



“Zensar Technologies Limited Q1FY 2012-13 Results Conference Call.”

July 26, 2012



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CONTROLLER

Moderator

Ladies and gentlemen, good day and welcome to the Q1 FY 2012-13 results Conference Call of Zensar Technologies Limited. We have with us today Dr. Ganesh Natarajan – Vice Chairman and CEO, Mr. S. Balasubramanian – Executive Vice President and CFO and Mr. Sanjay Rawa –Vice President and Financial Controller. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today’s presentation. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Dr. Ganesh Natarajan. Thank you and over to you sir.

Ganesh Natarajan

As all of you would be aware we have probably had one of our best ever Quarter and I will take some time to tell you what has been the built up to that and why we continue to have the confidence that this will be a very good year for Zensar.

For some of you, who are not aware of Zensar ,a very quick introduction. As you know we are probably among the top-20. This year of course our ranking would have improved even further, as a software export firm in NASSCOM. Something that we have achieved over a period of last 3-4 years of very good, better than the industry growth. Today we are also ranked among the top-12 in the latest listing released which is called Global Outsourcing 100 by the IOP which is an international rating body .We are among the top-12 Indian IT companies in that. We also have two exclusive Harvard Case Studies on Zensar Technologies. One is on our HR practices which is the “Future of Vision Community” and the other is on the “Whole Process of Innovation and Managing Change” which to my mind is one of the big reasons why we are growing as well ,as we are today.

I would not dwell into performance at all because I am sure all of you have seen that . But I think it is been excellent in the sense that we have a 36.5% year-on-year revenue growth this quarter and a 101.5% PAT growth .On a quarter-on-quarter sequential basis, it is 10.2% revenue growth and 38.8% on PAT. The good news is that it is a combination of good volume growth, in fact we have 2.1% volume growth on a sequential basis and between 12 and 12.5% growth on a year-on-year basis. And the trends are very good because given the risk mitigation we have both in geographies, verticals and horizontal services. We are very confident that irrespective of the cloudy state of the economy, we will continue to do well, which is why I am more than happy to reaffirm that we will meet or exceed our guidance of 15-18% revenue growth for the full financial year. Just few more points on the results itself, which I am sure most of you have done the industry benchmarking and we constantly benchmark ourselves against Infosys, companies of our size like MindTree, Infotech, etc., and this time I am happy to report that all on parameters, I mean if you look at year-on-year revenue growth, profit growth both operating profit, PBT and PAT I think we are better than most of our competitors. Even on sequential quarter growth if you look at what we achieved I think as against our 10.2% most of the others are 8.6, 7.1, 9.4 respectively in terms of Infosys, MindTree and Infotech and also in terms of profit growth, our profit growth has been substantially superior

than most of the others. So I think it has been a very good quarter and as I mentioned earlier the model that we have adopted has been excellent.

On all parameters if you look at the revenue growth across territories it has been good, in fact the only flat territory for us has been Japan and Japan, of course we have one or two customer, we just added two small customers. So we are staying there , but we do not expect too much growth there. Similarly the only impacted territory for us is Retail in the UK .Again as most of you would be knowing that UK is not going through a particularly good economic time but we have seen good growth in Germany, Holland and UK is static. But US continues to be very good for us, in fact our core business which is the core verticals of manufacturing and insurance and retail have done extremely well in the US.

We have had a small dip in the gross margin for the quarter and that is primarily because of the product sale. As many of you know Akibia, the infrastructure management onsite Boston company we bought in the US is primarily in supporting datacenters there , and their model is that they also market some software products. They resell software products which becomes their entry point, because after software products are procured by the data center, it leads to a lot of data center services work and consulting work and this quarter the mix of product sold have been a little inferior, compared to the previous quarter and the previous year; which is why you see a dip in the gross margin. In fact the gross margins of our core services business has actually gone up 0.6% in this quarter but the overall looks lower because of the mix of products changing in Akibia. So I think that is the reason for one negative thing that you might be noticing in our financials.

On a segment wise revenue basis, we continue to be largely US based, 72% is still US. I mentioned it earlier also that our goal is to bring that down to 65%. And the good news is that the growth you have seen in Africa, in Saudi Arabia and in the rest of the world, particularly Australia has been excellent. Even India has been good. So I am pretty confident that while US continues to be our significant territory we will continue to make forays in other geographic segments as well. And on application services to infrastructure management services, we would like to on ongoing basis maintain a 2/3rd-1/3rd mix and this quarter is just then 65%-35%. Similarly if you look at the industry growth manufacturing continues to be a dominant industry segment and even going forward we would expect that- that will be the significant driven of Zensar Company's growth and insurance continues to do well and we are also doing well in other verticals which are recession proof, like government, like healthcare where we started our business in the US and utilities which continues to be important element. A few words on our client mix, I think our top client is doing well. Also as you would see from the analysts' note sent out, continue to add more million dollar client and some of them have climbed up into the 3 million, 4 million and 5 million bases and that is an ongoing process because as the renewal cycle starts so many of our customers and prospects, we are finding that contracts have been split up from what used to be the old 50 million – 100 million deals, we took smaller deals in and we are very much in contention for picking up anywhere to \$3 million to \$10 million to \$12 million kind of deal and that is again giving us confidence

that given the strength we have in our key service areas like infrastructure management, like application testing, Oracle, SAP that they will continue to do well. Employee headcount, the end of quarter at 7286 and we expect to add cumulatively about 600 to 650 employees during the year. On an ongoing basis if you look at our own strategy going forward, if you look at what we call the \$1 billion Zensar we are definitely trying to ensure that if we are close to triple our revenues over the next four years, you will not have to triple our employees, so there is a fair amount of investment and innovation in building intellectual property and in fact in all the areas that I mentioned whether it is Oracle or SAP, testing, infrastructure management and the whole new area of Cloud, Social Media and mobility. The effort is very much on to have IP creation on an ongoing basis, in fact the R&D center we have in Zensar, which I would like to invite some of you to visit at some point of time, is now very heavily focused on new methodologies, new products for the cloud space and one of our product called AutoZenics which was done for the small and medium auto manufacturing segment is building to do well, getting traction in India and we will be launching it even in China next year. In fact the good news I would like to share with you is that as of yesterday we were rated amongst the top-20 outsourcing companies in China which includes the multinationals like IBM, Microsoft and Accenture and today we have gone from 0 to 40 resources in China in a space of six months and we are very confident that that would be another growth story as far as Zensar is concerned.

A quick word on the verticals, as I said, manufacturing is our focus vertical. We have very clearly shown leadership both in Oracle and SAP and in fact we are seeing SAP as one of the very key growth drivers going forward. We have also been very successful in working with these partners on what we call Edge services which is areas like customer relationship management, supply chain management etc, added to that the new investments in cloud social media mobility which most of our clients are now looking at as a foray into what they would like to do. So this will be a growth engine for the next maybe two to three years. But we are looking at this very exciting area called manufacturing execution systems which includes products like cycle management, engineering services, etc., and one of our medium term goals will be over the next 2 years, is to look for a larger acquisition in the MES space. In the interim our acquisition strategy remains what they have outlined before and if we look at our key focus areas being infrastructure management as a service area and manufacturing as a vertical, We have been focusing on M & A opportunities particularly in SAP so we will be looking at smaller SAP companies in America, which can add to our portfolio and reinforce our status as one of the SVARS or value added resellers of SAP in that market.

We are also looking at Cloud companies because we are very conscious of the fact that the time to market as far as Cloud is concerned is much smaller and while our investments and our organic growth will go on, we are very much in the market for looking at a proper software as a service, platform as a service cloud company which can take that forward. In terms of delivery footprint, I mentioned China, which is growing well. We have both Pune and Hyderabad expand rapidly. We inaugurated our 9th global delivery center in Bangalore in June of this year and that will be the hub of development of solutions for Cloud Social Media

mobility and also the proximity center for Cisco, which is our largest client and which is of course, I mean most of their operations are based in Bangalore. On the manpower front we have been very fortunate to have four very significant additions to our management team in the last few months. A gentleman call Mohan Hastak who was global head for a lot of the verticals in Patni has joined us to head the Banking, Financial Services, and Insurance verticals. We have a gentleman called Vijay Verghese. Vijay has 15 years of experience in TCS in IT in Asia Pacific. He now heads our Asia Pacific business which includes China and Australia in addition to Singapore. Harish Gala, who was one of the very senior directors of Deloitte and a very well known name in this country for both Oracle and SAP, he has joined us to be the Oracle and SAP practice head based out of Hyderabad, also runs the Hyderabad location. And we have recently inducted a very senior person from the industry as the CIO or the Chief Information Officer of Zensar, a gentleman called Sandeep Suryavanshi. In fact we have a lot of focus today on improving our processes in system. As a matter of fact we are now currently working on a 6-month project with McKinsey because McKinsey as some of you would know have a very interesting service called Process 360 and that is they get executed for over a 130 customers in 18 countries and this is primarily benchmarking all of us whether it is customer acquisition, customer satisfaction, of course the whole gamut of delivery, etc., against the best in the class in the industry and in the world and I would like to say that I think it makes significant progress and even from a process improvement and cost improvement standpoint one of the exercise is over by January-February you would expect that our profit before tax potential addition on an annual year-on-year basis would be at least 25-30 crores starting FY14.

Finally, our people story, our employee engagement scores are at an all-time high, the talent retention as well the critical talent retention has again been probably among the best, probably the best in the industry. We have multiple new strategies that have come in to control any form of attrition or employee dissatisfaction and both in India and as well as in the US, particularly in Akibia I think our retention record has been excellent in terms of managers and others.

So broadly speaking I think this is where we are. Just to conclude and of course I will ask Bala, our CFO, to add anything he would like to add, the numbers. But it has been an outstanding quarter and I think it is a summation of 3 or 4 quarters of very good growth and our strategy in terms of diversification as I mentioned paying off extremely well. We are very confident that we will continue to have, I mean if now this kind of exceptional quarters, we will continue to have good growth in the next 3 to 4 quarters and unless we see something completely unforeseen happening in the marketplace I think we continue to be very confident of meeting and exceeding our guidance. So thank you very much. I will ask Bala to have any comment and then we open it for questions.

S. Balasubramanian

I will just add the normal questions which people ask so that it all can be more productive. In terms of cash on hand we have as of this morning about 223 crores of cash, in terms of debtors we repaid \$6 million of our debts that we had taken in the US for the Akibia acquisition. So from \$48 million it has come down to \$42 million. In terms of our FOREX hedge we have

covered for approximately 40% of our receivables for the next three months, at an average rate of Rs.51.82. In terms of Capex, this being the first quarter, we have spent about 4.5 crores. In terms of the tax percentage, of course the tax percentage of ours is been high this quarter essentially because of fairly high offshore onsite business

Ganesh Natarajan

Thank you and we will now open it for questions.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Deepen Shah of Kotak Securities, please go ahead.

Deepen Shah

Just a few questions on the micro side first. If you can throw some more light on how the situation is panning out and whether you are seeing a situation which is better as compared to the last quarter or has the situation deteriorated a bit?

Ganesh Natarajan

I think just to clarify, as I mentioned there are certain sectors which are obviously impacted, investment banking in the US. Fortunately there are very little exposures too. Also mentioned retail in the UK, I am hoping it is a temporary blip because there is slowdown in retail spending in the UK but apart from that if you look at market spending, I mean we have seen no problems at all in most other sectors in the US. In fact as many of you would be aware, there is a lot of manufacturing excitement coming back to the US and a lot of innovation in the US, in fact high-tech manufacturing is actually going up. They are also very excited about things like Shale oil and drilling and everything else. So I think in spite of the natural nervousness caused by the presidential election and the rhetoric against outsourcing etc, the corporate sector is still doing well in the US and that being our largest market that is good news for us. On smaller markets like South Africa and Australia, Middle East we continue to see good spending, in fact pricing if at all there is an upward bias because a lot of the new services we are offering are obviously coming in at higher pricing. The Edge services in Oracle and SAP that I mentioned, people are willing to pay more for that. Cloud is clearly something that is on everybody's mind. I would be very surprised if there is any slowdown there. Europe is something we are watchful about but our exposure to Europe is very limited. But in our key markets, I think there is still enough headroom for us to grow, and that is where the confidence is coming from.

Moderator

We will take our next question that is from Karan Taurani of IFCI Financial Services, please go ahead.

Karan Taurani

Just wanted to ask you in terms of guidance; you have guided 15% to 18% organic growth for next year dollar terms, I mean this quarter was slightly on the weaker side because volume growths were just 2%. So if you take the upper terms in guidance you would probably you have to do a dollar term growth of 5.2% CQGR. So how confident are you and what is basically the demand driver in terms of services for this?

- Ganesh Natarajan** First of all in terms of guidance, we were looking at more of rupee, and in fact we normally factor improvement in the rupee. So I think if you look at dollar terms, we are probably looking at 15% but we really do not look at dollar only because it is a basket of currency so if you look at the overall volume growth, the drivers that you mentioned are more in the range of, if you look at healthcare for instance where we have an investment in place. It was expected to start around February of this year but as many of you know the Obama's Bill got held up in Supreme Court, just got cleared in June. So it is only now, that the people we had actually look at for healthcare, are billing. Similarly the integration with Akibia resulted in small integration deals to the extent of around \$7-\$8 million in the last one year. But right now we are sitting on a pipeline which is looking like \$ 25 to \$30 million of integrated IMDS so there are drivers both in terms of our own investments to make that happen. And that is really where the confidence is coming from irrespective of the markets go I think we will continue to grow.
- Karan Taurani** Has this quarter been in line with your expectations or there are some delays in decision making or something of that sort or it is been fine?
- Ganesh Natarajan** The only delay in decision making has been in healthcare and I think that was more because of the government macro environment but otherwise no client delays or any product. We have also had a weaker quarter for Akibia because one or two of their clients have delayed decision and it is been weaker than we would like and also as I mentioned earlier the product mix has not been the most profitable but I think that will get corrected over the next 2 quarters.
- Karan Taurani** So is coming to Akibia your IMS business sequentially in dollar terms revenue from there degrew 8%. So what is that, you have taken that any, can you give any detail on that front?
- Ganesh Natarajan** Yes, as I mentioned earlier I mean 2 or 3 clients who have delayed their datacenter migration business and the product mix also as I said has been lower, so that is more of a blip, we were talking to the management when we had a board meeting just about 2 weeks ago, and they are pretty confident that by the third quarter they will be back on track. I think anyways there would be a lower growth in infrastructure management but growth will certainly be there.
- Karan Taurani** So basically from Q3 FY13 you expect the growth to be back on track IMS?
- Ganesh Natarajan** Q2 itself will be back on track but I am saying catching up with Q1 whatever they have lost out will happen by Q3.
- Karan Taurani** The breakup in terms of margins, can I have that for this quarter the margins have grown 130 basis points, would there be a policy impact of your rupee depreciation as well, so if you can just share the breakup?
- S. Balasubramanian** The margins between products and services?

Karan Taurani No, your EBITDA margin improvement improved 130 basis points, so the breakup of that, I mean the positive impact of rupee and the negative impact of our other factors you can just provide me that.

S. Balasubramanian We have not done that analysis on margins. We do the analysis on service lines and product lines.

Karan Taurani Okay. But any other positive impact from off-shoring and any efficiency you are driving, if you could just specify that?

S. Balasubramanian Well on the positive side of course the volume growth has given us an aspect of and Ganesh also clarified, that is more improvement in our Services margin. If you want further details you can just email to me I will give you the details of the rationale that you kind of explained.

Karan Taurani Sure. Just in terms of salary hike, what is the quantum of salary hike if at all you have given one?

Ganesh Natarajan We have given an average of 7.5% salary hike in offshore and onsite it varied from 1-2% depending on location and various things.

Karan Taurani This will come into effect this quarter the entire thing, right?

Ganesh Natarajan Right.

Karan Taurani Okay. So this one data point, your top-10 contribution this quarter, can I have that number?

Ganesh Natarajan We will give it to you later.

Moderator Our next question is from Devang Bhatt of Khambatta Securities, please go ahead.

Devang Bhatt Just 2 to 3 housekeeping questions, what was your attrition rate this quarter?

Ganesh Natarajan Attrition rate has been around 11% this quarter, I am talking about annualized attrition.

Devang Bhatt And your government revenues have declined, so any color on that and what was the FOREX gain this quarter?

Ganesh Natarajan Government revenue is actually varying because we are currently executing three projects, one is the Sarvasiksha Abhiyan project in Punjab and that is being completed so that is done. Then, there is a municipal corporation that they are executing in Maharashtra. Similarly, we are doing on electricity distribution, large SAP implementation. So this is really based on milestone because there is a milestone that has not yet been reached in the electricity distribution contract because it is close to Rs 9- Rs.10 crore kind of billing. So that will probably happen next year. So I think these are going steadily and will get completed by end

of December and then we are continuing to look at it, but we are being a little vary on government contracts, so we want to make sure that we take contracts their payments come on time which is always difficult currently in the Indian count. What was your third question, your data point

- Devang Bhatt** FOREX gain and why there is a decline in DSO or some color on that?
- S. Balasubramanian** Our FOREX gain this quarter is 15.14 crores and our debt cover on debtors is 74 days
- Devang Bhatt** Yeah, there is some decline, right, or it is increased because -
- S. Balasubramanian** The turnover has gone up.
- Devang Bhatt** It was 69 as per the last quarter
- S. Balasubramanian** That is right because our turnover has gone up and in terms of our top, the question on top five customers; the top customer is 24%.
- Moderator** Our next question is from Akshay Shah of Quest Investments, please go ahead.
- Akshay Shah** I have basically 2-3 questions. In your presentation you said that people in the marketing channel has gone up substantially. So can you little bit highlight like what is going on behind this thing whether we will be experiencing more expenses coming because of the marketing and revenues falling with the lag effect. Can you just clarify that first of all?
- Ganesh Natarajan** Not really, because if you look at our sales manpower I think it has gone up by 2 people so we have added 2 Americans in BPO business but apart from that I think Akibia sales manpower is more or less the same and similarly if you look at our US manpower, so there has been no substantial increase.
- Akshay Shah** If you see in the presentation as of June 2011, you had 73 people in marketing and now in June 2012 you have 156 people. So how does it work out basically?
- Ganesh Natarajan** When you are looking at marketing, this includes there are about 60 people who have been added in what we call inside sale, which are very low cost manpower, based in Pune, who do tele-calling and fix up appointments for other people. If you look at the sales manpower which are the expensive people overseas,, that has hardly gone up by less than 10% in the last 8-9 months. When you see marketing you are looking at presales, a lot of India based resource.
- Akshay Shah** Okay. So that is like basically some kind of assistance to the main sales people in no cost what you are saying exactly that 60 kind of people.
- Ganesh Natarajan** Tele-callers, people who make telephone calls to the listed people and fix appointments.

Akshay Shah Okay. So that would not put any undue burden on the company?

Ganesh Natarajan These people are as low as 25,000 per month kind of salary.

Akshay Shah Second question is basically if you come across in 2 days before, or probably in yesterday's paper only there was one article on financial express, headline was Datacenter Start up sold for \$1.2 billion, that VMware has bought Nicira Networks. So my question is that we are also into the infrastructure management services and we also have that datacenter. So what is actually trend going on like people are going more for the cloud and infrastructure management and that software services will be bought over there and so the process will be faster, what is being claimed. So how the things are spanning out? Why such an active valuation has been given when in fact the requirement itself was just \$40 million?

Ganesh Natarajan So let me just explain to you a little bit because I do not want to take too much time but happy to, you send me a mail I can send you a complete presentation.

Akshay Shah I will surely scan this article and send it to you.

Ganesh Natarajan No that is okay. I think I will give you explanation of what is happening. See when you look at Cloud, the logical move over the next 5 to 10 years, maybe 30 to 35% of people infrastructure including datacenter, you know where they will virtualized centers and maybe move the servers to an Amazon Cloud or whatever so I think that is some amount of cannibalization that can happen in the datacenter. However, it is a slow graph because the big concerns that people always have is that if you have it inside your EDP department or datacenter, it is perceptibly safe and when they move data and applications to an external cloud there is always a problem of security so which is why if you look at our own infrastructure management business we have four areas of activity, the existing datacenter, then we also do a fair amount of work in end-user computing support, then we do remote support from India and also we have a very fast growing practice which is compliance and security. So this process will be slow so it is not like anything is going to happen tomorrow but when I mentioned in my earlier commentary that Cloud is an important focus area, we see cloud as an opportunity for a lot of our clients to support their software and their platform. We also see Cloud as a challenge to the infrastructure business so whatever we loose in infrastructure we would like to make up by investments in Cloud. So it is a not an abrupt transition, it is a change over in the way information is consumed by organization which we are very conscious of and which we are preparing for and I think net-net it will be very positive for us because of our early investments in cloud.

Akshay Shah As a corollary, what you told me, if I am not mistaken, this transaction has been done it is keeping in mind the very depth of the opportunity which is lying and maybe gradually what you are saying maybe 5-10-15 years over and tomorrow what we are doing with our infrastructure management and datacenter kind of offering a host of facilities to the client over a long period of time including keeping debts, data security also in mind. So in future our data

center, our infrastructure management can be valued substantially because we will be quite different from this. It can be substantially valued over what this transaction has been done, can we assume that way? I am not putting any number but it can be substantially higher?

Ganesh Natarajan

I would not say so because our infrastructure management is a support function, we do not build datacenters, we support our clients irrespective of whether they use an in-house datacenter or a cloud datacenter. While obviously infrastructure management is the most recession proof and the most suitable business for a company to be in, that is right we are very happy that 70% of our work comes from IM or application support. It will not result in upfront changes in valuation.

Akshay Shah

But do you look forward, not immediately, but next down the line 3 to 4 or 5 years, what you are doing providing a support in the IMS you would be gradually moving to the full fledged datacenter kind of and with the infrastructure management. Is that the horizon we are looking at?

Ganesh Natarajan

We are not looking at setting up our own datacenters to answer your question but in terms of supporting client datacenters and client cloud movement, that is an ongoing business and a lot of our investments and lot of our people are focusing on these stepping stones to the cloud to make that happen.

Akshay Shah

So according to you this transaction whatever has happened it is more of a realistic transaction. It is not something like Google IPO or Facebook IPO came and it doomed out everything. These are some fundamentals underlying those businesses.

Ganesh Natarajan

If you can send me a mail we can discuss this offline.

Akshay Shah

My last question was, we have \$1 billion revenue mark, focus is there by 2016 out of which the \$400 million be like for the new technologies, \$400 will be for the infrastructure management and \$200 will be the existing. What are the profitability today and how do you see this shaping up over the next 2 to 3 years when we reach to the level of \$1 billion?

Ganesh Natarajan

See just to clarify to everybody, see today the most profitable business for any company in this industry including us is the application management services, application maintenance followed by the new services because new services like Cloud, etc., are inherently very profitable, followed by ERP which is the SAP Oracle business and infrastructure management, offshore is equally profitable but when you do onsite work like Akibia does that is less profitable. So if you look at our profit profile going forward by doing a lot more of remote infrastructure management we will constantly improve the profitability of Akibia which is why as many of you know, we had reached a 13% PAT level about 2 years back but Akibia when we bought it was just 5.5% PBT, it has been going up steadily and obviously our goal is to go back to double digit, 10% plus PAT on a regular basis. So I think that will happen by the profit profile of the infrastructure management business and the others becoming more and

more profitable as we get new business and increase the size of our application. So I think that is the profitability. – to some variation but eventually I think all this never last.

Akshay Shah You said 10% plus PAT on a sustainable basis, that is for the company as a whole you are saying?

Ganesh Natarajan That is right because today if you look at the profile I mean our largest client would be as high as 18-19% PAT whereas the lowest client in infrastructure management could be as low as 4%. So the idea is to bridge the gap and make sure that most of our business is coming at 16 - 17%, so that the overall PAT can be met

Akshay Shah So as a corollary to this question, you said the 13% we have reached almost double from 7% to 13% today PAT in Akibia and with more offshoring and happening, so when do you think that it will reach the peak level or the desired level which we can achieve and how much that can be?

Ganesh Natarajan See our desired level as I said as a company as a milestone is to be in double digit PAT. Akibia is right now touching double digits in PBT terms. So I think obviously our independent businesses we cannot measure on tax basis. If we reach a level then we are constantly above 10% PAT that is our first milestone and hope to achieve that in FY14 definitely. Right now we are there but I am saying, irrespective of any variations you want to maintain and increase from there going forward.

Akshay Shah Okay so my mistake, it is that Akibia is 9% PBT level so once you adjust for the higher tax rate over there for the onsite it is still in single digit, then you move it up to the double digit definitely things will move much-much better in double digit side basically. That is what you are trying to say.

Ganesh Natarajan That is the model going forward.

Moderator Our next question is from Deepen Shah of Kotak Securities, please go ahead.

Deepen Shah Just wanted to inquire more about Cisco. Cisco, just a few days back had indicated some cost cutting initiatives including cutting of employees, how was the experience with us for Cisco?

Ganesh Natarajan Last 2-3 quarters as you know has been excellent for Cisco as well as for our other top 5 clients. I think one or two clients can always do less business over the next 2-3 quarters, because it is a tough economic market. But right now I think we are positive, in fact we have an extraordinarily good relationship not only with Cisco but the clients, the other 2-3-4 very good clients. So I am pretty clear that even if we have some problems with any one client we can overcome that as we go along. But obviously as you know it is difficult to predict how any one client will behave and it is a tough market for network equipment manufacturers especially premium ones like Cisco so we will have to wait and watch to see how they

perform. But as you know they have already cut costs, substantially improved profitability and they do have announced publicly that they will be looking at optimizing on their manpower by I think August-September. So this must be probably the last wave of cost reduction they are doing but that is really for them to comment on and as far as we are concerned we are very much part of their cost saving plan in terms of doing more work offshore so I am very confident that will continue.

Deepen Shah

And as far as the bought-outs are concerned in the revenue front, do we have any number which we can give on the bought out revenues in the quarter? The bought out or the software product revenues which you say -

Ganesh Natarajan

software product revenue – We will give it to you later.

Deepen Shah

And just one last thing maybe on the margins I missed out, during the current quarter on the margin front we are about 130 basis points here. Last quarter we had FOREX loss which was included in the EBITDA and this quarter we do not have that in the margins and also the rupee had depreciated. So any one-off expenditure or any higher expenditure of high employee additions which you have made is that the reason why the margins are probably impacted and whether we can see higher margin levels maybe over the next 2-3 quarters because the next quarter obviously will be the salary hike?

S. Balasubramanian

Ganesh has explained the services margin actually had gone up, we were pulled down by the product margins. Our product and license sales for this quarter was 83 crores as against 71.94 crores in Q4 of last year and because of the mix of the products which Akibia had in large range of products and as Ganesh had explained you sell the product first and then the services business follows. It is on a going concern basis. Sometimes services and products are more or less balanced and there are certain quarters where the products are more and basically we have seen that the first quarter generally gives a flip after the budgets get over. So the reason for our margin dip this quarter has been primarily due to the high quantum of product and license sale in this quarter.

Moderator

Our next question is from Shravan Goyal of UTI Mutual Fund, please go ahead.

Shravan Goyal

My question is software development expenses have gone up by 13% quarter-on-quarter and 36% year-on-year. So any particular reason for that?

S. Balasubramanian

This is the same thing, product sales.

Shravan Goyal

So how much is product sale out of this?

S. Balasubramanian

The product and license sale is 83 crores and out of that the license is 10 crores and product sales 73 crores.

- Shravan Goyal** And the proportion of IMS business has come up in this quarter, so any seasonality in that.
- S. Balasubramanian** Ganesh had explained earlier, there were some timing issues in some of the datacenters transitioning but that is a blip this quarter.
- Moderator** Our next question is from Minit Zaveri of CNI Research, please go ahead.
- Minit Zaveri** Can I understand in the next 2 years how we will plan for the IMS business?
- Ganesh Natarajan** See as I was mentioning earlier, the only doubt in the IMS business is the datacenter support business might get cannibalized a little because of cloud but for us, in fact we are fairly unique compared to the entire industry to give you a sense. Today we have support for the onsite services in Germany, Holland, UK, large parts of America and we are also now setting up support centers in Singapore and in Australia. So given that and the fact that we have stocking points for products and the spares, etc., so I think we are in a position, where we can capitalize on people's needs both for onsite, and of course for the traditional Indian strength area which is remote infrastructure management. Given that I think I would find that what was largely a datacenter business will now migrate from this datacenter to the point I was mentioning earlier, remote infrastructure, end-user computing as well as compliance and security. So I think all this put together we are very bullish on the future. So one of the reasons for saying that look, the infrastructure management business can grow to as high as 400 million by 2016 because we have tremendous bullishness about that business and of course about our manufacturing verticals. So these two would be the drivers of growth for the company over the next 2-3 years.
- Minit Zaveri** And my second question is like Insurance, how would the Insurance be the root for the company, like Insurance business and healthcare?
- Ganesh Natarajan** See there are two different stages of maturity as far as Zensar is concerned. Insurance is a very robust vertical for us and today we do business in almost all the continents. I mean we have good clients in US, in UK, South Africa is growing extremely well, in fact the top 5 insurance companies in South Africa are clients of ours. So I think that is going extremely well. Healthcare is a completely new business, in fact as I said we expected to start billing in healthcare in February. Actual billing started only in end of June because of the delay in the Obama Healthcare Plan. But ultimately both of these are linked because if you look at the healthcare business going forward I think it will be a combination of payers and providers which is really insurance and healthcare and add pharma to that. So we are very bullish. So we think that healthcare and utility would be two high growth businesses for us.
- Minit Zaveri** My last question is on Akibia, what is the main take or the trigger for the company to go long? So where can I see Akibia in the next 2 to 3 years?

- Ganesh Natarajan** When we bought the company we went into a 2-year integration plan and that is completed by end of this December so we have seen a very successful integration and we are now calling it part of the Global IM Business and the Global IM Business has three counts to it, one is the what is the core break-fix business, which is what I was talking about onsite. The second is the remote infrastructure management business which we are now expanding worldwide and the third is the incremental business, for instance, a lot of our clients and older clients in software are now also giving business, what you call indirect business in IM. So given all this we put together, not just Akibia itself in its core business, and the global IM business is really what would be one of the big drivers of growth for Zensar.
- Moderator** Our next question is from Tarun Kishnani of ICICI Securities, please go ahead.
- Tarun Kishnani** Basically you said that you added about 2 clients in Japan, and we as a house have kept meeting all large IT companies and they are of a view that Japan is a very difficult market to crack and specifically Infosys is of a view that they do not want to actually get into that space. Any view? Can you throw some light on this?
- Ganesh Natarajan** See Japan has been a tough market, as all of us aware, Japan has been in a 12-year recession so they have never really completely come out of it. So which is why I mentioned earlier in the call that Japan is the flat market as far as we are concerned. The reason we are there is we have 2 very large customers in Japan, large meaning, large companies who are customers of ours. We do very good business with them, some of it is offshore, so we are maintaining a skeletal presence in Japan but there is no plan to invest in growth. If you look at our investment market, South Africa, in fact we are just starting a new center in Kenya where they are also getting business. Similarly if you look at Middle East, we were largely in Dubai, that has expanded well. We have got good client. We are now in 3 cities in Saudi Arabia. So these are growth markets. We are not looking at Latin America for the time being, we are not looking at any further expansion in Continental Europe and Japan will be there but they are not going to grow. But potentially sooner or later economies will revive. So I think we want to be there with the presence. But then the opportunities come we have a good team. In fact we have a team which is except for one person entirely Japanese and they are fairly confident doing good work. But we have to wait and watch. I do not expect any miracles in Japan. I would not agree that Indian companies should not be in Japan because in future it can become a large market.
- Moderator** Our next question is from Vishnu Gopalakrishnan of SAM India, please go ahead.
- Vishnu Gopalakrishnan** Can you just share what is the revenue growth quarter-on-quarter in dollar terms and how does it split value in volume?
- Ganesh Natarajan** See if you look at the quarter-on-quarter growth which is over 10% in value terms, it is 2.1% in volume terms. So if you look at it in dollars what we call equated currency, it is about 2.1% sequential quarter is because of volume.

- Vishnu Gopalakrishnan** How do you separate as in if you take out the impact of INR depreciation what would be the growth?
- Ganesh Natarajan** Sequential quarter volume growth is 2.1% and with over the same thing last year it is over 12%, which is why I was making a point earlier that in terms of volume if you look at the NASSCOM projection of 11% to 14% that is pretty comfortable to meet and even assuming a 20% rupee advantage over last year. That is what we are saying, minimum of 15% and a likely 18% growth is what we are expecting for the full financial year.
- Vishnu Gopalakrishnan** Sure on the 2.1% dollar growth how would it split between billing rate and volume growth in terms of hours?
- Ganesh Natarajan** All this because of more hours put on projects. Billing rate there has been a very marginal increase, so I think almost 85% of it you can attribute to more volume in terms of more hours of work done for clients.
- Moderator** Ladies and gentlemen that was the last question. I would now like to hand the floor back to Dr. Ganesh Natarajan for closing comments.
- Prashant Pandey** As I said and have been saying for the last 3-4 quarters, as a management team we are very confident about the business, and even in comparison to other companies I think we have held our management team together, had a very solid track record of retaining customers as well as associates or employees and given our investments today whether it is an innovation, whether it is new areas, the success of integration with Akibia that we have seen over the last 2-3 quarters we are very confident going forward that not only this year but even going forward over the next 2-3 years I think we have a very good company on hand and we would like to thank all of you for the support you have always provided. Thank you very much.
- Moderator** Thank you very much gentlemen of the management. On behalf of Zensar Technologies Limited that concludes this conference call.