



January 31, 2023

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**Scrip Code:** 504067

**The National Stock Exchange of India Ltd.**

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**Symbol:** ZENSARTECH

**Series:** EQ

**Subject: Q3 FY23 Results Earnings Call - Transcript**

Dear Sir/Madam,

In continuation to our letter(s) dated January 11, 2023 and January 24, 2023, please note that the transcript of the earnings call held on January 24, 2023 at 9:00 a.m. hrs (IST) for Financial Results of the Company, for the quarter and nine months ended on December 31, 2022, has been made available on the website of the Company at <https://www.zensar.com/about/investors/investors-relation?result=Quarterly-Results#Investor-Corner>

This is for your information and dissemination purpose.

Kindly take the same on record.

Thanking you,

**Yours faithfully,**

For **Zensar Technologies Limited**



**Gaurav Tongia**  
**Company Secretary**

*Encl.: As above*

An  **RPG** Company



“Zensar Technologies Limited  
Q3 FY '23 Earnings Conference Call”

January 24, 2023



**MANAGEMENT:** **MR. MANISH TANDON – CHIEF EXECUTIVE OFFICER  
AND MANAGING DIRECTOR – ZENSAR TECHNOLOGIES  
LIMITED**  
**MR. SACHIN ZUTE – CHIEF FINANCIAL OFFICER –  
ZENSAR TECHNOLOGIES LIMITED**  
**MR. VIVEK RANJAN – CHIEF HUMAN RESOURCES  
OFFICER– ZENSAR TECHNOLOGIES LIMITED**  
**MR. SAMIR GOSAVI – GLOBAL HEAD OF CONSUMER  
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**MR. NACHIKETA MITRA – THE GLOBAL HEAD OF  
BANKING, FINANCIAL SERVICES AND INSURANCE –  
ZENSAR TECHNOLOGIES LIMITED**  
**MR. ANKUSH AKAR – GLOBAL FINANCE CONTROLLER  
– ZENSAR TECHNOLOGIES LIMITED**

**MODERATOR:** **MR. AMIT CHANDRA – HDFC SECURITIES**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Zensar Technologies Q3 FY '23 Earnings Conference Call, hosted by HDFC 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 Mr. Amit Chandra from HDFC Securities. Thank you, and over to you, sir.

**Amit Chandra:** Well, thank you, Michelle. So good morning, everyone. On behalf of HDFC Securities, I welcome you all at Zensar Quarter 3 FY '23 Earnings Call. We have with us today, Mr. Manish Tandon, CEO and MD of Zensar Technologies, Mr. Sachin Zute, CFO, and few other members of the senior management team.

Before I hand over the call to Manish, I would like to highlight the Safe Harbor Statement on the second slide of the analyst presentation and is assumed to be read and understood. With this, I hand over the call to Manish. Thank you, and over to you, Manish.

**Manish Tandon:** Thank you, Amit. Hello, good morning, good afternoon and good evening, everyone. I hope I am audible to everyone. Thank you for taking the time to join us today to discuss Zensar's financial results for the third quarter of FY '23. As we all know, it has been just over one month since I joined Zensar. I have always had a healthy admiration for Zensar, its people and its expertise. I'm proud to be leading a team of 10,500+ talented and committed Zensarians around the globe. It is indeed an honour and a privilege to be asked to lead from the company's lead iconic RPG group.

As an organization, we are positioned very well with strong investments in our service lines, our vertical bets and our leadership. I'm prioritizing my time to meet with our team, our top accounts to understand how we can create a stronger and resilient organization to serve our clients.

I am working closely with the Board, the senior leadership team and everyone at Zensar to prepare ourselves for sustainable growth by delivering high-quality services and pushing the boundaries and creating value for all our stakeholders. With me on this call are a few other Zensarians, Sachin Zute, CFO, Mr. Vivek Ranjan, CHRO, Mr. Samir Gosavi, Global Head of Consumer Services, Mr. Nachiketa Mitra, the Global Head of Banking, Financial Services and Insurance, and Mr. Ankush Akar, Global Finance Controller.

The third quarter FY '23 is seasonally a soft quarter as we all know, for the industry. We registered a revenue of \$145.9 million with a sequential decline of 5.9%. On a constant currency basis, that decline is 5.3%. This represents a Y-o-Y growth of 3.6%. As we called out in the last earnings call, the softness was due to the deceleration in the demand environment, where we have seen a segment of our clients, particularly in the HTM and CS vertical, deferring or optimizing their discretionary spend and scaling back their budgets.

Let me walk you through the performance of our geographies and verticals for the quarter. All growth numbers that I provide are in constant currency. Banking, Financial Services and Insurance reported sequential Q-o-Q decline of 1.3%, but a Y-o-Y growth of 19.8% in constant currency. In current quarter, BFS grew for us. However, insurance vertical saw a decline due to delay in decision making at some of our customers and right shifting of milestones that impacted us as one of our large customers, and we expect this to stabilize going forward.

Hi-Tech and Manufacturing, including emerging registered sequential Q-o-Q decline of 9.3% and Y-o-Y decline of 2.5% in constant currency. This is due to higher than usual impact of furloughs and planned reduction in pass-through revenue. Consumer Services registered a sequential Q-o-Q decline of 2.3% and a year-over-year decline of 6.8% in constant currency.

HTM and CS verticals continue to see softness due to the macro demand uncertainties, coupled with reduction of discretionary spend at the customer side.

As far as geographies are concerned, the US region posted sequential Q-o-Q decline of 8% and year-over-year decline of 2.1%.

The Europe region registered sequential Q-o-Q growth of 2.2% and year-over-year growth of 18.7% in constant currency. Our strong relationships with our key clients helped us deliver growth in this region despite the uncertainty. We are witnessing some softness in demand, particularly around digital spends in this region as clients are delaying their decision-making in the near term.

The South Africa region saw a slightly muted performance, with a Y-o-Y growth of 15% and nearly flat Q-o-Q growth. Our growth momentum in Banking and Consumer segment here was offset by sustained softness in our insurance vertical. We expect steady performance on back of new project ramp-ups at some of our key clients in this region.

Our gross margin stood at 27.4% in Q3 FY '23, representing a sequential Q-o-Q increase of 200 basis points while our EBITDA stood at 11.3%, a sequential Q-o-Q increase of 270 basis points. This growth in margin despite decline in our top line was due to our focused efforts towards identified levers, which we shared earlier.

The order book for Q3 FY '23 stood at \$130.5 million. I think that a great Q3 FY '23, stood at \$130.5 million, supported by healthy renewals and multiple wins across verticals. We have scaled two clients to the 10 million-plus bracket, bringing the total number of clients in this category to 15, which is a very positive sign.

I'm pleased to share that for the third quarter, our last 12 months attrition declined to 22.8%, a sequential improvement of 350 basis points. On account of various measures, we have taken over the last few months, coupled with easing supply side issues.

Our big debts in service line continues to reward us positively. Our focus service lines, Advanced engineering services, Data engineering and analytics and Platforms are scaling up well, making up to 35% of our total revenues from 32% a couple of quarters ago.

Our integrated solutions leveraging multi-service lines like experience and engineering approach is gaining good traction with our clients.

Finally, to stay true to our ESG mission and vision, we have been continually advancing our sustainability efforts. Towards the environment connect, our global level in green energy component for our premises has increased to 11.6% as compared to 7% last year. In FY '23, we are also water positive with the amount of water conserved exceeding almost twice the quantity of water consumed in Zensar's corporate premises.

In terms of CSR, we supported 79,024 people compared to 59,231 people from FY '20 to FY '22, indicating exponential growth in community reach and development. All initiatives were supported by enthusiastic volunteers and leadership from Zensar.

In closing, I believe as a company, we are on the right path in terms of strategy. Execution of strategy is going to be a priority. We are seeing some green shoots in service line penetration across our client base. The macroeconomic uncertainty continues. However, the tech spending outlook in the long term remains robust. Laser shop focus on strategy execution to deliver sustainable profitable growth while keeping our customers at front and center will remain our goal.

I look forward to interacting with you all going forward. With that, I will now invite Sachin Zute, our Chief Financial Officer to provide an update on critical financial data, after which we will open the floor to questions.

**Sachin Zute:**

Thank you, Manish. Good day, everyone. Welcome to this call. In addition to Manish talking about the business, I will take you through some of the key financial metrics. In constant currency terms, the revenue decline for the quarter is 5.3% sequentially and growth of 3.6% Y-o-Y. In US dollar terms, the reported revenue is \$145.9 million for the third quarter of FY '23 reflecting decline of 5.9% sequentially and 0.9% year-on-year. The US dollar realisation during the quarter has been INR 82.1 per \$1 against INR 79.6 in previous quarter.

Our gross margin for the quarter stood at 27.4%, 200 basis points higher than previous quarter and EBITDA stood at 11.3%, 270 basis points higher than previous quarter. Increase in EBITDA was primarily driven by positive impact of currency, ongoing operational efficiencies including optimization of employee cost, improved trade-mix, better realization and benefits from reversal of provision for doubtful debt, which was partially offset by volume and utilization, improving overall EBITDA by 270 basis points.

Our disciplined program for margin improvement through measures such as increasing freshers' deployment, improving commercial, optimizing operational metrics and rationalizing costs have helped us in improving margin in Q3 in spite of it being a furlough quarter. We see weakness in certain business verticals due to macroeconomic factors as described by Manish. At the same time, we continue to create room for investment in newer areas of growth. For the quarter ended December 31, 2022, DSO including unbilled stood at 80 days in line with the previous quarter.

For the quarter cash and cash equivalents including investments in mutual funds and NPD stood at \$179.4 million, \$17.3 million increase from last quarter. The effective tax rate for the quarter is 26.1%. With that, I come to the end of my presentation and open the house for questions.

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

**Mukul Garg:** Manish, first of all, welcome and wishing you all the best for your earnings at Zensar. I know it is still fairly early days for you, but just wanted to get your sense, since you are taking over the company at a relatively tougher environment for the business and revenues. Can you share your initial thoughts on what will be your top areas of priority during the initial period and the steps which are required to rejuvenate the growth from the current environment which is there?

**Manish Tandon:** Yes, I think, first of all, Mukul, thank you for the warm welcome and for asking this question. So as you rightly pointed out, this is early days for me and just one month exactly into this job. I see a lot of positives in Zensar in terms of the investments that we have made in service line, in terms of the leadership that we have, in terms of the attitude of people and the quality of people. So I strongly believe that all ingredients are in place. And my first strategy would be to, instead of tweaking the strategy, to focus on strategy execution. Because I think all the main ingredients are already present. And that will give us some immediate results while the longer term strategy is being worked out.

Overall, I am very bullish with the direction of the company. And I also feel that this is a tough environment as you rightly pointed out. So a lot of effort will be going more on the margin side to improve margins because that is an easier win, in my opinion, in this environment rather than trying to just buy more business. I hope I answered your question, Mukul.

**Mukul Garg:** Just to take this first step forward, what's your view in terms of the respective strategy between growth and profitability. The profitability I think you just highlighted remain relative priority in the near term?

**Manish Tandon:** Yes, as I pointed out, Mukul, I think profitability is all internal. Mostly, we have to take certain internal steps and manage our costs better, while the demand environment remains tougher. So as I said, we'll get better results if we focus at least this quarter on getting the bottom line up rather than going indiscriminately after the unprofitable business.

**Mukul Garg:** And just one question for Sachin. I think the margin improvement this quarter was quite impressive. How should we see the impact which probably came in this quarter due to the seasonal factors like absence of pass through? I think you also mentioned the impact from reversal of provisions. If you can just help quantify that. And how should we see the trajectory of improvement over next three to four quarters? Do you have enough levers to continuously move towards the mid-teens number which you have highlighted, or will there be a near-term pause after the sharp improvement in profitability?

**Sachin Zute:** Thanks Mukul. Mukul, obviously we saw 270 basis points improvement this quarter as far as EBITDA is concerned. It was also helped by currency. But this was majorly seen through the

six levers which we have spoken with you all a couple of quarters and there is significant work which has happened within the organization. And that is the reflection of that into this quarter's margin. Be it improving the service line mix, be it improving the commercial with the customers, be it optimization of pyramid, support cost, and also improvisation in our talent acquisition cost. All these things have contributed to this 270 basis points increase which we have seen in this quarter.

What I can say is that we think that quite a few of them are sustainable. And as I said that we have created trajectory towards mid-teen margins over next three to four quarters. And I think as long as the macroeconomic factors do not deteriorate significantly, I think our way towards that will continue.

**Moderator:** We have the next question from the line of Mihir Manohar from Carnelian Asset Management.

**Mihir Manohar:** First of all, congratulations, Manish, for the role and wish you a lot of wishes for your new role. I think as you wanted to understand, I mean you understand that we are earlier days, but still given an experience, which has been done at Infosys and even turnaround at CSS Corp, so just wanted to understand, do you think that there are any service business which are required at Zensar? I just wanted to understand around that, are there any, the deficiencies around that. And also on the pyramid structure which is there, do you think more rationalization is required at the pyramid level?

And also I wanted to fundamentally understand, I mean, in this situations, where there has been more of a macroeconomic concern, typically, Zensar historically have seen more contraction in margins. So what is your thoughts over that? And how do you see this retiring subsidy? So, yes, those were the questions.

**Manish Tandon:** Mihir, thank you for the warm welcome. If you don't mind can you repeat a bit slowly the questions. The line is not very clear. So the first question was around, can you clarify that question, please?

**Mihir Manohar:** Manish largely wanted to understand, I mean, given your experience at Infosys and CSS Corp, do you think that there are any service offerings which are yet to be filled up, any gaps which are yet to be filled up at Zensar? So that was on the service offering side. And secondly, also on the pyramid side, do you think more rationalization is required on the pyramid? So, question in conformance to that, with respect to the fact that whenever there have been more macroeconomic concerns, Zensar has seen more correction in the margins. So, what is your thought on that and how do you see that in going on a structural basis?

**Manish Tandon:** So, first question on service lines, I don't think we need any more service lines. I think we have a pretty complete set of offerings which enable us to target, I would say, most of the technology spend on services that most of our clients have. On pyramid rationalization, I mean, things always can be improved and we will continue to improve both the pyramid and the utilization. The third part was on margins. You said that in a recessionary environment, margins usually fall and we are trying to improve margins. Was that a question or something else?

**Mihir Manohar:** Yes, that was the question.

**Manish Tandon:** Yes, I strongly believe that margins are a function of internal efficiencies more than external markets. *per se*. And as Sachin said, we see opportunities for improving internal efficiencies even in a recessionary environment. So we believe that shareholders can benefit much more by us working on improving margins in this environment while simultaneously trying to grow our portfolio. So what I'm trying to say is we will not be indiscriminately buying revenues.

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

**Sandeep Shah:** Manish welcome and congratulations for the new role. The first question is for any mid-cap to flourish in this industry which is competitive, mature needs to have some USPs and standing and niche positioning in front of the clients. So what according to you Zensar differentiate versus most of the peers and you believe does that require some investment before you can expect some sustainable growth turnaround going forward so which may lead to some amount of compromise on margin but there could be a sustainable profitable growth over medium to longer term?

**Manish Tandon:** No, I don't think, see Sandeep, we have made a lot of investments in service line and that is one of the reasons for the margins coming down over the last couple of quarters. Please understand that this is my fifth week in the company. So based on what I have seen, I don't think that we need more investments. But we definitely first need more return on investments that we have already made. And that will drive immediate benefits for the company, for shareholders, and for our clients. Rather than investing more money, I would first like to see the returns on the investments that we have already made.

Regarding right to win, your first question on differentiation and right to win, I think there are good pockets of excellence that I have seen that can be converted into the right to win for Zensar. But it is a bit early for me to put a stake in the ground and say that these are the four or five things that we will try to do to differentiate and have a right to win in the market.

**Sandeep Shah:** And just a follow-up in your initial remarks you said you want to make Zensar a more resilient organization and the investor perception is Zensar is more, executes on a project-based revenue which leads to volatility in growth at a regular interval. So how do you plan and strategize to change this model to more annuity sticky, business and will it lead to a longer-term turnaround or you believe even though things can turn around at a shorter to medium term itself?

**Manish Tandon:** So Sandeep, my belief after being in this industry for 30 years, that it is relationships that are project based or annuity based. It is not projects that are annuity based. So the basic premise is that if you invest in client relationships, if you build that deeper relationship and relevance to your clients, then most of the business that you are going to get from them is going to be repeat business, which can be called relatively sticky overall.

So yes, annuity revenues are a priority, but the path to those annuity revenues is through building deeper client relationships. And that is what Zensar is going to focus on.

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



**Amit Chandra:** Welcome Manish to the Zensar. My first question is on the vertical focus. If I see apart from the banking and the insurance vertical, all other verticals are seeing the pressure in terms of delays in decision making and in terms of drop in revenues. So when we can expect more stable, more broad-based performance and also in terms of the pressure that we're seeing from the top client in Hi-Tech, is the pain behind or we can see some more impact from the drop in revenue from the top client?

**Manish Tandon:** Thanks for the welcome Amit and good talking to you again. I think as to when we will see turnaround in HTM, CS, personally I feel that from a portfolio perspective, the worst is behind us. But from a macro headwinds perspective, your guess is as good as mine. So essentially there are two factors. What are we seeing in our portfolio and what are we seeing in macro terms? So as I said, macro, we'll see how the situation plays out. In terms of our portfolio, I think personally that the worst is behind us. So, I am hoping that we will perform as per market or slightly better going forward in these two verticals than what we have been doing in the past.

**Amit Chandra:** As you mentioned that the focus, initial focus will be on improvement in margins. So, the initial margin targets that are set in terms of the mid-teens margins, by the mid of the next financial year. So is the target as of now or we are comfortable with the levels we are at, the current levels and can we see more investments post that in terms of investing more into growth areas, or the strategy laid out by the previous CEO, we are as of now sticking to that in terms of the focus of the SGOs?

**Manish Tandon:** So if you look at the strategy being followed, it was the strategy was primarily on capability building. So the service line, etcetera, was more around building set of capabilities that are relevant in today's market. The time has been built up capabilities. Now the time has come to take them to the market in a more effective and efficient fashion. So that's what I keep saying that it's from a strategy perspective, I don't think any radical surgery is required. Physiotherapy might be required and is required, but I don't think any radical surgery is required as of where I stand today, four weeks into the organization.

I think the interest of the shareholders will be better served if we first derive the return on the investments that we have made instead of going after making more investments.

And to your question on are we happy with the target remains in mid-teens as Sachin said, and the aim is to achieve it as soon as possible, but to achieve it on a sustainable basis.

**Moderator:** We have the next question from the line of Nitin Padmanabhan from Investec.

**Nitin Padmanabhan:** Welcome, Manish, and congratulations on the role. First, we wanted your thoughts on two aspects. So one is, I think we've have very large customers in every vertical. And typically, we struggle for growth when they are under pressure. Your thoughts on how you plan to broad base that element on a going forward basis. And the second, your comment on margins. Is it a situation wherein, I think the finance teams are finding it difficult to pitch for a particular deal because of our cost structures at this point in time? And once you improve margins, you become

more competitive when your ability to compete improves. Is that how you're thinking or is it some other way?

And so those are the two questions. And then I had one for Sachin as well. As to what is the provision for doubtful debts reversal this quarter? Is it a large quantum or it's just a small number?

**Manish Tandon:**

So I think the first question was budget shrinking. And see, Nitin, what has happened is that we, by adding service lines to our armoury, we have actually increased our addressable spend, if you get what I mean. Previously with the service lines that we had if we were addressing 30% of the technology budget of a corporation then with the addition of these service lines, I believe that we have nearly doubled that. So while there is a down graph obviously because of budget cuts in our area, but there are other areas that we are now able to address. And I am relatively positive about that aspect.

Second, I think you asked about margins. I don't think there is any deal in the last four or five weeks that has come to my attention which the team has felt that we are not competitive on the margins because of the margins. So I don't think that that is a correct interpretation of focus on margins. See, focus on margins means, example is pass through revenue. If I just want to increase the revenues, then I want to focus on trying to reduce the pass through revenues. As you see, between Q2 and Q3, the pass-through revenues have decreased from 6.6 to 3.9 or something to that effect.

That revenue is actually not my business. So it is more to do with those things and efficiency rather than loss of competitiveness.

**Sachin Zute:**

Nitin, Sachin here. As far as your question on the PDD is concerned, we had made the provision last quarter according to the policy of the company and we could collect that during the quarter. We have reversed that and the impact of that has been 0.5% baked into the margin.

**Moderator:**

We have the next question from the line of Nikhil Chaudhary from Nuvama Wealth Management

**Nikhil Chaudhary:**

I want to understand from growth perspective, particularly now during last 10 months, last 12 months, if you see it grew by 10% Y-o-Y. While your commentary is negative in terms of growth in coming periods. So, just want to understand would will be able to grow in a similar trend what we are seeing in deal wins? Or do you think there is going to be higher furloughs or delay in implementation, which will impact growth in coming periods?

**Manish Tandon:**

Sachin, can you take that because it pertains to last 12 months. Can you please answer that?

**Sachin Zute:**

So obviously, last quarter we had impact of furloughs on the revenue. Part of those furloughs, we are expecting that will be reversed during Q4 and we will see appropriate impact of that on the growth.

**Nikhil Chaudhary:** So, Sachin with our large deal win growth, if you see in last 12 months grew by 10% Y-o-Y. So, want to understand, would the revenue growth will be in similar trajectory given the implementation with that or will go through in the coming quarters?

**Sachin Zute:** See normally, we don't give guidance, as you know. So, from that perspective I won't be able to comment on that aspect that how the revenue will come back over next 12 quarters. What I can tell you is that in Q3 we had impact of furloughs and this year they were above normal furloughs. So, given that we will see partial rollback of those furloughs during Q4 and to that extent we will see the impact on revenues.

**Nikhil Chaudhary:** Just one additional question. Your Hi-Tech vertical, we have seen quite a bit of churn, basically, in last couple of years. Revenue contribution has declined by about 900 basis points. So, how should we look in this vertical vis-a-vis with overall company growth?

**Sachin Zute:** So, as we said, Hi-Tech, manufacturing vertical for us, has been facing headwind from the macroeconomic factors. The vertical is very much stabilizing for us going forward. So, we think that the investments which we have made in the service lines will help us across vertical growth to stabilize as Manish mentioned earlier.

**Moderator:** We have the next question from the line of Dipesh Mehta from Emkay Global.

**Dipesh Mehta:** Just couple of questions. First, Manish, just want to get your perspective about how to accelerate revenue growth over medium-term. I understand some macro challenges which you highlighted for short-term, but your thoughts about how you want to accelerate revenue growth trajectory for Zensar, if you can help us understand about the large deal participation, portfolio adjustment, hunting and farming engine? Whichever way you can try to give some sense about what's the thought process?

And second question is related to the first one, considering all the steps required to accelerate revenue growth, by when do you expect Zensar to effectively participate for growth opportunities from growth trajectory perspective compared to some of its peer?

**Manish Tandon:** Yes. So, I think again this is a fairly simple industry. And as I mentioned before, the way to growth is improving both your hunting and farming capabilities. Today, I see lot of opportunities in the way we are farming our portfolio of accounts. And to do that effectively, you have to build a good, you have to deepen your client relationships, which comes to increased client relevance. And I think that with the service line expansion that we have done, we should be in a position to increase our client relevance and with a focused effort to deepen our client relationships. That will be the growth trajectory, besides creating a few differentiable things that we can go to market with.

As far as getting back to growth track is concerned, I don't know this is perhaps the only quarter where it has declined. Sachin, I think over the last seven or eight quarters, the revenue.

**Sachin Zute:** Yes, Manish. In constant-currency terms, yes.

**Manish Tandon:** Yes, so it is not that we will let go any growth opportunity. Even as we speak we are talking about two or three very interesting deals, which are in the offer. So, we will continue to push for growth. It is not that -- you can't run a business by just focusing on either the top line or bottom line. You have to deliver both. So, we will continue to focus on growth also, but the results of that will come in slightly later. The results of margin should come up earlier. That is the point that I was trying to make.

**Dipesh Mehta:** My question was slightly medium-term. Last five years, if you look your organic revenue growth was largely flat from '18, '19 onwards to till now. Even this year, so 550 to 600 is ballpark range where we operate at. So, I was looking from that perspective?

**Manish Tandon:** Yes. I mean, what can I say. I think it's my job to put in value proposition and differentiation in front of the clients where we can get sustainable growth as an organization and that's what we will do over the next few quarters.

**Moderator:** We have the next question from the line of Rajat from Incred AMC.

**Rajat:** Manish, I'm very new to this company. So, my question is going to be more qualitative. Firstly, could you just talk a little bit on actually when you joined, there was a press release mentioning that you led a turnaround at CSS Corp. Could you talk a little about what was the turnaround? What does the company do? Was it Zensar-sized company? Could you talk a little about that?

**Manish Tandon:** No, I think CSS was about one-third the size of Zensar and it's a privately-held company. So, I don't know how much I'll be able to share with you about what the turnaround was etcetera, but the publicly available information says that the investors appreciate the turnaround and we've got even though the company was sold in the middle of COVID, we got a very good multiple and the investors got very good returns. I think that's about what I can disclose given that CSS -- this is now called Movate, is a privately held company.

**Rajat:** And secondly, on the supply side, so we are hearing a lot of tech layoffs happening across the globe. So, are we at Zensar seeing any significant supply side pressure easing out?

**Manish Tandon:** Yes, the supply side pressure is easing out. Talent is more available today than what it was say six to nine months back. So yes, we are seeing the pressure easing out.

**Rajat:** And also on service line additions, I think at Infosys, you spent considerable amount of time looking at the healthcare vertical which seems to be missing at Zensar. Will that be your new service addition which you will be looking to add at Zensar?

**Manish Tandon:** Too early for me to comment on it just now. I think I'm looking at all possible opportunities in front of us. We are evaluating everything which includes which verticals we want to be. And just wait for the strategy session, which hopefully, we should be doing next quarter sometime.

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

**Sandeep Shah:** Manish, as you said, the margin turnaround will come first, followed by the growth turnaround. So, in pursuit of that, do you believe some more rationalization is required in the business before you plan to do the growth turnaround as a whole or you believe most of the portfolio is earning margins, which you are satisfied at?

**Manish Tandon:** So, are you talking about rationalizing clients or something like that

**Sandeep Shah:** Rationalizing maybe even low margin portfolio or some of the tail accounts as a whole, which may have some impact on the growth in the near-term?

**Manish Tandon:** Look, my belief is that the pricing is determined by the market and margins is determined by execution. I don't think, I mean opening a new account, new logo is very intensive long-drawn process. So, we're not really looking at rationalizing accounts as a main margin lever. We are looking at more of internal efficiencies as margin levers. And obviously, there are tail accounts and so on which are not giving us the right result. So, we will not focus too much on them. So, we will make sure that we are putting only appropriate resources, which are commensurate with the returns those relationships are getting back, or can give us.

**Sandeep Shah:** Second, Sachin, can you refresh in terms of the target to achieve a 15% EBITDA margin and the timeline to achieve the same? And second in the deal wins of \$130 million, what is the proportion of new business within the same?

**Sachin Zute:** Thanks for that. We are currently working on creating a trajectory to reach somewhere around mid-teen in next three to four quarters and it's based on a very systematic program which we have implemented, which I called out as part of my answer earlier. And we are hoping that we should be able to reach it around mid of next year, but if the economic condition significantly deteriorate, we may have to relook at that. But as we stand today, we are making a good progress toward that.

As far as our order book is concerned, historically, we've been around 45% and 55% mix of net new and existing new deals. This time the reflection of economic outlook actually shows that almost 35% of my order book is net-new and balance is existing renewals basically.

**Moderator:** We have the next question from the line of Manish Mehta from 3P Investment. Manish has left the queue. We move on to the next participant. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities.

**Chirag Kachhadiya:** So first of all, Happy New Year to everyone and congratulation for taking the charge. So, I have a broad question, in terms of demand outlook and also vertical-specific comment that which are the areas where you feel more concerns are there and it will take longer time than execution to back to normalcy? So, that's the two question I have.

**Manish Tandon:** Sorry, I was on mute. I couldn't hear. I couldn't understand the first part of the question. If you could repeat that.

**Chirag Kachhadiya:** Can you share vertical-specific outlook and the first question was that. And second, which are the areas where you feel more concerns are there and will take longer than expected time to back to normalcy?

**Manish Tandon:** So, I think I mentioned it in the commentary that we are seeing lot of headwinds, macro headwinds in Hi-Tech and Manufacturing and in CS, while Banking and Financial Services remains strong for us and insurance also we are seeing some amount of headwinds. From geography perspective, we are doing well both in South Africa and in UK. As far as which verticals, I personally feel that Consumer Services and Retail is much tougher vertical to focus on in a recessionary environment, especially when actually happens. Hi-Tech, I expect that to see once we improve our execution it will be more easier to get it back on track.

**Moderator:** We have the next follow-up question from the line of Amit Chandra from HDFC Securities.

**Amit Chandra:** I have one follow-up on the margins. So, the margin expansion that we have seen, as you mentioned that it also the impact of this lower pass-through. So, can you please quantify sir, what is the exact impact from the lower pass-through that we have seen on margins? And I think this is like one-off for this quarter, so. How the trajectory will look from the next quarter onwards? Are we expecting a dip and then expansion of? Is it going to be on a linear trajectory?

**Sachin Zute:** Amit, thanks for the question.

**Manish Tandon:** Sachin, can you take that question?

**Sachin Zute:** Yes, Manish. So, pass-through, dips in the pass-through had 0.4% impact on the margin Amit in Q3, but given the very structured cost optimization program, which we are running, I think the current levels of margins are sustainable for us in the near-term as we create trajectory for further margin improvement over next three to four quarters.

**Moderator:** We have the next question from the line of Ganesh Shetty, an Individual Investor.

**Ganesh Shetty:** Congratulations for decent set of number, especially margin improvement. That was very much expected. We did by investor community. So, my first question is regarding whether we are going for any inorganic acquisition, considering our cash balance of around INR 4800 crores?

**Manish Tandon:** Thank you, Mr. Ganesh. You are asking about our M&A strategy as I understand?

**Ganesh Shetty:** Yes sir.

**Manish Tandon:** Yes. So, I mean, we have been decently acquisitive in the past also and we continue to -- we have a structured M&A program and we continue to look at opportunities to add shareholder value through inorganic means and we current we have reasonable cash on the balance sheet to be able to do good sized inorganic acquisitions if we need we need to do it.

**Ganesh Shetty:** Sir, my second question is regarding this attrition level for last three months and going forward, how do you see attrition picture? Can you please throw some light on that, sir?

- Manish Tandon:** I think we have dramatically reduced attrition. I am in fact very pleased that between previous quarter to this quarter, there is a 350-basis point reduction in LTM attrition. And I think that LTM attrition based on what I had seen of other result is one of the best in class. Vivek Ranjan is our CHRO and maybe Vivek, you want to provide some more color.
- Vivek Ranjan:** Yes, thanks a lot Manish, and Ganesh, wish you a very Happy New Year. Yes, Manish you said it right, the kind of investment which we have made in our people regarding career progression, learning, compensation and recognition and building connect. We see that we are getting significant return of that. And while macro-environment states that attrition has gone down everywhere, but we are proud of the fact that ours is one of the best. Thank you, Manish. Thank you, Ganesh for the question.
- Ganesh Shetty:** Yes. Thank you very much, sir and RPG Group is known for creating happiness among people. I think if you are in Zensar, Executive Board will definitely increase happiness for all our investors. Thank you very much. And all the best.
- Manish Tandon:** Absolutely, sir. Thank you.
- Moderator:** Thank you. As that was the last question for today. On behalf of HDFC Securities, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.
- Manish Tandon:** Thank you, everyone, for giving me a warm welcome and asking some very pertinent questions. Thank you.
- Moderator:** Thank you, sir.