

Estimate change



TP change



Rating change



Bloomberg	ZENT IN
Equity Shares (m)	226
M.Cap.(INRb)/(USDb)	127.2 / 1.5
52-Week Range (INR)	644 / 216
1, 6, 12 Rel. Per (%)	-4/14/138
12M Avg Val (INR M)	912

#### Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	49.0	52.7	59.0
EBIT Margin (%)	14.7	13.1	13.4
PAT	6.2	5.6	6.5
EPS (INR)	27.3	24.6	28.5
EPS Gr. (%)	89.8	-9.7	15.9
BV/Sh. (INR)	149.3	165.4	184.1

#### Ratios

RoE (%)	19.6	15.8	16.5
RoCE (%)	15.7	13.3	14.0
Payout (%)	30.3	30.3	30.3

#### Valuations

P/E (x)	20.6	22.8	19.7
P/BV (x)	3.8	3.4	3.0
EV/EBITDA (x)	12.9	12.8	10.8
Div Yield (%)	1.5	1.3	1.5

#### Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	49.2	49.2	49.2
DII	16.5	16.5	11.5
FII	17.1	16.7	10.8
Others	17.2	20.9	28.6

FII Includes depository receipts

**CMP: INR561**

**TP: INR570 (+2%)**

**Neutral**

### Tepid quarter due to hi-tech weakness

#### Adjusted margin now at more sustainable level

- ZENT reported a weak performance in 3QFY24 as revenue declined 3.2% QoQ in CC due to continued pressure in hi-tech vertical and higher furloughs. However, it was above our estimate of 4.4% QoQ decline. Deal TCV rose 28% YoY to USD168m but fell 14% sequentially from its peak in 3QFY24. Adjusted EBITDA margin was in line with our estimate of 16.2%, with reported EBITDA margin down 140bp QoQ due to the reversal of bad debt provisions.
- ZENT management expressed optimism on growth in most of its verticals, but it sees constraints in hi-tech (26% of revenues) segment, including extended furloughs. The weakness in hi-tech has impacted the overall growth of the company, leading to YoY decline in revenue for the last five quarters. We continue to see muted growth in 4Q as well, resulting in a weak exit and in turn impacting FY25 revenue growth. Given the challenging near-term macro outlook, especially in key verticals like Hi-Tech and Manufacturing (52% of 3Q revenues), we expect FY25 revenue growth to be 7.1%, before picking up in FY26. We factor in a modest USD revenue CAGR of 5.5% over FY23-26E.
- ZENT reported a write-back on a cost for the third straight quarter, with 3Q benefitting by 110bp. Adjusting that, the company has now returned to our comfortable margin range of around 16% (guidance of 14-16%), although this will act as a drag in the near-term YoY comparison given the high base. The management continues to target mid-teen EBITDA margin and reinvest above that level for growth. We expect ZENT to deliver 17.7% EBITDA margin in FY24 (including one-off benefits), but normalize to 15.9%/15.6% in FY25/FY26. This will result in an INR PAT CAGR of 26% over FY23-26E (partially on low FY23 base).
- We remain on the sidelines for the stock, especially given the headwinds on growth. Considering near-term challenges in a significant portion of its portfolio and limited upside on margins, we see current valuations at 20x FY26E EPS as fair. Our TP of INR570 implies 20x FY26E EPS. **Retain Neutral.**

#### Beat on revenues, in line margin performance

- **USD revenue stood at USD144.7m, down 3.2% QoQ CC vs. our estimates of a 4.4% QoQ decline.** Reported USD revenue declined 3.0 % QoQ.
- Hi-Tech (-8.0% QoQ CC), Healthcare (-5.6% QoQ CC) and Manufacturing (-1.9% QoQ CC) reported weak growth, while BFS was muted at 0.1% QoQ CC.
- **EBITDA margin stood at 17.2% (down 140bp QoQ) vs. our estimates of 16.1%. The decline in margin was offset by reversal of PDD (+100bp QoQ), hence adjusted EBITDA margin was 16.2% (in line with our estimate).**
- Net headcount was again down (-105 QoQ), LTM attrition was at 12.0% (down 110bps QoQ), utilization declined 240bp QoQ to 80.7%, and offshore revenue share rose 50bp QoQ.
- PAT of INR1,616m (-7.0% QoQ) beat our estimates of INR1,237m, led by a margin beat and forex gains.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Key highlights from the management commentary**

- The furlough impact was deeper and wider in 3Q, which led to a significant decline in the performance of the hi-tech and healthcare verticals. ZENT expects the furlough impact to reverse for other verticals (except for hi-tech) in 4Q.
- The management believes that the verticals (except hi-tech) have bottomed out and should start contributing to revenue growth. Apart from furloughs, 3Q saw multiple deal closures, which affected the verticals.
- The company has announced a new vertical, Healthcare. It has started exploring the med-tech and life science segments that have a broader scope for innovations compared to the payer segment, which is highly saturated. The company's provider segment is large and focuses on selective deals
- The management reiterated its aspiration to keep the margin guidance band of 14-16%, while anything over and above would be re-invested to drive future growth. The company was working around few large deals, which had an impact on margins in 3Q.

**Valuation and view**

- The weakening global environment and worsening economic conditions in key economies are making the growth recovery difficult for the company in the near to medium term.
- The stock is trading at 20x (FY26E), in line with its small-cap peers. We believe ZENT's growth story is already factored into the price and it is trading at full valuation, leaving limited upside potential from its current level. **Maintain Neutral.**

**Quarterly performance****(INR m)**

Y/E March	FY23				FY24				FY23	FY24E	Est. 3QFY24	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2QE	3Q	4QE				
Revenue (USD m)	156	155	146	148	149	150	145	148	604	592	143	1.0
QoQ (%)	1.8	-0.6	-5.9	1.1	1.2	0.6	-3.7	2.0	6.1	-2.1	-4.6	92bp
Revenue (INR m)	12,034	12,346	11,976	12,127	12,272	12,408	12,041	12,246	48,483	48,967	11,938	0.9
YoY (%)	28.5	17.5	8.6	5.1	2.0	0.5	0.5	1.0	14.2	1.0	-0.3	86bp
GPM (%)	26.6	25.3	27.4	31.9	33.6	31.8	31.1	32.9	27.8	32.4	32.8	-170bp
SGA (%)	15.3	16.8	16.1	17.4	14.9	13.2	13.9	16.8	16.4	14.7	16.7	-284bp
EBITDA	1,361	1,054	1,349	1,759	2,301	2,308	2,076	1,974	5,523	8,659	1,922	8.0
EBITDA Margin (%)	11.3	8.5	11.3	14.5	18.8	18.6	17.2	16.1	11.4	17.7	16.1	114bp
EBIT	871	562	852	1,408	1,878	1,942	1,764	1,631	3,693	7,215	1,540	14.5
EBIT Margin (%)	7.2	4.6	7.1	11.6	15.3	15.7	14.6	13.3	7.6	14.7	12.9	175bp
Other income	149	209	183	209	224	306	356	135	750	1,021	131	171.1
ETR (%)	26.4	26.3	26.1	26.2	25.7	22.7	23.8	26.0	26.2	24.4	26.0	
Adj. PAT	751	568	765	1,193	1,562	1,738	1,616	1,307	3,277	6,223	1,237	30.7
QoQ (%)	-42.1	-24.4	34.7	55.9	30.9	11.3	-7.0	-19.1			-28.8	
YoY (%)	-25.6	-39.8	-15.8	-8.0	108.0	206.0	111.2	9.5	-21.2	89.9	61.7	
EPS (INR)	3.3	2.5	3.4	5.2	6.8	7.6	7.1	5.7	14.4	27.3	5.4	30.7

**Key performance indicators**

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenue (QoQ CC %)	3.1	1.6	(5.3)	0.4	1.3	0.2	(3.2)	1.5	10.3	
<b>Margins</b>										
Gross Margin	26.6	25.3	27.4	31.9	33.6	31.8	31.1	32.9	27.8	32.4
EBIT Margin	7.2	4.6	7.1	11.6	15.3	15.7	14.6	13.3	7.6	14.7
Net Margin	6.2	4.6	6.4	9.8	12.7	14.0	13.4	10.7	6.8	12.7
<b>Operating metrics</b>										
Headcount	11,559	11,250	10,845	10,563	10,540	10,330	10,225		10,563	
LTM Attrition (%)	28.1	26.3	22.8	19.8	15.9	13.1	12.0		20	
Offshore Rev	41.6	42.9	44.7	46.4	48.0	49.1	49.6		43.9	
<b>Key Geographies (YoY USD %)</b>										
North America	23.8	11.0	(2.1)	(3.9)	(6.3)	(10.5)	(6.5)		6.5	
UK	25.9	8.2	3.0	(8.3)	1.6	20.3	13.5		6.1	
Africa	10.8	0.1	1.0	4.4	(0.8)	8.4	9.7		3.9	

**Key highlights from the management commentary****Growth and outlook**

- The furlough impact was deeper and wider in 3Q, which led to a significant decline in the performance of the hi-tech and healthcare verticals. ZENT expects the furlough impact to reverse for other verticals (except for hi-tech) in 4Q.
- The management believes that the verticals (except hi-tech) have bottomed out and should start contributing to revenue growth. Apart from furloughs, 3Q saw multiple deal closures, which affected the verticals.
- The management has indicated that it has taken strategic measures to pull additional horizontal service lines: customer EX, engineering services, and eSAP, and that it has seen good growth over the last couple of quarters. With these new service lines, the management expects to build a strong deal pipeline in digital and transformation-led initiatives, which have already started resonating across its client base, and the company has started seeing some green shoots. ZENT aspires to deliver top-quartile growth in the next three years.
- The company has announced a new vertical, Healthcare. It has started exploring the med-tech and life science segments that have a broader scope for innovations compared to the payer segment, which is highly saturated. The company's provider segment is large and focuses on selective deals.
- The deal TCV improved YoY by USD34m. The company has improved farming and hunting engines, which look encouraging in terms of deal singing from existing and new accounts. From a strategic perspective, ZENT is reaping the benefits of its earlier investments in SG&A as it is winning strategic Fortune-500 accounts and new logos.
- With organic investments, the company is also looking for strategic M&A activities in its healthcare vertical.
- ZENT is currently working on more than 100 POCs within GenAI, and a lot of these deals are small and have a strong potential to scale up.

**Margin performance and outlook**

- 3Q furloughs had an impact of 200bp QoQ on margins, partly offset (+100bp QoQ) by the provision for doubtful debt (PDD).
- The management reiterated its aspiration to keep the margin guidance band of 14-16%, while anything over and above would be re-invested to drive future

growth. The company was working around few large deals, which had an impact on margins in 3Q.

#### Exhibit 1: Hi-Tech and banking witnessed a sharp decline

Verticals	Contribution to revenue (%)	Growth QoQ (CC)
Hi-Tech	25.9	(7.7)
Manufacturing	26.1	(1.8)
Insurance	38.6	0.1
Banking	9.4	(5.2)

Source: Company, MOFSL

#### Exhibit 2: Broad-based decline cross Geos

Geographies	Contribution to revenue (%)	Growth QoQ (USD)
North America	66.0	(3.6)
Europe	21.4	(2.6)
Africa	12.5	(0.5)

Source: Company, MOFSL

### Valuation and view

- The weakening global environment and worsening economic conditions in key economies are making the growth recovery difficult for the company in the near to medium term.
- The stock is trading at 20x (FY26E), in line with its small-cap peers. We believe ZENT's growth story is already factored into the price and it is trading at full valuation, leaving limited upside potential from its current level. **Maintain Neutral.**

#### Exhibit 3: Revisions to our estimates

	Revised estimate			Earlier estimate			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
USD:INR	82.8	83.0	83.0	82.8	83.0	83.0	0.0%	0.0%	0.0%
Revenue (USD m)	592	635	710	590	635	713	0.3%	-0.1%	-0.3%
Growth (%)	(2.1)	7.3	11.9	(2.4)	7.7	12.2	30bps	-40bps	-30bps
EBIT margin (%)	14.7	13.1	13.4	14.3	12.7	12.8	50bps	40bps	60bps
PAT (INR m)	6,223	5,617	6,508	5,827	5,453	6,343	6.8%	3.0%	2.6%
EPS	27.3	24.6	28.5	25.5	23.9	27.8	6.8%	3.1%	2.7%

Source: Company, MOFSL

**Exhibit 4: Operating metrics**

	3QFY22	4QFY22	1QFY22	2QFY23	3QFY23	4QFY23	1QFY23	2QFY24	3QFY24
<b>Geographic Mix - %</b>									
USA	71	70	71	72	70	70	69	66	66
Europe	18	19	18	17	19	18	19	22	21
ROW	11	11	11	11	11	12	11	12	13
<b>Revenue by delivery - %</b>									
Onsite	58	56	58	57	55	54	52	51	50
Offshore	42	44	42	43	45	46	48	49	50
<b>Client concentration - %</b>									
Top 5	34	33	33	35	32	34	34	32	29
Top 6-10	13	13	12	11	13	12	11	11	11
Top 10	47	46	45	46	45	46	45	42	41
Top 11-20	14	16	16	15	17	15	17	16	17
Top 20	61	62	61	61	61	61	62	58	58
<b>Number of million dollar clients</b>									
1 Million dollar +	81	83	86	87	87	84	87	84	84
5 Million dollar +	25	27	26	28	28	29	29	29	32
10 Million dollar +	11	11	13	13	15	14	14	14	14
20 Million dollar +	4	4	4	3	4	4	4	4	4
<b>Client metrics</b>									
Number of active clients	144	147	147	146	148	148	147	148	147
<b>Employee metrics</b>									
Total headcount	10,641	11,839	11,559	11,250	10,845	10,563	10,540	10,330	10,225
Gross employees added during the period	1,416	2,331	1,220	1,194	593	552	654	643	627
Utilization	79.9	81.5	80.7	80.7	77.6	81.4	82.5	83.1	80.7
Attrition	26.7	27.9	28.1	26.3	22.8	19.8	15.9	13.1	12.0

Source: Company, MOFSL

## Financials and valuations

Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Sales</b>	<b>38,988</b>	<b>40,102</b>	<b>36,681</b>	<b>42,437</b>	<b>48,483</b>	<b>48,967</b>	<b>52,694</b>	<b>58,966</b>
Change (%)	29.7	2.9	(8.5)	15.7	14.2	1.0	7.6	11.9
Cost of Services	27,626	28,756	24,417	29,214	35,000	33,120	35,434	39,158
SG&A Expenses	6,283	6,310	5,422	6,659	7,960	7,188	8,878	10,260
<b>EBITDA</b>	<b>5,079</b>	<b>5,037</b>	<b>6,842</b>	<b>6,564</b>	<b>5,523</b>	<b>8,659</b>	<b>8,381</b>	<b>9,548</b>
As a percentage of Net Sales	13.0	12.6	18.7	15.5	11.4	17.7	15.9	16.2
Depreciation	894	1,567	1,732	1,849	1,830	1,444	1,475	1,651
Interest	373	605	536	354	278	242	263	295
Other Income	502	435	367	907	642	1,198	948	1,061
Forex	291	449	-113	470	386	65	0	0
<b>PBT</b>	<b>4,604</b>	<b>3,749</b>	<b>4,828</b>	<b>5,738</b>	<b>4,443</b>	<b>8,236</b>	<b>7,591</b>	<b>8,663</b>
Tax	1,310	1,038	1,261	1,525	1,166	2,013	1,974	2,156
Rate (%)	28.5	27.7	26.1	26.6	26.2	24.4	26.0	24.9
Minority Interest	51	82	70	53	0	0	0	0
<b>Net Income</b>	<b>3,243</b>	<b>2,629</b>	<b>3,497</b>	<b>4,160</b>	<b>3,277</b>	<b>6,223</b>	<b>5,617</b>	<b>6,508</b>
Change (%)	40.6	-18.9	33.0	19.0	-21.2	89.9	-9.7	15.9

Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	450	451	451	452	453	453	453	453
Reserves	18,973	20,900	23,423	26,417	29,309	33,348	36,993	41,217
<b>Net Worth</b>	<b>19,424</b>	<b>21,351</b>	<b>23,874</b>	<b>26,869</b>	<b>29,762</b>	<b>33,801</b>	<b>37,446</b>	<b>41,670</b>
Loans	2,578	2,886	-	0	0	0	0	0
Other liabilities	924	4,008	3,526	3,544	2,866	2,866	2,866	2,866
<b>Capital Employed</b>	<b>22,925</b>	<b>28,244</b>	<b>27,401</b>	<b>30,413</b>	<b>32,628</b>	<b>36,667</b>	<b>40,312</b>	<b>44,536</b>
<b>Net Block</b>	<b>9,617</b>	<b>13,340</b>	<b>11,330</b>	<b>12,858</b>	<b>11,735</b>	<b>11,091</b>	<b>10,416</b>	<b>9,565</b>
Other LT Assets	1,898	2,039	3,076	3,226	6,291	6,304	6,406	6,576
<b>Curr. Assets</b>	<b>19,360</b>	<b>20,576</b>	<b>19,928</b>	<b>22,628</b>	<b>23,184</b>	<b>27,763</b>	<b>32,612</b>	<b>38,563</b>
Current Investments	454	2,670	7,410	5,141	7,045	9,045	11,045	13,045
Inventories	985	941	0	0	0	0	0	0
Debtors	8,762	6,656	5,888	7,967	7,298	8,049	8,662	9,693
Cash and Bank Balance	3,259	5,258	3,492	5,054	4,744	6,530	8,452	10,842
Other Current Assets	5,901	5,051	3,138	4,466	4,097	4,138	4,453	4,983
<b>Current Liab. and Prov.</b>	<b>7,951</b>	<b>7,711</b>	<b>6,933</b>	<b>8,299</b>	<b>8,582</b>	<b>8,491</b>	<b>9,121</b>	<b>10,168</b>
Trade payables	3,010	2,650	2,201	3,164	2,772	2,623	2,806	3,101
Other liabilities	4,941	5,061	4,732	5,135	5,810	5,868	6,315	7,066
<b>Net Current Assets</b>	<b>11,409</b>	<b>12,865</b>	<b>12,994</b>	<b>14,329</b>	<b>14,602</b>	<b>19,271</b>	<b>23,491</b>	<b>28,395</b>
<b>Application of Funds</b>	<b>22,925</b>	<b>28,245</b>	<b>27,400</b>	<b>30,413</b>	<b>32,628</b>	<b>36,667</b>	<b>40,312</b>	<b>44,536</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>EPS</b>	<b>14.3</b>	<b>11.7</b>	<b>15.3</b>	<b>18.3</b>	<b>14.4</b>	<b>27.3</b>	<b>24.6</b>	<b>28.5</b>
Cash EPS	18.2	18.6	22.9	26.5	22.4	33.6	31.1	35.7
Book Value	86.3	96.3	105.7	119.0	131.5	149.3	165.4	184.1
DPS	2.8	2.8	6.4	5.0	5.0	8.2	7.4	8.6
Payout (%)	19.6	24.0	41.8	27.3	34.8	30.3	30.3	30.3
<b>Valuation (x)</b>								
P/E ratio	39.3	48.0	36.7	30.6	39.1	20.6	22.8	19.7
Cash P/E ratio	30.8	30.1	24.5	21.2	25.1	16.7	18.1	15.7
EV/EBITDA ratio	24.6	23.7	16.9	17.7	20.9	12.9	12.8	10.8
EV/Sales ratio	3.2	3.0	3.2	2.7	2.4	2.3	2.0	1.7
Price/Book Value ratio	6.5	5.8	5.3	4.7	4.3	3.8	3.4	3.0
Dividend Yield (%)	0.5	0.5	1.1	0.9	0.9	1.5	1.3	1.5
<b>Profitability Ratios (%)</b>								
RoE	18.0	12.9	15.5	16.4	11.6	19.6	15.8	16.5
RoCE	15.3	10.6	14.1	12.0	8.6	15.7	13.3	14.0
<b>Turnover Ratios</b>								
Debtors (Days)	82	61	59	69	55	60	60	60
Fixed Asset Turnover (x)	5.0	3.5	3.0	3.5	3.9	4.3	4.9	5.9

### Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CF from Operations	4,183	4,508	5,432	5,774	5,030	6,646	6,408	7,392
Cash for Working Capital	-2,622	2,354	3,148	-2,427	2,113	-896	-399	-685
<b>Net Operating CF</b>	<b>1,561</b>	<b>6,862</b>	<b>8,580</b>	<b>3,347</b>	<b>7,143</b>	<b>5,750</b>	<b>6,009</b>	<b>6,707</b>
Net Purchase of FA	-517	-781	-393	-373	-334	-800	-800	-800
<b>Free Cash Flow</b>	<b>1,043</b>	<b>6,081</b>	<b>8,187</b>	<b>2,974</b>	<b>6,809</b>	<b>4,950</b>	<b>5,209</b>	<b>5,907</b>
Net Purchase of Invest.	-1,894	-2,372	-4,890	400	-4,941	-737	-1,052	-939
<b>Net Cash from Invest.</b>	<b>-2,411</b>	<b>-3,153</b>	<b>-5,283</b>	<b>27</b>	<b>-5,275</b>	<b>-1,537</b>	<b>-1,852</b>	<b>-1,739</b>
Proc. from equity issues	14	15	15	32	4	0	0	0
Proceeds from LTB/STB	-376	-502	-4,505	-1,260	-1,058	-242	-263	-295
Dividend Payments	-633	-1,228	-271	-881	-1,132	-2,184	-1,972	-2,284
<b>Cash Flow from Fin.</b>	<b>-995</b>	<b>-1,714</b>	<b>-4,761</b>	<b>-2,109</b>	<b>-2,186</b>	<b>-2,426</b>	<b>-2,235</b>	<b>-2,579</b>
Exchange difference	-32	4	-20	14	8	0	0	0
<b>Net Cash Flow</b>	<b>-1,877</b>	<b>1,999</b>	<b>-1,483</b>	<b>1,279</b>	<b>-310</b>	<b>1,786</b>	<b>1,922</b>	<b>2,389</b>
<b>Opening Cash Bal.</b>	<b>5,137</b>	<b>3,259</b>	<b>5,258</b>	<b>3,775</b>	<b>5,054</b>	<b>4,744</b>	<b>6,530</b>	<b>8,452</b>
Add: Net Cash	-1,877	1,999	-1,483	1,279	-310	1,786	1,922	2,389
<b>Closing Cash Bal.</b>	<b>3,259</b>	<b>5,258</b>	<b>3,775</b>	<b>5,054</b>	<b>4,744</b>	<b>6,530</b>	<b>8,452</b>	<b>10,841</b>

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NOTES



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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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