Zensar Technologies

Operator: Ladies and gentlemen, good day and welcome to the Zensar Technologies Ltd. Q2 FY27 Earnings Conference Call hosted by HDFC Securities. As a reminder, all participants' lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to you, sir.

Amit – HDFC Securities: Thanks, operator. Good morning, everyone. On behalf of HDFC Securities, I welcome you all to the Zensar Technologies Ltd. Q2 FY27 earnings call. We have with us Mr. Manish Tandon, CEO and Managing Director; Mr. Pulkit Bhandari, Chief Financial Officer; 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 have been read and understood. Thank you, and over to you, Manish.

Manish Tandon – CEO and Managing Director: Thank you, Amit. Hello, and good morning, afternoon, and evening, everyone. Thank you all for taking the time to join us today to discuss Zensar's financial results for the second quarter [long pause] {? update ?}.

During Q2 FY27, macro conditions remained broadly unchanged, and clients stayed measured in their spending and long-term commitments. Clients that committed spend directed it towards embedding AI into their core operations, focusing much more sharply on service quality, simpler processes, and measurable returns. This quarter, we made meaningful progress in our AI journey. Building on our ZenSay AI suite, we have moved from proof of value to production-scale adoption with several clients, and AI-influenced deals now account for 36% of our order book.

Our AI-native transformation capabilities also earned external validation this quarter through multiple industry awards and favorable positioning in analyst assessments. We continue to build on this foundation by introducing new AI-native offerings, deepening our partnerships across the AI ecosystem, and expanding our pool of AI-certified talent. Together, these strengthen our ability to help clients adopt AI at scale and support sustainable growth for Zensar, while maintaining high standards of governance, security, and enterprise-grade controls.

Turning to our financial performance, the company delivered a strong financial performance for this quarter, registering revenue of $166.2 million, representing sequential quarter-on-quarter growth of 4.1% in constant currency. In INR terms, this equates to sequential quarter growth of 5.1% and year-over-year growth of 11.5%. Within our markets, three out of four verticals showed sequential constant-currency growth. Revenue rose by 7.1% in Banking, Financial Services, and Insurance; 2.4% in Healthcare and Life Sciences; and 2.9% in Manufacturing and Consumer Services, while Telecommunications, Media and Technology declined by 2.2%.

More importantly, all our regions grew sequentially on the back of widespread volume growth. Beyond revenue, our operational metrics underscore the strength of our execution. Our EBITDA margin sequentially improved by 120 basis points to 15.8%. Zensar crossed the 12,000 headcount mark, an 8.6% quarter-on-quarter increase. Our 20 million-plus accounts grew by one, and 5 million-plus accounts grew by two.

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Utilization improved to 87.6%, up 250 basis points sequentially, while voluntary attrition remained an industry-leading low at 9.3%. Together, these metrics reflect our disciplined operational focus, enriching talent culture, and continued progress against our strategic priorities as we position the business for sustainable long-term growth. With that, I will now invite Pulkit to provide an update on critical financial metrics.

Pulkit Bhandari – Chief Financial Officer: Thank you, Manish. Good day, everyone. Thank you all for joining this call. I will take you through some of the key business and financial metrics for the quarter ending September 26.

Enterprise-wide AI transformation is redefining our industry. While the demand environment remains measured and clients are seeking outcome-based engagements, enterprise AI spending is entering a scale-up phase. Our investments in AI, cybersecurity, and domain capabilities position us well to capture this shift as decision cycles normalize. We believe the next phase of growth will favor organizations that can pivot seamlessly into newer trends, combine AI capabilities and domain expertise, and execute securely at scale.

Reported revenue for Q2 FY27 stood at $166.2 million in USD terms, reflecting growth of 4.1% sequentially in constant-currency terms. In reported terms, sequentially it grew by 4.2%. Our EBITDA this quarter expanded by 120 bps sequentially, driven by a positive Forex impact of 0.4%, an increase in volume, working days, and utilization of plus 1.3%, and lower ESOP-related cost of plus 1.3%, offset by reversal of management bonuses in previous quarters of minus 1.3% and other dilution in margin of minus 0.5%, primarily due to an increase in AMCs and software-related cost and a reduction in offshore revenue mix.

Our PAT margin for the quarter stood at 12%, contracting by 20 bps. Some other key highlights: We are planning the annual wage hike in two batches, effective Q3 and Q4 of this fiscal year. The order book stood at $151.5 million for the quarter. Our DSO increased to 77 days. We are seeing pressure in this area as payment terms are being renegotiated across the industry. Cash, including investments, stood at $297.3 million after a dividend payout of $29.9 million. ETR for the quarter is 24.5%. Diluted EPS for the quarter stood at 8.3 per share, which is 3.6% growth quarter-on-quarter. With that, I will now invite Vijay, our Chief Operating Officer, to comment further on Q2 FY27 results.

Vijay – Chief Operating Officer: Thank you, Manish and Pulkit. Greetings, everyone. I will share details about our operational efficacy, service line performance, and AI journey. Our utilization for the quarter stood at 87.6%, which is an improvement of 250 basis points quarter-on-quarter. The rigor associated with accelerated fulfillment and capability enrichment gained significant momentum in Q2 FY27. We had a net addition of 978 employees in the quarter, which is 73% higher than in the previous quarter. Our voluntary attrition was 9.3%. This is the seventh successive quarter in which our voluntary attrition has been below the 10% mark.

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 increased to 72.2%, which is an improvement of 420 basis points year-over-year. On a year-over-year basis, Products and Platforms, including CMO Services, grew by 18.3%; Data Engineering and Analytics grew by 13.4%; Enterprise Application Services grew by 1.8%; and Cloud Infrastructure and Security Services declined by 0.6%.

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We continue to deliver significant value to our clients by leveraging our pragmatic and trusted AI offerings. Our transformation into an AI-native organization has gained further momentum. Key progress made across the five dimensions of our AI-native transformation are as follows: On the people capability uplift dimension, 92% of our people are [cut off]

Manish Tandon - CEO and Managing Director: Making rapid progress across the four-level competency ladder administered by our Ignite AI Academy. On the service delivery dimension, we are pivoting from SDLC-based execution to AIDLC-based execution methodology. More than 59% of our projects have already adopted the AIDLC ways of working.

Our {? ZenSay AI ?} platform continues to be enriched. Multiple clients are leveraging the platform and the underlying framework to accelerate their own AI transformation journey. On the horizontal offerings dimension, every service line is reimagining its offerings to leverage the power of AI. We have more than 50 new AI-based offerings across our five service lines.

Our industry, domain, and service line experts continue to collaborate to build industry-specific AI solutions. We have more than 50 solutions that address various aspects of the business value chain of our client base.

With that, we now open the line for questions.

Operator: Thank you very much. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra - HDFC Securities: Thanks for the opportunity. My first question is on the overall growth. We have seen a very healthy recovery in terms of sequential growth this quarter. It was broad-based growth. However, BFSI, which is powering this growth and now accounts for 50% of our overall revenues, has a large deal. How should we view the continuation of this growth? We were expecting BFSI, in terms of the large deal, to become steady-state in Q3. Are we already at steady state, or can we still see some more uptake in BFSI?

Apart from that, in the second half, how do you see the vertical-wise performance and the overall company growth panning out, especially when you mention that the overall macro conditions are not very conducive? Also, in terms of the TCV number, we have obviously seen a recovery in growth, but if I look at TCV in the first half, it is down by around 9% year-over-year. In terms of TTM, adjusting for the large deal, it is down year-over-year. In line with how we are seeing the TCV numbers, what is the level of confidence in terms of growth for the second half?

Manish Tandon - CEO and Managing Director: Thank you, Amit. I think I will address your points one by one. Firstly, the growth has been very, very secular, and we are obviously very pleased to see that. Even the BFSI growth that you see is not just contingent on the large deal. There are several other accounts that have continued to grow for us.

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If you look at 4.1%, it is really very secular, which is a very encouraging sign for us because we are not just a one-trick pony, so to say.

Your second question, or your last question, was related to order books. My view is, and I have been tracking the results of others very closely, that in the new AI world, deal sizes will continue to shrink. If we talk about a 30% reduction and so on, then that ultimately has to reflect in overall order bookings. Deal sizes will continue to shrink, but the smarter among us will be doing many more deals of smaller deal sizes.

When the deal size is small, say, for a 3-month period or a 5- or 6-month period, the order bookings that we show are really for only that period. Half the period is already over, so to say. Therefore, I feel that order-book numbers, in general, will be muted, not only for us but for the rest of the industry as well.

Also, just from a clarification perspective, there were a couple of deals that were around $30 million in size, which did not get signed this quarter and were shifted to the next quarter. While the optics do not look as good, I feel that if the deal had not been shifted, and that deal was shifted primarily due to paperwork and not because of delayed decision-making or anything else, the optics would have been different.

While the optics may suggest that the order book has declined or grown slowly, the reality is that it was more of a technical issue or a one-time issue rather than something fundamental. However, I continue to believe that overall order books for the industry will remain muted as AI penetration increases.

Amit, you had a long question. I hope I have answered it, but if there is any follow-up, I am happy to take it.

Amit Chandra - HDFC Securities: Now, specifically regarding AI revenues or the GenAI suite that we have, you mentioned that we are seeing PoCs move to production and scale across clients. Is it fair to assume that this is the beginning of a trend where we can see this becoming more prevalent across the set of clients, particularly the larger clients? Also, in terms of the order book, with 36% being AI-influenced, how has this changed over the last 2 or 3 quarters, if you can provide some color? Also, in terms of the AI mix within our revenue, what would that number be?

Manish Tandon - CEO and Managing Director: What was the first question? Amit, can you repeat the [cut off]

Amit Chandra - HDFC Securities: GenAI—yes, it was about AI shifting from PoC to scale and

Manish Tandon - CEO and Managing Director: At Zensar, we stopped doing PoCs from the beginning of this calendar year, and we shifted to what is known as proof of value because, as everyone was reporting proof of concept, the success rate was only 20%-25%. We feel that we would be doing a disservice to our clients if we focused too much on PoCs. Instead, we shifted gears to proof of value. Fortunately, since we made that shift—and actually, why fortunately? It was a good strategy—the conversion of proof of value into production programs has increased significantly. If the downstream success rate for the PoC concept was 5%-10% or 20%, for us,

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moving from proof of value to production, I would say that we have more than 80% success overall.

Regarding AI-led order-book numbers, I do not have the exact numbers, but they have moved from the 10s to the 30s over the last 3 or 4 quarters. In the way we are executing on AI, I think we will continue to see this number increase.

We do not report AI revenues because I do not know what the definition of AI revenue is. Everything is AI, actually, these days. Therefore, we believe that this is a much better, more tangible metric for us to track.

Amit Chandra – HDFC Securities: Okay, Manish. Thank you, and all the best.

Manish Tandon – CEO and Managing Director: Thank you.

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

Nitin Padmanabhan – Investec: Hi, good morning, everyone, and congratulations on the solid quarter. Manish, I wanted to double down on deal tenure. Roughly, by how much would deal tenures have come down on average versus what you would have seen in prior years? That was the first question.

Second, a lot of peers have indicated that perhaps 50% or 60% of their client portfolio has already seen a renewal cycle. How would that look for us? I have a few more questions after that.

Manish Tandon – CEO and Managing Director: Our win rates on renewals are north of 95%. Actually, they are very, very close to 100%. The second thing I would say is that if you look at our order-book tenure, I think Pulkit will be able to provide you with the exact numbers.

From an industry perspective, the answer is simple. If everyone is saying that AI is going to reduce costs by 30%-40%, then the order book, especially on large deals, will reduce by that amount of money.

The second thing is that AI enables a faster speed to market. I will not compare it to large deals, but if a project was taking a year yesterday, today, if we cannot do it in 4 or 5 months, I will feel very disappointed. Let me put it this way.

Large deals are a very, very margin-dilutive game, and we want to pursue them very selectively overall. As far as deal tenures are concerned, I do not have the exact metrics; Pulkit has them. Pulkit, you can [trails off]

Pulkit Bhandari – Chief Financial Officer: Nitin, if you look at the last few quarters and look at the order book and the tenure, I would say it is largely the same. If I were to exclude the large-deal quarter and simply draw a line, it would be largely the same, perhaps with a marginal 1%-2% plus or minus here and there, but largely the same. That would be the deal tenure. It is not that there has been a material change in deal tenure.

Nitin Padmanabhan – Investec: Got it. The other two things I wanted to check are these. Our TMT customer has become quite small compared with what it used to be. In that context, do you believe

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that, unlike earlier Q3 periods when we saw a decline, this time Q3 may not necessarily be a decline because, first, we also have the ramp-up from the large deal, and second, this vertical has become relatively small compared with the level of furlough impact we have seen in the past? I wanted your thoughts on that.

I had one more question on margins for Pulkit. In Q3 and Q4, we have annual wage hikes, and utilization also appears to have peaked. This quarter, we also had a 130 bps benefit from the ESOP cost going down. Overall, when you look at the second half, are there any offsets for these margin headwinds?

Manish Tandon – CEO and Managing Director: Let me first take your question. As you know, we do not provide guidance for future quarters. You are right that the TMT, or telecommunications, sector has been a bit of a drag for us, and our exposure to it has continued to come down. To that extent, the impact of furlough would definitely be lower than before.

I can also say that the impact of furlough will be there. It is not that furlough was present in only one sector. Furlough is usually more broad-based than that.

Overall, I can say that we are looking positively at where we stand today. Q3 is looking better than it has in the past.

Pulkit, do you want to answer the question?

Pulkit Bhandari – Chief Financial Officer: For Q3, I think there are a few headwinds that we have to triangulate. First, the large deal continues to ramp up in some form or shape. Of course, as you mentioned, there will be an impact from furloughs, and there will be an impact from ASR. To some extent, in order to mitigate some of it, we have divided the ASR into two parts across two quarters. We will remain with our guidance of mid-teens, which is what we have maintained over the last many quarters, and our intent and objective is to stay within that guidance, giving us some headroom to invest and some headroom to grow.

Nitin Padmanabhan – Investec: No, perfect. Thank you very much, Manish and Pulkit, and all the very best.

Operator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah – Equirus Securities: Thanks for the opportunity, and congratulations on a great set of execution and numbers. I understand what you said in terms of AI leading to compression in order intake. However, every stakeholder, including management, employees, and shareholders, requires the company to keep growing, and that is possible if we take wallet share. How do you see order intake in that scenario? AI may also help clients move more processes that are run physically to digital processes with the help of AI. Therefore, there could be an incremental new addressable market across the client's purchasing windows. What is the thought process for how Zensar is looking to increase order intake, either by winning wallet share or by going aggressive and keeping book-to-bill higher than 1x?

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Manish Tandon – CEO and Managing Director: Thank you, Sandeep. As I said, if your deal sizes are becoming smaller and the speed of execution is high, which should be the case with AI, then what needs to be done is what is known as expanding the Overton window. If you look at what that means, it is exactly what you are saying to some extent: trying to increase your addressable market to a large extent. I am very pleased to say that, with our investments in verticalized IP and AI, our ability to do that is phenomenal. A lot of what you are seeing has been coming from that expansion of the Overton window. As AI continues to evolve, and it is evolving very fast, we will continue to expand that Overton window of addressable space as we go along.

Sandeep Shah – Equirus Securities: It is good to see employee numbers increasing by more than 8% in a single quarter quarter-on-quarter. How should we read this? Is it through fresh engineering graduates, or is it more through laterals? If it is more through laterals, could the forthcoming quarter have some soft growth because of furlough? How should we read this recruitment?

Manish Tandon – CEO and Managing Director: Vijay, would you like to take that?

Vijay – Chief Operating Officer: Yes, certainly, Sandeep. It is a combination of fresh graduates as well as laterals. There are different types of engagements that require different types of people across the pyramid. It has been that way. This quarter specifically, I think it has been more tilted toward the graduate population in the second half of the quarter.

Sandeep Shah – Equirus Securities: I have a couple of questions for Pulkit. If I look at organic capex in the cash flow statement, it looks very high. If I also look at the balance sheet, there is a movement from intangible assets under work-in-progress to commercialized intangibles. How should we read this? Have we capitalized any salary cost of employees under the head of intangible assets, both commercialized and under work-in-progress?

Second, further to what I asked Manish about AI, I wanted to understand whether ACV is different and higher versus TCV on a quarter-on-quarter and year-over-year basis, while you have already answered that the average tenure of the deal has not changed materially.

Pulkit Bhandari – Chief Financial Officer: Let me take the first part, which is basically about how the intangibles have moved. First, the straightforward answer is: have we capitalized any salary cost? The answer is no. What we have done is make certain investments in AI tools, and to that extent, there has been an impact on the movement of intangibles into commercialization. That is the only call-out there.

Second, regarding ACV and TCV, there is no specific call-out. Of course, as Manish mentioned earlier, deal sizes are varying in different ways, and AI deals are surely smaller—or AI-led deals are slightly smaller—than the traditional way of booking deals. However, has there been any material change? The answer is no on that front as well.

The other trend we are seeing, although it is difficult to call out how to bifurcate this, is that earlier it would have been a 5-year contract, whereas now we are also seeing 3-year contracts. That intensity has also increased compared with what it used to be before.

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Sandeep Shah – Equirus Securities: How should we read this 250 crore worth of payment shown as organic capex in the cash flow statement in the first half if

Pulkit Bhandari – Chief Financial Officer: No, there I think what you see as a cash flow movement is also on account of the dividend payout. This quarter, the only large payout has been the dividend, which is $29.9 million.

Sandeep Shah – Equirus Securities: Pulkit, what I am asking about is the purchase of property, plant, and equipment, which shows 250 crore worth of payment in the cash flow statement for the first half.

Pulkit Bhandari – Chief Financial Officer: That is what I said: the AI tools. That is the capitalization of AI tools.

Sandeep Shah – Equirus Securities: I thought it was a transfer from work-in-progress to commercialized assets, so it was a book entry rather than a cash outflow.

Pulkit Bhandari – Chief Financial Officer: No. The commercialization, or the capitalization, of that was in work-in-progress last quarter. This quarter, it has moved into intangibles.

Sandeep Shah – Equirus Securities: Can we consider the current depreciation and amortization run rate to continue?

Pulkit Bhandari – Chief Financial Officer: Yes. Last quarter there was a partial impact, whereas this quarter has the full impact. Therefore, what you see this quarter can be construed as a normalized run rate.

Sandeep Shah – Equirus Securities: Okay, thank you for my turn. Thank you.

Operator: Thank you. The next question is from the line of Sudhir from Kotak AMC. Please go ahead.

Sudhir – Kotak AMC: Hi, Manish and Pulkit. Thanks for the opportunity, and congratulations on a good set of numbers. I wanted to emphasize the point that Sandeep made earlier. You are saying that deal sizes and TCV are seeing compression because AI is making deals shorter and because of some amount of deflation, and you are also suggesting that the same will be the case for the industry.

I have two questions on that. First, most of our competitors that have reported so far, as well as over the last couple of quarters, have been seeing a very strong increase in TCV numbers. The basic assumption there is that, in overall TCV, even if the renewal component is compressed somewhat because of AI, they might be winning wallet share and getting a lot more net new business, thereby showing overall TCV-level growth. Clearly, the industry is not showing the trend that we are showing.

Second, while we are saying that deal sizes and durations are getting compressed, we are also saying that the average tenure has not changed much. How do we reconcile this contradiction?

Manish Tandon – CEO and Managing Director: The second point is that AI is a very fast-changing environment, as you know. What we can do now, we were not able to do perhaps even 3 months

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ago. If you look in the rearview mirror, the numbers are what they are. What I was saying is that, looking forward, all of you and all of us are trained to keep looking forward. That is one point.

Second, everyone wants to talk about wallet share. If the wallet size is not increasing and everyone is increasing wallet share, then who is losing out? That is the other question to ask.

As I said earlier, we believe that very large deals are a race to the bottom as far as margins and pricing are concerned. We tend to be more selective in terms of very margin-dilutive deals overall. That is my viewpoint. Pulkit, if you want to add anything else, please feel free to do so. I hope I have answered your question.

Sudhir – Kotak AMC: I am actually asking only about the forward-looking number because TCVs are forward-looking numbers. I am unable to understand the math you are suggesting. If there is compression in terms of size and duration, ideally the tenure should also have come down because you are now implementing the project in 6 months rather than 12 months, as you explained. That is the first point.

Second, clearly that is not the trend for the rest of the industry. What am I missing here?

Manish Tandon – CEO and Managing Director: Pulkit, do you have any commentary on the rest of the industry? What I remember seeing for this quarter, at least, is that everyone has shown a relatively weaker order book. I am not entirely sure.

Pulkit Bhandari – Chief Financial Officer: Sudhir, just a call-out: as we mentioned later as well, there is no material change. If you are alluding to the fact that TCV has gone down because deal sizes are going down and that this is an emerging trend, there is no material movement. I would suggest that you do not get anchored to that particular aspect—that deal size and TCV should necessarily be coming off.

Manish Tandon – CEO and Managing Director: Also, when you are looking at TCVs, please look at renewal TCV versus the other categories. If you fragment the order book, or split the order book, into renewals, existing new, and NN, I would encourage you, if you really want to do an analysis along those lines, to focus more on EN and NN rather than EE overall. What we are talking about is primarily EN and NN, which are existing new and net new, and these are the fresh projects. These are not the legacy projects.

Sudhir – Kotak AMC: Thank you, sir, and all the very best.

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

Ravi Menon – Axis Capital: Thank you for the opportunity, and congratulations on the good numbers. First, regarding this whole uptick in AI, you talked about how deal sizes are going to shrink. If it is an AI implementation, are clients looking at it with a clear idea of what they want to do and a TCV number, or are these being set up more as MSAs and therefore not showing up in TCV numbers?

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Manish Tandon – CEO and Managing Director: Sorry, you were breaking up a little bit, and it was not very clear. Can you repeat the question?

Ravi Menon – Axis Capital: I was asking whether clients are setting up MSAs for implementing AI projects because there is no real clarity on how much effort there will be, as well as tool usage and other factors. Since it is evolving so fast, instead of fixed-price programs, are you seeing a trend where they are moving more toward time-and-material arrangements, with only Master Service Agreements being put in place?

Manish Tandon – CEO and Managing Director: There are no separate MSAs. The MSA and the whole construct are still essentially the same as before. There are no separate MSAs or specific changes from an AI perspective. All deals are part of the existing structure. If it is a new client, a new MSA will be set up. If it is an existing client, it is the same [cut off]

Pulkit Bhandari – Chief Financial Officer: Same MSA under which we will continue to execute under new SOWs and new assignments. There is no specific change in that contracting element.

Ravi Menon – Axis Capital: What I meant is, are you seeing a change from more fixed-price contracts toward smaller statements of work, and is that impacting the TCV numbers?

Manish Tandon – CEO and Managing Director: No, I do not think so. It is the other way around. If we use AI and enter into time-and-material contracts, it simply does not make sense because none of the benefit flows into our bottom line. Therefore, we are trying to do as many fixed-price and outcome-based contracts as we can. The trend, although I do not know the exact numbers, is that over the next 3 or 4 quarters, at least from our perspective, we should see the outcome-based and fixed-price components increasing. Primarily, the outcome-based components should increase because, as I said, using AI in a time-and-material construct does not make sense, at least for us.

Ravi Menon – Axis Capital: Coming to the mid-market, do you think that because the landscapes are less complex, there is greater scope for quicker AI adoption? We are seeing larger peers trying to set up mid-market practices. The market is slow, but it is still unusual for them to compete head-on in a space where they would not normally enter.

Manish Tandon – CEO and Managing Director: People talked about the large players targeting GCCs in a big way last year, if you remember. I have not seen much progress, although perhaps you have. Now they are talking about targeting mid-sized businesses.

It is not just about making that statement; it is about how they are going about executing it, and that is what, as analysts, perhaps you should examine. Historically, I was part of a very large company for several years, and I can tell you that the transformation in the sales force needed to execute that well is a mammoth task. In the good old days, any deal worth less than $1 million was not even considered.

Now you are asking your sales force to retrain itself to look at these much smaller deals. The other thing I would say is that if you are targeting much smaller deal sizes, your sales costs should theoretically go up because your sales productivity will come down. Therefore, I would say it is a good statement of intent, but the execution of that statement of intent is not something we are

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seeing very strongly in the market, at least at present.

Ravi Menon – Axis Capital: Are you seeing any quicker AI adoption in mid-sized enterprises, and could that enable you to create a moat ahead of some of your larger peers?

Manish Tandon – CEO and Managing Director: I do not think it matters whether it is a mid-sized enterprise, a small enterprise, or a large enterprise. I believe that this AI change, unless and until it is driven from absolutely the top, is not going to happen. The key variable here is where the drive for AI change is coming from.

We do not have to go far to look at this concept. There is a wonderful example in India itself of that concept, which you are much more aware of than I am. I would say that, at least in my experience, whether it is a large, small, or medium organization, AI adoption is more a function of where in the hierarchy this change and drive are coming from, from a business perspective.

Ravi Menon – Axis Capital: Understood. The freshers that you are hiring, that you are

Operator: Mr. Menon, sorry to interrupt you. Can you please rejoin the queue for a follow-up question?

Ravi Menon – Axis Capital: Sure, thanks.

Operator: Thank you. The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal – Nuvama Equities: Hi, and thanks for taking my question. Am I audible?

Operator: Vibhor, your voice is breaking. Could you please repeat?

Vibhor Singhal – Nuvama Equities: Yes, certainly. Is it better now?

Operator: Yes.

Vibhor Singhal – Nuvama Equities: Hi, and thanks for taking my question. I have two questions: one regarding the quarter and one slightly longer-term question.

Regarding the two verticals, Healthcare and TMT, they are small for us, but they seem to be moving in opposite directions. On the healthcare side, many companies in the sector are setting up healthcare verticals. This is a segment that has historically seen a lot of underpenetration. How should we view this segment? Where does our capability lie? Is it more in the payer or insurance companies, on the payer side, or more toward hospitals and providers, on the provider side?

On the TMT vertical, I know you may have alluded to this at the beginning of your conversation, but regarding the top client, are we close to bottoming out there? What about the remaining part of the portfolio offsetting that weight, so that this vertical as a whole can return to the growth path? When do we expect that to happen? I will then have a longer-term question once you answer this.

Manish Tandon – CEO and Managing Director: Regarding healthcare, our expertise lies more in the pharma and biotech sector. From a targeting perspective, we are looking more at the provider

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sector than the payer sector. The payer sector and the life sciences sector are heavily penetrated. Payers have been in the business of outsourcing and related activities for ages. We do not really want to compete head-on in this sector, whereas providers have been relatively underpenetrated, and we want to be more aggressive there.

Also, in the pharma and life sciences space, we are focused more on the mid-market rather than the very large players because I think a lot of land-and-expand has already happened. Pharma and biotech are very innovative sectors, and there are usually a good number of companies developing newer molecules and newer therapies. We want to focus more on that.

Regarding telecom, [laughs] I personally feel that the worst is behind us. Our exposure to this sector has also reduced significantly. Therefore, at least the impact of this sector, either positive or negative, would be relatively limited overall.

Vibhor Singhal – Nuvama Equities: That was helpful, Manish. Just one last question from my side. Given the vantage point we are at and the disruptive period we are in, larger companies are pursuing a lot of vendor-consolidation deals. You mentioned that deal tenures are also shrinking because of AI and that new areas of growth are being created. Where do we see ourselves over the next 2 or 3 years? What are the 2 or 3 domains that you would want to focus on?

Are South Africa or the European markets something you would want to build upon, which would set us apart from competitors and take our growth higher? Is healthcare the vertical on which you would want to place your bet? Where would you position ourselves as a force that is better than the competition and could drive our business over the next 2 or 3 years? I am not asking about the next couple of quarters, because that is too short-term a view, but rather from a 2- to 3-year point of view.

Manish Tandon – CEO and Managing Director: [pause] We look at ourselves as a swarm of drones against an F-35, if that answers your question, at least philosophically. We believe that in this new world, being a speedboat is better than being a large aircraft carrier.

We want to win in everything that we are doing because, as we have seen in the past as well, unless growth is really secular, it does not become sustainable over a period of time. In terms of our focus, we are not expanding into more geographies or more verticals because I think there is enough opportunity in the geographies and verticals that we already have.

From a management and leadership perspective, that is the thinking. We want to do well in each and every sector and each and every market in which we are operating. Frankly, this quarter was good proof that we can do it because, except for TPS—except for the telecom sector—we delivered positive numbers quarter-on-quarter.

Vibhor Singhal – Nuvama Equities: Yes, indeed, Manish. It has been a great performance this quarter. Thank you very much for taking my question. I wish you all the best.

Manish Tandon – CEO and Managing Director: Thank you.

Operator: Thank you. The next question is from the line of Girish Pai from Bank of Baroda Capital Markets Limited. Please go ahead.

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Girish Pai – Bank of Baroda Capital Markets Limited: Thanks for the opportunity. I have a few questions, which I will read out. First, with 4.1% quarter-on-quarter growth, did you expect that kind of strong growth at the beginning of the quarter? If not, what surprised you?

Second, what is the quarter-on-quarter margin walk?

Third, regarding the AI tools, what exactly are the AI tools that you bought, and what is the amortization schedule for them? Are you doing any license sales of the {? ZensAI ?} platform that you have?

Finally, regarding the salary increase for Q3 and Q4, can you provide the impact on margins?

Manish Tandon – CEO and Managing Director: Frankly, I was not very surprised by our Q2 performance. We have been working hard to build the foundation for growth. If you look at it, except for a quarter here or there, we have always shown sequential quarterly growth, except perhaps for Q3s overall.

The effort involved in having the right strategy and executing it well was expected to show up at some point, and I think we have been proven right in our approach and strategy in Q2. Hopefully, we will continue. As I always say to my team, one swallow does not make a summer, so hopefully the next 2 or 3 quarters will show how strong the growth or weak the recovery is going to be. Pulkit, you can answer all the detailed questions.

Pulkit Bhandari – Chief Financial Officer: From a capitalization and intangible perspective, the time frame is roughly 5-odd years, or 5 to 5.5 years. The salary-hike impact, or wage-hike impact, that you are asking about will be in the range of 1.5%-2%. Of course, this sounds quite substantial, and what we are also doing simultaneously is identifying levers to absorb this. That is why we have maintained the mid-teens guidance on margins.

The use of the AI tools is for training our people and building platforms.

Girish Pai – Bank of Baroda Capital Markets Limited: Are you generating any license revenue from the sale of the {? ZensAI ?} platform, and what is the quarter-on-quarter margin walk?

Pulkit Bhandari – Chief Financial Officer: From the {? ZensAI ?} platform perspective, it is used as an accelerator. The IP stays with us [trails off]

Management: The IP stays with Zensar, but we use it in the broader solutions that we offer to clients.

Manish Tandon – CEO and Managing Director: We want it to act more as a differentiator than as a license sale because we are not in the product business. We want to use it as a differentiator, as an accelerator, as a speed-to-market tool, and as a higher-quality, higher-governance, and higher-traceability AI tool.

Girish Pai – Bank of Baroda Capital Markets Limited: And the margin walk for the quarter?

Management: Lastly, regarding the margin walk, I called it out in the commentary. The Forex impact was 0.4%; volume, working days, and utilization gave us a benefit of 1.3%; and lower ESOP costs

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were again a positive 1.3%. The offsets were management bonuses, which reflected a reversal of management bonuses that had been recorded in the previous quarter, amounting to minus 1.3%. There were also other elements and software-related and AMC-related costs, which amounted to minus 0.5%. That is broadly the margin walk.

Girish Pai – Bank of Baroda Capital Markets Limited: Okay, thank you.

Operator: Thank you. Next, we have a follow-up question from Ravi Menon from Axis Capital. Please go ahead.

Ravi Menon – Axis Capital: Thanks for the opportunity. I will make this quick. I want to check regarding fresher hiring. Are you also having a separate tier for AI talent? If so, what sort of higher pay are you offering them compared with normal hires?

Manish Tandon – CEO and Managing Director: Vijay, can you take that question?

Vijay – Chief Operating Officer: You are right. We have different categories of fresher hiring. One is normal fresher hiring, and the second is AI-native fresher hiring. For AI-native fresher hiring, we are using two models. One is an internship model to assess people's capabilities, followed by conversion. After conversion, the salary of those people is likely to be around 2.5x that of the normal freshers we used to hire.

Ravi Menon – Axis Capital: That is substantial. Roughly what proportion would this represent within fresher hiring?

Vijay – Chief Operating Officer: Going forward, we will pivot toward hiring more AI-native freshers than normal freshers. That is the endeavor. So far, approximately 30% of all our fresher hiring has been AI-native, but going forward, we expect that to increase.

Ravi Menon – Axis Capital: Thank you very much, and best of luck.

Operator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Manish Tandon for closing comments. Over to you, sir.

Manish Tandon – CEO and Managing Director: Again, as I always say, I first want to reiterate my gratitude to our clients for their continued trust, to all Zensarians for their unwavering dedication, and to our shareholders for their confidence and support.

While the demand environment remains mixed, our broad-based revenue and volume growth, coupled with strong EBITDA performance and a robust cash position, collectively reinforce our confidence in the path ahead. As we move into Q3, our priorities remain clear: maintain growth momentum, execute with discipline, deepen the value we deliver to clients, and continue advancing our AI-native capabilities and execution.

Thank you once again for taking the time to join Zensar's second-quarter earnings call. Have a great day ahead. Thank you.

Operator: Thank you. On behalf of HDFC Securities, this concludes the conference. Thank you for joining us, and you may now disconnect your lines.

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Zensar Technologies

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