

Zensar Technologies Analyst Call Transcript on Q4 Earnings

Date -25th April, 2007

Moderator: Good afternoon ladies and gentlemen. I am Johnson, moderator for this conference. Welcome to the conference call of Zensar Technologies. We have with us today the management team of Zensar. At this moment all participants are in listen only mode. Later we will conduct a question and answer session. At that time if you have a question please press * and 1 on your telephone keypad. I would now like to hand over the conference to Mr. Hitesh Zaveri.

Hitesh Zaveri: Hello and good afternoon to you all. I welcome you to the 4th quarter earning call for financial year 2007 of Zensar Technologies. Today we have with us Dr. Ganesh Natarajan, Deputy Chairman and Managing Director, Parmod Bhalla, Chief Operating Officer, S. Balasubramaniam, VP and CFO, and Vaijyanthi Deshpande, Associate VP and Financial controller. The management team will be discussing with us the company's performance for the quarter and financial year ended March 2007, following which we will have a Q&A session for the participants. I would now request Dr. Natarajan to initiate these proceedings. Over to you Ganesh.

Ganesh Natarajan: Than you Hitesh, and good afternoon to all of you. I will just take about maybe five, six minutes to summarize what have been the achievements of the year, and of course of the quarter, and also to look at the next year and show you what are we attempting to do. I would also like to introduce another person who has recently joined our management team, Sushma Rajagopalan. Sushma is based currently in the US, and is looking at both Corporate Strategy and Corporate Development, which includes integration of the companies that we have bought recently in US and Japan. She has just joined our management team about two weeks ago.

To summarize where we are as you all have the results in front of you, I won't spend too much time on that, but it has been an outstanding quarter because we have seen good sequential quarter growth, 16% in revenues and 30% in profits. More important, the year has definitely exceeded our own expectations, because as all of you would recall, we had given a guidance of 550 crores revenue and 50 crores net profit. I think with about 8 crores of help from our acquired company ThoughtDigital, we have closed at 605.8 crores, and net profits 57.1 crores, so it has been very, very good. It also gives us the confidence that going forward we should be able to do much above this. In fact next year we are looking at

doing over 900 crores at current currency conversions. So even with decline in the dollar, I am giving an official guidance of 850 crores revenues, and 85 crores PAT for the coming year. And I think we should be able to exceed that without too much of a problem.

Just to give you a summary of where I think we are from a strategy point of view. Three of our goals that we set for ourselves for this year and in fact even going forward, is the first of course, entrenchment. We want to make sure that with the new services and products that we are adding, we are able to mine deeper and wider into our existing plan, and I am very happy that that's completely happened. In fact today we are working with big clients like CISCO and Marks and Spencer, and Credit Suisse, in a variety of areas beyond the initial area that they engaged us initially, and that will continue to be our strategy for the Fortune 1000 and 1500 plants that we engaged with, to make sure that they really avail of the entire gamut of services of Zensar.

The second aspect beyond entrenchment is sustainability, and sustainability has always been important especially when we are looking at more and more project-based revenues. So for instance, our Oracle business and also our growing SAP business have been largely built on projects. But now we are trying to take very successfully a lot of our implementation contracts that we had for implementing Oracle order management of Oracle CRM into offshore support. And many of our customers have, I think very happily consented to that. In fact, one of our challenges, which Sushma and I are working on, is to also take the fortune 40 new customers, we have added, thanks to ThoughtDigital and see how many of those can move to offshore support during the year. So I think sustainability of revenues will continue to improve as we go from quarter to quarter and move from project to more of offshore support.

The third of course is growth itself, and one of our objectives for growth is to move beyond the traditional market segment. As all of you know, the traditional market segments for most of us has been the larger company, and we have been successful in doing that, but while we continue to entrench as I've said, we are looking at one other segment very seriously and in fact we have launched a series of services for that segment, which is what we call the first time outsourcer segment, and these are the people who are looking at offshore for the first time, companies in the range of half a billion to 2 billion dollars in revenues, but who are now saying that look, they would like to experiment with offshore also, saying make sure they work with a quality provider, also of course, which is important for a mid-tier company, make sure that they work with companies which will give them attention. So we have had two outstanding successes in the last year, both of which are of course very large companies, Essilor of America, which is a lens manufacturing company

as well as the John Lewis Partnership in UK, and both these have given us the confidence that not just in South Africa, or Australia, or Japan, or Singapore, where we already have a number of smaller companies as planned, but this year we are launching an aggressive plan, in fact we are doing a series of road shows in Europe and America in this quarter, and the idea is to bring in at least 8 to 10 new customers, who are in this segment and who can really avail of the entire range of services of Zensar.

In summary, it has been an excellent year. In fact we added 58 client during the year, and the good news as always is that if you look at our three-horizon model, we keep looking at how many clients have come in for new service like testing, or infrastructure management etc. And that has scaled pretty well because 24 out of our 58 clients have really come through these new services, which is very heartening for us. The integration of ThoughtDigital has begun. In fact the first phase has already been completed in New York, and we now have Sushma, who will spend the next six months spending about 50% of her time literally on integrating at every level, including as I mentioned earlier, moving a lot of their business to offshore support over the next six to nine months. EZA, the company we bought in Japan, which is really at the very, very high-end level of migrating video server capability to mobiles and very good partners in Japan. That's going to be the kind of front-end of our innovative technology fusions business. So I think that will also do well.

Last, but not the least, if you look at our segments, I think all the segments have grown. We have completed now the development of the global delivery platform, in fact the center in Poland, we have hired the first 20 people, they have been trained in India and the center is formally being inaugurated on May 24th, and that will be our first experiment in really taking the Solution Blueprint methodology, which as some of you know, really disaggregates the entire development where we can do architecting work, in Poland, and then do developmental code out of India. So that will be our first implementation. I am glad to report that all the investments we have made in building out this framework have been completed, and even the losses that you may have seen in the ITS segment have been completed at this point of time. So it will breakeven this quarter, and show profit next quarter. BPO was one of our significant investments, which is already profitable, I think this will continue to increase profitability, the core businesses of what we call Application Portfolio Management and Enterprise Application, particularly Oracle, will continue to be the drivers, but we will see now new business streams, as well as new profits coming through from BPO and ITS. I think that's really the company in summary and I think its probably more useful to answer any questions on strategy or financials or whatever you may have, so I will stop it right here. Thank you very much.

Question and Answer Session

Moderator: Thank you sir. Ladies and Gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request you may do so by pressing # key.

Our first question comes from Mr. Rajiv Mehta of India Infoline.

Rajiv Mehta: Yeah hi, first of all congrats to the management team on a great quarter and a great year. Sir, if you can just break down your organic growth in the quarter, which I believe is around 10.8% into what was from volumes and what was from pricing improvements, if you got any, and what was the impact of rupee.

Zensar Team: All the growth is basically volume growth. The rupee impact on the top line, was about 1.75%.

Rajiv Mehta: Okay, sir your top line grew by 20%?

Ganesh Natarajan: That's right.

Rajiv Mehta: So, do you think that is sustainable or may be it's just a quarterly aberration of some of the projects getting terminated in Q4 and that is why you are seeing such a growth.

Ganesh Natarajan: It's actually very sustainable. As some of you know, one of our limitations in CISCO has been that while CISCO has huge amounts of business to give us, we have been limited in terms of both we and CISCO themselves, not want dependence on CISCO to be more than maybe by 25%. In fact I am just coming from Bangalore where we had a review with the CISCO management. And now with the acquisition, and that we are now looking at doing closer to \$20 million next year, I think the opportunity scale in CISCO itself grew from, we would have probably have done close to 33, 34 million in CISCO last year, easily grew that to 60 million and still within that. CISCO themselves are embarking on a major exercise where they have a new CIO, and she is now looking at this entire mix of businesses.

Rajiv Mehta: Okay, sir what will be the growth outlook, as you said CISCO might grow at more than 50% YOY in FY08. What were the growth outlook in other top five accounts, like Danaher, Marks and Spencer, and the others?

Ganesh Natarajan: I would expect that three out of those five will probably grow at over 40%. The other two, I mean, like last year, National Grid was low growth for the simple reason they again had a management change, and they were kind of revisiting strategies, but I would think that three will grow at 40% and probably about two of them will grow at maybe 20%. Right now it's difficult to predict which of those two, but really what we planned for in our own forecasting about it.

Rajiv Mehta: Okay, sir there has been sharp movement in the operating margin of the EAS division on sequential basis, sir, moving up from 5% to around 17 ½%, so why is it like that?

Ganesh Natarajan: Actually what we have done is a very successful strategy of moving from what was primarily Oracle financials, and Oracle financial support. We have now invested and we continue to invest in a whole new range of services, for instance, order management, which was not our core area, Oracle CRM, whole area of business intelligence and data warehousing. Right now we have a very, very senior person, who was working for CISCO for many years, has joined as the head of Oracle manufacturing. That will see us really making a lot of investments in this area called Demantra. Demantra is demand planning for Oracle. Most of these are high-end services, like we are doing even in the ITS business with the acquisition of EZA, goal is to move more and more to a high-end of services and obviously that results in much better profitability. I think you will see the trend going, of course, I am not saying that the huge percentage profitability you have seen in EAS is highly sustainable next year, for the simple reason that initially when we launched these consulting services, a lot of value tends to be delivered onsite. Further which, right now business intelligence and even some of the newer services we are providing to CISCO and in Oracle are tending to be on site, as they move offshore, you will see some reduction, but in terms of sustainability and moving towards a higher profitability level, that is a part of our strategy.

Rajiv Mehta: Okay, sir what happened in ITS, it is quite a robust sequential 10% growth, the losses in ITS division increased.

Ganesh Natarajan: See there are two things, one is of course, as I mentioned earlier, we have been investing in, we have actually converted this whole Solution Blueprint Framework

into global delivery platform, so its probably about 11 crores of what you see as loss, is writing off certain investments we have made in terms of developments etc, etc, and about two crores is genuine loss, in the sense that, as some of you maybe aware we stopped doing work with Nomura, beginning of this year, we had a large team and they moved into China. But both these are over, both the actual investment in building of this team, in fact the whole team that was developing this, has now been redeployed in projects. So you will see both a growth in revenues, now ITS is part of our rest of the world business group. You will see them doing a lot of work in places like Thailand, Singapore, etc. So I think this quarter onwards, we don't expect to see any loss whatsoever.

Rajiv Mehta: So what you are saying is from Q1 we will turn positive at the EBITDA level in ITS.

Ganesh Natarajan: Definitely.

Rajiv Mehta: And we had a one-time write off in previous quarter.

Ganesh Natarajan: Yeah, that's right. I mean actually over the last four quarters we have been ensuring that whatever development must be done till now, and Q1 onwards, actually ITS is now part of our profit center business unit and it will definitely be profitable going forward.

Rajiv Mehta: Sir, if I look at your BPO profitability again on sequential basis that has improved tremendously. Also if I look at on full year basis, it is 12% as against a big negative margin in the last year. So there is a significant improvement. So if you can just detail down what were the steps taken and what is the sustainable profitability here?

Ganesh Natarajan: This is part of our strategy, in fact unfortunately we got delayed by six months, and it is really what we expected to do with BPO. Since BPO for us is not a standalone business unit, although it's measured as a profit center, part of our global outsourcing business. If you look at some of our key clients like Marks and Spencer, like Danaher, and even now starting with CISCO, what we really do now, and that is our value proposition, is that we start with development, move it to maintenance, and do transaction process. So the minute that happens, transacting processing is as profitable as doing support and today if you look at our BPO business almost 40%, 45% of it is actually transaction processing, whether its for Home Depot, where we are actually doing merchandize planning for recreation, similarly for marketing. For Danaher where we actually do the accounts, a few will work out of India. So going forward that is, we don't want to

unnecessarily add voice fee. There will be some voice part of our business, primarily for inbound and to a certain extent outbound, especially for accounts receivable followup etc. But the core is how we can add value by processing what have built. And I think that's why you see this definite improvement in BPO profitability and even going forward you will continue to see improvement. So they see themselves as integral to the overall global outsourcing business of Zensar.

Moderator: Our next question comes from Mr. Harith Shah of Angel Broking

Harith Shah: Hello, yeah, congrats to the management on a good set of numbers. My question relates to sir, in this particular quarter of Q4, the other operating expenditure increased, if you look at year on year basis by something like 58%. So I just wanted to get an understanding what is the major component from this, is it the SG&A expenditure, and the reason as to why it was so high, was it because you did some additional promotion or was it anything to do with the fact that ThoughtDigital's SG&A is higher than that of Zensar?

Vaijyanthi Deshpande: There is not only addition to operating expenditure, but also increase to our telecommunication expenses as well as liquidity expenses. All of this contributes to a higher operating expense.

Ganesh Natarajan: Plus you are right that ThoughtDigital is operating vis-à-vis a US company, they are operating at a higher level. And one of the priorities that I have and Sushma has, is to make sure that their OPEX comes under control and that will happen over the next quarter.

Harith Shah: Right sir. And as far as your FY08 guidance is concerned, can you just give a perspective, or an indicative list of the kind of service line breakup in terms of Enterprise Applications, APM, and the other BPO, the other service lines that you have?

Ganesh Natarajan: Well I'll give that to you. See, what we currently expect is that at least about 5 to 7 percentage points higher in EAS, primarily because of ThoughtDigital and the fact that we are growing that business. So I would think that the enterprise solutions will probably contribute to close to 25% to 28% of our revenue. As far as APM is concerned, they're projecting that that will continue to grow, get 28% to 30% growth, whereas EAS obviously will grow much faster. And the ITS business again for about 60%, so you can expect that for 5% of APM revenues, will get taken over by EAS, maybe about 2% by ITS, and BPO will probably remain where it is at about 3 to 4%, that's about it.

Harith Shah: Right, thanks and best of luck for the future.

Moderator: Our next question comes from Mr. Dipen Shah of Kotak Securities.

Dipen Shah: Yeah Ganesh, congratulations on a good set of numbers. I just had a couple of questions; first of all just can you give us some idea about what was the contribution from ThoughtDigital in the 4th quarter in terms of revenues, EBITDA, and the net profit if you can?

Ganesh Natarajan: Yeah sure. In terms of revenues it was I think just about 8 ½ crores. It is actually five weeks since the time we acquired them.

Dipen Shah: Yeah, sure.

Ganesh Natarajan: And the profits were quite low, because as I said we are now looking at restructuring some of their operations. So I think it was just marginally positive in the last quarter, but that's not really an indication of what we are going to see. So I think we will see low profits from ThoughtDigital in the next two quarters as we complete the restructuring. Obviously one of the goals is to ensure that by end of the year, to look at our cumulative for ThoughtDigital over the revenues we eventually do, of course revenues we are planning to move offshore, so revenues are not comparable, to expect to see at least 7% to 8% EBITDA profitability from ThoughtDigital. And then to scale that back up to Zensar levels in the following year.

Dipen Shah: Okay and what's the status on your hedging policy and how did the rupee impact you in the 4th quarter?

Balasubramaniam: See, in terms of hedging policy we are covered by almost about 50%, 60% of our exposure. Our weighted average rupee coverage is today at Rs.45.16. And in terms of our exchange fluctuation gain, all gain of close to about 1 ½ crores. In terms of, so you have not asked the question, somebody else might ask, might as well cover it while we are on the subject, we had a mark-to-market of our opening options that we had. Our mark-to-market has obviously come down because of the dollar, so we bought it, it is now standing at 1.8 crores, we had provided 2.7 crores and it is now mark-to-market end March is now 1.8. So we wrote back that 90 lakhs into our accounts.

Dipen Shah: Okay and I think in terms of the guidance, which you have given, I was still thinking as to what are the margin projections in the next year, which you have taken EBITDA?

Ganesh Natarajan: PAT levels we are still expecting to be around same level as this year, for the simple reason that while our organic business will probably go closer to 10.5% 11%, which is what we are expecting. It will be the impact of these acquisitions. So we are still expecting that it will be in the region of 9.5% to 10% is what are assuming, which is why I said 850 crores, 85 crores on a PAT level. EBITDA will be around 14% to 20%.

Dipen Shah: Okay sir, thanks very much and all the best. I will come back with more questions later. Thanks very much.

Moderator: Our next question comes from Ms. Avni of Keynote Capital.

Avni: Good afternoon sir. My question is related to the growth from the offshore business, how do you see the incremental growth coming from that?

Ganesh Natarajan: It's a good question. Instead you will probably see that our onsite numbers are very high this quarter, this is actually good news for the simple reason that we have started a number of new projects in business intelligence, and of course the Oracle projects that are starting, so as these projects move offshore, in fact we are expecting that a large chunk of SLRs will move offshore. Our goal for next year is to bring offshore back to 45% the value, and close to 85%, 86% of volume declared. So I think that's the trend that we are expecting to maintain.

Avni: One more question sir. Would you give some guidance with regard to sales and net profits for '09?

Ganesh Natarajan: Sales and net profits for '09? Not in this stage, but as I said definitely the idea is to sustain at least at a 30% growth level beyond this year, and next year if we are saying 850, 85, you can really take it from there. And again to ensure that not only, for instance we would look at a 30% revenue growth at least, for the next year. And at least 5 percentage points above that in net profits.

Avni: Okay, thanks sir.

Moderator: Our next question comes from Mr. Atul of Tata Asset Management.

Atul: Hello sir, congratulations, and two questions regarding employees, your utilization rate is around 84% including trainees, and is it sustainable over the next year. And what is your employee hiring plan?

Ganesh Natarajan: I will ask Parmod to answer that. Parmod is our Chief Operating Officer at Zensar.

Parmod Bhalla: 84% utilization jump over the last quarter has happened primarily because of absorbing lot of trainees into the system, and specifically in units like Enterprise Applications Services, we could absorb most of the bench that got created in the quarter 3. That's how the utilization rate has gone up. We had large projects ending during quarter 3 that got redeployed in this quarter. It is sustainable to the extent of new trainees coming into the system in next quarter that will take about six months of deployment planning, and post six months, so utilization rates will go up again.

Atul: And one question again for ThoughtDigital, is there any attrition in ThoughtDigital?

Ganesh Natarajan: Not really. Its probably too early to say, in fact there will be if I may say so some two three forced attritions, because there are some unnecessarily heavy duty guys there, so we have done some initial work, and probably by 15th May when I am back in the US along with our team, we will take some decisions on that, but now we have done a, I think fairly good job of integration. We had a team of two people, people who are camped there for six weeks. The company itself is very excited, because both the five founders of the company as well as the core leadership team, which really consists of very high level consultants, ex Price Waterhouse and I think they are very excited about the fact that they will now have a shareholder, who will contribute to their revenues rather than the previous incumbent who was more focused on the services oriented target. So I think it's been good, they are very happy. It's now our call to make sure that they get more profitable and revenues are going to happen over a period of time.

Moderator: Thank you sir. Our next question comes from Ruchit Mehta of HSBC.

Ruchit Mehta: Yeah hi, good morning sir. Congratulations for a good result. Sir, I was just wanting to know, if you could comment a bit on the demand environment as to how things are shaping up particularly Q1 as there are some sort of worries on the slow down in the US and just in terms of the data points could you give us a view as to what is the CAPEX

for this year and what sort of hiring plans do we have for the full year and if you break it up, do you know what kind of pressures we are looking at for a year?

Ganesh Natarajan: Okay, I will answer all your questions. One is in terms of the demand environment; demand environment continues to be positive. We have not seen any recession fears in the US, although there has been lot of speculation about that. I mean, obviously there is some rockiness, but if you look at the current trends, I don't see anything very significant happening. One good news there is that, pre-election year, which is of course 2008, we will find that people will do a fair amount of offshore outsourcing and that's one of the reasons I mentioned earlier that we are looking at new potential demand, which is the first time outsourcers for instance. So we are launching campaigns to make sure that companies in Milwaukee or Idaho or places like that are aware of the India outsourcing and make sure that we have a consulting like solution to make that happen. That's true for Europe as well as America. So I don't see any impact at all in terms of potential slowdown at least over the next 12 to 18 months and then of course next year we will have to review.

Moderator: Our next question comes from Robin Ghosh of DNA

Robin: For H1b visa requirements for the year and are you confident of getting most of that?

Ganesh Natarajan: Actually we have covered whatever we required on H1b and of course since ours is largely, I mean, we don't do any work without offshore and the focus is on L1 and its not a problem like many other companies we have a lot of people who have been working for significant periods of time in Zensar. So our L1 is not an issue and H1, whatever we needed to cover, I think it is covered.

Robin: Thank you.

Moderator: Our next question comes from Mr. Ritesh of UTI.

Ritesh: Can you just guide us why the APM margin had gone down from 22% to 20%?

Vaijyanthi Deshpande: Yeah, it's mainly because those have come from onsite work.

Ritesh: Okay and why the manufacturing has gone down as a percentage contribution?

Ganesh Natarajan: Manufacturing actually we have reclassified. So if you look at CISCO has gone into telecom and retail has gone up substantially, in fact our expectation was 11%, I think it is 14% for this year. So I think that's really where it is. But it's more of a, little bit of reclassification, because we used to call electronic manufacturing and include CISCO, but it is now in telecom.

Ritesh: How much have been the client addition from the organic and how much have been from ThoughtDigital?

Ganesh Natarajan: ThoughtDigital is 40 clients and cumulative for the year is 58, which does not include ThoughtDigital. So 58 for the year and 14 for the quarter.

Ritesh: 14 for the quarter?

Ganesh Natarajan: So there are 40 clients of ThoughtDigital and now we have another 5 clients from EZA.

Ritesh: Any specific why we are bringing down the sales team? Why we are bringing down marketing people?

Ganesh Natarajan: That's not true, where you read that?

Ritesh: 80 to 75, like anything specific on that?

Ganesh Natarajan: Actually we have added some good sales people overseas and that will actually increase the marketing strength overseas. In India we have kind of reclassified a few entities. So now there are three platforms so that we could reduce the number of marketing support people out of India. In fact sales staff has actually been accelerated.

Ritesh: How much people we have added in overseas?

Ganesh Natarajan: Overseas we have added 4 people plus of course Sushma herself is based in the US and we will probably add another 5 or 6 people more, including we are adding a team in Continental Europe, most likely in the German, Switzerland belt. So I think that will all happen in the first quarter or early second quarter.

Moderator: Our next question comes from Mr. Hardik of Asit C. Mehta Investments.

Hardik: Hello, good afternoon sir, congratulations on an excellent set of numbers. Sir, actually I missed certain parts, sir can you give me the people addition plan in this year and going forward?

Parmod Bhalla: See, we pegged close to 400 fresh seats to be added, later hire say in the range of 10 to 15 to take care of the business growth.

Ganesh Natarajan: So totally net additions you can expect anywhere between 650 to 750 depending on for the growth and as I mentioned before, our goal always is to not add people corresponding to revenue because we have now implemented a lot of productivity tools including SBP. So the idea is to use less people, have more utilization, which is what really improves our profitability. But you will see probably close to 700 people added in Zensar next financial year.

Moderator: Thank you sir. Our next question comes from Mr. Bharath of Quest.

Bharath: Congratulations sir on good numbers, sir I missed your growth prospective you were describing for FY09, so can you please repeat again?

Ganesh Natarajan: See FY09, what I am saying is that this year we are planning a major growth by driving some of the acquisitions as well. Assuming we hit above 850 crores revenue and 85 crores PAT, which is one of our minimum goals, beyond that we are saying that we should be looking at 30% growth completely organic for the following year, 35% growth in PAT.

Bharath: Okay, thank you very much.

Moderator: Our next question comes from Mr. Ruchit Mehta of HSBC.

Ruchit Mehta: Yeah, hi sir, sorry I got disconnected over there. Could you just give a sense of what is the sort of salary hikes that we are expecting this year and in which quarter this will actually come about?

Ganesh Natarajan: It will come about second quarter because our salary hikes are effective July 1st. We are probably looking at about 3% salary hike overseas and 12 ½ to 13% offshore. That's the average and of course it will vary depending upon levels.

Ruchit Mehta: But in the industry people are talking of slightly higher wage hikes, so do you think that this will be enough to sort of meet people expectation and stem attrition?

Ganesh Natarajan: Yeah because most of the industry people are based in Bangalore so that data has its own parameters so. We don't have a problem because what we try and do is make sure that the managers, where our attrition tends to be very low are well taken care of. Then, of course as Parmod was mentioning we have 400 new hires, so we are also reducing age profile of Zensar while keeping the project management intact. We are managing that pretty well; in fact our attrition has gone down three percentage points over last year. So I think we expect to sustain that trend. Of course it is always difficult to predict what will happen, but we ensure that through good knowledge management and good meritocracy kind of planning, that we are able to retain our, its not a problem.

Ruchit Mehta: Okay and just if you could give some, what could be the number of employees who would be less than one year of experience in weight of pressures in the company pyramid right now?

Parmod Bhalla: Less than one year in terms of working with Zensar or total experience you are talking...

Ruchit Mehta: Total experience.

Parmod Bhalla: See that would be somewhere in the range of 350 odd.

Ruchit Mehta: 350 odd people and you are adding about 400 odd freshers in that category this year?

Parmod Bhalla: Yeah, then you also have some actual attrition in these numbers because we don't have any bonds and all.

Ruchit Mehta: Okay and just on the EZA acquisition could you just give some details as to what are the size of the company, what does it exactly do, and how are we paying for it and also on ThoughtDigital, I believe there was some change in the way we are paying, that is the payouts are there for ThoughtDigital deal, financing of that deal, if you could just give us a recap of that please?

Ganesh Natarajan: Okay as far as EZA is concerned, see it is not an acquisition. EZA was an existing company, what we have really done is because they had a history and it is a

small promoter like company, what we have negotiated with them is that we don't want to acquire your company. We will setup a new company, which is today called Zensar Advanced Technology in Japan and this is a company that we own 60% of the equity and the EZA founders own 40%. This has now taken over the entire customer contracts as well as the employees of EZA. So EZA as it is becomes a dormant shell company. They have to payout some liabilities to the bank, etc, which they will do. And the focus of EZA now is to do close to \$3 ½ to \$4 million this year and still all these in the advance technologies stage, so they have partnerships with NEC and Unisys and they do a lot of work with new mobile companies like NTT, DoCoMo, etc. And the idea is to build Zensar embedded systems and innovative technologies capabilities, EZA and the traditional business of Zensar, like say migration or development work we do for some customers in Japan will continue. So basically the Zensar branch will operate on its own with Zensar Advance Technologies with 50% holding will operate and then after a year or 18 months, we will see whether there is any value in merging the two. So right now it is only a joint venture, it's not an acquisition. And we have paid a very small amount of money, less than a million dollars for taking over the 60%.

Ruchit Mehta: Okay and if we just skip through the payment details for ThoughtDigital and how it is being financed because I think there was some change in that structure from the time it was announced?

Balasubramaniam: See for the total deal of 24.9 million dollars we have paid out a 60-40 basis, we paid 15 million dollars out of loans, which we structured from ABN-AMRO. The entire acquisition was done by our US subsidiary. It was not done from India. So the loan was disbursed to our subsidiary in US. So 15 million dollars was the loan component and the balance was our own retained earning.

Ruchit Mehta: Okay and the buy would have been at what rate?

Balasubramaniam: LIBOR plus 1%.

Ruchit Mehta: Any other debt on the book apart from this?

Balasubramaniam: We have a small 15 crore debt, which will get liquidated in the month of October, which we had taken about three years back when we built (inaudible).

Ruchit Mehta: Okay so this will get liquidated this year?

Balasubramaniam: That will get liquidated in October, that's right.

Ruchit Mehta: Okay and just could you let us know what the CAPEX plan is for this year and the cash in bank balance.

Balasubramaniam: I will hand it over to Ganesh Natarajan.

Ganesh Natarajan CAPEX plan this year is 50 crores.

Balasubramaniam: On end of the year March was liquid cash was 45 crores and 20 crores were in liquid mutual funds. So it is roughly about 66 crores in cash in the bank.

Ruchit Mehta: Correct, wish you all the luck, thanks.

Moderator: Our next question comes from Mr. Hardik of Asit C. Mehta.

Hardik: Sir since we are facing the rupee appreciation problem and wage hike, so what are the margin levers you are looking at?

Ganesh Natarajan: Margin-wise are two things, one is of course to get higher value business. As I mentioned earlier we are now focusing on building our consulting capabilities as well as in each of our segments trying to do higher value added work and also get into engagements much earlier in the life cycle. Typically the problem of Indian offshore has been that the design of the solution is done by the American plant or European plant and we really end up doing the plumbing, the programming. Now we are getting in at architecting level and doing a lot of work in that area. So I think that's one margin lever. Second margin lever is what I mentioned earlier, which is productivity. So the idea is to do less of programming and use co generators and use more of testing and other services. So I think in the two of these, we are fairly confident that any input cost that we have over this year will get overcome and we will do good business so higher margin.

Hardik: Sir can you give figure in number terms?

Ganesh Natarajan: In number terms our goal is at a PAT level, means from what is today about 9.6%, 9.7%, to 10.7, 1 percentage point improvement in the organic growth. So here we might have to show lower numbers in our acquired companies because we are in the process of integrating. At the end of the day we will still maintain a 9.5% to 10% for the current fiscal. We have to increase that as we move organically to the next...

Hardik: And what will be the tax rate, sir?

Vaijyanthi Deshpande: Tax rate will be somewhere between 20% and 22%.

Ganesh Natarajan: Between 20% and 22% depending on how quickly we can move offshore and stuff.

Hardik: Okay, sir can you give me the billing rates for each and every services like APM, BPO, Enterprise Application Services, ITS?

Ganesh Natarajan: If you send us a mail, I can give you segment-wise, and it's not a problem.

Hardik: Okay sir, thank you.

Moderator: Our next question comes from Ms. Deepa of KR Choksey.

Deepa: Good afternoon everyone. Congrats for a good set of numbers. Can you quantify what portion of revenues for FY07 has come from core services, new services and innovative and going forward what would be that like?

Ganesh Natarajan: Let me just clarify, see actually if you look at each of our innovative technology solutions is a segment of our business. If you really look at new services, which is actually embedded in all our business units, I would expect that the core services, which is the application portfolio management and the Oracle business, would have contributed about 70% of our revenues and the other 30% is not just the ITS division, but also some new services that we launched like testing, infrastructure management and that's a good sign as I said, if about 45% of our new clients are in the new services and roughly 30% of our revenue and we expect to continue to have that kind of a mix as we go forward in the next two years, keeping on launching new services, getting traction, and then migrating that to core.

Deepa: Okay, sir what was the attrition rate for the quarter and for the year FY07?

Ganesh Natarajan: See for the year we measure it at two levels, one is at, what you call managerial attrition, the significant people, project managers and above. So that's been very low, its been about 6% and if you look at the overall attrition, it will be about 22% and

that is largely at the lower level, lets say coders or people leaving after one year to join some other company or lets say the BPO agents. So it's very much under control in terms of the numbers that we really measure as critical.

Deepa: Sir, what were the outstanding ESOPs as on date?

Ganesh Natarajan: Just a second, stay on the line, we will come back to you after the next question, just check it out.

Balasubramaniam: These are ESOPs which have been granted and not vested or what exactly is it that you want?

Deepa: Yeah, granted and not vested?

Balasubramaniam: We will get back to you.

Moderator: Thank you sir. Our next question comes from Mr. Robin of DNA.

Robin: Yeah hi, can we expect your SG&A expenses to go up because now you will be increasing your focus on the SMB segment?

Ganesh Natarajan: No I don't think so; it might go up slightly in the first and second quarter, primarily because of, as I said ThoughtDigital is a largely American company. Plus we will do some public relations and some seminar work in the first two quarters, but on our year on year basis I think the SG&A will not go up, that is not what we are planning at all and as I said we are not adding too much in terms of sales numbers and we will ensure that the revenues are much higher than the actual SG&A.

Robin: And could you give a sense of the billing rates, are the renewal coming in at a premium, are the new accounts coming in at a significant premium to existing accounts?

Ganesh Natarajan: Two accounts are coming in at a substantial premium, yes and that is primarily not just because of billing rates being hardened, but also because of the kind of services we are launching into new accounts. For instance, we are just signing new accounts in Oracle Retek, which is the highest trend of retail ERP; those are obviously at substantially higher prices than the traditional core oracle business. Renewal we would expect that about 20% of our existing accounts will grow in terms of higher rates for

services and the rest of them will stay, I mean nobody is asking for a rate reduction at this point of time because we are really focusing on quality and innovation.

Robin: And going forward could we have a sense of what would be an inorganic growth strategy, any particular service levels, service segments you want to, service gaps that you would like to fill and geographies also?

Ganesh Natarajan: Only Germany, like we did in Japan, maybe a very small acquisition or joint venture or partnership. Otherwise at this point of time, this year we have inorganic plans, the thing is based on updating what we have already acquired and making sure that we grow organic. We will probably re look at in significant inorganic probably closer to June 2008, not earlier than that. So 15 months of fixed focusing on organic growth.

Robin: Thank you.

Moderator: Thank you sir. There are no further questions. Now I hand over the floor to Mr. Hitesh Zaveri for closing comments.

Hitesh Zaveri: Yeah hi, just before closing, Ganesh, one question, this is about the number of customers that you have, that are below 0.5 million, their number is 222 right now, up from 191 a year ago. Now maintaining these accounts will have its account management expenses that you will need to incur, however it appears that there is lot of opportunity to growing these accounts, anything happening there because on year on year basis the attraction seems to be limited.

Ganesh Natarajan: Yeah, that's right, but I mean in fact quite a few customers are now moving from what used to be just one project of \$100 or \$300,000 through this half a million and the goal obviously is keep migrating that from the half a million to two million and we're fairly confident in the outlook with that one. So we have two objectives this year, Hitesh to answer your question. One is of course to grow these existing accounts as I mentioned by looking wider and deeper into them and second is to also look at the accounts coming in and to start with two and a half million in the first year, and our entire FTO strategy is oriented towards getting that. That's what will happen. You see I just want to answer one question if the lady who asked the question is still online, on outstanding ESOP.

Vaijyanthi Deshpande: Okay, outstanding ESOP at the end of the year was 3,29,242 out of which (inaudible) at the end of the year are 1,35,575.

Hitesh Zaveri: Sure sir, thank you all for joining the call. We would like to thank the Zensar management team for giving us the opportunity to host this call and I would now pass the floor back to Dr. Natarajan for any concluding remarks.

Ganesh Natarajan: Thank you Hitesh and thank you all for being on the call, I know it is a busy day for all of you and just to conclude as I said we are very happy as a team about the way we have been able to perform this year and as I kept saying that hand which really takes us here and today the platform is ready, the (inaudible) growth in this year as well as in subsequent years. In fact we really thank you all for the confidence that...

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.