

## Zensar Technologies

HOLD

Order book remains healthy

## Summary

Zensar's Q4 revenue grew 2.0% QoQ in CC terms due to reversal of furloughs. Going forward the company expects revenues to improve on QoQ basis led by broad based growth in verticals and improving deal wins trajectory (up 22% YoY to US\$698 mn in FY24, book to bill of 1.2x). This coupled with company's intention to invest in capability building, sales and large deals, we expect 5.5% YoY & 13% YoY growth for FY25E and FY26E. In addition, considering FY24 performance we have revised margin estimates for FY25E upwards by 34 bps and FY26E EPS upwards by 32 bps leading to maintenance EPS estimates despite lowering of revenue estimates. We maintain our Hold rating on the stock with a target price of Rs 615 (18x FY26E EPS). We believe key trigger for further re-rating will be sustaining growth for next few quarters.

## Key Highlights and Investment Rationale

- Revenue growth to lag in near term but improve in longer term:** The company is taking right steps to improve revenues in long run like 1) incentivizing sales for large deals & cross sell 2) restructuring of organization from Geo focus to Vertical focus and 3) hired COO and CBO to drive growth. Further, Zensar's plan to focus on client mining via cross sell will further boost revenue growth. However in near term we are cautious in terms of revenue growth due to uncertain macro & client specific challenges. Hence, we have built in revenue CAGR of 9.2% over FY24-FY26E.
- Margin to taper in FY25E & stabilize:** The company saw a lot of one offs in margins & cost efficiency levers in FY24 which lead to EBITDA margin improvement of 639 bps to 17.8% in FY24. Further with absence of one offs and investments we expect margins to taper by 78 bps to 17% in FY25E and maintain same margins at 17% for FY26E.

TP	Rs615
CMP	Rs575
Potential upside/downside	7%
Previous Rating	HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	(2.5)	(0.1)	114.9
Rel to Sensex	(4.6)	(5.3)	91.3

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	29	33
Consensus	28	32
% difference	3.7	2.4

## Key Stock Data

Bloomberg/Reuters	ZENT IN/ZENT.BO
Sector	IT Services
Shares o/s (mn)	227
Market cap. (Rs mn)	130,373
3-m daily average value (Rs mn)	35.7
52-week high / low	Rs646 / 267
Sensex / Nifty	74,339 / 22,570

## Shareholding Pattern (%)

Promoters	49.2
FII	16.5
DII	17.2
Public	17.1

## Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	42,437	48,483	49,019	51,865	58,607
Change (yoy, %)	12	14	1	6	13
EBITDA	6,565	5,523	8,717	8,817	9,963
Change (yoy, %)	(4)	(16)	58	1	13
EBITDA Margin(%)	15.5	11.4	17.8	17.0	17.0
Adj.PAT	4,162	3,275	6,650	6,631	7,572
EPS (Rs)	18	14	29	29	33
Change (yoy, %)	19.5	(21.1)	103.1	(0)	14
PE(x)	31	40	20	20	17
Dividend Yield (%)	0.9	0.9	1.6	2	2
EV/EBITDA (x)	18.6	22.3	13.6	13.0	11.1
RoE (%)	17	12	21	18	17
RoCE (%)	16	12	21	19	19

Source: IDBI Capital Research;

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### Concall Highlights

- Total revenue for the quarter stood at \$148.1mn which grew by 2% 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 led by Healthcare & lifescience which grew by 3.5% QoQ, BFSI grew by 2%, Manufacturing & consumer business grew by 2.3% QoQ. In terms of region wise, USA grew by 4.2%QoQ, Europe decline by 3.1% QoQ and Africa decline by 2% QoQ.
- Gross margin stood at 30.6%, 50bps QoQ decline mainly due to reversal of 120bps of benefit received in last quarter on account of higher utilization rate and increase in cost of delivery and increase in other operational costs like travel, recruitment, etc impacting the margin by 130bps. This was partially offset by exchange impact of 10bps, higher utilization and furloughs reversal positively impacting margins by 190bps.
- Order book stood at USD 181.5mn growth of 8.4% QoQ. Deal size going forward to be in the same range of the quarter. Large deal pipeline remains resilient.
- Lever of cost optimization is resizing the premises in India & US which has impacted positively on depreciation and margin front. However, going forward normalized depreciation to be in the range of \$3.2- \$3.5bn for the quarter.
- **Demand environment** – Management stated that macro environment remains uncertain. In terms of verticals, Hi-tech furloughs have continued and overall it would be under pressure. BFSI is growing good in US region than UK & South Africa and growth is expected in the sector. Company is tapping the healthcare sector and hired leaders to acquire new clients. Management is open for M&A deals for new healthcare & life-science sector.
- **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 and new deal wins.
- **Total Headcount for the quarter** – 10,349 employees with the utilization rate of 83.7% and attrition stood at 10.9%. The improvement in utilization of 300 bps was led by pyramid optimization, calibrating headcount and sub-contractors.

**Exhibit 1: Financial snapshot**

(Rs mn)

Year-end: March	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>148.1</b>	<b>144.7</b>	<b>2.3</b>	<b>147.5</b>	<b>0.4</b>
<b>Revenues</b>	<b>12,297</b>	<b>12,041</b>	<b>2.1</b>	<b>12,127</b>	<b>1.4</b>
COGS	8,529	8,296	2.8	8,254	3.3
Gross profit	3,768	3,745	0.6	3,873	(2.7)
SG&A	1,738	1,669	4.1	2,115	(17.8)
<b>EBITDA</b>	<b>2,030</b>	<b>2,076</b>	<b>(2.2)</b>	<b>1,758</b>	<b>15.5</b>
Depreciation & amortization	237	312	(24.0)	351	(32.5)
EBIT	1,793	1,764	1.6	1,407	27.4
Other income	493	357	38.1	209	135.9
PBT	2,286	2,121	7.8	1,616	41.5
Tax	553	504	9.7	424	30.4
Minority interest	0	0	n.m.	0	n.m.
<b>Adjusted net profit</b>	<b>1,733</b>	<b>1,617</b>	<b>7.2</b>	<b>1,192</b>	<b>45.4</b>
Exceptional item	0	0	n.m.	0	n.m.
<b>Reported net profit</b>	<b>1,733</b>	<b>1,617</b>	<b>7.2</b>	<b>1,192</b>	<b>45.4</b>
<b>Diluted EPS (Rs)</b>	<b>7.7</b>	<b>7.1</b>	<b>7.1</b>	<b>5.3</b>	<b>45.2</b>
<b>As % of net revenue</b>					
Gross profit	30.6	31.1		31.9	
SG&A	14.1	13.9		17.4	
EBITDA	16.5	17.2		14.5	
EBIT	14.6	14.6		11.6	
Reported net profit	14.1	13.4		9.8	
Tax rate	24.2	23.8		26.2	

Source: Company; IDBI Capital Research

**Exhibit 2: Earnings Revision**

Year-end: March	FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	625	665	-6.0%	706	745	-5.2%
Revenue (Rs bn)	51,865	55,215	-6.1%	58,607	61841	-5.2%
EBIT	7,653	7,957	-3.8%	8,741	9024	-3.1%
EBIT margin (%)	14.8%	14.41%	34 bps	14.9%	14.6%	32 bps
EPS (Rs)	29.3	29.4	-0.4%	33.4	33.4	0.1%

Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. estimates**

Year to March	Q4FY24	Q4FY24E	Variance (%)
Revenue (US\$ mn)	148.1	147.2	0.6%
Revenue (Rs mn)	12,297	12,214	0.7%
EBIT (Rs mn)	1,793	1,634	9.7%
EBIT margin (%)	14.6%	13.4%	120 bps
Recurring PAT (Rs mn)	1,733	1,528	13.4%
Recurring PAT margin (%)	14.1%	12.5%	158 bps
EPS (Rs)	7.6	6.7	12.5%

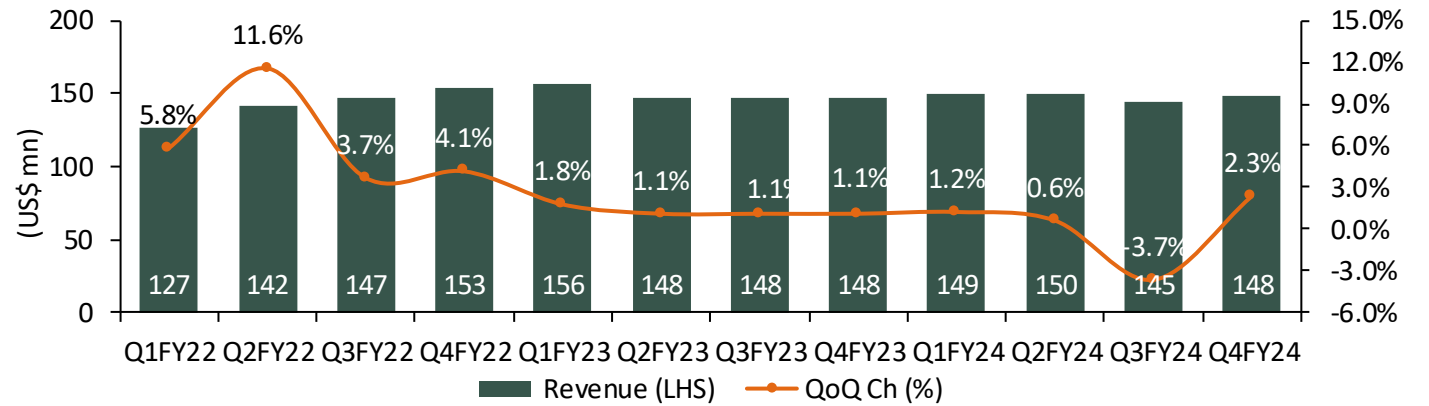
Source: Company; IDBI Capital Research

**Exhibit 4: Large clients trend**

Year-end: March	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
US\$1 mn+	86	87	87	84	87	84	84	85
US\$5 mn+	26	28	28	29	29	29	32	31
US\$10 mn+	13	13	15	14	14	14	14	14
US\$20 mn+	4	3	4	4	4	4	4	4

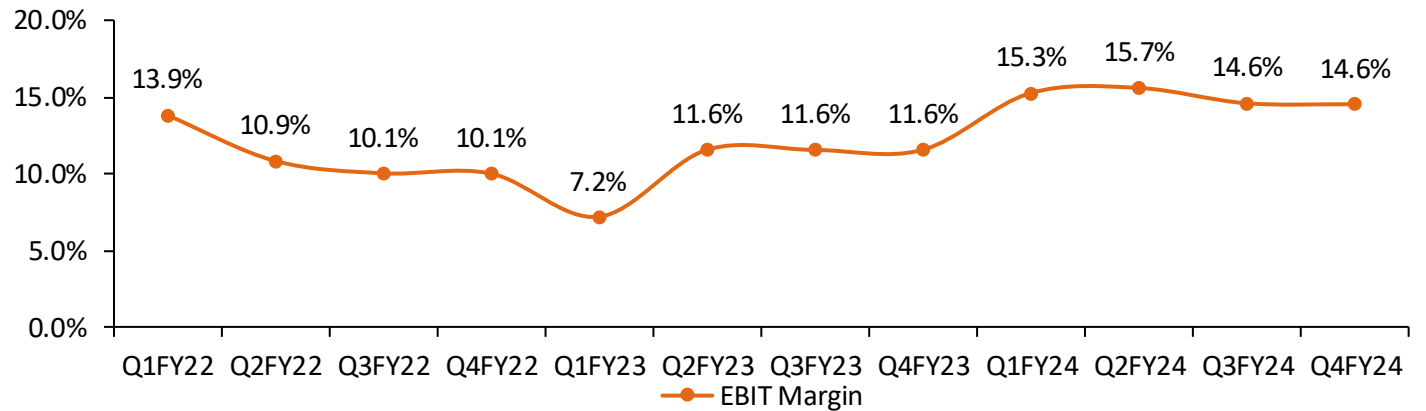
Source: Company; IDBI Capital Research

**Exhibit 5: Q4FY24 Revenue growth was above our estimates by 0.6%.**



Source: Company; IDBI Capital Research

**Exhibit 6: Q4FY24 EBIT margin remains flat QoQ**



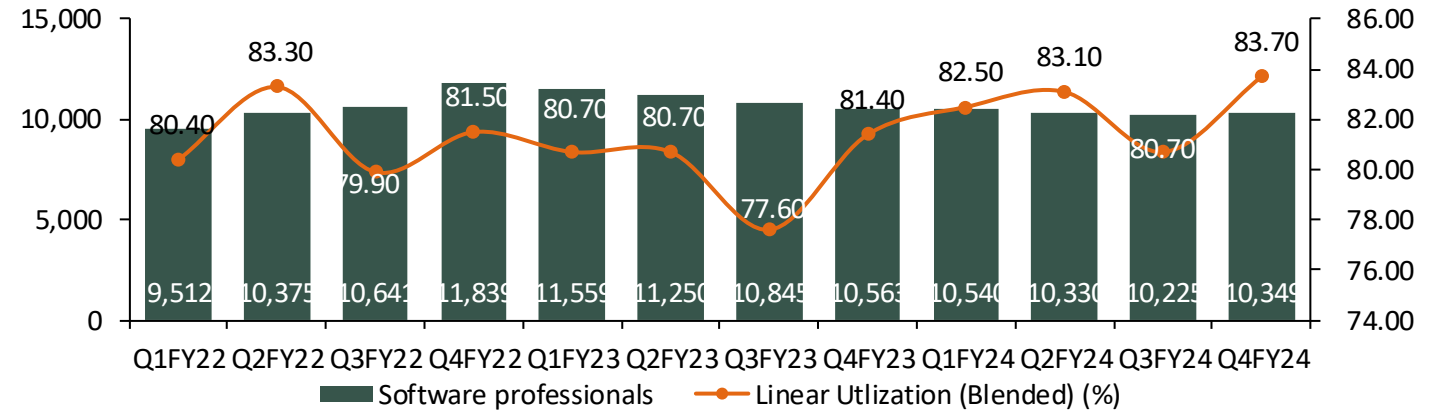
Source: Company; IDBI Capital Research

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

Parameters	% of revenue	QoQ growth (in CC)
		2%
Geography		QoQ growth (in CC)
US	67.2%	4.2%
Europe	20.8%	-3.1%
Africa	12.0%	-2.0%
Service-Line		QoQ growth
AMS	82.6%	3.7%
IMS	17.4%	-3.7%
Verticals		
Hi Tech	25.5%	0.7%
Manufacturing & Consumer services	26.3%	2.3%
BFSI	38.7%	2.0%
Healthcare	9.5%	0.7%

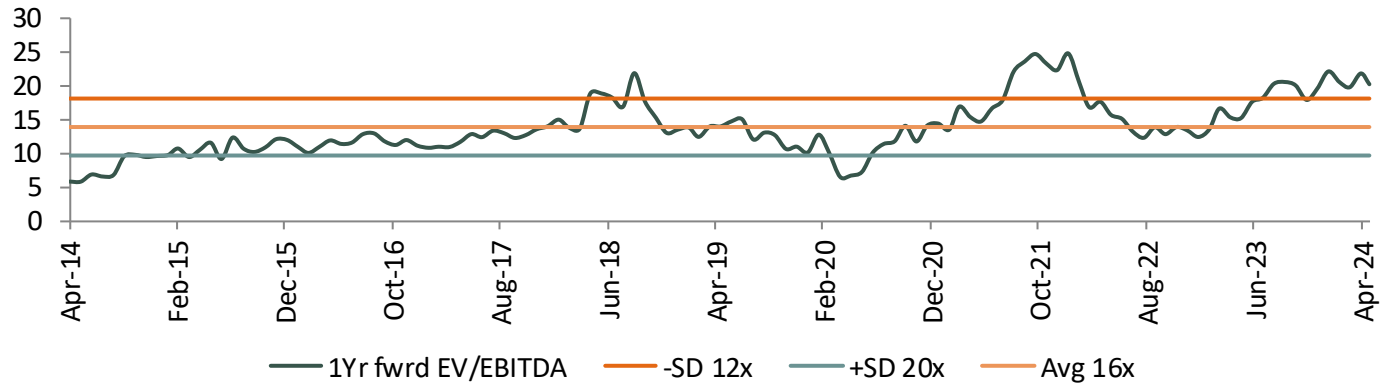
Source: Company; IDBI Capital Research

**Exhibit 8: Utilisation improved by 300bps 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	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>37,814</b>	<b>42,437</b>	<b>48,483</b>	<b>49,019</b>	<b>51,865</b>	<b>58,607</b>
<i>Change (yoy, %)</i>	<i>(9.6)</i>	<i>12</i>	<i>14</i>	<i>1</i>	<i>6</i>	<i>13</i>
Operating expenses	(30,966)	(35,872)	(42,960)	(40,302)	(43,048)	(48,644)
<b>EBITDA</b>	<b>6,848</b>	<b>6,565</b>	<b>5,523</b>	<b>8,717</b>	<b>8,817</b>	<b>9,963</b>
<i>Change (yoy, %)</i>	<i>35.1</i>	<i>(4)</i>	<i>(16)</i>	<i>58</i>	<i>1</i>	<i>13</i>
<i>Margin (%)</i>	<i>18.1</i>	<i>15.5</i>	<i>11.4</i>	<i>17.8</i>	<i>17.0</i>	<i>17.0</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>7,379</b>	<b>7,653</b>	<b>8,741</b>
Interest paid	(535)	(353)	(280)	(209)	(178)	(178)
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>8,758</b>	<b>8,725</b>	<b>9,963</b>
Tax	(1,260)	(1,525)	(1,166)	(2,108)	(2,094)	(2,391)
<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>6,650</b>	<b>6,631</b>	<b>7,572</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>3,491</b>	<b>4,162</b>	<b>3,275</b>	<b>6,650</b>	<b>6,631</b>	<b>7,572</b>
<i>Change (yoy, %)</i>	<i>32.5</i>	<i>19</i>	<i>(21)</i>	<i>103</i>	<i>(0)</i>	<i>14</i>
EPS	15.3	18.3	14.5	29.4	29.3	33.4
Dividend per sh	1.2	5.0	5.0	9.0	8.8	10.0
<i>Dividend Payout %</i>	<i>7.8</i>	<i>27.3</i>	<i>34.6</i>	<i>31</i>	<i>30</i>	<i>30</i>



**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E*	FY25E	FY26E
<b>Shareholders' funds</b>	<b>23,423</b>	<b>26,592</b>	<b>28,984</b>	<b>33,596</b>	<b>38,238</b>	<b>43,539</b>
Share capital	451	452	453	453	453	453
Reserves & surplus	22,972	26,140	28,531	33,143	37,785	43,086
<b>Total Debt</b>	-	-	-	-	-	-
Other liabilities	3,239	3,544	2,866	2,866	2,866	2,866
<b>Curr Liab &amp; prov</b>	<b>7,384</b>	<b>8,299</b>	<b>8,582</b>	<b>8,638</b>	<b>8,903</b>	<b>9,609</b>
Current liabilities	5,880	6,693	6,248	6,279	6,406	6,787
Provisions	1,505	1,606	2,334	2,360	2,497	2,821
<b>Total liabilities</b>	<b>10,623</b>	<b>11,843</b>	<b>11,448</b>	<b>11,504</b>	<b>11,769</b>	<b>12,475</b>
<b>Total equity &amp; liabilities</b>	<b>34,334</b>	<b>38,712</b>	<b>41,210</b>	<b>45,879</b>	<b>50,785</b>	<b>56,791</b>
Net fixed assets	11,330	12,858	11,735	11,730	11,948	12,222
Investments	-	-	-	-	-	-
Other non-curr assets	3,076	3,226	6,291	6,352	6,458	6,641
<b>Current assets</b>	<b>19,928</b>	<b>22,628</b>	<b>23,184</b>	<b>27,797</b>	<b>32,380</b>	<b>37,928</b>
Inventories	-	-	-	-	-	-
Sundry Debtors	5,888	7,967	7,298	7,379	7,807	8,822
Cash and Bank	6,986	8,559	7,280	11,749	15,780	20,092
Loans and advances	3,633	1,636	4,509	4,509	4,509	4,509
<b>Total assets</b>	<b>34,334</b>	<b>38,712</b>	<b>41,210</b>	<b>45,879</b>	<b>50,785</b>	<b>56,791</b>

\*Figures are estimated, awaiting annual report

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E*	FY25E	FY26E
Pre-tax profit	4,820	5,741	4,441	8,758	8,725	9,963
Depreciation	1,677	1,803	1,838	1,559	1,242	1,196
Tax paid	(1,255)	(1,572)	(1,585)	(2,119)	(2,150)	(2,524)
Chg in working capital	(30)	832	(1,921)	(24)	(164)	(309)
Other operating activities	5,551	(1,031)	-	62	85	(272)
<b>Cash flow from operations (a)</b>	<b>10,764</b>	<b>5,772</b>	<b>2,773</b>	<b>8,237</b>	<b>7,739</b>	<b>8,054</b>
Capital expenditure	333	(3,330)	(715)	(1,555)	(1,460)	(1,470)
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>(1,555)</b>	<b>(1,460)</b>	<b>(1,470)</b>
Equity raised/(repaid)	0	1	1	-	-	-
Debt raised/(repaid)	(2,886)	-	-	-	-	-
Dividend (incl. tax)	(271)	(1,135)	(1,132)	(2,038)	(1,989)	(2,272)
Chg in minorities	(19)	(64)	501	-	-	-
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>(2,214)</b>	<b>(2,247)</b>	<b>(2,272)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,821</b>	<b>1,573</b>	<b>(1,279)</b>	<b>4,469</b>	<b>4,031</b>	<b>4,312</b>

\*Figures are estimated, awaiting annual report

### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	102.9	117	128	148	169	192
Adj EPS (Rs)	15.3	18.3	14.5	29.4	29.3	33.4
Adj EPS growth (%)	33.0	20	-21	103	0	14
EBITDA margin (%)	18.1	15.5	11.4	17.8	17.0	17.0
Pre-tax margin (%)	12.7	13.5	9.2	17.9	16.8	17.0
Net Debt/Equity (x)	-0.3	-0.3	-0.3	-0.3	-0.4	-0.5
ROCE (%)	18.6	16	12	21	19	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	12.8	12.9

### 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	25	25	25

### Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	38	31	40	20	20	17
Price/Book value (x)	5.6	4.9	4.5	3.9	3.4	3.0
EV/Net sales (x)	3	3	3	2	2	2
EV/EBITDA (x)	18	19	22	14	13	11
Dividend Yield (%)	0.2	0.9	0.9	1.6	1.5	1.7

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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