

## Zensar Technologies

HOLD

Strong growth across verticals to persist

## Summary

Zensar's Q1 revenue growth (4.3% QoQ) was broad based across verticals. Going forward, the company expects revenues to improve on QoQ basis led by strong order book (book to bill of 1x) coupled with benefit of last quarter order backlog & growth across all verticals. Company re-iterates intention to invest in capability building (cross selling TMT and Manufacturing), sales and large deals would further improve their visibility in clients. With Bridge view life-science acquisition, company improved their capabilities & visibility in Healthcare & life-science vertical which is expected to exhibit good growth in near term. On the backdrop of the same, margin estimates revised upwards by 32bps & 31bps for FY25E & FY26E respectively. Hence, we upgrade our target price to Rs. 720 (21x FY26E EPS) v/s Rs 615 while maintaining HOLD rating on the stock. We believe key trigger for further re-rating will be sustaining growth for next few quarters.

## Key Highlights and Investment Rationale

- **Demand environment to remain volatile:** Company still sees macro to be in the same scenario of cautiousness with good deal momentum (BSFI in particularly). However, company is focusing on cross selling (TMT and Manufacturing & consumer) strategies to improve revenue growth. We are cautious in terms of revenue growth due to uncertain macro & client specific challenges. Hence, we have built in revenue growth of 6% YoY & 12% YoY for FY25E & FY26E.
- **Margin to stabilize:** Company's newest acquisition would not be margin dilutive in this fiscal year. Further with absence of one offs and investments we expect margins to maintain same range of 14-16% for FY26E.

TP	Rs720
<b>CMP</b>	<b>Rs758</b>
Potential upside/downside	-5%
Previous Rating	HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	0.8	32.8	56.2
Rel to Sensex	(3.4)	23.7	35.6

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	30	34
Consensus	29	33
% difference	3.3	2.4

## Key Stock Data

Bloomberg/Reuters	ZENT IN/ZENT.BO
Sector	IT Services
Shares o/s (mn)	227
Market cap. (Rs mn)	171,896
3-m daily average value (Rs mn)	41.4
52-week high / low	Rs838 / 456
Sensex / Nifty	80,429 / 24,479

## Shareholding Pattern (%)

Promoters	49.2
FII	15.7
DII	18.8
Public	16.3

## Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	42,437	48,483	49,019	52,356	58,901
Change (yoy, %)	12	14	1	7	13
EBITDA	6,565	5,523	8,718	9,055	10,187
Change (yoy, %)	(4)	(16)	58	4	12
EBITDA Margin(%)	15.5	11.4	17.8	17.3	17.3
Adj.PAT	4,162	3,275	6,651	6,812	7,751
EPS (Rs)	18	14	29	30	34
Change (yoy, %)	20	(21)	103	2	14
PE(x)	41	52	26	25	22
Dividend Yield (%)	0.7	0.7	0.7	1	1
EV/EBITDA (x)	24.9	29.8	18.8	17.7	15.3
RoE (%)	17	12	21	18	17
RoCE (%)	16.4	11.7	21	20	19

Source: IDBI Capital Research;

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### Concall Highlights

- Total revenue for the quarter stood at \$154.4mn which grew by 4.3% QoQ in CC terms. Services revenue stood at US\$ 147.8mn with growth 1.9% QoQ in CC terms. Sequential revenue growth in CC terms was broad based. In terms of vertical; Healthcare & lifescience up by 6.9% QoQ, BFSI up by 6.8% QoQ, Manufacturing & consumer business up by 2.7% QoQ and TMT up by 1.2% QoQ. Geo-wise, USA grew by 4.2%QoQ, Europe decline by 3.1% QoQ and Africa decline by 2% QoQ.
- Gross margin stood at 30.4%, 20bps QoQ decline due to increases in operational costs, including travel, visa, licenses, impacting by 150bps which was offset by exchange benefit (20bps), Improvement in utilization and volume (40bps) and one-time benefit of 70 bps on account of the R&D credit achieved during the quarter. Also, EBITDA margin for the quarter stood at 15.2% which has a one-time impact (\$1.75mn) of bankruptcy filed by an customer (could recover in near time).
- Order book stood at USD 154mn (book to bill 1x) growth of 8.4% QoQ. Deal size going forward to be in the same range of the quarter. Large deal pipeline remains resilient.
- In this quarter, company announced to acquire Bridge View Life Sciences, a Pennsylvania-based technology and consulting solutions company in life and Life Sciences Industry. This would reinforce focus in healthcare and life sciences vertical.
- **Demand environment** – Management expects macro environment to remain volatile & unchanged. In terms of verticals, softness to be seen in TMT & Hi-tech due to furloughs (in Q2). BFSI is growing good and growth is expected in the sector. Region-wise, South Africa is doing well and expects to grow in the coming quarters.
- **Margin guidance:** For FY25, EBIT margin to be in the range of 15-16%, management is confident to achieve the same on the back of improving utilization, pyramid optimization and new deal wins. However, wage hike (\$3mn) would impact margins going forward.
- Total Headcount for the quarter – 10,396 (gross add. Of 855) employees with the utilization rate of 83.9% and attrition at 10.6%. And intends to hire +100 fresher's in the coming quarter.

**Exhibit 1: Financial snapshot**

(Rs mn)

Year-end: March	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>154.4</b>	<b>148.1</b>	<b>4.3</b>	<b>149.3</b>	<b>3.4</b>
<b>Revenues</b>	<b>12,881</b>	<b>12,297</b>	<b>4.7</b>	<b>12,272</b>	<b>5.0</b>
COGS	8,968	8,529	5.1	8,146	10.1
Gross profit	3,913	3,768	3.8	4,126	(5.2)
SG&A	1,951	1,738	12.3	1,825	6.9
<b>EBITDA</b>	<b>1,962</b>	<b>2,030</b>	<b>(3.3)</b>	<b>2,301</b>	<b>(14.7)</b>
Depreciation & amortization	247	237	4.2	423	(41.6)
EBIT	1,715	1,793	(4.4)	1,878	(8.7)
Other income	383	493	(22.3)	224	71.0
PBT	2,098	2,286	(8.2)	2,102	(0.2)
Tax	518	553	(6.3)	540	(4.1)
Minority interest	0	0	<i>n.m.</i>	0	<i>n.m.</i>
<b>Adjusted net profit</b>	<b>1,580</b>	<b>1,733</b>	<b>(8.8)</b>	<b>1,562</b>	<b>1.2</b>
Exceptional item	0	0	<i>n.m.</i>	0	<i>n.m.</i>
<b>Reported net profit</b>	<b>1,580</b>	<b>1,733</b>	<b>(8.8)</b>	<b>1,562</b>	<b>1.2</b>
<b>Diluted EPS (Rs)</b>	<b>7.0</b>	<b>7.7</b>	<b>(9.0)</b>	<b>6.9</b>	<b>0.9</b>
<b>As % of net revenue</b>					
Gross profit	30.4	30.6		33.6	
SG&A	15.1	14.1		14.9	
EBITDA	15.2	16.5		18.8	
EBIT	13.3	14.6		15.3	
Reported net profit	12.3	14.1		12.7	
Tax rate	24.7	24.2		25.7	

Source: Company; IDBI Capital Research

**Exhibit 2: Earnings Revision**

Year-end: March	FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	631	625	0.9%	710	706	0.5%
Revenue (Rs bn)	52,356	51,865	0.9%	58,901	58,607	0.5%
EBIT	7,891	7,653	3.1%	8,965	8,741	2.6%
EBIT margin (%)	15.1%	14.8%	32 bps	15.2%	14.9%	31 bps
EPS (Rs)	30.1	29.3	2.7%	34.2	33.5	2.3%

Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. estimates**

Year to March	Q1FY25	Q1FY25E	Variance (%)
Revenue (US\$ mn)	154.4	151.1	2.2%
Revenue (Rs mn)	12,881	12,599	2.2%
EBIT (Rs mn)	1,715	1,914	-10.4%
EBIT margin (%)	13.3%	15.2%	-188 bps
Recurring PAT (Rs mn)	1,580	1,621	-2.5%
Recurring PAT margin (%)	12.3%	12.9%	-60 bps
EPS (Rs)	7.0	7.2	-2.9%

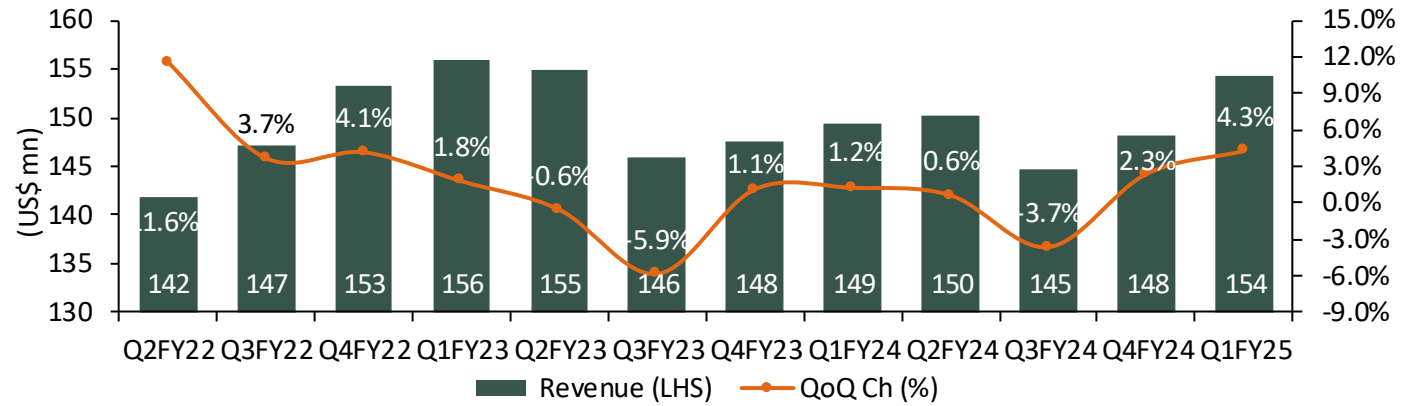
Source: Company; IDBI Capital Research

**Exhibit 4: Large clients trend**

Year-end: March	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
US\$1 mn+	87	87	84	87	84	84	85	86
US\$5 mn+	28	28	29	29	29	32	31	31
US\$10 mn+	13	15	14	14	14	14	14	14
US\$20 mn+	3	4	4	4	4	4	4	4

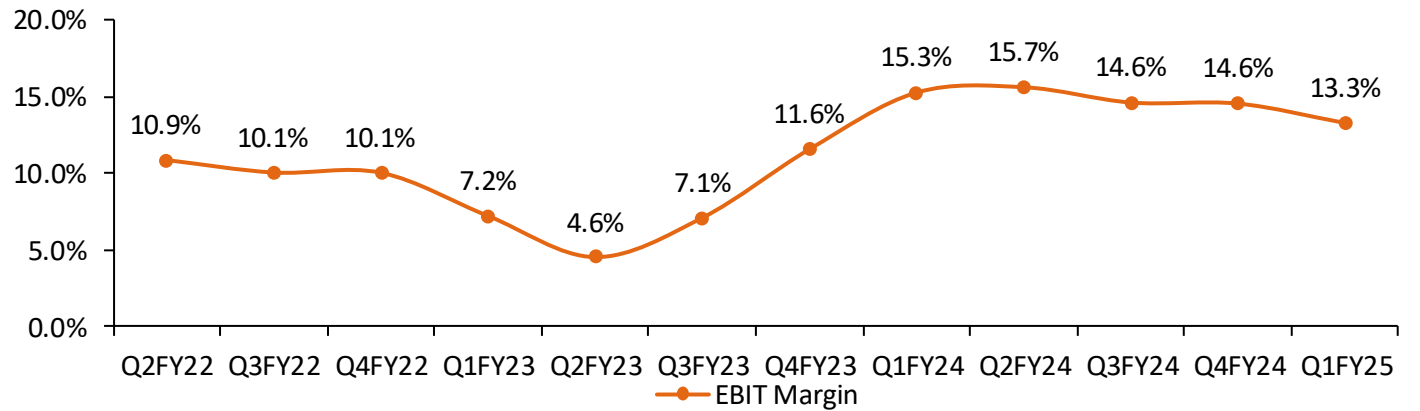
Source: Company; IDBI Capital Research

**Exhibit 5: Q1FY25 Revenue growth was above our estimates by ~2%.**



Source: Company; IDBI Capital Research

**Exhibit 6: Q1FY25 EBIT margin declined 70 QoQ**



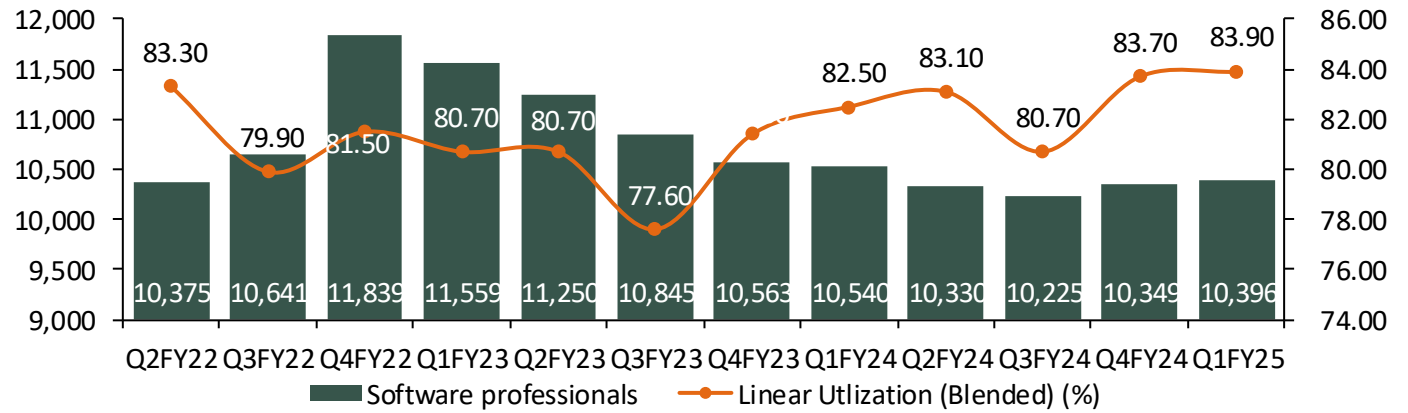
Source: Company; IDBI Capital Research

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

Parameters	% of revenue	QoQ growth (in CC)
		4.3%
Geography		QoQ growth (in CC)
US	68.7%	6.6%
Europe	19.8%	-0.8%
Africa	11.5%	-0.1%
Service-Line		
AMS	81.7%	3.1%
IMS	18.3%	9.6%
Verticals		
Hi Tech	24.7%	1.0%
Manufacturing & Consumer services	25.8%	2.3%
BFSI	39.7%	6.9%
Healthcare	9.8%	7.5%

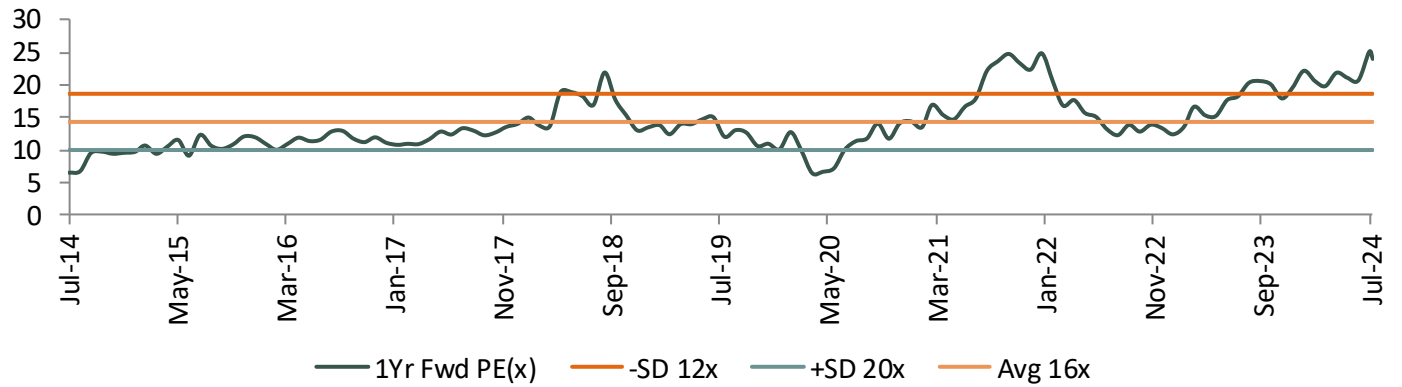
Source: Company; IDBI Capital Research

**Exhibit 8: Utilisation improved by 20bps 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	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>37,814</b>	<b>42,437</b>	<b>48,483</b>	<b>49,019</b>	<b>52,356</b>	<b>58,901</b>
<i>Change (yoy, %)</i>	<i>(9.6)</i>	<i>12</i>	<i>14</i>	<i>1</i>	<i>7</i>	<i>13</i>
Operating expenses	(30,966)	(35,872)	(42,960)	(40,301)	(43,301)	(48,714)
<b>EBITDA</b>	<b>6,848</b>	<b>6,565</b>	<b>5,523</b>	<b>8,718</b>	<b>9,055</b>	<b>10,187</b>
<i>Change (yoy, %)</i>	<i>35.1</i>	<i>(4)</i>	<i>(16)</i>	<i>58</i>	<i>4</i>	<i>12</i>
<i>Margin (%)</i>	<i>18.1</i>	<i>15.5</i>	<i>11.4</i>	<i>17.8</i>	<i>17.3</i>	<i>17.3</i>
Depreciation	(1,747)	(1,848)	(1,830)	(1,338)	(1,164)	(1,222)
<b>EBIT</b>	<b>5,101</b>	<b>4,717</b>	<b>3,693</b>	<b>7,380</b>	<b>7,891</b>	<b>8,965</b>
Interest paid	(535)	(353)	(280)	(209)	(178)	(167)
Other income	255	1,377	1,028	1,588	1,250	1,400
<b>Pre-tax profit</b>	<b>4,820</b>	<b>5,741</b>	<b>4,441</b>	<b>8,759</b>	<b>8,964</b>	<b>10,198</b>
Tax	(1,260)	(1,525)	(1,166)	(2,108)	(2,151)	(2,448)
<i>Effective tax rate (%)</i>	<i>26.1</i>	<i>26.6</i>	<i>26.3</i>	<i>24.1</i>	<i>24.0</i>	<i>24.0</i>
Minority Interest	(69.5)	(54.0)	-	-	-	-
<b>Net profit</b>	<b>3,491</b>	<b>4,162</b>	<b>3,275</b>	<b>6,651</b>	<b>6,812</b>	<b>7,751</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>3,491</b>	<b>4,162</b>	<b>3,275</b>	<b>6,651</b>	<b>6,812</b>	<b>7,751</b>
<i>Change (yoy, %)</i>	<i>32.5</i>	<i>19</i>	<i>(21)</i>	<i>103</i>	<i>2</i>	<i>14</i>
EPS	15.3	18.3	14.5	29.4	30.1	34.3
Dividend per sh	1.2	5.0	5.0	5.5	9.0	10.3
<i>Dividend Payout %</i>	<i>7.8</i>	<i>27.3</i>	<i>34.6</i>	<i>19</i>	<i>30</i>	<i>30</i>



**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Shareholders' funds</b>	<b>23,423</b>	<b>26,592</b>	<b>28,984</b>	<b>34,523</b>	<b>39,292</b>	<b>44,717</b>
Share capital	451	452	453	453	453	453
Reserves & surplus	22,972	26,140	28,531	34,070	38,839	44,264
<b>Total Debt</b>	-	-	-	-	-	-
Other liabilities	3,239	3,544	2,866	2,319	2,319	2,319
<b>Curr Liab &amp; prov</b>	<b>7,384</b>	<b>8,299</b>	<b>8,582</b>	<b>8,540</b>	<b>8,554</b>	<b>9,218</b>
Current liabilities	5,880	6,693	6,248	6,331	6,194	6,564
Provisions	1,505	1,606	2,334	2,209	2,359	2,654
<b>Total liabilities</b>	<b>10,623</b>	<b>11,843</b>	<b>11,448</b>	<b>10,859</b>	<b>10,873</b>	<b>11,537</b>
<b>Total equity &amp; liabilities</b>	<b>34,334</b>	<b>38,712</b>	<b>41,210</b>	<b>46,481</b>	<b>51,263</b>	<b>57,353</b>
Net fixed assets	11,330	12,858	11,735	10,393	10,619	10,898
Investments	-	-	-	-	-	-
Other non-curr assets	3,076	3,226	6,291	10,144	10,269	10,466
<b>Current assets</b>	<b>19,928</b>	<b>22,628</b>	<b>23,184</b>	<b>25,944</b>	<b>30,375</b>	<b>35,990</b>
Inventories	-	-	-	-	-	-
Sundry Debtors	5,888	7,967	7,298	7,320	7,818	8,796
Cash and Bank	6,986	8,559	7,280	7,241	11,032	15,440
Loans and advances	3,633	1,636	4,509	6,509	6,509	6,509
<b>Total assets</b>	<b>34,334</b>	<b>38,712</b>	<b>41,210</b>	<b>46,481</b>	<b>51,263</b>	<b>57,353</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	4,820	5,741	4,441	8,759	8,964	10,198
Depreciation	1,677	1,803	1,838	1,559	1,242	1,196
Tax paid	(1,255)	(1,572)	(1,585)	(2,249)	(2,226)	(2,594)
Chg in working capital	(30)	832	(1,921)	(2,064)	(485)	(313)
Other operating activities	5,551	(1,031)	-	59	3	(269)
<b>Cash flow from operations (a)</b>	<b>10,764</b>	<b>5,772</b>	<b>2,773</b>	<b>6,064</b>	<b>7,498</b>	<b>8,218</b>
Capital expenditure	333	(3,330)	(715)	(217)	(1,468)	(1,475)
Chg in investments	-	-	-	-	-	-
Other investing activities	(4,605)	1,121	(1,920)	-	-	-
<b>Cash flow from investing (b)</b>	<b>(4,272)</b>	<b>(2,209)</b>	<b>(2,635)</b>	<b>(217)</b>	<b>(1,468)</b>	<b>(1,475)</b>
Equity raised/(repaid)	0	1	1	-	-	-
Debt raised/(repaid)	(2,886)	-	-	-	-	-
Dividend (incl. tax)	(271)	(1,135)	(1,132)	(1,246)	(2,044)	(2,325)
Chg in minorities	(19)	(64)	501	321	-	-
Other financing activities	(1,496)	(792)	(787)	(176)	(258)	-
<b>Cash flow from financing (c)</b>	<b>(4,671)</b>	<b>(1,991)</b>	<b>(1,417)</b>	<b>(1,101)</b>	<b>(2,302)</b>	<b>(2,325)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,821</b>	<b>1,573</b>	<b>(1,279)</b>	<b>4,746</b>	<b>3,728</b>	<b>4,418</b>

### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	102.9	117	128	153	174	198
Adj EPS (Rs)	15.3	18.3	14.5	29.4	30.1	34.3
Adj EPS growth (%)	33.0	20	-21	103	2	14
EBITDA margin (%)	18.1	15.5	11.4	17.8	17.3	17.3
Pre-tax margin (%)	12.7	13.5	9.2	17.9	17.1	17.3
Net Debt/Equity (x)	-0.3	-0.3	-0.3	-0.2	-0.3	-0.3
ROCE (%)	18.6	16	12	21	20	19
ROE (%)	15.8	17	12	21	18	17

### DuPont Analysis

Asset turnover (x)	1.1	1.2	1.2	1.1	1.1	1.0
Leverage factor (x)	1.6	1.5	1.4	1.4	1.3	1.3
Net margin (%)	9.2	9.8	6.8	13.6	13.0	13.2

### Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	57	69	55	55	55	55
Payable days	26	32	24	28	25	25

### Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	49	41	52	26	25	22
Price/Book value (x)	7.4	6.5	5.9	5.0	4.4	3.8
EV/Net sales (x)	4.4	3.9	3.4	3.3	3.1	2.6
EV/EBITDA (x)	24	25	30	19	18	15
Dividend Yield (%)	0.2	0.7	0.7	0.7	1.2	1.4

Source: Company; IDBI Capital Research




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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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