“Zensar Technologies Limited

Q2 FY '25 Earnings Conference Call”

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MODERATOR: **MR. ABHISHEK PATHAK – MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Zensar Technologies Q2 FY '25 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. 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 the star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Pathak from Motilal Oswal Financial Services Limited. Thank you and over to you, sir.

Abhishek Pathak: Thank you. Good evening, everyone. On behalf of Motilal Oswal Securities, I welcome you all to the Zensar Technologies Q2 FY '25 Earnings Call. We have with us Mr. Manish Tandon, CEO and MD; and Mr. Pulkit Bhandari, the CFO of Zensar and a few other members from the senior management team. Before I hand over the call to Manish, I would like to highlight that the safe harbor statement on the second slide of the earnings presentation is assumed to be read and understood. Over to you, sir.

Manish Tandon: Thank you, Abhishek. Hello, Good morning, Good afternoon and Good evening, everyone. Thank you for taking the time to join us today to discuss Zensar's financial results for the second quarter of FY '25.

Very pleased to let you know that with me on this call are a few others from the Zensar leadership. Pulkit Bhandari, CFO. This is his first Analyst call for Zensar. So please go easy on him. Vijayasimha, Chief Operating Officer; and Vivek Ranjan, CHRO.

The second quarter of FY '25 stood steady for us. Our highest ever order book of $201.8 Million this quarter is a testament to the confidence that our clients have in Zensar to support them as a partner in their transformation journey. Continuous improvements in our client satisfaction scores show our commitment towards the organizational values of being One with Client.

Investment in Service lines and verticals helped us with accelerated GTM,, we strengthened our partnerships, and built sales rigor. Domain-led solutioning, coupled with new age technologies, such as AI, has allowed us to capture mindshare of our clients and open new spend areas.

We witnessed slowdown in certain pockets this quarter, but majority of our portfolio has seen good growth.

For Q2 FY '25, our revenue stood at $156.2 million representing quarterly year-over-year growth of 4.0% and sequential Q-o-Q growth of 1.2% in reported currency. Third consecutive quarter with sustained margins reflect overall stability due to our disciplined approach to manage operations even in a challenging economic environment.

In constant currency terms, on a Q-o-Q basis, our revenue in health care grew by 8.6%, Banking and Financial Services saw a growth of 3.0%. Manufacturing and Consumer Services grew by 1.6%, whereas Telecom, Media and Technology witnessed a decline of 8.8%.

Overall utilization remained steady and LTM attrition further improved to 10.1% from 10.6% last quarter.

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

Pulkit Bhandari: Thank you, Manish. Good day, everyone, and thank you all 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 September '24.

The reported revenue for second quarter FY '25 is USD156 million reflecting a growth of 1.2% sequentially and 4.0% year-on-year. In constant currency terms, revenue for the quarter grew 3.3% year-on-year basis. We exited Q2 FY '25 at an EBITDA of 15.4% improved by 20 basis points QoQ, which is in line with our guided range of mid-teens.

Gross margin for the quarter stood at 28.1%, a drop of 230 basis points QoQ. Decline was primarily due to wage hike impact of 1.7%, Lower volume and utilization impact of 1.1% majorly due to furloughs, Onetime benefit of R&D credit received during the previous quarter impacted the margins by 0.6%, which was offset by exchange benefit of 0.7% and other operational efficiencies of 0.4%, including improved offshore mix.

SG&A has reduced by 240 basis points QoQ, primarily on account of provision for doubtful debt created for one of our customers in previous quarter and reduced charge for ESOP and sales commission and other savings, part of which will come back in the next quarter. In this quarter, other income takes into account adverse forex movement due to cross-currency hedges. Our PAT stood at 11.9%.

The order book, as Manish called out is $201.8 million, which is the highest ever order book. Cash and cash equivalents stood at a healthy $255.0 million, which is after a dividend outflow of $18.9Million and a BVLS payment of $14.0 million. DSO further improved by 1 day to 71 days on account of healthy collections, contributing to the overall financial health and operational agility of the company.

Some other key highlights. Based on our farming efforts, one of our customer has moved into a $10+ million bucket. BFSI has remained our strongest vertical growing consistently for last 7 quarters. Our voluntary attrition stood at 10.1%, which has been lowest in recent years.

With that, I will now invite Vijay, our Chief Operating Officer, to comment further on Q2 FY '25 results.

Vijayasimha Alilughatta: Thank you, Manish, and Pulkit. Greetings, everyone. I will share details about our Operational Efficacy, Service Line performance and Capability enrichment initiatives. We are continuing our journey on operational excellence and making good progress on key imperatives. Our utilization declined by 30 basis points year-on-year this quarter due to unseasonal furloughs in some of our TMT clients.

The rigor associated with accelerated fulfilment and capability enrichment continued in Q2. We had a gross addition of 693 employees in the quarter. As Manish and Pulkit have said, our voluntary attrition reduced to 10.1%, which is a 40 basis point reduction sequentially. The offerings from our Service Lines and Industry Services Groups continue to resonate well with our clients. The share of revenues from our service lines, that is Advanced Engineering Services, Data Engineering and Analytics, Experience Services and Cloud & Infrastructure and Security Services increased to 53.9%, which is 70 basis points higher sequentially and 170 basis points higher year-on-year.

On a quarter-on-quarter basis, in reported terms, Cloud Infrastructure and Security Services grew by 11.8%. Data Engineering and Analytics grew by 6.8%, Application Services and Enterprise Applications saw a marginal decline of 0.4%. Advanced Engineering Services saw a decline of 1.9%. Experience Services revenue dipped by 11.9%.

In Q2, we significantly enriched our innovative AI offerings and have now catalogued them into 4 major solution stacks. They are Enterprise AI Solutions, Responsible AI Solutions, Enterprise Cognitive Hyper Automation Solutions and Multi-modal micro-vertical Solutions. These solutions are helping our clients accelerate the transformation/modernization journey.

Our talent transformation efforts in Q2 focused on accelerating the shift towards T and Pi shape roles through gamified learning events. We continue to expand our multilevel domain training and certifications in Healthcare, BFSI, gaming and MCS domains. Partnerships with key technology providers have been instrumental in delivering cutting-edge certifications and collaborative learning experience in AI, Gen AI, Data Engineering and Cloud.

With that, I now hand it back to Manish.

Manish Tandon: Thank you, Vijay. With the looming geopolitical threat, markets remain volatile. This might result in delayed decisions on discretionary spending and focus will be on projects with near-term ROI.

However, with signs of easing interest rates, we expect some increased investments leading to business inflows. We are closely working with our clients to navigate any challenges and continue to invest in relevant areas and skills to be competitive and grab any opportunity that we come across.

With that, we can open the line for questions.

Moderator: The first question is from the line of Nitin from Investec.

Nitin: I have a couple of questions. So one is in the current quarter, considering you already have some 2 weeks of furloughs, is it fair to assume that Q3 will be less weaker than normal? And also if your thoughts on furloughs going into the next quarter. So that's the first question.

Manish Tandon: Yes. Good hearing your voice again. I think you're right that we had impact of furloughs in this quarter. So we are expecting lower impact of furloughs in Q3. And also, the vertical that is most impacted by furloughs, which is the TMT vertical for us, if you look at that, our percentage revenue from that business has declined from 27.2% to something like 22%.

So we definitely see lower impact of furloughs between Q2 to Q3 than what we saw last year. So that is definitely the case. We are in October, towards the end. We are not hearing anything extraordinary in terms of furloughs that we have not heard before. So from that perspective also, it should be -- I think we should do better Q2 to Q3 this year than what we did last year.

Nitin: Got it. The second one was on -- I think on the ISG call, they had mentioned that Zensar has won a GCC deal with Old Mutual and stuff. So just your thoughts on, is it already in the revenue base? Is this likely to come going forward? And looks like there were some non-services revenue this quarter compared to the previous quarter. So is this part of any large deal and to which vertical does it pertain to? So that was the second one. And lastly, your thoughts on the large deal opportunities and this quarter is very good, but you had large deal opportunities across verticals. So how do you see those closures trending?

Manish Tandon: Okay. So there were lots of questions. So first of all, we do not comment on individual customers and issues. And as I have said before, we follow a very conservative approach to reporting order bookings. So we report order bookings based on signed statements of work. So even though for any GCC, the uptake might be higher, but we will book only what we have in SOW for. So that is the first question.

On large deals, we are seeing a good amount of traction on large deals. But again, large deals I do not mean $50 million-plus, I talk $15 to $25 million -- $15 -million, $25 million, $30 million range. I think we have 2 deals where things are looking okay and we are keeping our fingers crossed even as we speak. And those are not reflected in order bookings of this quarter.

In general, see, we are very clear on pass-through revenues there is hardly -- we don't report pass-through revenues per se because, as I said, we will either account the revenue. If we are providing services with it in a significant fashion, integrated in an integrated fashion, then we report it as gross. Otherwise, normally we reported as net. So from an analyst perspective, what you see as the overall number for revenue, you should consider it as all services revenue only. I hope I have answered your question.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Congrats on a good execution. Manish, just wanted to understand, there has been one M&A closure in this quarter, which has come close to 2.25 months in the quarter. So what could be the contribution of same and that is the reason the Healthcare and Life Sciences vertical has seen a substantial growth?

Manish Tandon: Okay. No, I think, Sandeep, the BridgeView revenues, since this is the first quarter and middle of the quarter, those revenues were not very material. I think it's too early to look at BridgeView separately. And going forward also, we have bought this company from an integrated perspective and we will be reporting integrated revenues going forward also on Healthcare and Life Sciences. So I would -- that you rather focus on Healthcare and Life Sciences revenues from a vertical perspective rather than looking at individual acquisitions.

Sandeep Shah: Because the acquisition press release has showed $20 million to $30 million annual revenue from BridgeView. So you are saying that may not reoccur to us?

Pulkit Bhandari: No. So that -- I think there were 2 classifications. One was basically total revenue that there was managed services revenue. It was bought in parts. And as what Manish called out, this was part quarter, we are in the process of integration. So that number is actually non-material. So when you look at HLS as a whole, you should assume that what you see today is largely organic revenue in HLS.

Sandeep Shah: Okay, helpful. And Manish, I just wanted to understand, do you believe maybe post December quarter, which is seasonally weak, TMT sector might have seen the worst and it may be on a growth path starting from Jan?

Manish Tandon: Sandeep, to be frank with you, even the clients in the TMT sector don't know where the bottom is. So, I mean I don't want to make statements which are -- which even my client doesn't know what is happening. So, while from Zensar perspective, I can tell you that we want to grow despite the TMT verticals. That has been our strategy and that is what we have been doing over the last 6 quarters. We have seen consistent growth in the non-TMT vertical. And we want to be able to show that momentum and growth irrespective of what happens in the TMT vertical.

Sandeep Shah: So just a follow-up on that. Do you believe versus your earlier expectation, we are on track to at least achieve our industry growth rate starting from next year, which is FY '26 despite challenges in TMT may or may not continue?

Manish Tandon: Look, again, it's a question which depends on the industry also, right. But I can tell you that if you take out that particular vertical, then I think we are already at industry average growth rates. Actually, are even better.

Sandeep Shah: And last question, what should be the sustainable SG&A from 3Q, 4Q? Because in the opening remarks, said some ESOP and some sales commission, which was reduced in 2Q may come up again in Q3, Q4?

Pulkit Bhandari: So, some of the benefits may stay, some of the benefits may go away. But as I called out that EBITDA that we are looking for is basically mid-teens, and we would like to maintain that. So, anything which is over and above that, we'll basically recoup that into the business with regards to building sales and capabilities. So that's the way we should look at it.

Moderator: The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: I had a couple of questions, some of it related to your internals. We've seen an increase in terms of our active client base in the current quarter. Is there a change in the methodology in terms of the way we report that? That's question number one. The second question was with regards to the strong growth that we've seen in the offshore revenues. If you could help us understand what drove that?

And the third question was just a clarification to what Nitin had asked earlier. What we see in terms of our P&L, we've seen an increase in terms of cost of traded goods. And thereby, is that leading revenue growth in the current quarter? Those would be my three questions. Thank you.

Manish Tandon: So Manik, the first question was that number of active clients have increased -- is there a change in methodology. I doubt there is any change in methodology and Pulkit here is confirming that there is no change in methodology in the way we report a number of active clients.

If you remember, we have a good -- we had formed a good NN engine. And now some of that is bearing fruit. That is number one. What was your second question, growth in what?

Manik Taneja: Growth in offshore revenues. Basically, Manish, you've seen offshore revenues have grown by at almost close to between 4% to 5% in the current quarter and which is possibly the best that we've seen in several quarters?

Manish Tandon: Yeah. If you guys need margins, then we have to do that, right? So, there is nothing -- I mean, it's a conscious strategy that we have that we want to get some good margin growth and margin growth happens primarily with offshore revenue.

Pulkit Bhandari: And part of that, if you see, despite basically wage hike and few other headwinds. Part of that has also benefited us on the gross margin, right? So, despite wage hike and furloughs, which were not precedented, this has helped us in a way.

Manish Tandon: And what was your third question, Manik?

Manik Taneja: So, Manish, the third question was with regards to cost of traded goods that you see in the quarterly P&L. That number essentially seems to be close to about $1.5 million in the current quarter or probably $1.5 million of incremental revenues between -- incremental cost between Q1 and Q2.

Manish Tandon: We gave salary hikes this quarter.

Manik Taneja: No, Manish, I'm not talking about gross cost, I'm talking about cost of traded goods in the P&L.

Pulkit Bhandari: Yes. As what we had called out earlier, the way you should look at it is this is all integrated deal -- part of integrated deal. So, you should construe this as managed services.

Manik Taneja: How should we be thinking about this line item on a go-forward basis? I understand this could be part of integrated deals because this was something, which had been coming off through the course of FY '24 and had been some amount of headwind to the overall growth. And this quarter, we've seen this number jump up once again. So, what should be a sustainable level for some pass-through element?

Pulkit Bhandari: So difficult to give a number there. In terms of how we should look at it because it all depends on how we are constructing deals and what basically deal gets fructified in what quarter. So would not be ideal to basically give a specific number here. But every time it is there or if you want to -- in any quarter, you want to basically do a double click, we'll be happy to do that with you like what we are doing today.

Manik Taneja: Sure. And the last one, Manish, with regards to the comment that you made with regards to how we should be thinking about our third quarter growth. Typically, third quarter, we've always experienced sequential decline. And this time around, given the furloughs impact in the Hitech vertical happened in second quarter and thereby the incremental impact in third quarter may be less, do you think we should be able to essentially negate the usual trend and thereby see some positive growth in third quarter?

Manish Tandon: Manik, I can't make predictions or I can't give you guidance, but it has been our endeavour that we need to deliver growth every quarter. And the endeavour is there to deliver growth. Rest, we'll see how it pans out. I mean, still 2.5 months to go. But the effort is there to make sure that we try and deliver growth every quarter.

Moderator: The next question is from the line of Jalaj from Svan Investments. Please go ahead.

Jalaj: Sir, my first question was with regards to the TMT vertical or the Hitech. I just wanted to understand that is the degrowth is majorly because of the furloughs? And if it is, is it broad-based or some client-specific, let's say, top client or a hardware or a software-based client?

Manish Tandon: No,it was primarily through- 2 or 3 clients only. It was not broad-based. And some of these clients are facing challenges, especially, as you know, some of the legacy technology companies are facing challenges -- growth challenges themselves. So, it was due to that also to some extent.

Jalaj: And do we expect this to continue? Or what sort of conversations are we having with clients? I guess you did allude to that, but just to check that for the next quarter or going forward?

Manish Tandon: Look, I was asked before this that have we seen the bottom? And my response was when your client also doesn't know whether they have seen the bottom, then how can I comment on whether we have seen the bottom or not. So I would say -- and as I said before also, it has been our endeavour to grow our business with or without the TMT vertical. And over the successive years, last one year, we reduced exposure. We have reduced the exposure from 27% to 22% to this vertical. And as a result of that, the impact of furloughs or the uncertainty is going to be much less than what was there in the past.

Pulkit Bhandari: So if I may just add, if you look at both MCS and banking BFSI, which is more than 60% of the revenue. Both of them have grown consistently over last six quarters. MCS, except for one, basically, it has always grown and BFSI, of course, has grown consistently for the last six to seven quarters here.

Jalaj: The second question was with regards to the acquisition. So have we consolidated the numbers this quarter? Or we -- I just wanted to understand, A, on to the impact on the growth this quarter? And secondly, does that have to do something with the jump in the clients being at this end? Does that have to do something with that also?

Pulkit Bhandari: So I think on the acquisition is what we have called out for this quarter, it is not material. Going forward, we'll basically integrate it. So you should look at HLS as a whole. I think the second question that you asked was does the client base include the acquisition? Answer is yes.

Jalaj: And last question. So there was this jump in the offshore revenue, which comes up. So has there been a -- so would -- I'm assuming there would be some margin -- there will be some revenue pressure because of that because the rates would be very different. So if I were to just look at the growth currently, if you were to -- break into the amount of volumes would be a lot more than that? Then what the growth rates right now show up in the revenue?

Manish Tandon: Yes. I think so you are right because the -- a lot of growth is happening on the offshore side in terms of revenues. So while we have not done the calculation, but yes, in terms of volume, it could be -- it would be better than what has been indicated here.

Jalaj: Just a double-clicking on to that. Is it some strategic move we are having? Or is it a part of the deal that it was supposed to flow this way or we had reached to a milestone where from an on-site to an offshore mix had to happen?

Manish Tandon: No, I mean, look, if we have to build on margins, sustain margins, grow margins, then offshore, as we all know, is much more margin accretive than on-site. So it's -- it has been a conscious strategy to try and move -- have as much work offshore as possible.

Moderator: The next question is from the line of Abhishek Pathak from Motilal Oswal.

Abhishek Pathak: And again, congrats on good set of numbers. Sir, on the TMT vertical, from a strategic perspective, considering healthcare has been growing so consistently across the Board. Are there any plans to sort of focus more over there and steadily reduce the exposure to telecom a bit? I mean, from a two-three year perspective, can we expect the contribution from telecom to probably reduce from here? Or do you expect that to remain at the current levels?

Manish Tandon: Yeah. The only thing is that how you achieve that reduction. I would like to see -- achieve that reduction by growing other parts of the business much faster and also growing Telecom rather than Telecom shrinking and reducing the business. So the -- from a strategy perspective, we would like to have -- because the Telecom vertical has been a volatile vertical for -- or TMT has been a volatile vertical for almost everyone and for quite some time.

So strategically, we would like to reduce our exposure. But again, how you get to that point is also very important. We want to get to that point by making other verticals grow faster than the TMT vertical.

Abhishek Pathak: And just as a follow-up on the Manufacturing vertical, a few peers have called out some weakness, right? So any color to add there? Are we seeing anything intimately difficult there in terms of converting deals or ramping up revenues or anything of that sort?

Manish Tandon: Not for us at least and primarily because we consider this as MCS, Manufacturing and Consumer Services right? And a lot of it for us is retail. Manufacturing is a relatively smaller sub-segment for us. But I don't see -- at least I didn't hear any negative commentary from my team on the manufacturing side of it.

Moderator: The next question is from the line of Girish Pai from BOB Capital Markets.

Girish Pai: Just wanted to dig a little deeper on this unseasonal furloughs which you've seen in the TMT clients. Is this very specific to you? Or are you seeing this in other vendors of the same clients? I'm sure some of these clients would be having a multi-vendor situation because we've not heard these kind of furloughs mentioned by other peers of yours?

Manish Tandon: No, the furlough and it's a furlough, it is for everyone, including the employees of the client itself. So it basically depends on the amount of exposure as to the impact of a furlough, right? So if your exposure to that client is less, or so that those set of clients is less, then the impact will be limited. If your exposure to those set of clients is high, then the impact will be more. But furlough, actually, it's not just vendors. It is also that the employees of the company also are furloughed.

Girish Pai: So you're not losing market share or wallet share within these clients?

Manish Tandon: If we are losing or gaining market share in these clients, it has nothing to do with the furloughs. That's the point.

Girish Pai: We saw a gross margin decline Q-o-Q of about 230 basis points. Can you just margin walk on that? How that -- what has driven that?

Manish Tandon: Broadly, this is the first -- we gave salary increments to our clients. Broadly, that has cost us close to 1.7% overall in terms of the gross margin. And as you know, the quarter in which you give the salary hike, the impact is fullest and then it tapers down over the next two or three quarters. So I would say it's primarily driven by that and also when there is furlough, then there is impact of that furlough on the margins also because you have the people, but there is no revenue coming in for. So those, I would say, are the primary reasons for the same.

Girish Pai: Some of your peers of the mid-sized variety I have been talking about there being more decline and also the conversion picking up between pipeline to deals and deals to revenue. Would you have any comments on these two elements of demand?

Manish Tandon: The only comment I can give is that we have just have the best order booking in the history of the company. For the first time, we have crossed $200 million. The order booking has been $202 million. Now others can comment on pipeline and all this stuff, but ultimately for me, as a CEO, I love it when it hits my pocket book.

Girish Pai: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Shradha from Asian Market Securities. Please go ahead.

Shradha: Yes, hi. Congrats on a good quarter. Two questions. First is you indicated that there was volume growth in this quarter, but if I look at the employee count, that number has come down and so has utilization. So what went behind volume growth? So how did volume growth come through despite both these metrics showing negative traction?

Manish Tandon: I think the utilization has actually gone up. Okay just a minute.

Vijayasimha Alilughatta: Manish, if I can take that.

Manish Tandon: Yes, Vijay, go ahead, please.

Vijayasimha Alilughatta: Yes. So the reported utilization is after factoring in the furloughs. So as a consequence, it shows lower. But when you look at --if you exclude that stuff then the volume growth kicks in and that is why we have been able to like basically grow.

Shradha: And then how should we look at employee addition from 3Q given that furlough impact is largely behind us. So do you expect to add incremental headcount from next quarter on a net basis?

Manish Tandon: So again, we look at; first for an efficiently run company it is important not to maintain too much of inventory so to say of bench and headcount. And the market situation and market conditions have eased in the last 1 year. Our attrition rate is one of the lowest in the industry at 10.1%. Now what that means is that we can afford to wait and add capacity based on the revenue that is coming in.

So that is what Vijay and the team is doing that instead of headcount driving revenue, we have revenue driving headcount. And that is what -- and you can afford to do it in this market, you couldn't afford to do it maybe 5 years back. So that is our strategy. So for us we don't look at headcount as a metric, as a forward-looking metric, we look at it as a rear view metric more than that.

Shradha: Thanks Manish. And the second question is some of the companies have indicated increase in discretionary spending especially in BFSI. So any thoughts out there for you how are you looking at discretionary spend in BFSI?

Manish Tandon: I would love to know which customers they are talking about so that I can go to them. But I -- frankly, I have not seen any material change in the spending patterns of our customer base. I think -- I had said -- I've been saying that I don't see many changes happening till the US elections are over. I would say that now that time is only 2 weeks away. So we don't have to wait much longer to see the impact, but I have not seen any change -- any significant or material change in buying behavior of our clients.

Shradha: And just last question, if I can squeeze in. I guess we do quite a good work around SAP S/4HANA and given how SAP numbers have been and what other companies have also indicated in terms of traction building up in SAP S/4HANA side? So any comments there as to how do you look at that opportunity and can that incrementally add to our pipeline and revenue growth going forward?

Manish Tandon: Yes. We are very excited about the opportunity. And especially in Healthcare and Life Sciences we have signed some very good deals, although smaller deals in that area. And I would say that I think the industry is on to something as far as SAP is concerned and I see that as a growth area for us also.

Shradha: Great. Thanks, Manish, and all the best. Thank you.

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

Amit Chandra: Sir, thanks for the opportunity. So my question is on the order bookings. So obviously, it's the highest order booking that we have booked, but some more color on that in terms of how much of -- in the order booking is like – continue and also the nature of the deals that we're winning, is it very different from what we were like winning a year back? And also in terms of the composition whether it is led by more larger deals or it's a combination of more shorter deals like within the order bookings?

Manish Tandon: Yes. Good question, Amit. I think first of all you know our order booking philosophy we do it only against signed SOWs. And in the past I have said that anytime our order booking is in the 1 to 1.2x quarterly range; it is good for us. So which means that our duration of the deal is really in this range.

At this time, as you can see we have I think 1.3x or something as the order booking 1.3x the quarterly revenue. So that's a very good sign. I think qualitatively if I were to comment compared to last year's this year, we are seeing more Managed Services deals that we are just trying to get into a much more Managed Services business and that's why you see our offshore thing also improving.

As far as NN is concerned, we added 12 new logos this quarter and some of them are who's who of the industry. So that is a positive sign, but typically our order book primarily comprises of EN and EE which is renewals. So bulk of the composition is EE and EN overall for us. So that is the color, I think that I can provide at this stage. Hopefully, it will answer your question.

Amit Chandra: Okay. And sir, obviously, BFSI has been doing pretty well for us. So within BFSI insurance is also a larger vertical for us. So as you mentioned that we are not seeing any push from the rise in the discretionary spend there, but within BFSI if you can throw some more light what is driving the growth. Obviously, what is the industry push? Secondly, within BFSI is it more BFS or is it more driven by Insurance?

Manish Tandon: It is driven more by Insurance for us. And on the BFS side, it is more driven by Payments, the payments side of things and packages side of things for us. So I would say those are the key drivers overall for us.

Amit Chandra: Okay sir. Thank you and all the best.

Manish Tandon: Thank you, Amit.

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

Nitin: Thanks for the follow-up. My query is on BridgeView. So is there any seasonality to the business? I know you mentioned that you look at it as an integrated fashion, but considering this is something new, I think do give us some color. Is this a seasonally weak quarter for that entity? And do you think that Q3, Q4 are relatively better? And should we assume that services revenue that you have mentioned as a base, at least for our estimation perspective, so that's the first one.

And the second one is your thoughts on the outlook for Retail vertical, how you're seeing things broadly there? And finally, do you think margins have sort of bottomed out broadly from today for the year and from here on, it should start trending up. That's the last question.

Manish Tandon: Okay. So first of all, on BridgeView, you have to remember that BridgeView was a spin-off, so to say. It was split into two businesses. And we bought the services business, someone else brought the product business. So, there was some amount of disruption overall.

Second is, obviously, Q2 is not the best quarter for Pharma and Healthcare, Life Sciences Industries. So that is the second factor. Are we happy with the acquisition and are we positive about its growth trajectory? The answer is an unequivocal yes. And we feel good about what we have done overall.

The second question was around MCS, Manufacturing and Consumer. So we are seeing pretty good growth actually there, knock on wood. We see some pretty good growth there. We are actually very, very good on supply chain in this vertical. And we are seeing a lot of traction in that area, especially as supply chains have become much more complex due to integration of e-commerce and physical stores and so on and so forth. So, we are seeing a very good traction there. And I think we'll have a good Q3 also as far as this vertical is concerned.

Your third question is on margin. So traditionally, the weakest quarter for margins is usually Q3, primarily because of furloughs and so on. So whether the margins have bottomed out or not, I don't know, but we are fairly confident that we will maintain margins in the mid-teens and tight range in the mid-teens. So that is there where we stand.

Nitin: I asked that question primarily because in the context that we have had higher furloughs in this quarter, there's already a margin impact. And in that context, logically, one would think that it's bottomed out this quarter and you can't have incrementally massive headwinds as we saw this quarter in the next quarter. So that's the context of the broad question. So directionally, do you think that's a fair way to look at it is all I'm asking?

Pulikt Bhandari: So if I may just add there, the furloughs in Q3 are slightly more wider than this quarter. But nonetheless, despite that, I think our objective of basically mid-teens is what we'll get to. So I'm saying irrespective of that, we'll basically maintain mid-teens.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Thanks for the opportunity. Manish, just wanted to understand the deal flow entering into second half based on the deal pipeline you are foreseeing. So Q2 has been really strong. But if I look at the growth in 1H over growth in 1H of last year, it has been close to 2.0%. And based on your expectation and hope of a large deal closure, you believe the in deal flow could be better than 2H of last year?

Manish Tandon: I would say -- the only comment I will make is that, if you look at Q2 to Q3 last year and if you look at Q2 to Q3 this year, we will do better this year than what we did last year. That is all that I can say Sandeep.

Sandeep Shah: And you were saying your target range on book-to-bill is 1x to 1.2x, right?

Manish Tandon: What I say is that as long as the order booking is in the 1x to 1.2x quarterly revenue range. I think we are normally quite okay.

Sandeep Shah: Okay. And just a clarification, the clients who have gone on furloughs in the Q2 will continue to remain on furloughs and therefore there is no incremental impact or they may not be in furlough and that may lead to a better 3Q versus 2Q?

Manish Tandon: No. The furlough to be frank, in Q2, there were 2 or 3 clients who did the furlough. And in Q3, the furloughs are normally more broad-based than before, right, than what happened in Q2. But again, to some extent, as Nitin pointed out, we already have been impacted by some furloughs in Q2. So the incremental impact of furloughs in Q3 is going to be less than if there were no furloughs in Q2. That's all that we are trying to say.

Sandeep Shah: Okay. And Manish, within the TMT as a sector, is it possible to give a breakup within telecom, media and tech as contributors to the total revenue within TMT.

Manish Tandon: No, I don't think it will be appropriate because one is a lot of clients span the sector. There is convergence that is happening in technology, media and telecom, and that's why they come together. Now that convergence is happening and now you want us to show divergence, it's a bit difficult.

Sandeep Shah: Okay. But is it fair to assume the large client concentration would have gone down because it has been a troubled account for the last many quarters?

Manish Tandon: We don't comment on individual clients overall. But as you can see, the overall percentage of TMT vertical has reduced from 27% of revenues same quarter last year to 22% of revenues this quarter. So you can draw your own conclusion.

Sandeep Shah: Thanks, and all the best.

Moderator: The next question is from the line of Debashish from Svan Investments.

Debashish: Congrats on a good set of order booking numbers. So the first question is related to offshore. Congrats on that also. We started the journey at 41%, 42%. We have reached to 50%, 52% of our revenue today on offshore numbers. So do you think that we have reached a proper level of offshore revenue as a 50% of our overall revenue or we have further scope to improve there?

Manish Tandon: The proper level, I don't know what proper level is.

Debashish: So why I'm asking is most of our peers are operating at this level only 50% to 52%. We have crossed the journey of 40% to 50% now. So do you have a further scope of improvement at the offshore level or we are satisfied with the current level of offshore?

Manish Tandon: See we look at -- again, there are some leading metrics, and then there are some lagging metrics, okay? So -- for me, this is a lagging metric. It's not that I decide one fine day that I will move on hundreds of people from on-site to offshore. Ultimately, we are in the business of serving clients and ultimately, we want to get to a position where the client is comfortable with the on-site offshore ratios and so on and so forth.

So more offshore, I know that more offshore is good for us. But ultimately, we also have to see what's good for our clients. And based on that and the industry trends, we will arrive at it. It's not that I don't want to sit here and say that I want to take the offshore ratio to 55%. If there is client demand, yes, I would love to do it. But if the business is in a different mix and client needs are in a different mix, then we'll go for that.

Debashish: Okay. Let me put it this way. The current order book and pipeline that we have, do you have a further scope of higher offshoring from that order book and pipeline.

Manish Tandon: No. See again, these things are, as you said, it took us 6, 7 quarters to move from 42% to 50%, and as you come nearer to these numbers, every incremental percentage takes even much more effort, right? So I don't think I can project the order book and say that this will improve our offshore ratio materially. At this stage, at least I am not in a position to say that.

Debashish: Okay. And the second question is on hiring. So most of our competition whether larger or small, we started seeing hiring improving there going to freshers. We are already at kind of 80% to 83% utilization. So do you think this time the manpower reduction is more to do with the unplanned furloughs and the hiring plan is continuing? Or it is like that we are not going to pressure right now more in depending on just in time?

Manish Tandon: No, I think, as I said, if you heard me to the previous question earlier in the call, I had said that we have stopped looking at employee headcount as a leading metric, because in today's environment, you can hire just in time, and that's what we are trying to do. So our aim is to hire the right set of people in time to service our clients' needs. So while you might -- and it's not that we have not been hiring. I mean, we hired close to 600 gross additions, if you look at it, close to 600 per quarter, 200 per month. But as I said, I want manpower to be a function of revenue and not the other way around.

Debashish: Okay. And a third one is more of a request rather than question. This quarter, we have two events. One is unplanned furlough and the second one is on acquisition. So these two things are kind of impacting multiple of our metrics, whether it is volume growth, whether it is hiring, whether that is order book or whether that is utilization.

So if you can guide us in multiple participants trying to understand this question in different way last one hour almost. So if you can give us some sense that what is the steady state business growth or volume growth or hiring or order book for us in this quarter so that it will help us to predict in this next 2 to 3 quarters in a better way?

Pulkit Bhandari: So I think on the furlough, we have called out very clearly, there is a 1.1% impact on the gross margin. And the second part of your question, which is the acquisition as what we have called out, you should consider it as not material for this quarter for sure, right? So I think that will give you a sense in terms of where our realistic growth is and also basically the margins.

Debashish: But acquisition must have also benefited in our order book and in our hiring, stuff like that, right?

Pulkit Bhandari: No, it's too small to basically make any difference to the overall numbers.

Debashish: Okay. Thank you very much for answering my question. Wish you all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to the management for their closing comments.

Manish Tandon: So, just wanted to thank you all for coming on this call and expressing your interest in Zensar as a company and our performance. As the CEO of Zensar and the management team, we remain committed to doing well for our shareholders and you have seen that commitment over the last few quarters and we will continue to strive to do better as we go along. Thank you.

Moderator: On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.