightening, I personally feel that unless we see a dampening of interest rates and a dampening of quantitative tightening, I don't think it will be easy for the Hitech as a vertical turnaround.

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

Sandeep Shah: Sir, I just wanted to know within the Hitech vertical, is it a pain within one top client or these are pains beyond some of the other top clients within Hitech? And the way I look at it is these clients are a pain point for Zensar in terms of suppressing growth on a year-over-year basis. So, we can have 2 solutions. One is to open more purchasing windows in these accounts or actually accelerate the growth in the other segments outside these accounts. Which path we are looking for in terms of diversifying and minimizing this risk which suppresses the growth of Zensar year after year?

Manish Tandon: One is, I am not as pessimistic about Hitech as you are. 1) I think once we get our act together in this vertical, it will turn around. 2) As you have seen, we have added Healthcare as we have identified Healthcare & Life Sciences as a vertical and which we are going to put a special focus on. We have also opened 8 new logos in this quarter. So, there is a lot of action happening on the sales side. And actually that is reflecting in the order book of \$194.8 million that Sachin talked about.

Sandeep Shah: In terms of the rejuvenated go-to market, accelerated sales growth aggression, Manish, is it fair to assume the roadmap in terms of quarterly TCV is on the up rather than remaining more or less at the same range of \$150 million to \$170 million on an adjusted basis?

Manish Tandon: As I mentioned in the previous answer – you have seen the order book number – I think it will depend on what we see in terms of revenue leakage because of furloughs or specific client situations or anything. It's just dependent on that. It's a balancing act that we have to do every quarter. And as you know, this quarter Q3 is a very very tough quarter for the entire industry because of furloughs and lower number of working days.

Sandeep Shah: And second, Sachin, a question about the first half normalized EBITDA margin. Even if I skip off the one-off in the 2nd Quarter, it looks like at 17.8% and the wage hike is largely behind, and we are still maintaining a mid-teen kind of a guidance. So, is it fair to assume the margin guidance is slightly more conservative or do you see some unforeseen headwinds, maybe related to furloughs, in the coming quarters?

Sachin Zute: Sandeep, furloughs is a very much known phenomena for the industry and for us as well. So, from that perspective, the guidance which we provided for the year actually baked that in. Apart from that, as Manish said, we have now created room for creating investments in our capability building and, in our sales, & marketing department. From that perspective, that investment will definitely have some dilution from the current levels.

Manish Tandon: Just to reiterate on PAT, I don't know how many of you noticed that in the first half of this year, we made more than what we did in the entire last FY23. At least that is something that we internally are very proud of.

Moderator: The next question is from the line of Mihir Manohar from Chameleon Asset Advisors.

Mihir Manohar: When you mentioned the normal EBITDA is 17% versus the reported number of 18.6%, what is the gap here which is there and what exactly is this?

Sachin Zute: The gap is due to the one-time reversal of management bonuses for FY23, which the decision was taken during the current quarter and reversal of that has come in the current quarter's P&L. As you all know that FY23 was not a very good year for us as a company and we have very high performance driven criteria on the basis of which management of the company gets its bonuses, given the performance, we have seen the one-time positive impact of 160 basis points on the margin. If you take that out, the normalized margin would be close to 17%.

- Moderator:** The next question is from NGN Puranik from Enam Asset Management.
- NGN Puranik:** I have a question. You talked about capability building and pyramid rationalization, and these are the best leverage available for an IT services company. If you can elaborate on what all you are doing on the vertical and horizontal capability building at the individual level and at the company level.
- Vijayasimha Alilughatta:** On the capability building front, we have basically 2 dimensions. One is deepening the technology capabilities of our associates around the 5 Service lines that are associated with Advanced Engineering practices, which is nothing but cloud-native capabilities. We are also significantly increasing the capability of our associates around the Experience Services as well as Oracle, SAP, sales force kind of a thing. Outside of that, we see a strong market for AI and Generative AI. As we speak, we have embarked on the journey of upskilling our people across the Generative AI spectrum. That is completely fully in force. And finally, given our growth potential, we see that we also need to basically have our people sharpen their domain skills because techno-functional skills are what is going to be the need of hour to deliver value to our clients. So, we are sharpening the domain skills as well. And of course, the other things associated with leadership training, project management training, and things like that. We have a very structured capability enrichment program with individualized learning paths for each of our associates, and that is beginning to yield results. Some more work to be done.
- NGN Puranik:** Can you summarize in terms of the capability building which you use for client operations. What are the key services you are building the capability? Is it how big is the focus on analytics? You talked about customer experience and engagement and others, but in terms of analytics, how big is the focus?
- Manish Tandon:** No, I think there's a huge amount of focus, Mr. Puranik, on Experience Services which includes both the research, design, UI, and customer experience. We have a very compelling practice on Data Engineering and Analytics already. By the way, we have integrated the generative AI capability with our Data Engineering and Analytics capabilities because we believe that without data, there is no artificial intelligence. It can only be artificial dumbness. So, we have combined the two and we believe that all these newer Service lines are going to be big growth areas for us. And we are actually seeing those in the results.
- NGN Puranik:** How many projects you have done using analytics with generative AI?
- Manish Tandon:** Nobody has done any projects, and if they claim that they have done projects, it may be a single digit number, but we have done close to 100 proofs of concept for our clients. And not every proof of concept translates into real projects because the technology is still fairly nascent no matter what people tell you; it is fairly nascent. It is not really ready for prime time on the enterprise, especially on the customer side.
- NGN Puranik:** So, it can be both productive and predictive?

- Manish Tandon:** Yes.
- NGN Puranik:** From a productive perspective of improving your own operations and predictive in terms of building solutions for the client?
- Manish Tandon:** Yes. And most of the use cases that we are seeing the clients use it for is more on the productive side rather than predictive side because on your inside stuff, you can afford a higher error rate than on the client-facing stuff. So, most of the use cases that we are doing POCs on with our clients and for ourselves actually are related more to productivity improvements rather than predictive capabilities.
- NGN Puranik:** When you say you are building capability at different levels, how do you leverage this? Is using fixed price one option because fixed price projects are very difficult to manage because if they go wrong on estimation either time, cost, effort, value, or anywhere or scope mainly, but when you have people who have better Experience capability, can you take a bigger risk of doing fixed price projects where the margins can be greater?
- Manish Tandon:** Actually, there are 2 ways of using this concept. One is, as we found out with certain clients that they didn't have the budget to do an all-natural intelligence project. By introducing artificial intelligence and improving the productivity in a low-risk fashion, we were able to reduce their overall spend by 50%. And then they had the budget to do the overall project. That is one way of doing it. Fixed price, the technology is so new that we don't really want to take high-risk fixed price projects, but proof of concepts, demos, etc., we are doing it on a fixed price basis and it's not very risky.
- Moderator:** The next question we have is from Mr. Pritesh Thakkar.
- Pritesh Thakkar:** I just had a question. What I was asking was on the SG&A, you mentioned that the impact on wages was 30 bps for this quarter. Are we expecting any residual impact for the next quarter?
- Sachin Zute:** No, nothing apart from what I called out.
- Pritesh Thakkar:** I was asking on the client buckets. What is driving growth for the Beyond Top 20 clients? Because, it reported 9.5% Q-on-Q growth while your top 20 accounts declined by 4.9% Q-on-Q.
- Sachin Zute:** Pritesh, if you look at when Manish joined, at that point of time, he clearly called out that we are going to start a new organization within our sales team which will focus on the net new business for the company. For the last 2 quarters, there have been a lot of hiring which is happening over there, and gradually we definitely think that that engine will start picking up and will help us grow outside the top 20 clients for the company.

Manish Tandon: And we are already seeing it, Pritesh, that the non-top 20 clients are growing faster. And this is primarily because of 2 things. One is Net New logos and the second is that in our smaller clients, we are doing much better on farming and hence trying to increase the numbers.

Pritesh Thakkar: In the Q3 quarter, since we have the furloughs and holidays coming in, do we expect the impact to be in a similar line to what we had last year or you expect the growth to be a little severe given we have these macro headwinds coming in?

Sachin Zute: Pritesh, normally we don't give a forward-looking guidance on this subject, but what I can say is that it will be in line with the last 2 or 3 years' impact which you saw.

Pritesh Thakkar: The reason why I'm asking is because we signed a strong PCB this quarter. I thought if there is any ramp-up coming in from there and we should see a little bump-up in Q3 vis-a-vis the last quarters.

Sachin Zute: I think the furloughs are part of the industry and part of the numbers which we have been reporting over the years, and we do feel that we will see the impact of furloughs for Q3. Along with that, if you see the macro environment is also definitely not helping us. From that perspective, you can actually take the impact which you saw over the last 2 or 3 years in Q3. On the similar lines, we are expecting given the current situation.

Moderator: The next question is from the line of Mr. Sameer Dosani from ICICI Prudential AMC.

Sameer Dosani: Congrats on a robust execution during the quarter in difficult times. On Healthcare, I am sure you would have formed GTM strategy, and leadership was inducted. If you can share some strategic high-level pointers of what your thought process is, that will be helpful. The second part is on BFSI. In times like these where expenses from banks are struggling actually, your growth has remained robust. What are those parameters or what are those things that you are doing differently? If you can just highlight what are the key differentiators there.

Manish Tandon: First of all, on Healthcare & Life Sciences I will reiterate. I think without even calling it a vertical, we have had a good presence in Life Sciences and Medtech overall and a couple of Healthcare accounts. We believe that adding domain capabilities to this mix and offering a broader range of our services to the Healthcare & Life Sciences sector will yield richer dividends than if it was hidden in the emerging area. We will start by enhancing our domain capabilities in this area and marrying our offerings with the domain capabilities and taking them to the market. That is broadly the incubation strategy, at least for the first 2 or 3 quarters.

BFSI, we are doing quite well. Two reasons; one is, in BFSI, especially on the insurance side, we have specialized in certain packages and we have both the technical depth and the domain capabilities to go deeper into these areas. And once we have entered this, we have expanded using our other offerings. That has worked well in overall BFSI for us.

Sameer Dosani: For Healthcare, you would have already inducted leadership, etc. That process is behind us. That's how we should think of?

Manish Tandon: Yes. Again, as you know, I myself have a lot of experience in Healthcare & Life Sciences. So, I will incubate the leadership there. And yes, we have hired someone who brings the requisite talent from both the domain and sales perspectives.

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

Sandeep Shah: Just, Sachin, wanted to understand there is a dramatic improvement in the offshore revenue mix over the last several quarters. Even in this quarter, there has been a higher improvement. So, is it fair to say in the last few quarters, the volume growth is much higher than the reported US dollar revenue growth? And a followup question in terms of gross margin tailwind, utilization is higher and offshore revenue mix is higher. Are we still foreseeing some further headroom in spending in these 2-3 levers, which can impact on the gross margin? I do agree investment may impact the SG&A and not the direct cost level much. And the third is, what is the reason for absolute decline in depreciation and amortization, and whether the 2Q level is a normalized level of depreciation and amortization?

Sachin Zute: Earlier when we used to have product revenues as part of our portfolio, they used to get counted as part of on site. Now, with our focused efforts on services revenue as part of our revenue mix has changed over the last two quarters, and that is also what is getting reflected in the offshoring numbers which are getting reported.

Sandeep Shah: Is there a further headroom in the offshore revenue utilization rate increase going forward? And what is the reason for absolute decline in depreciation and amortization? Whether Q2 level would be sustained or there is one-off and it may increase from Q3?

Sachin Zute: Let me answer the second question. Then I will hand it over to Vijay to answer your first question. As far as depreciation is concerned, the acquisitions which we had done over the years, the amortization has been coming down over the last few quarters, and that is what is getting impacted. Going forward, we believe that we will be in this range of what we reported in Q2.

Vijayasimha Alilughatta: To your question about offshore distribution as well as utilization, I think we are now seeing that the offshore ratio is at a fairly stable level or optimal level. So, we don't expect significant movement from these levels. Utilization is also fairly optimal. It will be range bound depending upon the sensitivities associated with certain quarterly phenomena. Otherwise, I think we will operate in the current utilization range.

Moderator: The next question is from Devang Bhatt from IDBI Capital.

Devang Bhatt: Last time, you had alluded that you will not target large deals till margins are stabilized. Now that margins have reached comfortable levels, are you targeting any large deals and in which

area are you seeing traction? Are there any large deals in the pipeline? And if yes, if you could elaborate the nature of that deal.

Manish Tandon: Let me first start by defining what large deals are for a company of our size. Anything with 5 million ACV or 25 million TCV is what we consider as a large deal. By that definition, we are working on a few deals. I cannot quantify the deals just now, but I can tell you that at least 4 or 5 deals we are working on. You know that the win rates on these large deals and the competitive intensity is very high. So, we are not really projecting anything from these deals just yet. But to answer your question, yes, we are in the market for large deals. And I can also tell you that wherever we have gone in, we have been received well. We may not have won the deal, but we have been received very well.

Devang Bhatt: Are we seeing cost efficiency kind of a deal or a digital transformation kind of a large deal?

Manish Tandon: We are not seeing digital transformation kind of large deals. That is for sure. We are seeing large deals more in the cost takeout space.

Devang Bhatt: And, sir, you had said that 95% of the company's growth comes from farming. In Hitech, what are you doing to drive that growth in mining the clients in Hitech?

Manish Tandon: In Hitech, 1) we are trying to change our sales force and enable them to be much more proactive, 2) we are trying to build higher level relationships with our clients, build greater relationships, and 3) our messaging and our work in the Experience to Engineering to Engagement continuum is resonating very very well with our clients. You will be surprised to know that in the Hitech space, we actually worked with some of the top clients in the industry.

Devang Bhatt: The European region did very well. Which verticals drove that growth?

Manish Tandon: Banking & Financial Services and Manufacturing & Consumer Services (MCS), both of them did well for us.

Moderator: The next question is from the line of Chirag Shah from White Pine. Please go ahead.

Chirag Shah: Sir, my first question is, you mentioned in your opening remarks that Data Engineering and Analytics have seen a decline. Can you indicate why it is and how do you look at it from the next 12 to 18 months' perspective?

Manish Tandon: That is because Data Engineering and Analytics was concentrated more in the Hitech vertical. And since the Hitech vertical declined, there was a corresponding effect on the Data Engineering and Analytics vertical.

Chirag Shah: So, it is more industry driven rather than application driven or line business driven. That is the right understanding, correct?

- Manish Tandon:** Yes.
- Chirag Shah:** Sir, the second question is on the margins front. In your annual analyst meet also, you indicated your aspiration is mid-teens margins and stability in margins within a particular band. Now, since 2 quarters, you are there. If I do H1, you are almost there. And also your aspiration to reinvest in the business to build up capabilities may be at a slightly faster pace than what your peers may be doing. So, how should one look at margins from here on? Is there a case of reset on the higher side or is there a case of to be slightly cautious or these are normalized margins and as activity picks up, there could be significant uptick that one can see?
- Sachin Zute:** As I said that first of all, we want to bring predictability in our margins and create a trajectory in our margins. For the last 3 to 4 quarters, we have been able to work structurally towards that. As you know, though currently the industry is going through tough times, as the growth returns, we want to ensure that Zensar is ready to take advantage of that growth from the capability perspective as well as from the sales perspective. We have already started investing in building up our sales force. That's the reason I specifically called out that on a quarter-on-quarter basis, normalized SG&A has remained flat. And with these kind of margins, we are creating headroom for us to further invest into business into the areas in which we see it is needed to be invested. From that perspective, I think our goal will be to continue to be in the range of mid-teens margin. Anything over and above that in some or the other way, we want to invest back into the business and be ready for the growth when industry turns around.
- Chirag Shah:** If I rephrase or re-summarize, current margins that we have seen in H1 are kind of normalized margins unless for a negative shock that comes across in the business. That is the right way to look at it?
- Manish Tandon:** 18.6% is not mid-teens. It's almost adult.
- Chirag Shah:** I am looking at H1 excluding that 150 bps of reversal because the SG&A pertains to last year, which we had provided.
- Sachin Zute:** These are the headrooms which we have created for ourselves, which we want to invest back. So, the normalized margin which we as management team are targeting is mid-teens, which is between 14% to 16%. Anything over and above that will be reinvested in some or the other form back into the business.
- Moderator:** The next question is from the line of Nitin Padmanabhan from Investec.
- Nitin Padmanabhan:** Just a quick bookkeeping one. What is the proportion of net news in the total TCV this time?
- Sachin Zute:** On an overall basis, my EE is two-third of my book and one-third of my book is EN and NN. And my NN is in lower single digits right now, Nitin.
- Manish Tandon:** \$2.5 million

- Moderator:** The next question is from the line of Dipesh from Emkay Global. Please go ahead.
- Dipesh Mehta:** I just want to understand about the reinvestment and the margin trajectory. Typically, right now, let's say we are at 17 adjusted EBITDA margin and 14 to 16 is the range what we indicated. Usually, what time period it requires for you to optimally operate within that 14 to 16 percentage range? Because, investment will take some time. But considering the next 2-3 quarters, typically how long it will take for you to start operating within the targeted range?
- Sachin Zute:** If you look at our hiring process on the leadership, it's already on. As Manish clearly said that we have already on-boarded our Healthcare leader as well and there are a couple of other hirings which are happening in the company. From that perspective, the process is already going on, and we will see the impact of that in Q3 and Q4.
- Dipesh Mehta:** So, broadly, by year-end, we should operate within the optimal range of 14 to 16, where the focus would be on accelerating revenue growth. Is it the right understanding?
- Sachin Zute:** Apart from that, we also have to see, as one of your colleagues asked, we will also need some investment in case we win any large deal or something like that. Correct? And as you know that large deals initially, at least for a few quarters, are not margin accretive deals. If something comes our way, we want to ensure that we are ready for that.
- Dipesh Mehta:** And last question is about the client and client mining related thing. Let's say we have roughly around 47 odd clients giving more than 5 million kind of revenue. Top 20, we are seeing some weakness. And obviously we always maintain that client mining is a long term kind of growth potential and all those things. I am just trying to understand if you can give some sense in the last 2-3 quarters, the new clients which we added, the quality of those clients compared to.... Obviously, we are seeing some challenges in top 20 and there might be some mix change. So, if we can provide some qualitative aspects in terms of the kind of clients which we are adding?
- Manish Tandon:** 1) Our target account list is companies greater than \$2 billion in revenues. And mostly the effort in adding clients is going towards those clients only. Sometimes smaller clients come to us with a larger project. We are happy to take them. But our focus is always on companies with revenues greater than \$2 billion. 2) If you look at the order book, I think the EN (Existing-New) portion is pretty strong over the last couple of quarters, which means that the farming engine is working and the farming engine is not only working, but it's working on cross sales, so to say. Those are the 2 data points that I would like to share.
- Moderator:** Our next question is from the line of Jalaj from Svan Investments. Please go ahead.
- Jalaj Manocha:** The first question is with regards to the last discussion in the analyst meet, which was around the target to reach to a quadrant 1 in terms of the performance growth-wise. What would it take us to be there, i.e., where we want to be there? That's one thing. And secondly is the sales and sales support team right now in place or there is still some more headcount to be added there? Because, I do see that there is a certain attrition there also.

Manish Tandon: Top quadrant remains our goal. And as I said, we will not reach that goal in 1 quarter or 1 year or so. We are targeting that we will move up a quadrant every year, so to say. Currently, we are at the bottom. The second thing is on sales. As far as headcount is concerned, I think we are there. As far as quality is concerned, the jury is still out there and we continue to look at sales performance at an individual level and counsel people who are not performing. And we will continue to do that.

Moderator: As that was the last question for today, I would now like to hand the conference over to Mr. Manish Tandon for closing comments.

Manish Tandon: Thank you very much for spending time this evening with us. We hope we answered all your questions. If there are more questions, we have a wonderful investor relations team. You can address your questions to them. Thank you very much.

Moderator: On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you everybody.