

## Zensar Technologies

BUY

Strong growth &amp; attractive valuation key positive

## Summary

Zensar's reported revenues (+4.1%/+27.5% QoQ/YoY) was better than peers and above our expectation. We believe the company has grown at 20% YoY on organic basis (highest in past few quarters) indicating a turnaround. Further, the company's order book has increased 30% QoQ to US\$165.6 mn (of which 40% was new) and has added 1198 employees which is highest quarterly addition in past few quarters. Hence, we have built in revenue CAGR of 13.7% over FY22-FY24E. Further, Zensar aspire to achieve mid teen EBITDA margins (15-17%) in near term and high teen margins (16-19%) in longer run. This coupled with attractive valuation (12x on FY24E EPS) prompt us to maintain BUY rating on the stock with a revised target price of Rs 410 (PE of 16x on FY23E EPS).

## Key Highlights and Investment Rationale

- Strategy of new CEO on the right path:** The company is witnessing healthy revenue growth mainly led by consistent deal wins (order book up 32% QoQ to US\$ 165.6 mn), improving client mining (US\$5mn+ clients +2 QoQ to 27 client and added 2 clients QoQ to US\$1 mn plus), benefits from salesforce & hyperscaler partnership and hiring of new leadership. Going forward, we expect the company to witness CAGR growth of 13.7% over FY22-FY24E mainly led by improving logo addition (added 43 clients in FY22), growth in BFSI, defined sales pitch and new sales hires.
- Margins to improve in the long run:** The Company has indicated that it will aspire to achieve mid teen margins (15-17%) in near term and high teen margins (16-19%) in longer run. However, we have tapered our EBIT margin downwards by 90 bps & 114 bps for FY23 & FY24, respectively due to on-going supply side issue, hiring of leadership and on-going macro related challenges.

TP	Rs410
CMP	Rs294
Potential upside/downside	40%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(22.1)	(24.7)	9.7
Rel to Sensex	(13.8)	(17.7)	(0.3)

V/s Consensus		
EPS (Rs)	FY23E	FY24E
IDBI Capital	19.7	24.9
Consensus	20.4	23.1
% difference	(3.2)	7.8

Key Stock Data	
Bloomberg/Reuters	ZENT IN/ZENT.BO
Sector	IT Services
Shares o/s (mn)	226
Market cap. (Rs mn)	66,485
3-m daily average value (Rs mn)	82.3
52-week high / low	Rs587 / 268
Sensex / Nifty	54,088 / 16,167

Shareholding Pattern (%)	
Promoters	49.1
FII	16.6
DII	12.9
Public	21.4

## Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	41,817	37,814	42,437	49,751	55,960
Change (yoy, %)	5	(10)	12	17	12
EBITDA	5,071	6,848	6,564	7,761	9,345
Change (yoy, %)	3	35	(4)	18	20
EBITDA Margin(%)	12.1	18.1	15.5	15.6	16.7
Adj.PAT	2,634	3,491	4,161	4,472	5,647
EPS (Rs)	11.5	15.3	18.3	19.7	24.9
Change (yoy, %)	(17)	33	20	7	26
PE(x)	25	19	16	15	12
Dividend Yield (%)	2	0	2	2	2
EV/EBITDA (x)	13	9	9	7	6
RoE (%)	13.1	15.8	16.7	15.9	17.8
RoCE (%)	14	19	17	18	21

Source: IDBI Capital Research;

### Con-call Highlights

- Management has guided EBITDA margins to remain in mid-teens for FY23 on the back of increased hiring of fresh talent, expansion of delivery locations, improving operational efficiency and focus on right shoring. Would aim to improve the margins to higher teens in the longer term.
- The on-going global macro-economic challenges might have some impact on the demand in near term, but in the mid and long term the demand is expected to be robust.
- The order book of Q4 FY'22 stood at \$165.6 million, recording 32% growth over the last quarter, supported by multiple wins across verticals. 60% of the order book was represented by renewal of existing deal and balance was new deals won.
- Other income was higher due to lower earnouts, reversal of Cost relating to SA JV and forex.
- The US region posted a 28.8% quarterly YoY growth and a 3.4% QoQ growth, driven by the performance of the new logos acquired which are poised to expand the growth in coming quarters.
- The Europe region registered its highest ever quarterly revenue with quarterly YoY growth of 29.7% and a sequential growth of 9.8%. This growth was driven by strong deal win momentum.
- BFSI grew 5.3%/35.4% QoQ/YoY. This momentum was aided by growth in the insurance portfolio and strong traction in fin-tech space. The momentum remains strong as the investments that were made in improving sales and delivery capabilities are seeing some success.
- Hi-tech and manufacturing registered QoQ/YoY growth of 3.2%/13.7% led by uptick in revenue from new accounts. Zensar continued to add new logos under this vertical. Emerging vertical grew 6.1%/148.5% QoQ/YoY.
- While LTM attrition stood at elevated level of 27.9%, attrition for Q4 was lower than that of the previous 2 quarters. Management expects attrition levels to stabilize over the next few quarters.
- Board recommended a final dividend of Rs. 3.5 per share.

## Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>153.2</b>	<b>147.1</b>	<b>4.1</b>	<b>120.2</b>	<b>27.5</b>
<b>Revenues</b>	<b>11,538</b>	<b>11,025</b>	<b>4.7</b>	<b>8,767</b>	<b>31.6</b>
COGS	8,055	7,758	3.8	5,708	41.1
Gross profit	3,483	3,267	6.6	3,059	13.9
SG&A	1,841	1,683	9.4	1,316	39.9
<b>EBITDA</b>	<b>1,642</b>	<b>1,584</b>	<b>3.7</b>	<b>1,743</b>	<b>(5.8)</b>
Depreciation & amortization	481	474	1.5	445	8.1
EBIT	1,161	1,110	4.6	1,298	(10.6)
Other income	634	152	317.1	-56	(1,232.1)
PBT	1,795	1,262	42.2	1,242	44.5
Tax	489	339	44.2	314	55.7
Minority interest	-9	-14	n.m.	-23	n.m.
<b>Adjusted net profit</b>	<b>1,297</b>	<b>909</b>	<b>42.7</b>	<b>905</b>	<b>43.3</b>
Exceptional item	0	0	n.m.	0	n.m.
<b>Reported net profit</b>	<b>1,297</b>	<b>909</b>	<b>42.7</b>	<b>905</b>	<b>43.3</b>
<b>Diluted EPS (Rs)</b>	<b>5.7</b>	<b>4.0</b>	<b>42.1</b>	<b>3.9</b>	<b>44.7</b>
<b>As % of net revenue</b>					
Gross profit	30.2	29.6		34.9	
SG&A	16.0	15.3		15.0	
EBITDA	14.2	14.4		19.9	
EBIT	10.1	10.1		14.8	
Reported net profit	11.2	8.2		10.3	
Tax rate	27.2	26.9		25.3	

Source: Company; IDBI Capital Research

**Exhibit 2: Earnings Revision**

Year-end: March	FY23F			FY24F		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	663	667	-0.5%	736	774	-4.9%
Revenue (Rs bn)	49,751	50,014	-0.5%	55,960	58,016	-3.5%
EBIT	5,821	6,326	-8.0%	7,308	8,246	-11.4%
<i>EBIT margin (%)</i>	11.7%	12.6%	(90) bps	13.1%	14.2%	(114) bps
EPS (Rs)	19.7	21.3	-7.5%	24.9	27.9	-10.8%

Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. estimates**

Year to March	Q4FY22	Q4FY22E	Variance (%)
Revenue (US\$ mn)	153.2	150.5	1.8%
Revenue (Rs mn)	11,538	11,294	2.2%
EBIT (Rs mn)	1,161	1,176	-1.3%
<i>EBIT margin (%)</i>	10.1%	10.4%	(35) bps
Recurring PAT (Rs mn)	1,297	955	35.8%
<i>Recurring PAT margin (%)</i>	11.2%	8.5%	278 bps
EPS (Rs)	5.7	4.2	35.3%

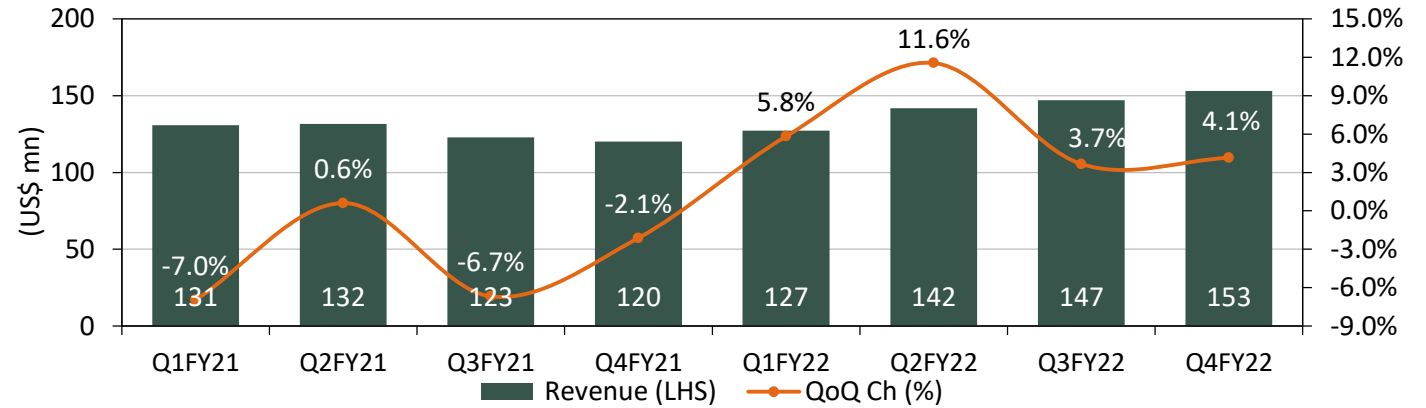
Source: Company; IDBI Capital Research

**Exhibit 4: Large clients trend**

Year-end: March	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
US\$1 mn+	85	86	83	78	79	85	81	83
US\$5 mn+	24	24	24	24	24	26	25	27
US\$10 mn+	9	8	8	7	8	10	11	11
US\$20 mn+	2	2	2	2	3	3	4	4

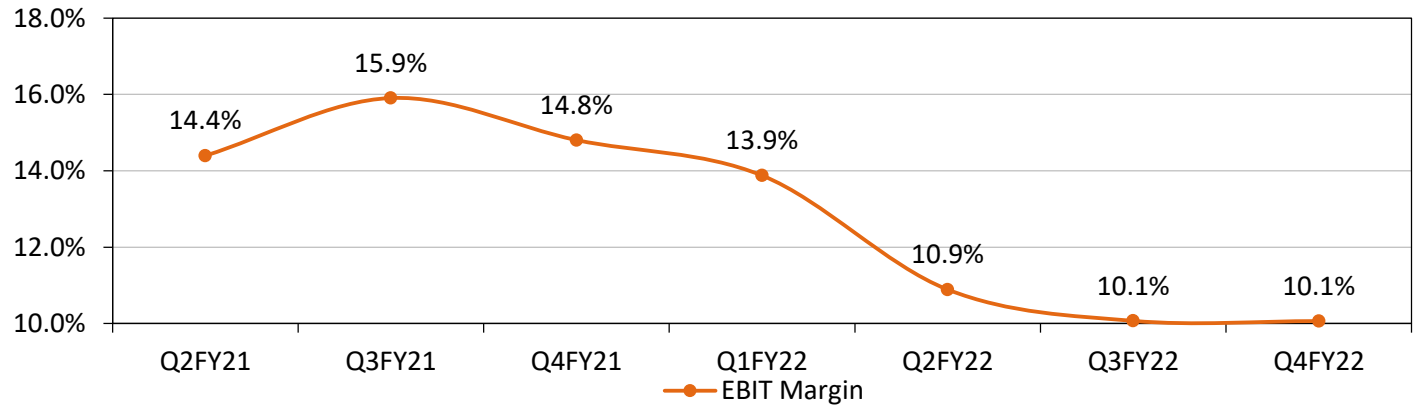
Source: Company; IDBI Capital Research

**Exhibit 5: Q4FY22 Revenue growth was beat to our forecast**



Source: Company; IDBI Capital Research

**Exhibit 6: Q4FY22 EBIT margin was flat QoQ**



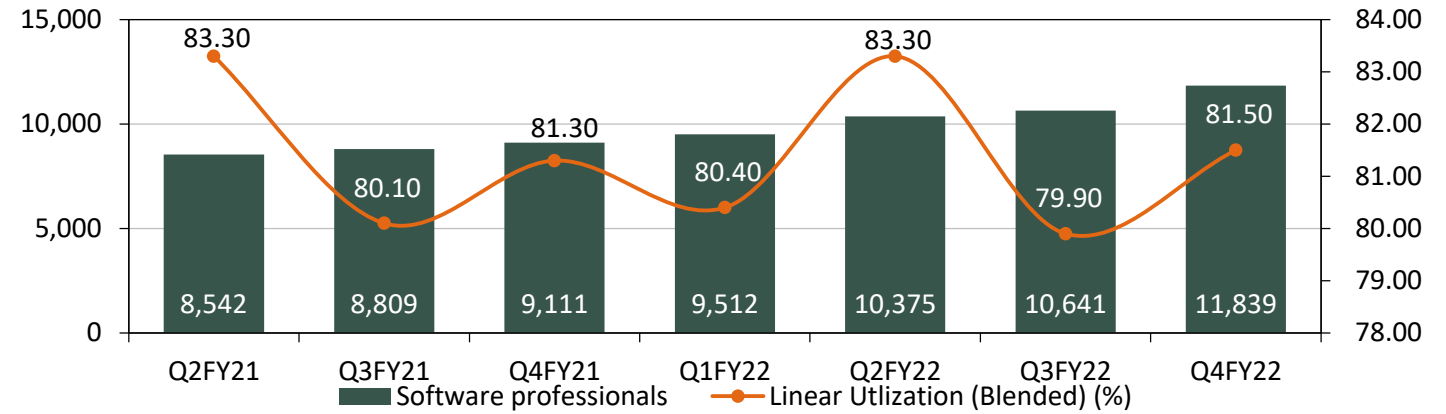
Source: Company; IDBI Capital Research

**Exhibit 7: Revenue growth across various segments (%)**

Parameters	% of revenue	YoY growth (in CC)
Total revenue		13.1%
Digital revenue	72%	39.3%
<b>Geography</b>		
US	70.4%	3.4%
Europe	19.0%	9.9%
India	10.7%	0.4%
<b>Service-Line</b>		
AMS	81.7%	3.4%
IMS	18.3%	7.7%
<b>Verticals</b>		
Hi Tech	36.4%	3.5%
Manufacturing	9.5%	2.1%
Consumer services	16.1%	4.0%
Insurance	17.7%	4.9%
Banking	14.3%	5.9%
Emerging	5.9%	6.1%

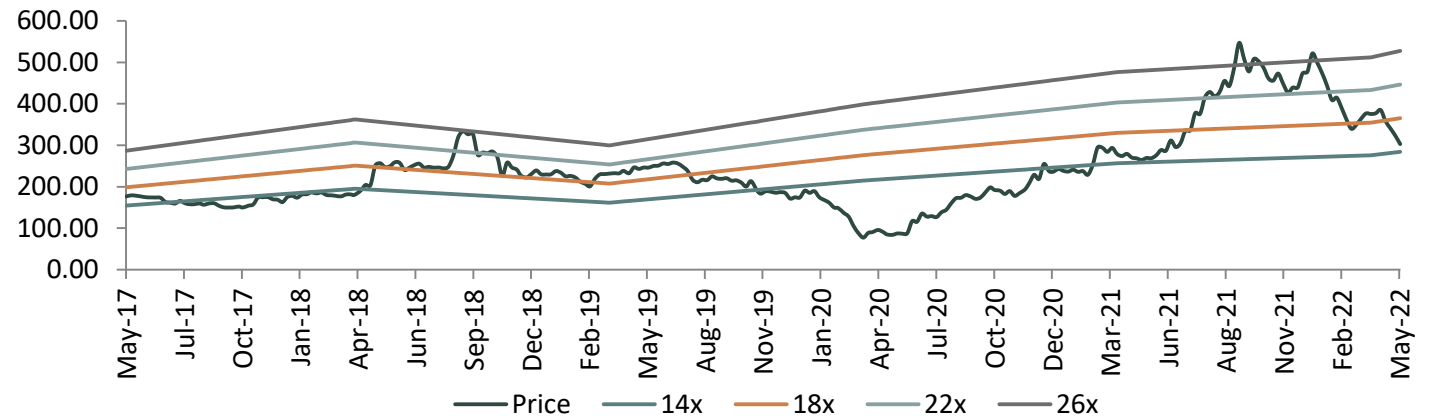
Source: Company; IDBI Capital Research

**Exhibit 8: Utilisation improved QoQ**



Source: Company; IDBI Capital Research

**Exhibit 9: One-year forward PER trend**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>39,663</b>	<b>41,817</b>	<b>37,814</b>	<b>42,437</b>	<b>49,751</b>	<b>55,960</b>
<i>Change (yoy, %)</i>	28	5	(10)	12	17	12
Operating expenses	(34,897)	(36,746)	(30,966)	(35,873)	(41,990)	(46,615)
<b>EBITDA</b>	<b>4,928</b>	<b>5,071</b>	<b>6,848</b>	<b>6,564</b>	<b>7,761</b>	<b>9,345</b>
<i>Change (yoy, %)</i>	32	3	35	(4)	18	20
<i>Margin (%)</i>	12.4	12.1	18.1	15.5	15.6	16.7
Depreciation	(894)	(1,592)	(1,747)	(1,848)	(1,940)	(2,037)
<b>EBIT</b>	<b>4,034</b>	<b>3,479</b>	<b>5,101</b>	<b>4,716</b>	<b>5,821</b>	<b>7,308</b>
Interest paid	(373)	(605)	(535)	(353)	(353)	(353)
Other income	793	884	255	1,377	696	814
<b>Pre-tax profit</b>	<b>4,454</b>	<b>3,758</b>	<b>4,820</b>	<b>5,740</b>	<b>6,164</b>	<b>7,769</b>
Tax	(1,267)	(1,042)	(1,260)	(1,525)	(1,633)	(2,059)
<i>Effective tax rate (%)</i>	28	28	26	27	27	27
Minority Interest	(51)	(82)	(70)	(54)	(58)	(63)
<b>Net profit</b>	<b>3,136</b>	<b>2,634</b>	<b>3,491</b>	<b>4,161</b>	<b>4,472</b>	<b>5,647</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>3,136</b>	<b>2,634</b>	<b>3,491</b>	<b>4,161</b>	<b>4,472</b>	<b>5,647</b>
<i>Change (yoy, %)</i>	30	(16)	33	19	7	26
EPS	13.9	11.5	15.3	18.3	19.7	24.9
Dividend per sh	3	5	1	5	5	7
<i>Dividend Payout %</i>	20	45	8	27	27	27



**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E*	FY23E	FY24E
<b>Shareholders' funds</b>	<b>19,424</b>	<b>20,900</b>	<b>23,423</b>	<b>26,449</b>	<b>29,701</b>	<b>33,806</b>
Share capital	450	451	451	451	451	451
Reserves & surplus	18,973	20,449	22,972	25,998	29,250	33,355
<b>Total Debt</b>	<b>2,578</b>	<b>2,886</b>	-	-	-	-
Other liabilities	775	3,771	3,239	3,239	3,239	3,239
<b>Curr Liab &amp; prov</b>	<b>7,951</b>	<b>8,162</b>	<b>7,384</b>	<b>7,687</b>	<b>8,328</b>	<b>8,908</b>
Current liabilities	5,940	6,481	5,880	6,182	6,564	6,924
Provisions	2,011	1,681	1,505	1,505	1,764	1,984
<b>Total liabilities</b>	<b>11,304</b>	<b>14,819</b>	<b>10,623</b>	<b>10,926</b>	<b>11,567</b>	<b>12,147</b>
<b>Total equity &amp; liabilities</b>	<b>30,897</b>	<b>35,956</b>	<b>34,334</b>	<b>37,662</b>	<b>41,555</b>	<b>46,241</b>
Net fixed assets	9,617	13,340	11,330	12,529	11,934	11,348
Investments	-	-	-	-	-	-
Other non-curr assets	1,898	2,039	3,076	3,143	3,281	3,406
<b>Current assets</b>	<b>19,382</b>	<b>20,576</b>	<b>19,928</b>	<b>21,991</b>	<b>26,340</b>	<b>31,487</b>
Inventories	985	941	-	-	-	-
Sundry Debtors	8,762	6,656	5,888	6,578	7,711	8,674
Cash and Bank	3,259	5,166	6,986	8,309	11,211	15,123
Loans and advances	454	2,670	3,633	3,633	3,633	3,633
<b>Total assets</b>	<b>30,897</b>	<b>35,956</b>	<b>34,334</b>	<b>37,662</b>	<b>41,555</b>	<b>46,241</b>

Note: \*Awaiting Annual Report

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E*	FY23E	FY24E
Pre-tax profit	4,454	3,758	4,820	5,740	6,164	7,769
Depreciation	1,197	1,137	1,733	1,848	1,899	1,994
Tax paid	(1,404)	(1,092)	(1,255)	(1,543)	(1,721)	(2,133)
Chg in working capital	1,235	143	(30)	(388)	(493)	(382)
Other operating activities	(3,041)	864	5,551	(429)	(767)	(912)
<b>Cash flow from operations (a)</b>	<b>2,441</b>	<b>4,811</b>	<b>10,819</b>	<b>5,228</b>	<b>5,082</b>	<b>6,336</b>
Capital expenditure	(4,839)	(4,860)	277	(3,046)	(1,304)	(1,408)
Chg in investments	-	-	-	-	-	-
Other investing activities	1,579	3,924	(4,605)	1,121	1,171	1,305
<b>Cash flow from investing (b)</b>	<b>(3,260)</b>	<b>(936)</b>	<b>(4,328)</b>	<b>(1,925)</b>	<b>(134)</b>	<b>(103)</b>
Equity raised/(repaid)	0	0	0	-	-	-
Debt raised/(repaid)	2,519	308	(2,886)	-	-	-
Dividend (incl. tax)	(633)	(1,197)	(271)	(1,135)	(1,221)	(1,542)
Chg in minorities	(18)	(14)	(19)	(54)	(58)	(63)
Other financing activities	141	(1,064)	(1,496)	(792)	(787)	(782)
<b>Cash flow from financing (c)</b>	<b>2,009</b>	<b>(1,968)</b>	<b>(4,671)</b>	<b>(1,981)</b>	<b>(2,067)</b>	<b>(2,387)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,190</b>	<b>1,907</b>	<b>1,821</b>	<b>1,323</b>	<b>2,882</b>	<b>3,846</b>

Note: \*Awaiting Annual Report

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	86.3	91.5	102.9	116.5	130.8	148.9
Adj EPS (Rs)	14	12	15	18	20	25
Adj EPS growth (%)	30	-17	33	20	7	26
EBITDA margin (%)	12	12	18	15	16	17
Pre-tax margin (%)	11	9	13	14	12	14
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	20	14	19	17	18	21
ROE (%)	17.4	13.1	15.8	16.7	15.9	17.8

### DuPont Analysis

Asset turnover (x)	1.5	1.3	1.1	1.2	1.3	1.3
Leverage factor (x)	1.5	1.7	1.6	1.4	1.4	1.4
Net margin (%)	7.9	6.3	9.2	9.8	9.0	10.1

### Working Capital & Liquidity ratio

Inventory days	9	8	0	0	0	0
Receivable days	81	58	57	57	57	57
Payable days	31	26	26	25	25	25

### Valuations

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
PER (x)	21.1	25.5	19.2	16.0	14.9	11.8
Price/Book value (x)	3.4	3.2	2.9	2.5	2.2	2.0
EV/Net sales (x)	1.6	1.6	1.6	1.4	1.1	0.9
EV/EBITDA (x)	13	13	9	9	7	6
Dividend Yield (%)	1	2	0	2	2	2

Source: Company; IDBI Capital Research



# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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