"Zensar Technologies Limited
Q1 FY-20 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Zensar Technologies Q1 FY20 Earnings 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 the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Chandra from HDFC Securities Limited. Thank you and over to you Sir!

Amit Chandra: Thank you Tanvi. Good afternoon, everyone. On behalf of HDFC Securities, I would like to welcome you all to the Zensar 1Q FY 2020 earnings call. We have with us Mr. Sandeep Kishore, CEO and MD; Mr. Navneet Khandelwal, CFO; and other senior management team members from Zensar. Without further delay, I would like to hand over the call to Mr. Sandeep Kishore to give us an introduction of the Zensar management team and a brief update on the 1Q FY2020 results. Thank you, and over to you, Sir!

Sandeep Kishore: Thank you Amit, hello and good afternoon everyone. Thank you for joining us today to discuss Zensar's financial results for the first quarter of fiscal 2020. On the call, I have with me from the Zensar management team, Ajay Bhandari, Head of Strategy and Corporate Development; Navneet Khandelwal, our Chief Financial Officer; Vivek Ranjan, our CHRO; Prameela Kalive, our Chief Operating Officer and Global Delivery Head of Application and Digital business; Harjott Atrii, Global Head of Cloud and Infrastructure Services business and Shirshendu Deb, our Global Financial Controller.

I will give you a brief overview of Q1 fiscal 2020, which will then be followed up by an update on other financial metrics by Navneet, post which, we will open the floor for questions.

I trust all of you have had a chance to go through the detailed Q1 FY2020 financial results and the factsheet that we released yesterday. Let me take this opportunity to present some key pointers.

All the financial numbers and analysis of Q1 fiscal 2020 are without the ROW numbers. As we had mentioned during last quarter call, we have divested the ROW business during Q4 fiscal 2019, and some residual business remained in Q1 fiscal 2020. However, to maintain parity of comparison, we have published a factsheet without ROW to ensure consistency.

We had a very good Q1 fiscal 2020. We delivered on an overall basis $153.3 million revenue, with a sequential growth of 3.1% and yearly growth of 16.4% in dollar terms. In constant currency, the Q-on-Q growth was 3.6%, and yearly growth was 18.8%.

Our revenue for the core business had a solid growth of 3.9% and 19.9% on Q-on-Q and Y-o-Y basis, respectively, in constant currency terms. Our core business is now 96.1% of our overall Q1 fiscal 2020 revenue.

Both gross margin and EBITDA witnessed a healthy increase in Q1 fiscal 2020. Gross margin grew by 5%, while EBITDA grew by 11.2% sequentially. Overall, Q1 EBITDA stood at 14.2% of revenue. On a Y-o-Y basis, both increased by 10.2% and 16.6%, respectively, all in dollar terms.

In Q1 fiscal 2020, EBITDA for the core business stood at 14.7%. Our PAT degrew by 8.3% on a sequential basis. In absolute terms, the decline of $1 million was due to reduced other income that came in last quarter on account of the sale of ROW business and a marginal Ind AS 116 impact, which was partially offset by an increase in the exchange gains as you have seen in the factsheet.

In Q1 fiscal 2020, our digital revenue accounted for 48.5% of our overall business, a growth of 6.7% sequentially and 28.3% Y-o-Y in dollar terms. Our digital and application business grew Q-on-Q by 1.1% in constant currency terms on the back of digital services revenue, which grew by 3.4%. Core applications in the legacy business, however, declined by 1.1% sequentially.

Our cloud and infrastructure business continued its growth momentum by delivering a solid growth of 17.3% sequentially with cloud digital-led next-gen CIS services increasing by 36.5% sequentially, while core infrastructure services grew by 15.3% sequentially.

All our regional markets grew well. Growth was led by South Africa market, followed by Europe. South Africa grew by 14.7%, while Europe grew by 4% sequentially. The U.S. growth was 2.3% sequentially, all in constant currency.

In terms of business sector, financial services grew sequentially by 8.2% on solid wins in the Guidewire space followed by manufacturing, which grew at 5.8%. Retail and consumer segment had a soft quarter with a decline of 10.2% owing to two large project completions and delay in start of some key engagement, again, all of these in constant currency.

As for our acquisitions, all acquired companies are now completely integrated into our existing businesses, and hence, we are no longer calling out their details separately.

We remain optimistic as we continue our large deal momentum into new fiscal year by winning key deals across regions from existing and new clients. This quarter, we booked deal worth $160 million, including key renewals.

This quarter, the growth predominantly was driven from existing clients, new deals as well as renewals from them. Our overall pipeline continues to remain very good and is above $1.1 billion mark as of date. As part of our strategy and as articulated earlier as well, we have continued the investment and business momentum of making deeper inroads into our top-tier high-growth clients. These are clients where we believe that there is potential headroom to grow our business and drive multi-services across applications, digital and cloud infrastructure, and where we have strategic advantages.

We have been increasingly successful and are getting better with cross-sell in these identified accounts across all regions, and the numbers have seen significant uptick. As a result, our top-clients revenue has been increasing steadily quarter-on-quarter. In Q1 fiscal 2020, revenue from top-5, top-10 and top-20 clients grew sequentially at 6.1%, 5.9% and 6.6%, respectively, while growing at 22.9%, 29% and 27.2% on a yearly basis, all in dollar terms.

Account mining strategy also yielded results with the increased number of $1 million, $5 million and $10 million per annum accounts. As of Q1 fiscal 2020, we have 91 of $1-plus million accounts, 20 of $5-plus million accounts and 9 of $10-plus million account, increase of 5, 1 and 4 respectively on a y-o-y basis.

Our sustained focus on innovation has helped us double the tally of patents granted in the last quarter. We continue to file more patents, particularly in the areas like our artificial intelligence and automation. Total patent filing now stands at 91, of which 10 have been granted.

Zensar continues to get included across reports this quarter by reputed industry analysts for our capability. Zensar was mentioned in Gartner Magic Quadrant for Oracle Cloud Application Services, worldwide 2019; Zensar was mentioned in Gartner Critical Capabilities for Oracle Cloud Application Services, worldwide 2019; HFS mentioned Zensar as rising mid-tier company; Global data covered Zensar's Return on Digital Conclave Analyst and Advisor Day which was held in April in Boston; Zensar was mentioned in Gartner Magic Quadrant for Data Center Outsourcing and Hybrid Infrastructure Managed Services 2019, Gartner Critical Capabilities for Managed Mobility Services Global; ISG Provider Lens Cyber Security Solutions & Services; and Everest Group Digital Workplace Services PEAK Matrix assessment.

Q1 also saw us add more associates. At the close of Q1 fiscal 2020, our global headcount stood at 10166, a net addition of 418 and 1376 associates on a quarterly and yearly basis, respectively. Our attrition as of Q1 was at 16.7%.

Zensar's RoD NeXT platform and solutions continue to be an integral part of all our large wins so far, and more and more of our clients are benefiting from the RoD and RoD NeXT platform. As mentioned earlier, our digital revenue continued to follow great momentum and had a stellar growth of 28.3% on a yearly basis and now accounts for 48.5% of our overall revenue. Most of Zensar’s platform solutions and services are now featured regularly in leading analyst reports, as we mentioned earlier, like Gartner, Everest, IDC, Forrester and more.

On an LTM basis, we had a total booking of $700-plus million in bookings, including multiple large wins. As mentioned earlier, the demand environment looks healthy. However, there has been a noticeable trend of reducing deal size and tenures, which we believe augurs well for Zensar. We continue to keep investing in business to ensure sustained growth.

With that, I will now invite Navneet, our CFO, to provide update on key finance data, after which, we will open the floor for questions. Navneet, over to you!

Navneet Khandelwal: Thank you, Sandeep. Good day everyone. Welcome to this call. In addition to Sandeep talking about the business, I will take you through some of the details in financials.

In the first quarter of FY2020, we have reported revenue at Rs.10661 million, which reflects a sequential growth of 1.8% and a Y-o-Y growth of 20.8% in rupee terms. This is our ninth quarter of positive sequential growth consecutively.

In U.S. dollar terms, the reported revenue is $153.3 million, reflecting growth of 3.1% sequentially and 16.4% annually. In constant currency terms for the quarter, company grew by 3.6% sequentially and 18.8% Y-o-Y. The U.S. dollar realization during the quarter has been Rs.69.50 to a dollar versus Rs.70.50 to a dollar in the previous quarter. The year before in the same quarter, it was Rs.67.

Our gross margin for the quarter was 29.4% as against 28.9% of previous quarter. The effective tax rate for the quarter is at 28.4% as against 29.9% in the previous quarter. For the quarter, billed DSO stood at 68 days against 69 days in the previous quarter, while DSO, including unbilled stood at 104 days versus 102 days in Q4 of FY2019. The total amount of outstanding hedges as of June 30, 2019, was equivalent to USD 145 million against USD 149 million in Q4 of FY2019. As of end of this quarter, our cash and cash equivalent balance was $72.9 million against $60.4 million in Q4 of FY2019.

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

Moderator: Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Thanks for taking my question. Good quarter. Sandeep, to start with, your deal pipeline commentary continues to remain very strong. Can you give us some thoughts on the demand environment and growth potential in both near and medium term? And the second point was, should we continue to see other areas compensate for the weakness in the retail space? Or do you see retail bottoming out soon? It has de-grown for last 5 quarters on a Y-o-Y basis, so any thoughts on that would be helpful.

Sandeep Kishore: Thank you, Mukul. for the first part of your question on the demand environment, we have been calling out the total pipeline and the scale of that pipeline over the last few commentaries that we have given in the quarterly earnings call. It continues to remain very good. It is north of $1 billion consistently over the last couple of quarters. That is one

Number two, we have been also converting quite well. As I mentioned earlier, over the last 12 months, we won $700 million. On an average, we win between $150 million to $200 million. That's roughly the range. Our split between Applications and the Cloud, Infrastructure business is roughly about 60:40. $400 million is roughly the pipeline on the cloud infrastructure business, which is significant considering the fact that it is about 15% of our business. As we had mentioned earlier, we have completely revitalized the service offering in the next-gen cloud infrastructure business, and we are seeing very, very good traction in that market.

On the Application side, as we also called out earlier, most of our pivoting has been towards the digital enterprise. That is where we continue to see traction in the financial services, particularly in the insurance and in the technology sector. Retail, as you've called out, has been a soft sector for us and I still think that we have some more work to do. It will take us a few quarters to make sure that we get that pivot going.

Predominant decline in retail has been happening in the legacy, in the core application business. And that is also the reason why our legacy application business sequentially declined by about 1.1%. We have put a totally new sales team and a client engagement team, including some digital architects in the retail and consumer sector. Last time, I think Ajay had called out that we are reclassifying and focusing more on subsectors of retail, like retail technology, like going away from the big box retailer into speciality retailers, pet, health and wellness, beauty as a sector and, of course, the CPG category.

So, we do believe that the offerings that we have, which is omnichannel experience and the cloud infrastructure services are pretty good, with a revitalized go-to-market team in the medium term. I do feel that you should start to see stabilization and growth in the business in retail segment as well.

Mukul Garg: Got it. And the second question was on the margin profile. This quarter, the EBIT margin was flat on a Q-o-Q basis. How should we look at this on a long-term basis? I know you have been providing guidance on EBITDA margin but given the Ind AS 116 impact, how should we look at EBIT margin? And do you believe you have scope to improve it in this fiscal?

Navneet Khandelwal: We have a scope of improvement on EBIT margins. And that is why we have been saying that internally we have set a target for ourselves to try and hit the 15% EBITDA levels. And we continue to have our focus on all the operating parameters to drive to that level. So Ind AS has had an impact on the EBITDA, which you are seeing, which is reported as of now. But despite that, we believe that we should be continuing to look at how we get to the target that we have set out for us is that 15% for the next coming two quarters.

Mukul Garg: So Navneet, is there a corresponding number for EBIT margin you should look at, which is in sync with this EBITDA margin target?

Navneet Khandelwal: We do not give any further forward guidance on that. We have reported the numbers as of now. I did not understand what exactly you seek.

Mukul Garg: So, EBITDA margin has probably benefited a bit from the lease accounting changes, and that got canceled on the D&A side, so a more comparable number in past would be the EBIT margin. Is there a guidance band you are working with that you can share with us?

Navneet Khandelwal: With respect to the impact on EBITDA because of Ind AS 116, it has been only reported from prospective effect, which is why Q1 margin reflect the Ind AS impact. The prior-period margins do not reflect the Ind AS impact. However, the EBITDA impact, because of Ind AS in Q1 is roughly about 1.4% positive.

Mukul Garg: Thanks for answering my question. I will get back into the queue.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Thanks for the opportunity. Sandeep, just want to understand if there is any onetime or any pass-through kind of a revenue related to product sales in our business in this quarter?

Sandeep Kishore: Pankaj, the CIS business, as I mentioned earlier, which grew exceptionally well. And that kind of a growth has some system integration built in. It is part of our strategy to focus on markets which are relevant from our point of view, where they are investing, so when we engage on next-generation cloud infrastructure services, as a strategic choice, you must partner with some of the technology companies like Cisco or Nutanix or ServiceNow. And that is always going to be the case. So yes, the answer is there are product SI revenues, which are built in, but that is the nature of our business and even going forward, you will see us building on large complex next-gen programs. It will be there even going forward.

Pankaj Kapoor: Sure. Will it be possible to quantify it so we can get a sense of what could be the more comparable growth number on a Q-o-Q and a Y-o-Y basis?

Sandeep Kishore: If you are asking me, going forward, we do not give any guidance Pankaj, as you know; however, the pipeline that we see today on cloud infrastructure continues to be very good, and we are very hopeful that we are going to win and convert those into actual businesses for us.

Pankaj Kapoor: Sandeep, my question actually was on the quarter, like if you could quantify the impact of this kind of revenue so that we can look at the more comparable number versus last quarter?

Sandeep Kishore: Okay. Navneet, do we have that number on hand?

Navneet Khandelwal: Pankaj, we will have to get back to you on that with the exact details.

Pankaj Kapoor: Okay. Sure. Second, Navneet, the Ind AS 116 impact, can you break it in terms of how much would have been at the interest cost level and how much went into the depreciation level?

Navneet Khandelwal: The interest cost impact is roughly about 600k increase, and the depreciation increase is roughly about $1.8 million.

Pankaj Kapoor: Thank you. All the best.

Moderator: Thank you. Next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Thanks for taking my question. If I look at our margins for the quarter on what we have reported and if I do a like-to-like comparison, adjusted for Ind AS. It looks like on a year-on-year basis, margins have actually fallen by 140 basis points. So, if you could just give some colour on what has driven the deterioration in margins and how should one think about it in the context of when things move forward?

Navneet Khandelwal: Yes, sure, Nitin. This is Navneet here. So, if you will see the decline in margins, let me try and explain to you how the quarter-on-quarter movement has been. If you were to do a like-to-like comparison, you will see roughly about 0.9% decline in the margins and that is largely on account of two factors. Number one is that we had an adverse impact as the rate realization from the previous quarters have declined which has roughly about a 0.3% impact on the margins. Apart from that, there has been a reduction in utilization, which has impacted us, so utilization has dipped by 1% plus the kind of investments that we have made for the fresher hiring has also impacted the margins for the current quarter. So, a combination of these two has impacted the margins from a quarter-on-quarter perspective.

Nitin Padmanabhan: I was actually suggesting even on a year-on-year basis. But yes, utilization and fresher hiring, makes sense. But if we look at next quarter, obviously, we have compensation increases in-store and what should one expect in terms of impact from there? And second, if you could quantify the net-new within the overall TCV that we have reported for the quarter?

Sandeep Kishore: This is Sandeep here. I think we had mentioned it in probably at the same time last year as well. Our wage increase cycle is from July 1, every year. So in the July, August, September, which is Q2, you will see wage increase impact coming in, however, with all the levers that we have – freshers, offshoring, lean and automation and more CIS business coming in, we do believe that we have levers to take care of the wage increase during the course of the year. So that is first. The second is of the deal wins, $160 million that we won, it is difficult to call out the net new versus renewals. But it is fair to assume that it is about 60:40 ratio. That mean, 60% are actually newer, 40% are renewals of the deals, which actually go through an RFP process. We do not account for smaller SOW renewals and they are outside of this. Anything which goes through a bid process where we are to compete is what is called into this $160 million and the $700 million, which we have done over the last 12 months. Of the $700, its roughly half and half and we actually called that out even in the last analyst call as well.

Nitin Padmanabhan: Lastly, it would be great if you can give some colour on how you see things in terms of sales cycles. Do you see any impact there in the context of what is happening in the macro? And second, within the existing client base, is there anything that you're worried about in terms of headwinds or any such thing over the next six to 12 months?

Sandeep Kishore: One is sales cycle, have we seen any time line impact? The short answer is no. I still think we are in pretty good shape. The deal movement has been very good. There is nothing unusual that we see here. On the macroeconomic situation, also so far, I do not think we have seen anything which has any significant headwind. Having said that, if the U.S.-China trade war continues, I do believe the tech sector will have a bit of a decision-making impact, nothing that we have seen so far, but if it continues to prolong, there are some impacts which we will have to manage. We are seeing very good traction in financial services, particularly insurance. They need a lot of investments into the whole digital enterprise. That is exactly where we are pivoting, so that has a lot of investment. The cloud infrastructure, as I called out earlier, has $400-plus millions of total pipeline that we are seeing, which is very good. The fundamental reason why our deal pipeline over the last three-four quarters is north of $1 billion is because CIS has joined the party and they are really driving exceptional high-end and complex deals; next-gen cloud infra deals are complex by nature. And that also means, to answer one of the earlier questions that we were alluding to, it needs partnering with the tech majors. I do not think there is anything exceptional that I think which is happening right now from where I sit and where I see in terms of elongating deal cycles or something that "worries me". No.

Nitin Padmanabhan: Thank you, Sandeep and all the best.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Thanks for taking my followup question. Navneet, just wanted to clarify the comparable margins we need to look at for FY2020 on EBIT side would be 10.8%. Is that correct?

Navneet Khandelwal: Yes. For Q1, the EBITDA that we have reported is 14.2% and this has a 1.4% impact on Ind AS. So, from an EBITDA perspective, it will be 12.8% as compared to 13.2% of Q4.

Mukul Garg: What I was trying to understand was when we look at Y-o-Y movement between FY2019 and FY2020, we are looking at the EBIT margin or EBITDA margin of the new numbers, excluding ROW numbers, which you guys have released. Is that the right comparable we should look at, or should we...?

Navneet Khandelwal: Yes, sure. We have restated all the numbers to remove the impact of ROW in the previous financial years or the previous quarters as well in the factsheet, which we have reported now.

Mukul Garg: Based on this, you believe that you should be able to get some kind of a margin improvement, so on this, can you help us understand the levers which are there, which will help you take care of the wage hike as well as the cost investments which you have done in the first quarter?

Navneet Khandelwal: Yes, definitely. If you see, our utilization has dipped quarter-on-quarter, so there is some room on the utilization trend. Obviously, the freshers that we have hired, as they get trained and they start getting billed, our pyramid itself will get corrected, which will also give us a very good improvement from the margin perspective, and I will also ask Prameela, my colleague who is there on this call, to give more perspective on the levers that we are working on from a margin improvement perspective. Prameela?

Prameela Kalive: The work-in-process for the margin expansion levers begun a few quarters ago. And we will see that this will drive the movement. In fact, we already talked about the freshers. We will significantly increase the number of freshers coming on board. That will correct the pyramid. We are also taking a technology approach of lean and automation on all our key service lines. Both these will see the efficiencies kicking in and driving the margin expansion.

Mukul Garg: Understood. Have you announced the wage hike for this quarter? This is generally the July quarter. So can you share what average wage hike has been this year?

Sandeep Kishore: Mukul, this is Sandeep here. No, we do not give that guidance, but it's pretty much in the same range as what we have done last year. I think last year, whatever wage hike impact, which you saw in Q2, it will be in the same range, the average, in India context, is between 5% to 6%. That is the range in India.

Mukul Garg: Understood. And finally, the third-party maintenance piece. Any update on this? Is that still a work in progress?

Ajay Bhandari: Yes. It is still a work in progress. We are right now focusing on both improving the revenue profile as well as the EBITDA of that business. I think once it is on an upward swing, then we will take a relook at the exit process. At the moment, we're just trying to get the revenues and profits higher.

Mukul Garg: Thanks again for taking my question.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Capital. Please go ahead.

Ravi Menon: I just want to check the efficiencies. To that extent, attrition has come down from last year Q1 to this year. Do you think that this is a trend that you can actually retain going forward?

Vivek Ranjan: Yes, absolutely. In fact, there are quite a few initiatives we have taken to ensure that there is higher retention, and if you see quarter-on-quarter, year-on-year, 18.8% has come down to 16.7%. This is very similar to the industry trend and, typically, in the first quarter of the financial year, we have the wage hike, but to answer your question, there are quite a few initiatives which we have taken from engagement and learning perspective, which has helped us in retaining our top talent.

Ravi Menon: And do you worry that because you are actually training a lot of people, with these kind of raise hikes, 5% to 6% offshore, will that be sufficient to all the talent?

Vivek Ranjan: Absolutely. There is a lot of talent, and these skills are hot, but having said that, beyond compensation, there are quite a few initiatives which we take to ensure that there is a high level of engagement, and we retain our employees. Our initiatives with respect to retention are not just linked to compensation, but there are quite a few initiatives we take to ensure that there's a higher level of engagement.

Sandeep Kishore: Ravi, this is Sandeep here. Let me also add that this is the average. I think, for our top talent and high performers, that is not the number. We actually pay significantly higher. Our philosophy is to be in the 75th percentile and above for the top talent. Our top talent and close to about 20% of our Zensarians get identified as top talent, are in the 75-and-higher percentile.

Ravi Menon: And I have a follow-up about the retail vertical, so over there but we see that another home improvement chain in the U.S. is actually laying off a lot of people. You are increasing some cost control measures, trying to improve their profitability. Do you see any kind of similar efforts in your clients that you need to be worried about?

Sandeep Kishore: I think we have worried about it enough. Now is the time to get some work in retail. We had a few of our customers which went through similar situations a few quarters ago, which we called out at that time. Currently, a lot of our customers are in that category. I think we have started to make the shift from everything old style that we were doing into retail to new age retail, a new sector. The sector that is getting really impacted is the sector that is competing head on with the Amazons and the Wal-Mart's. I mean, that is a disastrous strategy. And that is why you continue to see bad news coming from that sector of the big box, big home improvement and all because they are head on with the two giants. One really needs to be smart in terms of picking the categories that you want to go after and making it happen.

I think there is a lot of investment happening overall in retail and consumer in the right area. And that is exactly where our current focus is, and that is why we rejigged the team completely, over the last 100 days or so. Pipeline has started to look up. We are also doing retail technology more now than just pure-play retailers. Ajay, do you want to add anything?

Ajay Bhandari: Yes. So at least as far as retail is concerned, if you look at the spend, they are spending on digital supply chain, CX, omnichannel etc. I think as far as our capability is concerned, it is in the right area. We actually have some pretty good clients as well, so need to dig deeper to get revenue. We have a new sales team and we need to get the new clients working together with our partners. We have Manhattan as a partner. We do a lot of work with Adobe in retail. We just need to get the sales engine cranking. We focus on retail tech and specialty retail which is increasing its focus on digital supply chain. There still is growth there. And that is where we are focusing on at the moment.

Sandeep Kishore: And let me also call on Harjott to add his commentary on overall next-gen CIS in retail.

Harjott Atrii: Yes, thanks, Sandeep. I think the brick-and-mortar retailers are transforming their data centers to be able to compete with Amazon and to bring in the agility. And for that, there is a strong need to have a cloud-like experience in cloud economics and a managed prior cloud in their own data center. So that is where our go-to-market and proactive next-gen cloud offerings, which have 0 tech touch balanced private cloud built in, the system integration and Nutanix, are gaining a lot of traction, and we will start seeing results as we move to the next two, three quarters.

Ravi Menon: Thanks. Thanks for the detailed answer. One last thing, Sandeep, we notice that in your press release you mentioned that you run a contract for Guidewire Support, it is one of U.K.'s fastest-growing general insurance providers, while your acquired capability was only for implementation. Could you see that business extending into support? Is this contract very significant? And are you targeting more projects like these?

Sandeep Kishore: Ravi, the line is not very clear, but I think I got a gist of the question. Guidewire competence in U.K., beyond implementation… is that the question? Or would you want to please repeat it?

Ravi Menon: That is the question, sir. I was just saying that you acquired only the capability for implementation, if I recall correctly. Good to see that you have deep deals that you won for maintenance. And are you going after more of these kinds of deals? And how significant is this one?

Sandeep Kishore: Yes, yes, absolutely. You absolute nailed it quite well yourself. We mentioned it in my opening commentary, all the companies that we have acquired are now very well integrated into the Zensar core offering, including the Cynosure acquisition that we now did over a year ago. It was done in April of last year. Beyond implementation, when we are doing policy, billings and claims, of course, we do not want to just walk out after the implementation is done, because that is exactly what Cynosure was doing pre-acquisition. We have added and surrounded the strategy with Zensar core services. That is exactly the plan, and we've been very successful. This particular deal is not a very sizable deal, but it is roughly in the 10 million TCV range. But we feel pretty happy because we are now trying to see the movement beyond implementation, as you called out, and also cloud infrastructure services. We are bringing the entire cloud services into Cynosure customers as well because the offering that Guidewire themselves have is to actually take the legacy into cloud journey, so it's a full-on strategy from core Zensar offerings, including Cynosure, CIS to these clients.

Ravi Menon: Great. And one last question from me to Navneet, and so the 15% EBITDA that you are targeting, should we now think about it as adjusted for Ind-AS, the 140 basis points that you called out?

Navneet Khandelwal: The EBITDA that we are targeting at 15% is for the core business. We will maintain that 15% EBITDA is the pre-Ind AS target that we set. We'll adjust to that extent.

Ravi Menon: Once we had this for the entire share of the third-party maintenance then?

Navneet Khandelwal: Yes.

Ravi Menon: Thank you.

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

Nitin Padmanabhan: Just wanted your thoughts on by when do you think the residual ROW revenue would run down?

Ajay Bhandari: Nitin, Q2 onwards, the ROW revenue is going to be practically an insignificant amount. In fact, as far as the overall calculations are concerned, you need not factor anything from ROW. There will be just one or two government clients left where we are doing support. That support is going to continue for a few years, but that amount is really very small, so you can just ignore it.

Nitin Padmanabhan: Just one last thing from my side is I think some of your peers have been highlighting sort of significant higher costs of new recruits and that potentially is sort of hurting margins. I just wanted your thoughts on the same.

Sandeep Kishore: Vivek, you want to talk about the average cost of new hires.

Vivek Ranjan: Absolutely, in fact, thanks for that question. As we said, typically, when we hire talent from outside in the higher end, we position it at 75th percentile and we benchmark our compensation on a regular basis to ensure that it is positioned attractively. But as I said earlier, it is not only about compensation. What we are doing from the career development and learning point of view also is a huge attraction for prospective employees. So, we focus providing wholesome value to employees when we attract them rather than just compensation. We are able to fulfill all the requirements of niche skills also within the SLAs.

Nitin Padmanabhan: Thank you. All the best.

Moderator: Thank you. The next question would be the last question, which is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Thanks for the opportunity. My question is related to the high-tech vertical that we have, which is 40% of revenues. First of all, I would like to know how we have been doing with our top customer. Is it growing in line with the company average and also, in the high-tech vertical, is there any exposure to large semiconductor clients because, we have seen slowdown in IT spend on the semiconductor majors due to trade wars, so if you could highlight that?

Sandeep Kishore: Amit, Sandeep here. Two parts of the question, about the top-5 clients – we do not have a semiconductor client. I think we have one less issue to deal with because semiconductor clients will have some softness given this whole China track, so we do not have that exposure. The first part of your question was about our top customer. You will actually see that in our revenue from top-5 client, we do not declare the top customer revenue. The top 5 had a very high percentage from the top customer and it has consistently grown. A year ago, it used to be 36%. Now it is 38% of our total business, so we continue to gain market share in our top customer. We have completely rewired our service offerings and our go-to-market. We are aligned to where the investments from that client is happening in the new age of As-A-Service. That is what is really kicking quite well, particularly into the tech sector. Everything is being invested into As-A-Service. Our pipeline in that account looks very good. We gain market share over all the Tier 1's. So, so far, we feel quite good about it.

Amit Chandra: Sir, my second question would be with related to the hire onsite-offsite mix. The onsite mix has been increasing. I know that it is related to the deals that we have been winning. It is mostly on-site led. Can we see the offshoring margin lever going forward? Also, the rise in the fixed-price contract, that we have seen has been pretty steady over the last many quarters, we generally see that rising fixed price leads to higher margins, but we have not seen that reflecting in our expansion in margins. Can offshoring and higher fixed price be a margin lever from here on?

Sandeep Kishore: Yes. I think the short answer to both of that is, yes, I think the long answer is when. It is part of our strategic alignment to make sure that we are relevant to our customers. Of the approximately 1300 additional headcount that we added year-on-year, if you actually just look at the numbers from the factsheet, it's simply called out in three buckets, 500 on-site, 500 offshore and about 300 freshers that we called out earlier, which were hired last quarter, so it is a significantly higher number of on-site hiring, but it is also by design. Particularly in our cloud infrastructure business, some of the government contracts that we have won, they need to be delivered from onsite and some very strategic large manufacturing client also in CIS that we won, currently, is in 100% onsite phase. Over a period of time, we are going to move as we drive more tool and device- and automation-base. It will get driven from offshore. I think we are still a few quarters away from that, and that is the reason why you have not seen the margin from fixed-bid managed services starting to reflect yet but over a period of time, it will. It is a strategic choice that we make. Our choice right now is to increase our business momentum and sales momentum so that we are inside of these high-growth accounts. Once you are inside the high-growth accounts and you are in a steady state, you have much better levers available to drive profitability, and that will happen as we have committed 15% core business EBITDA. We are sticking to it in the medium term. That is the whole focus of the management team. And we're pretty committed to that.

Amit Chandra: Sir, lastly, on the BFSI vertical. I know that BFSI vertical is particularly South Africa heavy. So how are the contracts there? Are they short term in nature or long term in nature, because we have seen pretty healthy growth in BFSI? The recent deal wins that we had there, what is the average duration of the contracts there and how you're seeing the competition panning out there in the African market?

Ajay Bhandari: The BFSI revenue is actually fairly equally spread. We have almost 40-odd % coming from U.S. and roughly 30:30 coming from UK and South Africa. It is actually one of the few businesses that are well spread throughout the globe, at least throughout our chosen markets. The second point is that BFSI includes insurance and a large part of our growth actually comes from insurance and these days and bulk of it is led by the property and casualty space largely from the Guidewire capability that we acquired. We also have earlier P&C clients that seem to be growing, so a lot of growth is coming from there. Most of the Guidewire contracts tend to be project specific. There could be the tenured one to three years depending upon how large is the portfolio modules that get implemented but there is also a lot of deals that we are winning in South Africa, which comes from legacy modernization, which includes support and development. Those are more five to seven years, so there's a healthy mix of long-term contracts, but they are key because most of the Guidewire projects are at the heart of digital transformation of any P&C provider, which includes core. digital and data, so it includes all three.

Amit Chandra: Thanks for the opportunity. Best of luck for the future.

Moderator: I would now like to hand the conference over to Mr. Sandeep Kishore for closing comments.

Sandeep Kishore: Well, thank you so much for joining the call and look forward talking to you again in our Q2 earnings call. Thank you very much.

Moderator: Thank you. On behalf of HDFC Securities we conclude this conference. Thank you for joining us. You may now disconnect your lines.