"Zensar Technologies Limited
Q3 FY '25 Earnings Conference Call"
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MANAGEMENT: **MR. MANISH TANDON – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – ZENSAR TECHNOLOGIES LIMITED**
MR. VIVEK RANJAN – CHIEF HUMAN RESOURCES OFFICER – ZENSAR TECHNOLOGIES LIMITED
MR. VIJAYASIMHA ALILUGHATTA – CHIEF OPERATING OFFICER – ZENSAR TECHNOLOGIES LIMITED
MR. PULKIT BHANDARI – CHIEF FINANCIAL OFFICER – ZENSAR TECHNOLOGIES LIMITED

MODERATOR: **MS. SHRADHA AGRAWAL – ASIAN MARKET SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Zensar Technologies Limited Q3 FY '25 Earnings Conference Call, hosted by Asian Market Securities. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shradha Agrawal from Asian Market Securities. Thank you, and over to you, Ms. Shradha.

Shradha Agrawal: Thank you, Manav. Good evening, everyone. On behalf of Asian Market Securities, I welcome you all to Zensar Technologies Q3 FY '25 Earnings Call. We have with us today from Zensar, Mr. Manish Tandon, CEO and Managing Director; Mr. Pulkit Bhandari, 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. Thank you.

Manish Tandon: Thank you, Shradha. Hello, good morning, good afternoon, good evening, and a very Happy New Year to all of you on the call.

Thank you for joining us today to discuss Zensar's financial results for the third quarter of FY '25. I am pleased to also have members of my management team, Pulkit Bhandari, CFO; Vijayasimha, COO; and Vivek Ranjan, CHRO.

Despite Q3 being a soft seasonal quarter for the industry, I am pleased to share that we registered a year-over-year growth of 8.6% and sequential quarter-over-quarter growth of 0.5% in reported currency this quarter. This is one of the best Q3 performances that we as a company have registered in recent times.

Our gross margins expanded by 200 basis points. Our order book stood at $205.3 million, which is the highest to date. We saw a net headcount addition of 277 associates this quarter with improved attrition. All-around performance across the key parameters reflects our strong business model, client centricity, operational excellence and a people-first approach.

Our ability to manage complex programs have helped us in building brand awareness and brought us closer to our customers. Verticalization and industry-specific solutions, coupled with innovation have brought maturity into our solutioning and delivery. We have launched focused training programs to upskill our workforce to enhance domain depth and build next-generation AI skills. In Q3 FY '25, the revenue stood at $157 million in reported terms, driven by a sequential quarter-on-quarter growth across all our geographies with furlough-related slowdowns in a few pockets.

In constant currency terms on a Q-o-Q basis, our revenue in Manufacturing and Consumer Services grew by a very healthy 6.5%. Healthcare saw a growth of 3.2%. Banking and Financial Services and Telecom, Media and Technology witnessed a decline of 1.3% and 3.5%, respectively, primarily due to furloughs.

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

Pulkit Bhandari: Thank you, Manish. Good day, everyone, and Happy New Year. Thank you for joining this call. In addition to Manish talking about business, I will take you through some of the key financial metrics for quarter ending December '24. The reported revenue for the third quarter of financial year '25 stood at $157 million, in dollar terms, reflecting growth of 0.5% sequentially despite furloughs and shutdowns in few of our customers. On a year-on-year basis, revenue grew by 8.6% in reported terms.

In constant currency terms, revenue for the quarter grew by 0.7% sequentially and 7.5% year-on-year basis. Gross margin for the quarter stood at 30.1%, increase of 200 basis points quarter-on-quarter. The increase was primarily attributable to improved utilization, net of furlough impact of 0.1%, higher leave utilization of 0.9%, other operational efficiencies of 0.8%, including PPC benefit and other improvements. Exchange benefit of 0.1% also came into this.

SG&A has increased by 180 bps Q-on-Q, primarily on account of one-time savings of ESOP and sales commission as called out in the previous quarter, and investment in sales and infrastructure. We exited Q3 FY '25 at EBITDA of 15.6%, improved by 20 basis points quarter-on-quarter, which is in line with our guided range of mid-teens.

Our PAT stood at 12%. Order book for the quarter stood at $205.3 million, which is the highest order book we have ever recorded. Maintaining our healthy cash generation, cash and cash equivalents stood at $269.2 million. And on back of strong collection, DSO improved by 3 days to 68 days.

Some other key highlights. We unveiled our purpose statement. Together, we shape experiences for better futures, which has resonated well with our employees and customers. Based on our farming efforts, one of our customers has moved into $20 million bucket. Our voluntary attrition stood at 10%, which has been lowest in recent years. MCS has grown for 6 quarters out of 7 quarters and has been continuously growing for last 3 quarters. BFSI continues to do well despite furlough impact in Q3 FY '25, having grown 7 out of last 8 quarters.

Our client concentration continues to improve with top 5 customers contributing 27.5%. The Board of Directors have approved an interim dividend of INR2 per share for financial year 2025, which is 100% of face value. Our Ecovadis score improved from 52 to 66 with an impressive percentile increase from 53rd to 84th percentile now.

We are pleased to confirm that our GHG net zero and near-term target submitted to SBTi is approved. This endorsement reaffirms our commitment towards reduced environmental impact aligned with global goals on climate change. In line with our renewable energy goal of 50% by end of FY '25, we are set to achieve our targets and initiated additional solar project in Pune campus, which is nearing completion.

With that, I will now invite Vijay, our Chief Operating Officer, to comment further on Q3 FY '25 results.

Vijayasimha Alilughatta: Thank you, Manish and Pulkit. Greetings, everyone. I will share details about our operational efficacy, service line performance and AI capability initiatives. On the operational efficiency front, we're continuing our journey and making good progress on key imperatives. Our utilization increased by 220 basis points year-on-year and by 10 basis points quarter-on-quarter despite Q3 being a seasonally low utilization quarter due to extensive furloughs.

The rigor associated with accelerated fulfilment and capability enrichment continued in Q3. We had a gross addition of 975 employees in the quarter and a net addition of 277 people. Our voluntary attrition reduced to 10%, which is a 10-basis point reduction sequentially and a Y-o-Y reduction of 200 basis points.

The service line offerings and industry services groups continue to resonate well with our clients. The share of revenue from our Service Lines, that is Advanced Engineering Services, Data Engineering and Analytics, Experience Services and Cloud Infrastructure and Security Services increased to 54.5% in Q3 of FY '25, which is 60 basis points higher sequentially.

On a quarter-on-quarter basis, in reported terms, Advanced Engineering Services grew by 7.1%. Cloud Infrastructure and Security Services grew by 1.8%. Application Services and the Enterprise Applications saw a marginal decline of 0.7%. Experience Services revenue dipped by 3.8%. Data engineering and Analytics saw a decline of 4% primarily on account of extended furloughs in specific accounts.

AI capability enrichment journey continued. In Q3, our innovative AI offerings have delivered value to our clients by leveraging our 4 major AI solution stacks, namely Enterprise AI Solutions, Responsible AI Solutions, Enterprise Cognitive Hyper Automation Solutions and Multimodal Micro Vertical Solutions.

A few key examples of value delivered to clients are as follows.

- We built Gen AI engine for modernization. Using this for a travel and leisure client, the engine automatically travels millions of lines of legacy code and generated code in new age architecture, which is 40% more maintainable.
- We have built a client risk assessment assistant for a private bank, which creates a unified customer 360 view from various data sources.
- We have also built a Gen AI application, which helps business users to use natural language to interact with their data and get insights.

With that, I'll now hand it back to Manish.

Manish Tandon: Thank you, Vijay. We are seeing some early signs of improvement with discretionary spending based on our conversations with clients and order booking despite the ongoing macroeconomic uncertainties. Our purpose statement, together we shape experiences for better futures has resonated very well with our clients and Zensarians alike. I am confident that we are well positioned to navigate the industry challenges.

With that, we can open the lines for questions.

Moderator: We have our first question from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: Congrats for another solid quarter. In the last quarter, you had mentioned 2 potential large deals in the pipeline. Just wanted your thoughts, have any wins/losses there, are they there in the TCV this time? And the second is how does the pipeline look post these wins, right? So those are the 2 things on that. And another ancillary question is that considering next quarter, you should see a reversal in furloughs. Do you think we will begin to see broad-based growth from here on? So that's the third.

Manish Tandon: So thanks, Nitin. And it's the team that has done really well, delivered really well. So thank you for commenting the team. First of all, this order booking, the good news is that this order booking is broad-based. It does not include any large deals. The further good news is that we are still in play on those couple of large deals. And hopefully, we will get some positive news soon. What was your other question? Given the furlough thing, how do we see the next quarter? Was that your question?

Nitin Padmanabhan: Yes, that and how does the pipeline look after these wins as well?

Manish Tandon: No. I think pipeline is looking very good. I mean just the fact that the order booking itself is $205 million. This is one of the best -- this is the best, not one of the best. This is second quarter in a row that we have exceeded $200 million in order bookings. So the pipeline is looking fairly healthy, I would say. And I would also say that while the furlough impact is not going to be there or it's going to be there to a limited extent this quarter because as you know, furloughs extend to first week in January.

The other headwind is obviously that the number of working days in this quarter is actually going to be less. We hope that it will be balanced by lower leave numbers than the previous quarter. But we are looking at the next quarter -- based on our performance in Q3, I mean this is one of the best performances that Zensar has delivered in the past few years in Q3. I feel positive about the next quarter.

Nitin Padmanabhan: Super. Just one last one, if I may. How do you think about TMT and the drag that you have seen from the top line so far? Do you think that's close to bottoming out overall when you look into the future? Or how do you feel about it?

Manish Tandon: Well, this quarter, our TMT revenues are 21.4% overall of revenues. Last quarter, they were 22.4% if I'm not mistaken. And last year, they were 27.1%. It is our objective to make sure that rest of our business grows faster than TMT. So we will -- you might see further decline in TMT percentages as a total percentage of revenue. But you should -- at least we should look to some TMT growth going forward also in absolute revenue terms.

Moderator: We have our next question from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Congrats on executing well across all the departments. So sir, the first question is, I think when you took a control, we started structurally changing the cost metrics and margins have improved. And so you have walked the talk, even now revenue growth outside TMT, you are walking the talk. So based on your analysis, what has been working according to you which is Zensar-specific rather than industry demand? And how do you want to accelerate the growth momentum further? How do you see those things going ahead?

Manish Tandon: Thanks, Sandeep. So first of all, as I said, the first thing to instil was to create the core or the foundation on which we can build the growth. I think we achieved that through operational excellence, data-based governance, and more importantly, client centricity and also putting people first. Those core values remain, and that foundation has been built. Now we are looking at building the next few floors, if I may say so. Because we have a solid foundation, I believe that we can be more optimistic and aggressive in building out the rest of the vision.

Sandeep Shah: Okay. And sir, is it fair to assume the client-specific issue in the HiTech, which is top line is largely getting behind or you are still uncertain about the growth outlook in that account?

Manish Tandon: So, Sandeep, successively, we have been trying to reduce our exposure to TMT sector, as you know. Last year, our exposure was 27%. This quarter, our exposure is 21.4%. And as you can see, despite TMT degrowing by 3.5% this quarter, we have still shown growth -- positive growth. And the idea always was to make sure that other parts of the business grow much faster than whatever happens in TMT. And we have been able to stick to it.

The biggest evidence of that is our year-over-year growth is 8.6%, which is pretty good overall. So as I said, I don't want to comment on specific clients. But the idea is that we not only try to grow TMT sector, but I want to make sure that the other parts of the business grow much faster than what we have seen in TMT.

Sandeep Shah: Okay. And just last question on margins. Is there any one-offs in any of these line items? And what is the reason for a significant decline in the depreciation cost? Will the 1.8% of the revenue is a sustainable run rate?

Sandeep Shah: Yes, can you hear me?

Manish Tandon: Yes.

Sandeep Shah: Yes, sir. I think just a question on any one-offs in any of the cost lines within the P&L? And what is the reason for a material dip in the depreciation and amortization, whether the Q3 run rate would continue going forward? And second, sir, you also mentioned earlier that pass-through sales you want to reduce, but the cost of traded goods continues to remain at 1.3% of the top line. So how to view that cost line as well.

Manish Tandon: Well, the cost of traded good, see, when we are delivering it as a part of our service, only then we recognize that as traded goods. And so if we are doing a program in which 20% is license and 80% is services, in that case, we recognize. Otherwise, we recognize it on a net basis. So I mean 1.3% is much better than 8%. And you had some questions on depreciation and all, which Pulkit is going to...

Pulkit Bhandari: Yes. So, depreciation will be in the same range. So we don't anticipate this to basically go down or go up.

Moderator: We have our next question from the line of Manik Taneja from Axis Capital.

Manik Taneja: Congratulations for the steady performance. This question was in regard to our client metrics and the way we are seeing our revenue growth across different customer buckets. If you can help us understand over the course of recent quarters, you've been trying to broad base the growth, trying to mine customers which have been at the bottom of the pyramid, which to some extent is leading to the improvement in growth within the non-top 20 client base?

How should we be thinking about this journey over the next 12 months? And the second question was with regards to if you could break out your demand outlook across each of the industry segments, that will be quite helpful?

Manish Tandon: Yes. Thanks, Manik, the idea is -- see, industry lives on farming, while using hunting to build the next generation of large accounts. Unfortunately, for Zensar in the past, our farming engine has not been as successful. And over the last 2 years, we have brought it into some shape, and it is delivering results.

One of the proof points is that we added one more client to our 20 million-plus client bucket. And what you are seeing that despite one sector doing so poorly over this thing, we are still showing secular growth is a testimony as to how we have improved our farming capabilities. And we will continue to work on our farming capabilities, while still opening net new logos overall.

If you look at our order book, this time, a significant component of the order book was in BFSI and in Europe. But sectorally, we are seeing growth. Actually, we are seeing positive momentum almost across the board. And wherever the sectors which are showing decline has been primarily due to furloughs and lower number of working days rather than for a lack of pipeline, if I may say so.

Manik Taneja: Sure. If I can ask you further. At the end of FY '24, you talked about broad basing of the HiTech vertical in line with what some of the peers think about that segment to be a TMT industry segment and you've spoken about significant new logo wins. If you could help us understand if that is what is driving the increase in our number of $1 million plus and number of $5 million plus customer relationships, are they interning and how are you seeing growth in the HiTech vertical outside of the top customer?

Manish Tandon: No, I mean the top customer percentage is coming down overall while the overall TMT sector percentage is not coming down by the same percent, which means that rest of TMT sector is growing for us. And this is happening through both farming of the few existing large clients that we have and also opening net new logos.

For example, one of the logos that we opened this quarter is a very large semiconductor company, well-known semiconductor company is one of the logos that we have opened this quarter. So, we continue to make sure that, we farm whatever else we have better and also open new logos in that sector.

Manik Taneja: Sure. And you've spoken about your intent to essentially move up a quadrant through every financial year, given that it's close to the end of FY '25. Do you think with the way things stack up right now, you're fairly confident of achieving double-digit growth in FY '26 with probably steady or improving margins?

Manish Tandon: Yes, the quadrant performance will also depend on how others are performing. But based on this quarter, we have 8.6% year-over-year growth. And with our margin profile, I would definitely think that we have moved a quartile up based on the numbers that I have seen until now. Obviously, things might change as more companies report. But we continue to strive to improve our positioning in the market.

Pulkit Bhandari: And directionally, we are moving in the right manner, right? So, I think that's very, very critical, and that's how we triangulate both on margins and also on the growth.

Moderator: We have our next question from the line of Nikhil Choudhary from Nuvama Asset Management.

Nikhil Choudhary: Congratulations on good numbers. First one, I would just want some clarity on the comment that from the next quarter, we can expect growth in TMT segment. So is it that next quarter growth will be largely led by furloughs, that's why we are expecting growth. Or do you expect on absolute basis the segment has bottomed out? And from a going forward basis, the growth should continue even in FY '26?

Manish Tandon: I cannot comment on FY '26 or even the next quarter. My comment was based more on the fact that the furloughs impact was very high in TMT and usually, that furloughs impact is reduced in the next quarter.

Nikhil Choudhary: Sure, sir. Understood. The second one, you commented on increase in discretionary spending. So, have you seen some improvement in our ACV growth compared to TCV growth? Is it a fair understanding that the contribution of small deal has increased. Therefore, the growth in ACV must have been faster than TCV?

Manish Tandon: So we follow a very standardized approach. We don't even talk about TCV, ACV. But frankly, I've been in this industry for multiple decades. The only real number is what the customer has signed. And typically, even for large TCV deals, a lot of the signatures are only for the first 3 years or first 4 years. For example, the large deals where you will have 5 plus 1 plus 1. Now do you take the 7-year TCV, or do you take the 5-year TCV? That is the question.

So to get over all that -- all those issues, what we follow, and I think it's an industry best practice, is to report the order bookings, which are solely based on signed statement of work. And we believe that that is a much better indication of the health of the pipeline and the performance of the company than quoting TCV or ACV numbers, which are subject to interpretation.

Nikhil Choudhary: Sure, sir. Understood. The last one is on the hiring part. Since last 8 quarters, our employee count has been broadly in a similar range. So, any update what's our outlook on hiring going forward?

Manish Tandon: We have added 277 employees this quarter. Net addition is 277. Vijay, would you like to comment on it?

Vijayasimha Alilughatta: Yes. I think we expect that as growth continues, the hiring momentum will also continue to pick up, and we will add more people, including those from the campuses.

Moderator: We have a next question from the line of Shradha Agrawal from Asian Market Securities.

Shradha Agrawal: Yeah, Thank you and congratulations to the team on great execution this quarter yet again. A couple of questions. Sir, first of all, on the pipeline, how does the deal pipeline look in terms of mix of large, small, medium-sized deal? And if you can just qualify as to how has the pipeline grown both on a Q-o-Q and a Y-o-Y basis?

Manish Tandon: So actually, on an absolute basis, the pipeline is very good, but the pipeline has reduced because we have converted a lot of deals. So because the order book is so strong, it is reflected in a slightly lowered pipeline than what one would expect.

But that is a good sign, that is something to celebrate. And our win rates definitely have improved over the last few quarters. So net-net, we feel very good about where we are as far as pipeline is concerned.

Shradha Agrawal: Right. And in terms of -- do you see more number of small sized deals coming back in the pipeline because some companies have been indicating that they see a larger number of small and medium sized deals versus larger deals that was the case until the last quarter?

Manish Tandon: It will be good for us if that happens because what are smaller deals for some of my larger peers are large deals for us. So if that change is happening, it will be a welcome change for us, not so welcome change for the larger players, but it will be a welcome change for us.

Shradha Agrawal: And so would you want to call out the contribution from BridgeView this quarter? Was there any significant impact from BridgeView?

Manish Tandon: There was no significant impact from BridgeView. It was what we -- at the beginning of the quarter, whatever we expected from BridgeView, we got back, nothing more, nothing less. And as I had said last quarter also, going forward, we are going to report combined numbers as a part of HLS.

Shradha Agrawal: Right. And just larger question on healthcare and life sciences. Some companies have indicated that some clients in healthcare are in a wait and watch mode, expecting some policy changes in the US under the new administration. So in that perspective, how do you see demand environment in healthcare?

Manish Tandon: It is much softer than what you normally see at this time of the year in healthcare, both in healthcare and life sciences. Life sciences, there is a bit of uncertainty around who's going to be the winner between Veeva and Salesforce on the CRM side. So some decision-making is on hold there.

And second is the new administration, new drugs are supposed to be coming in for Medicare re-negotiation. This includes some of the GLP-1 drugs also, by the way. So, the industry is grading up for reduced remuneration rate for some of these drugs.

And healthcare, the new administration is supposed to be much stricter on healthcare costs. And hence healthcare companies are also going a bit easy on their spending. So, I would say that the companies are right in saying that the healthcare, life sciences spending is a bit muted as compared to what it normally is at this time of the year.

Shradha Agrawal: Got it. And sir, the last question from my end, we are already at an 8% Y-o-Y run rate in terms of Y-o-Y growth numbers. So are we confident enough to say that double-digit growth is a doable number for us in FY'26?

Manish Tandon: It is 8.6%. And one lives up on hope. One takes a target, and one tries to deliver on it. And we will try our best to deliver on double-digit growth next year.

Moderator: We have next question from the line of Girish Pai from BOB Capital Markets.

Girish Pai: Manish, you said you've been in industry for multiple decades. Can you just describe what is the intensity of discretion spending you're seeing right now compared to, say, the pandemic high that we saw or even pre-pandemic, would it be like 30% of the intensity we saw during the pandemic or any numbers we can throw about the intensity of discretion spend?

Manish Tandon: So, I think see discretionary spend, two things I would say, don't compare it to the post-COVID boom. That is a boom that was unlikely, like the pandemic was once in a century event, you should view it as a black swan event. So, let's talk about pre-COVID.

I think the second thing that discretionary spend is a function of is what is new in the market because you can't keep -- unless and until there is something new or something exciting happening in the space, the discretionary spend, what will you spend the money on, right?

So, I believe that if this Generative AI takes off, then we are definitely going to see a boom in discretionary spending because then there are not too many options left. But yes, if that doesn't happen, then will go back the old normal, which was the pre-COVID discretionary spend.

Girish Pai: Okay. And where are we compared to the pre-COVID discretionary spend left in terms of intensity?

Manish Tandon: Sorry, come again?

Girish Pai: In terms of intensity, how are we -- how are we compared to the pre-pandemic discretion spend?

Manish Tandon: I think we are there. I think we are 75%, 80% there. I don't think that suddenly people are going to spend much, much, much more or who were spending much, much, much more on these things. But if Generative AI really takes off, then the discretionary spend also will be increased.

Girish Pai: There was some discussion around two potential large deals, which could not close in the last quarter. Is there any issue with decision-making around these deals?

Manish Tandon: Yes, any large deal -- I won't say that there is any issue with decision-making per se. Large deals take time, just the paperwork and documentation, you have to go through literally 500, 600, 1,000 pages in contracts, that itself takes time. And once you do it, then you have to go through permissions and so on and so forth before we even announce it. So I wouldn't say that large deals, there is anything material that I see change of decision time line.

Girish Pai: Okay. Last question is on the magic words, Gen AI and Agentic AI. You mentioned that Gen AI could potentially trigger greater discretion spend. Why has it not taken off thus far? Do you think it's just on the verge of kind of taking off, that's one. And Agentic AI, do you think that can change the IT services, in a very material way, could be volumes involved the business change, if you can put some light on that?

Manish Tandon: No, it's a new technology. Everyone is excited about the technology. Everyone is experimenting with it and new technology, not just that it's a new introduction. It's also new in terms of the robustness and capabilities of the underlying technology.

I mean it's like Windows version 1, right? So people are figuring out what is there? How can they improve it? And waiting about the next version of the technology to come. Agentic AI is really the next version. I mean if you look at Generative AI, Generative AI was almost entirely on -- based on LLMs. And then people realize that this LLM is just like an operating system, a platform.

Unless and until you build agents on top of this, which can do specific tasks, this becomes a very moot point to have a platform. So, think of Generative AI as operating system and Agentic AI like applications. And if you think of it that way, then you'll realize that without Agentic AI, the popularity of Generative AI is not going to increase, and adoption will not increase. So Agentic AI is the way forward, yes.

Girish Pai: And have you built capabilities around Agentic AI?

Manish Tandon: Yes. We are doing some really exciting work on AI as a team. We are doing lot of interesting programs. Maybe Vijay, can I request you to address this question?

Vijayasimha Alilughatta: Yes. So look, I think as part of our -- as I said, there are four solution stack, right? And one of them is the Multimodal Micro-vertical AI Solution stack. All of those are basically around the Agentic AI kind of stuff, leveraging various other AI models. So that's where we are finding a lot of traction. With your specific question about capability building, yes.

Because I think, look, from an Agentic AI perspective, you need to have the technology capability as well as well as the domain capability to figure out how to like basically to orchestrate the various models to build the right Agentic AI.

And given our focus on ensuring the cross-functional teams from a technology as well as the domain team works, we are making good progress on that. And broader AI capability, we are really doing an extremely good job in terms of -- transforming our people by uplifting the AI capability across 5, 6 levels of AI-based training. So, we are confident that like our AI solutions will offer differentiated value to our clients.

Moderator: We have our next question from the line of Amit Chandra from HDFC Securities.

Amit Chandra: So my question is on the strong TCV that you had for the last two quarters. So what proportion of TCV we would ascribe to higher discretionary spends in the last quarter versus maybe a year back? How the increase in discretionary is helping us in terms of higher TCV?

And also, in terms of the conversion of the current TCV to revenues. Last year also we had very strong Y-o-Y growth in the TCV. But it's not showing up in revenue, maybe ex of the top client, we are going much higher. But in general, how you're seeing the conversion of the TCV to revenues and also the component of AI led deals is actually adding up to the TCV.

Manish Tandon: All right. So, there are several questions. So first, let me -- Amit, let me first answer your question on conversion. The way we defined our order booking is not based on TCV or ACV. It is based on signed SOWs. So, our order book conversion is 100%, if not more. Actually, in some cases, 105% because we go and get additional SOWs on that.

So, first of all, you should assume 100% conversion of our order booking because the way we do it signed SOWs. Second question on discretionary versus non-discretionary. Actually, we, as a company, one of the reasons for our fluctuating fortunes, so to say, was that our services were focused too much on discretionary spend. And we were not doing enough annuity revenues.

So actually, unlike others, we are trying to get more annuity revenues and more focused annuity revenues. So that variability and the fluctuation in revenues can be avoided. And towards that, a large deal is one of the ways in which we are trying to do.

The other area where we see a lot of annuity revenues is in the Cloud and Infrastructure Services space, and that has been growing well for us. Even this quarter, it grew sequentially 1.8% for us, which was very good. So I would say I don't have the exact numbers. But if I was to make a punt, I would say last year, 80% of our order booking was discretionary.

This year, maybe 70% is discretionary, and we want it that way.

Amit Chandra: Okay. Secondly, on -- obviously, it has been asked multiple times, but on the top client performance especially the Hitech, you said that we'll see some recovery in the fourth quarter. But just to get a sense of how much of Hitech is top line, is it safe to assume that 50% of Hitech would be still the top client?

Pulkit Bhandari: So we don't give a split of the top client or any client-specific split within the segment.

Manish Tandon: So important data for you is that last year, TMT sector was 27% of revenues. This quarter, it is 21.4% of revenues. And as I said, right from the beginning, it has been our endeavour to make sure that whatever happens in TMT, -- the rest of the business grows much, much faster than that. And that's why you will see that despite TMT sector declining by 3.5% sequentially this quarter, our year-over-year revenue has grown 8.6% and which is a testimony to the de-risking that we want to do of this sector.

Amit Chandra: Okay. And sir, lastly, on the client buckets. So, it's encouraging to see that -- and multiple quarters, we have added one client in the 20 million-plus bucket. So obviously, it's function of efficient client mining and focus on more higher annuity.

So, if you can throw some more light on -- from which virtual this client is there, which has entered the 20 million plus and also some more clarity on how we are focusing on the mining part?

Manish Tandon: So, first of all, this client is in MCS, manufacturing and consumer services. Yes, Amit, I don't know how much you heard, so I'll answer your question again. This client was in Manufacturing and Consumer Services vertical. This was in the $10 million range. And now it has graduated to $20 million range.

Farming is -- we continue to build the farming muscle of Zensar. That's one of the key things that along with client centricity that we are trying to build on. It is work in process. We have laid the foundation. We have to continue to build on it.

Moderator: We have a follow-up question from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: So, in the last two years, I think when we began this journey, one of the focus areas was to increase the number of services sold per customer. Just wanted your thoughts on how this metric would have sort of improved since you took over.

And the second is, that in the last two years, would there have been meaningful client additions in the TMT vertical itself to help broad-based the client buckets there?

Manish Tandon: Yes, Nitin, I'm just trying to look at the data point. Our revenue from our Service Offerings beyond application developments and maintenance has increased, 56% of our revenues are coming from services from newer service offerings beyond the ADM space overall. This number was less than that by -- just give me a minute, I'll answer that.

Nitin Padmanabhan: Or even a rough sense on maybe the top 10 customers, the number of services per customer that has improved, that will also be helpful.

Manish Tandon: Nitin, it has improved significantly, we'll come back to you.

Nitin Padmanabhan: Sure, absolutely. And diversification within TMT. Would we have added a reasonable number of customers over the last few years within TMT?

Manish Tandon: Yes, we have diversified. In fact, this quarter, we added one of the larger semiconductor companies in this space as our client. We continue to add more newer clients in this space.

Nitin Padmanabhan: Would it be a meaningful number over a two-year period?

Manish Tandon: Sorry?

Nitin Padmanabhan: Would it be a meaningful number in terms of client additions within TMT over a two-year period?

Manish Tandon: We have done a meaningful addition, yes.

And Nitin, the revenue from Service Lines is 51.4% this quarter as against a baseline of 47.5%. So, we are continuing to see increased intake of our Service Lines as compared to the legacy services that we are doing.

Moderator: We have a follow-up question from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Manish, I just wanted to understand, when you enter FY'26, you have already commented that things are improving. We are optimistic about FY'26. But any two or three things which makes you worried about FY'26? That's my first question.

Manish Tandon: Yes, I mean, look, there are a lot of things to worry about. I will use my favourite phrase is that as CEO, you try and control the controllables and not worry about uncontrollable. So, there are lots of things to worry about. I mean the new administration has come in. The -- some of the policies are up in the air, their impact on the businesses is up in the air.

People are talking about tariffs and so on. So, I mean, again, can I control any of those things, the answer is no.

So, I am -- I am worried about the overall macro environment, the new policy changes or et cetera that will come in. But otherwise, I feel confident that we have the fundamentals going for us.

Sandeep Shah: Okay. That's great. And in the current top clients, maybe top 20 to 50, you have enough such clients where you can mine and grow on a year-over basis for the next two to three years?

Manish Tandon: I would say two to three years, but definitely, we have a lot of very good logos, and we need to farm them much better than what we have done. So, two three years will depend on the growth aspirations that we have. But -- I mean, this is not either our business. You have to do NN so that two years later, those NN accounts can become farmable and grow big for us.

Sandeep Shah: And just a question to Pulkit, sir. In terms of margin, generally, when the fourth quarter furloughs are rebooked even margins improves on a Q-on-Q. And we are already close to be above 15% in terms of margin at 15.6%, with fourth quarter could be higher than 15.6%.

So in that scenario, do you believe 15% is the target margin, which we have is conservative or bare minimum which we can achieve?

Pulkit Bhandari: No. I think see on margins, we are very clear, and we'll stick to what we have always said, mid-teens are what you have to look at. And mid-teens is a slightly broader range than the number that you called out.

The simple philosophy that we are adhering to is that wherever and whenever we get an opportunity to invest back in the business, we'll go ahead and do it, right? So, I think whatever

Manish called out in the beginning, whatever basically we are seeing for next year, is also dependent on how much we invest back in the business.

So, I would say that don't assume a number and think of it as a conservative number or optimistic number, just follow the range. And our endeavour is to basically be in that range at the same time achieve a decent growth, that's the way we look at it.

Sandeep Shah: And just last follow-up, is there a headroom in margin levers like sub-contracting as well as in terms of utilization as well as the offshore effort?

Pulkit Bhandari: There is always scope for improvement, right? So, I would -- it would be unfair to say that we can't improve from here on. So have we done a good job and all the easy parts of the work have already been done. So, it just becomes incrementally more difficult from here on. But is there room, answer is yes. Are we focused on them, absolutely yes. But at the same time, will it flow in a big way today or maybe over the next few quarters, I think I would say next few quarters, not immediately, yeah.

Moderator: Thank you. Ladies and gentlemen, that would be the last question for today. I would now like to hand the conference over to Mr. Manish Tandon, Chief Executive Director and Managing Director for closing comments. Over to you, sir.

Manish Tandon: Thank you. I just wanted to thank everyone to join the call. There are 200 people on this call, which is very encouraging to see that. We continue to attract a broader suite space of interested audience. And as always, we will continue to try and live up to the expectations that the shareholders have from us. Thank you once again for joining the call.

Moderator: Thank you, members of the management. On behalf of Asian Market Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.