Management Discussion

Amit Chandra - Analyst, HDFC Securities
Yeah, yeah, thank you, operator. Good morning, everyone. On behalf of HDFC Securities, I welcome you all to the Zensar Technologies Q2 FY27 earnings call. We have with us Mr. Manish Tandon, CEO and Managing Director, Mr. Pulkit, uh, Mr. Pulkit Bhandari, Chief Financial Officer, and a few other members from the senior management team. Before, before I hand over the call to the, uh, you know, before I hand over the call to Manish, I would like to highlight that the safe harbor statement of the second slide of the earnings presentation is assumed to be read and understood.

Thank you, and over to you, Manish.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Uh, thank you, Amit, and hello, good morning, afternoon, evening, everyone. Uh, thank you all for taking the time to join us today, uh, to discuss Zensar's financial results for the second quarter of FY26-'27. With me on this call are my colleagues, uh, Pulkit Bhandari, uh, Vijayasimha, and Vivek. During, uh, Q2 of 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 sharply on service quality, simpler processes, and measurable returns.

Really, this quarter we made meaningful progress in our AI journey. Building on our ZenseAI 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 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 rate control. Turning to our financial performance, the company delivered a strong financial performance for this quarter, registering a revenue of $166.2 million, representing a sequential quarter-on-quarter growth of 4.1% in constant currency. In INR terms, this equates to a 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 telecommunication, 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 margins 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 1 and five million plus accounts grew by 2. 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, Zensar Technologies Ltd.
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 26th. Enterprise-wide AI transformation is redefining our industry. While the demand environment remains measured and clients are seeking outcome-based engagements, enterprise AI is- enterprise AI spending is entering a scale-up phase. Our investments in AI, cybersecurity, and domain capabilities position us well to capture this shift in decision cycles as decision cycles normalize.

We believe the next phase of growth will favor organizations that can pivot seamlessly into newer trends, combine AI capabilities, domain expertise, and secure execution at scale. The reported revenue for the quarter of financial year '27 stood at $166.2 million in USD terms, reflecting a growth of 4.1% sequentially in constant currency terms. In reported terms, sequentially it grew by 4.2%. By 4.2%. Our EBITDA this quarter expanded by 120 bps, sequentially driven by positive forex impact of 0.4%, increase in volume, working days, and utilization by plus 1.3%, lower ESOP-related cost by +plus 1.3%, offset by reversal of management bonuses in previous quarters, -minus 1.3%, other dilution in margin -minus 0.5%, primarily due to increase in AMCs and software-related cost and reduction in offshore revenue mix.

Our PAT margin for the quarter stood at 12%, contracted by 20 bps. Some other key highlights: we are planning for annual wage hike in 2 batches effective Q3 and Q4 this fiscal. Order book stood at INR151.5 million for the quarter. Our DSO increased to 77 days. We are seeing pressure in this as payment terms are getting renegotiated across the industry. Cash including investments stood at INR297.3 million after a dividend payout of INR29.9 million. ETR for the quarter is 24.5%. Diluted EPS for the quarter stood at INR8.3 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.

Vijayasimha Alilughatta - Chief Operating Officer, Zensar Technologies Ltd.
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 picked up a significant momentum in Q2 of FY27. We had a net addition of 978 employees in the quarter, which is 73% higher than the previous quarter. Our voluntary attrition was 9.3%.

This is the seventh successive quarter where 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 YOY. On a YOY 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%. Cloud infrastructure and security services declined by 0.6%.

We continue to deliver significant value to our clients by leveraging our pragmatic and trusted AI offerings. Our transformation into becoming 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 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.

59+% of our projects have already adopted the AI DLC ways of working. Our ZenseAI 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 50 plus+ 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 50 plus+ solutions that address various aspects of the business value chain of our client base. With that, we now open the line for questions.

Questions & Answers

Operator
Thank you very much. [Operator Instructions] The first question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra - Analyst, HDFC Securities
Yeah, thanks for the opportunity. So my first question is, uh, you know, on the overall growth. So we have seen very healthy recovery in terms of sequential growth in this quarter. So mostly it was, you know, it was, it was, uh, you know, like a broad-based growth. But, uh, you know, BFSI, which is like powering this growth, which is now 50% of our overall revenues, and I know there is a large deal there. So how to see the, you know, continuation of the growth? Because we were expecting BFSI, uh, You know, in terms of the large deals to, you know, to become steady state in Q3.

So we are already there in terms of steady state, or still we can see some more uptake in the BSSI? And apart from that, in the second half, how do you see the, you know, vertical-wise performance and the overall company growth like panning out, especially when you mentioned that the, you know, overall macro conditions are not that conducive? And also in terms of the TCV number, obviously we have seen the growth, you know, recovery. But if I see the TCV on the first half also, it is down by around 9% YOY.

And in terms of TTM, adjusting for the large deal, it's down YOY. So, you know, in line with how we are seeing the TCV numbers, what is the kind of confidence in terms of growth for the second half?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Thank you, Amit. I think I'll 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 is- that you see is not just contingent on the large deal. There are several other accounts which showed- which are continuing to grow for us. So, uh, while- I mean, if you look at 4.1%, It's really, really very secular, and which is a very encouraging sign for us that, you know, we are not just a one-trick pony, so to say.

Your second question was related to order books, or last question was related to order books. See, my view is, and I have been tracking, and you guys must have been tracking the results of others also very closely, I feel in the new AI world, the, um, the deal sizes will continue to shrink. I mean, if we talk about, 30% reduction and so on, then that ultimately has to reflect in the order bookings overall. So the deal sizes will continue to shrink, but Uh, the smarter amongst us, uh, will be doing many more deals of smaller deal sizes. When the deal size is small, say, you know, a three-month period or 5-6 month period, the order booking, uh, that we, uh, we show is really for only that

period. Uh, half the period is already over, so to say. So I feel that, uh, this order booking, uh, numbers in general, uh, will be muted, uh, not only for us and for the rest of the industry.

Also, just, uh, from a clarification perspective, um, there is- there were a couple of things, uh, deals, uh, which were, um, around $30 million or so in size which got- which did not get signed. Uh, in this, uh, this quarter, which, which got shifted, uh, to the next, uh, next quarter. So, uh, while the optics, uh, do not, uh, look as, look as good, uh, one, I feel that, uh, if the, deal had not been shifted- and that deal has been shifted primarily due to paperwork, not, uh, because there is delayed decision-making or anything.

Um, so while the optics may look that the order book has declined, um, or grown slowly, the reality is that it was more of a technical issue, uh, or a one-time issue rather than something fundamental. But I continue to believe that overall, order books, uh, for the industry will remain muted as more and more AI penetration comes. Amit, you had a long question. I hope I have answered it, but if there's any follow-up, happy to take it.

Amit Chandra - Analyst, HDFC Securities
Yeah, yeah. So, you know, now specific to this, you know, AI revenues or the, you know, GenAI suite that we have, so we have mentioned that we are seeing from, you know, POCs like moving to production and scale across clients. So is it fair to assume that this is more like a starting of the trend where you can see this, you know, being more prevalent across the, you know, set of clients, the larger clients. And also in terms of the order book, 36% being AI-influenced. So how this has changed maybe over the last 2-3 quarters, if you can, you know, give some color there.

And also in terms of the AI mix, like within our revenue, you know, what would be that number?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
So, um, what was the first question? Uh, Amit, can you repeat the question?

Amit Chandra - Analyst, HDFC Securities
Yeah, yeah. So it was, uh, uh, the, you know, AI, uh, shifting from like POC to scale. And, uh,

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
So, uh, at Zensar, uh, we stopped doing POCs, uh, from the beginning of this calendar year, and we shifted to what is known as proof of value, uh, because As you guys, everyone was reporting proof of concept, the success rate is only 20%, 25%. Uh, we feel that we'll be doing disservice to our clients if we focus too much on POCs. Instead, we shifted gears to proof of value. Uh, and, uh, fortunately, since we made that shift, um, and actually why fortunately, um, good strategy actually, that proof of value getting converted to production programs, that has significantly increased.

So if POC, the concept, if POC, you know, the downstream was 5-10% success or 20% success, for us moving from proof of value to production, I would say that we have 80% plus success overall. On your order booking numbers for AI-led order books, it has- I don't have the exact numbers, but it has moved from tens to thirties in the last 3-4 quarters. And the way we are executing on AI Um, I think that we will continue to see this number inch up. Um, we don't report AI revenues because I don't know what is the definition of an AI revenue.

Everything is AI actually these days. So, uh, we believe that this is a much better, much better tangible metric, uh, that makes sense for us to track.

Amit Chandra - Analyst, HDFC Securities
Okay, Manish, thank you and all the best. Thank you.

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

Nitin Padmanabhan - Analyst, Investec India
Yeah, hi, good morning everyone, uh, and congrats on the solid quarter. Uh, Manish, uh, just wanted to double down on the deal tenures. Roughly how much would have deal tenures come down on an average versus what we would have seen in the prior year? So that was the first one. And second is, I think a lot of, uh, our peers have been sort of indicating that maybe 50% or 60% of their client portfolio has already seen a renewal cycle. How would that look for us? And then I have a few more.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
So, um, our win rates on, um, renewals is north of 95%. Actually, it is very, very close to 100%. Uh, the second thing, uh, I would say is, uh, if you look at, um, our order book tenure, I think, uh, Pulkit will be able to provide you Uh, the exact numbers. Um, but from an industry perspective, the answer is simple. If everyone is saying 30%, 40% is going to- AI is going to reduce costs by 30-40%, then the, uh, there is order books will reduce by, especially on large deals, will reduce by Uh, that amount of money.

The second thing is AI enables a faster speed to market. So I won't compare it to large deals, but if yesterday a project was taking, um, say a year, uh, today if we can't do it in four or five months, um, I'll feel very disappointed. Let me put it this way. So, and large deals actually, I mean, it's a very, very margin dilutive game and we want to do that very selectively overall. So as far as deal tenures is concerned, I mean, I don't have- Pulkit has the exact metrics.

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
Nitin, uf you were to basically look at last few quarters and look at the order book and the tenure, I would say it's largely same, right. If I were to exclude the large deal quarter and if I were to just draw a line, it will be largely same, maybe like a marginal 1-2% basically plus minus here and there, but largely same. So that would be the deal tenure. So it's not that there is a material, material change which has happened on the deal tenure.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.

Nitin Padmanabhan - Analyst, Investec India
Got it. Got it. And, uh, the other 2 things I wanted to check was, um, see, our TMT customer has become quite small versus what it used to be. And in that context, uh, do you believe that unlike earlier Q3s where we have seen a decline, at this time Q3 may not necessarily be a decline because one You also have the ramp-up from the large deal, and this has also become quite relatively small for the level of furlough impact we have seen in the past. So just wanted your thoughts there. And I had one more question on margins to Pulkit, which is that, see, Q3 and Q4, we have annual wage hikes, and the utilization also appears to have sort of peaked.

And this quarter we also had a 130 bps benefit from the ESOP cost going down. So overall, when you look at the second half, are there any offsets for these headwinds on margins?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Okay, so let me first take your question. See, as you know, we don't give guidance for future quarters. Um, you're right, uh, that, uh, the TPS or telecom sector for us had been a bit of a drag, and the exposure to that has continued to come down. So to that extent, um, the impact of furlough would be lesser than before for sure. Um, I can also say that the impact of furlough will be there Uh, it is not that furlough was just in one sector. The furlough is usually more broad-based than that. Um, overall, I can say, um, we are looking positively where we stand today.

Um, Q3 is, uh, Q3 is looking better than what it has And Pulkit, you want to answer the question?

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
Yeah, so on margins for Q3, I think there are a few headwinds that we have to basically triangulate. First is the large deal continues to basically ramp up in some form or shape. Of course, as you mentioned, there will be an impact of furloughs, there will be an impact of ASR. And to some extent, in order to kind of mitigate some of it, we have divided the ASR into 2 quarters. We will remain with our guidance of mid-teens, which is what we have maintained over last, I would say, many, many quarters.

And our intent and objective is to basically stay within that guidance, giving us some headroom to invest and some headroom to basically grow.

Nitin Padmanabhan - Analyst, Investec India
Sure, perfect. Uh, thank you so much, uh, Manish, 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 - Analyst, Equirus Securities
Yeah, thanks, thanks for the chance and congratulations on a great set of execution and numbers. Uh, sir, uh, I understand what you said in terms of AI leading to compression in the order intake, but, uh, every stakeholders, uh, including management, employees, and shareholders, requires company to keep growing, and that is possible if we take the wallet share. So how do you see order intake in that scenario? Because AI may also help clients to move more processes which are run physically to digitally with the help of AI.

So there could be incremental new addressable market across purchasing windows of the client. So any thought process how Zensar is looking to increase the order intake either by winning the wallet share or going aggressive and keep the book-to-bill higher than 1x?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Thank you, Sandeep. Um, uh, I think, uh, as I said, uh, if your deal sizes are going, uh, growing smaller and the, uh, the speed of execution is high, which should be the case anyway with AI, then Uh, what is- what needs to be done is what is known as expanding the Overton window. And, um, if you look at what that means is exactly to some extent what you're saying, that try to increase your addressable, uh, market to a large extent. And I am very pleased to say that with our investments in vertical ISD and in AI Our ability to do that is phenomenal, and a lot of stuff that you see has been coming from that expansion of the Overton window.

And we will continue as AI continues to evolve, and it is evolving very fast. Uh, we will continue to

expand that Overton window of addressable space as we go along.

Sandeep Shah - Analyst, Equirus Securities
Okay. And, uh, it's good to see employee increase at the rate of more than 8% in a single quarter, Q-on-Q. So how to read this? Is it through fresh engineering graduates or it is more through laterals? And if it is more through laterals, the forthcoming quarter may have some soft growth because of the furlough. So how to read this recruitment?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Uh, Vijay, would you like to take that?

Sandeep Shah - Analyst, Equirus Securities

Vijayasimha Alilughatta - Chief Operating Officer, Zensar Technologies Ltd.
Yeah. It's a- Sandeep, it's a combination of, uh, fresh graduates, uh, as well as laterals. Uh, there is different types of, uh, engagements that require different set of, uh, people across the pyramid. So it has been that way. Now this quarter specifically, I think it has been more Uh, we are veering towards the graduate population, um, in the second half of the quarter.

Sandeep Shah - Analyst, Equirus Securities
Okay, okay. And just, uh, questions to Pulkit. Uh, if I look at the organic capex in the cash flow statement, looks very high. And if I also look at balance sheet, there is a movement from intangible assets under work in progress to commercialize intangibles. So how to do this, and is it we capitalize any salary cost of any of the employees under the head of intangible assets, both on commercialized and under work in progress? And second, uh, just a question in further to what I asked on the AI to Manish, uh, wanted to understand, is it ACV different and higher versus TCV on a Q-on-Q and Y-o-Y basis, while you have already answered the average tenure of the deal has not changed materially?

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
So let me take the first part which is basically around how the intangibles have moved. So first I think the straight answer is that have we capitalized any salary cost, answer is no. Uh, we- what we have done is basically there are certain investments made in AI tools, and to that extent there is an impact which has happened on, uh, I would say, the movement of intangibles into commercialization. That's the only and only, I would say, call out there. Um, second, basically ACV and TCV, I think, uh, uh, there is no specific, uh, I would say call out, right.

So of course, as what Manish had earlier mentioned, that deal sizes are varying in different ways and AI deals are surely, surely smaller than basically- or I would say AI-led deals are slightly smaller than what used to be the traditional way of booking deals. But has there been any material change? Answer is no on that front as well. The other trend that we're seeing Now difficult to call out how you bifurcate. This is, uh, earlier it would be like a five-year contract, now we are seeing like a three-year contract as well, right?

So that I would say intensity has also gone up versus what it used to be before.

Sandeep Shah - Analyst, Equirus Securities
Okay, okay. So, uh, sir, how to read this INR250 crore worth of payment which is shown on organic capex in a cash flow statement in the first half?

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

Sandeep Shah - Analyst, Equirus Securities
Uh, what I am asking is purchase of property, plant, equipment, which in the first half show INR250 crore worth of payment in the cash flow statement.

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
Which is the- that is what I said, the AI tools.

Sandeep Shah - Analyst, Equirus Securities
That is the- I thought it's a transfer from WIP to commercialize, so it's a pocket change rather than a cash outflow.

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
No, no, so that, uh, the commercialization, or I would say basically the capitalization of that, uh, last quarter was in WIP, this quarter It has moved into this, I would say it has moved into intangibles.

Sandeep Shah - Analyst, Equirus Securities
Okay, and this depreciation and amortization, you can consider current run rate to continue?

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
Yes, so this again, last quarter there was a partial impact, this quarter is full impact. So this what you see as this quarter can be construed as a normalized run rate.

Sandeep Shah - Analyst, Equirus Securities
Okay, thanks. Thank you for my turn.

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

Sudhir - Analyst, Kotak AMC
Hi, Manish and Pulkit. Thanks for the opportunity and congrats on a good set of numbers. And just, I wanted to harp on this point that Sandeep had made earlier. You are saying that the deal sizes, TCV, is seeing a compression because of AI making the deal shorter and because of some amount of deflation, etc., etc. And you are also alluding to the fact that same will be the case for the industry. So 2 questions on that. First is most of our competitors who have reported so far and over the last couple of quarters also, they have been seeing very strong increase in TCV numbers.

So the basic assumption over there is In the overall TCV, the renewal component, even if it is compressed a bit because of AI, they might be winning wallet share, they might be getting a lot more net new, thereby showing overall TCV-level growth. So clearly the industry is not showing the trend that we are showing, that is number one. And number two, while we are saying that the deal sizes are getting compressed, durations are getting compressed, we're also saying that the average tenure has not changed much.

So how do we reconcile this contradiction?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Yeah, I think, uh, second thing is, uh, see, when you- AI is a very fast-changing environment, as you know. What we can do now, we were not able to do- we means, uh, in general, um, were not able to do maybe even three months back. If you look in the rearview mirror, then the numbers are what they are. But what I was saying is looking forward, because that's what all of us, all of you and all of us are trained to keep looking forward. So that is one. Second is, you know, you keep a lot of- everyone wants to talk about wallet share.

So if the wallet size is not increasing and everyone is increasing wallet share, then who's losing out? That's the other question to ask. And as I said even before this, that we believe that very large deals is a race to the bottom. As far as margins and pricing are concerned. And we tend to be a bit more selective in terms of very margin-dilutive deals overall. So that is, that is my viewpoint. Pulkit, anything else you want to add? Please feel free to add. I hope I've answered your question.

Sudhir - Analyst, Kotak AMC
No, sir, I'm actually asking about the forward-looking number only because TCVs are forward-looking numbers. Uh, so I'm unable to wrap my head around the math that you are suggesting, that if it is seeing a compression in terms of size and duration, ideally the tenure should have also come down because you are now implementing the project in six months rather than 12 months, like the way you have explained. That is number one. And number two is, uh, for the rest of the industry, clearly that's not the trend.

So what, am I missing here?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
I, uh, Pulkit, do you have any commentary on the rest of the industry? Because what I remember seeing for this quarter at least, everyone has shown a relatively weaker order book. I'm not very sure.

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
So, Sudhir, sorry, just a call out, as what we mentioned later as well, is that There is no material change, uh, which basically- if you're alluding to the fact that has the, has the TCV gone down and because of the deal sizes going down, so it's a trend which is emerging. There is no material movement. So I would suggest that don't get anchored to that particular aspect that, okay, deal size and TCV should be coming off.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Also, when you're looking at TCVs, please look at renewals. TCV versus if you fragment the order book into- split the order book into renewals, existing new, and NN. I would encourage you, if you really want to do an analysis on those lines, please do the analysis more on EN and NN rather than EE overall because All these are, uh, what we are talking about is primarily EN and NN, which is existing new and net new. And these are the fresh projects, these are not the legacy projects.

Sudhir - Analyst, Kotak AMC
Sure, sir. Thanks 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 - Analyst, Axis Capital
Hi, thank you for the opportunity and congrats on good numbers. Uh, you know, first is, uh, this whole topic of AI, and you talked about how deal sizes are going to shrink, but are you seeing clients really look at if it's an AI implementation, are they looking at, uh, do they have a clear idea on what they want to do and is there a TCV number, or are these getting more set up as MSAs and therefore not showing up in TCV numbers?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Sorry, you were breaking up a little bit and it was not very clear. Uh, can you repeat the question?

Ravi Menon - Analyst, Axis Capital
Uh, so I was asking, you know, are clients really setting up, uh, you know, MSAs for implementing AI projects? Uh, because, you know, there is no real clarity on how much effort there will be and, you know, what the tool usage and things like that as it starts evolving. Instead of fixed price programs, are you seeing a trend where we're actually moving more towards probably time and material with just, you know, you just- most of those agreements being set in place?

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
So there are no- the MSAs and the whole construct is still basically as what it used to be before. There are no separate MSAs, no separate, I would say, change from an AI perspective. All deals are basically part of the- like if it's a new client, new MSA will get set up. If it's an old client, it's the same MSA under which basically we will continue to execute under new SOWs and new assignments. So there is no specific change on that contracting element.

Ravi Menon - Analyst, Axis Capital
Right. What I meant is, are you seeing a change from more fixed price contracts towards more small statement of work? And is that impacting the PLT numbers?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
No, I don't think so. It's the other way around. Um, see, if we use AI and we do time and material contracts, then it just doesn't make sense because all the benefit- actually, none of the benefit flows into our bottom line. So we are trying to do as many fixed price and outcome-based contracts, uh, that we can do. And, um, uh, the trend actually, uh, and I don't know the numbers, uh, exactly, but over the next three or four quarters, um, at least from our perspective, we should see more outcome-based and fixed-price components going up, primarily outcome-based components.

Um, going up because, as I said, using AI in time and material construct, uh, just doesn't make sense, uh, at least for us.

Ravi Menon - Analyst, Axis Capital
Thanks, appreciate that. Uh, you know, in the mid-market, do you think that because the landscapes are less complex, uh, you know, there's a greater scope for quicker adoption? Uh, because we are seeing everybody now, you know, larger peers Trying to set up mid-market practices. I mean, and yes, the market is slow, but it's still, you know, this is very unusual, right, for them to compete head-on, you know, in a space where they wouldn't normally enter.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Yeah, I mean, I see people have been- people talked about- the large players have talked about GCC in a big way last year. If you remember, I have not seen much progress. Maybe you guys have seen.

Now they're talking about targeting the mid-sized businesses. It is not just about-it's not just about making that statement, but how are they going about executing it? Actually, and that's what as analysts. Perhaps you should delve on. Historically, I was part of a very large company for several years, and I can tell you that just the transformation in the sales force that is needed to execute that well is, a mammoth task.

Because in the good old days, You know, anything, any deal less than $1 million, people didn't even look at it. Okay. Um, now, um, you are asking your sales force to retrain themselves to look at these much smaller deals. And the other thing I would say is, uh, if you look at targeting, uh, much smaller deal size, then your sales costs should theoretically go up because your sales productivity will come, down. So I would say it's a good statement of intent, uh, but the execution of that statement of intent, at least we are not seeing, uh, very strongly in the market.

Ravi Menon - Analyst, Axis Capital
Thanks. The other part was, you know, are you Uh, maybe quicker adoption in the mid-sized enterprises? And, you know, will that be something that enables you to create a moat ahead of some of your larger peers?

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Well, I think, uh, it doesn't matter whether it's a mid-sized enterprise or a small enterprise or a large enterprise. I believe that this AI change unless until it is driven from absolutely the top, it is not going to happen. The key variable here is where is this drive for AI change coming from? And we don't have to go far to look at this concept. There is a wonderful example in India itself of that concept that you guys will be much aware of as compared to What I'm talking about, as to what I'm talking about.

So I would say, at least in my experience, whether it is large, small, medium organization, AI adoption is more a function of where in the hierarchy is this change and drive coming from, a business perspective.

Ravi Menon - Analyst, Axis Capital
Thanks. Uh, any of the fresh graduate hiring that you're doing?

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

Ravi Menon - Analyst, Axis Capital
Uh, sure. Thanks.

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

Vibhor Singhal - Analyst, Nuvama Equities
Yeah, hi. Uh, thanks for taking my question.

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

Vibhor Singhal - Analyst, Nuvama Equities
Yeah, sure. Yeah, is this better now?

Operator
Yes.

Vibhor Singhal - Analyst, Nuvama Equities
Yeah. Hi, thanks for taking my question. So just 2 questions from my side, one probably just on the quarter side and one slightly longer-term one. 2 verticals, one is the healthcare and the other is the TMT vertical. I think smaller ones for us, but I think they're kind of going in the opposite directions. So in the healthcare side, just wanted to pick your brain. I think a lot of companies in the sector today are spawning up their healthcare verticals. This is a segment which has historically seen a lot of underpenetration.

How do we view this segment? Where does our capability lie? Is it more in the insurance companies, which is the payer side, or more towards the hospital and the provider side? On the TMT vertical, if I could just maybe get I know maybe you alluded to that in the beginning of your conversation. The top line for here, I think, are we close to bottoming out on that part? And what about the remaining part of the portfolio countering that weight so that this vertical as a whole, when do we expect that to return to the growth path?

And then I'll have probably a long-term question once we have- once you answer this.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Okay. On healthcare, actually our expertise lies more in the pharma and biotech sector.

Vibhor Singhal - Analyst, Nuvama Equities
Okay. Uh,

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
And from a targeting perspective, we are looking more at the provider sector than the payer sector. The payer sector actually is- both the payer sector and life sciences sector is heavily penetrated. Payers have been in this business for outsourcing sourcing and so on for ages. So we don't really want to, um, go head-on in this sector. While providers, uh, you know, have been a relatively underpenetrated sector, and we want to go more aggressively there. Also in the pharma and life sciences In this space, we, uh, we are focused more on the mid-market, uh, rather than on the, um, on the very, very large, uh, players, uh, because I think, uh, a lot of land and expand has already happened.

And pharma being- and pharma and biotech being a very innovative sector. Uh, there are usually a good amount of companies who are coming up with newer molecules and newer therapies, and we want to focus a bit more on that. Uh, on, um, uh, telecom, I- on telecom, I think, uh, I personally feel that the worst is behind us. And anyway, our exposure to this sector has reduced significantly. So at least the impact of this sector, either positive or negative, would be relatively limited overall.

Vibhor Singhal - Analyst, Nuvama Equities
Got it, got it. That was really helpful. Manish, just one last question from my side. I mean, if you were to basically- I mean, given the vantage point that we are at, I mean, if you see yourself in the disruptive time that we are, larger companies are going a lot after consolidation, vendor consolidation deals. You mentioned deal tenures also kind of shrinking because of AI and creating

new areas of growth. Where do we see ourselves as a, let's say, over the next 2 to three years? I mean, what are 2, three domains that you would want to probably focus on?

Is the South Africa or the European markets something that you would want to build upon? Which kind of sets us apart from competitors and takes our growth higher? Is the healthcare vertical where would you want to bet on? Where would you basically place ourselves as a better-than-competition force which could be the driving force of our business in the next 2 to three years? Not asking for a couple of quarters, I think too short-term a view, but maybe from a 2 to three year point of view.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
We look at ourselves as a swarm of drones. Against, uh, an F-35, if that's, uh, maybe answers your question, at least philosophically. Um, we believe that, uh, in this new world, um, a speedboat- being a speedboat is better than a large aircraft carrier. Um, we believe that, um, Uh, we, want to win in everything that we are doing because as we have seen in the past also, unless the growth is, uh, really secular, it doesn't become sustainable over a period of time. So, uh, what we are in terms of focus, what we are doing is we are not expanding into more geographies, more verticals, etc., because I think there is enough opportunity that exists, uh, in the geographies and the verticals that we have.

So, from a, from a management and leadership perspective, uh, at least that is the, thinking. We want to do well, uh, in each and every sector and each and every market, uh, that, uh, we are operating in. And frankly, this quarter was a good proof that, uh, we can actually do it. Because except for TPS, um, except for the telecom sector, I didn't- we have delivered, uh, positive numbers quarter on quarter.

Vibhor Singhal - Analyst, Nuvama Equities
Yes, indeed, Manish. I think it's been a great performance in this quarter. And thank you so much for taking my questions. Wish you all the best.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
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.

Girish Pai - Analyst, Bank of Baroda Capital Markets Limited
Yeah, thanks for the opportunity. I had a few questions, I'll reel them out. Uh, uh, 4.1% Q-o-Q growth, uh, did you expect that kind of a strong growth at the beginning of the quarter? Uh, if, not, what surprised you? Second is a margin walk. What is the Q-o-Q margin walk? Uh, third is regarding the AI tools. What exactly the AI tools that you bought and what is amortization schedule on this? And are you doing any kind of license sales of the ZenseAI platform that you have? And the salary increase for 3Q and 4Q, if you can give the impact of that on margins.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Frankly, I was not very surprised with our Q2 performance. We have been working hard in terms of building the foundation for growth. And actually, if you look at it, except for a quarter, quarter here or there, we have always shown sequential quarter- quarterly growth, except perhaps for Q3s overall. So I think the effort on having the right strategy and executing it well. Um, I was expecting

that it will show up sometime, and I think we have been proven right in our approach and strategy, um, in Q2.

And, um, hopefully we'll, uh, continue. I mean, as I always say to my team, that one swallow doesn't make a summer. So hopefully the next 2-3 quarters will, show, um, how strong the growth or weak the recovery is going to be. And Pulkit, yeah, you can answer all the detailed questions.

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
Yeah, yeah. So, uh, I think, uh, from a capitalization and intangible perspective, the time frame is roughly around five five-odd years, uh, five, five and half years. Um, the salary hike impact, wage hike impact that you call- you asked for, it will be in the range of 1.5% to 2%. Uh, of course, uh, this sounds quite substantial, uh, and what we are also basically doing simultaneously is figuring out levers to absorb this, and that's why we have kept the mid-teens Guidance on margins. Uh, the usage of basically the AI tools is around training and building- training our people and building platforms.

Girish Pai - Analyst, Bank of Baroda Capital Markets Limited
Are you making any license revenues from sale of the ZenseAI platform? And the margin works on a Q-o-Q basis?

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
So, uh, on the- from a ZenseAI platform perspective, it is used as an accelerator. The IP stays with us. Uh, at the same, uh, IP stays with Zensar, but we basically use it in the broader solutioning that we offer to the clients.

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
We want to- we want it to act more as a differentiator than a license sale, uh, because we are not in the product business. Uh, we want to be able to use it as a differentiator, as an accelerator. As a speed-to-market and, uh, tool and a, um, and a higher quality, higher governance, um, and traceability, uh, AI tool.

Girish Pai - Analyst, Bank of Baroda Capital Markets Limited
The margin walk for the quarter?

Pulkit Bhandari - Chief Financial Officer, Zensar Technologies Ltd.
Yeah, lastly on the margin walk, I call it out in the commentary, but it is, uh, I would say forex impact is 0.4%, uh, volume and working and utilization kind of gave us a benefit of 1.3%. Lower ESOP costs is again a positive 1.3%. The offsets are basically around management bonuses, which was reversal of management bonuses which was there in previous quarter, which is -1.3%. And then there are other elements and software-related, AMC-related costs, which is again -minus 0.5%. So that's broadly the margin walk.

Yeah.

Girish Pai - Analyst, 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 - Analyst, Axis Capital
Hi, thanks, Officer. Let me just quick- I just want to check about the fresher hiring. You know, are you also having a separate tier for the AI talent? And if so, what sort of higher pay are you paying for them? Uh, Vijay,

Manish Tandon - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Can you take that question?

Vijayasimha Alilughatta - Chief Operating Officer, Zensar Technologies Ltd.
Yeah, yeah. So I think, uh, you're right, uh, we have different categories of fresher hiring. One is the normal fresher hiring and the second one is the AI-native fresher hiring. Uh, the AI-native fresher hiring salary is- we are doing 2 models. One, obviously, we are looking at an internship model to assess the capability of people and then conversion. So post-conversion, the salary of those people is likely to be about 2.5 times of the normal freshers that we used to hire.

Ravi Menon - Analyst, Axis Capital
And roughly what proportion would this be? I mean, within the freshers?

Vijayasimha Alilughatta - Chief Operating Officer, Zensar Technologies Ltd.
So no, it's- I think going forward, uh, we will pivot towards more of AI-native freshers hiring than the normal fresher hiring. Uh, that is the endeavor. So far it has been probably, uh, more of- I think 30% of our all, uh, fresher hiring has been AI-native, but going forward we expect that to increase. Thanks so much.

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 - Chief Executive Officer and Managing Director, Zensar Technologies Ltd.
Again, um, as I always say, I first want to reiterate my gratitude to our clients first for their continued trust, to all Zensarians for their unwavering dedication, and to our shareholders for their confidence and support. Uh, I would say while the demand environment remains mixed, our broad-based revenue and volume growth coupled with strong EBITDA performance and robust cash position collectively reinforces our confidence in the path ahead. As we move into quarter three, our priorities remain clear: maintain growth momentum, disciplined execution, 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, and have, a great day ahead. Thank you.

Operator
[Operator Closing Remarks]