

Zensar Technologies

HOLD

Growth despite seasonal quarter

Summary

Despite the seasonality impact in BFSI (-1.3% QoQ) & shutting down impact of few clients in TMT (-3.5% QoQ), company reported a revenue of \$157mn, up by 0.7%/8.6% QoQ/YoY in CC terms. Seasonality was offset by growth in Manufacturing (6.5% QoQ) & healthcare verticals (3.2% QoQ). Management is positive to grow in the next quarter backed by the highest order bookings in this quarter (\$205.3mn; +2% QoQ) and their account mining efforts. However, management seem to be cautious on the demand environment with the prevailing uncertainty around global macros. Having said that, management also stated discretionary spend intensity to be nearing the pre-covid levels which indicates better spending environment on client's side. We expect, company to continue its growth momentum backed by the revival (BFSI) in demand zone. However, with recent run up in the price, we downgrade the stock to HOLD rolling into FY27 at TP of Rs. 792 (22x FY27E EPS) v/s previous TP of Rs. 760.

Key Highlights and Investment Rationale

- **Demand of AI:** Company has now catalogued their AI offerings into 4 major solution stacks ie. Enterprise AI Solutions, Responsible AI Solutions, Enterprise Cognitive Hyper Automation Solutions and Multimodal Micro Vertical Solutions. This services will accelerate the AI offerings momentum which would lead to strong growth ahead. Specialized domain training provided to employees in BFSI, Healthcare. Gaming & MC domains.
- **Margins in mid-teens:** Company's newest acquisition would not be margin dilutive in this fiscal year. Management re-iterated on investing in capabilities & sales team whenever there is an opportunity. Hence, maintains the guidance range of mid-teens of EBITDA margin (15-16%) going ahead.

TP **Rs792**

CMP Rs751

Potential upside/downside **6%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	(2.1)	10.1	33.7
Rel to Sensex	(0.0)	15.9	26.7

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	29	32	36
Consensus	28	33	39
% difference	4.2	(2.0)	(7.9)

Key Stock Data

Bloomberg/Reuters	ZENT IN/ZENT.BO
Sector	IT Services
Shares o/s (mn)	227
Market cap. (Rs mn)	170,343
3-m daily average value (Rs mn)	41.4
52-week high / low	Rs838 / 513
Sensex / Nifty	76,405 / 23,155

Shareholding Pattern (%)

Promoters	49.1
FII	15.1
DII	19.6
Public	16.2

Financial snapshot

(Rs mn)

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	48,483	49,019	53,350	58,176	64,145
Change (yoy, %)	14	1	9	9	10
EBITDA	5,523	8,718	8,489	9,373	10,527
Change (yoy, %)	(16)	58	(3)	10	12
EBITDA Margin(%)	11.4	17.8	15.9	16.1	16.4
Adj.PAT	3,275	6,651	6,504	7,228	8,058
EPS (Rs)	14	29	29	32	36
Change (yoy, %)	(21)	103	(2)	11	11
PE(x)	52	26	26	23	21
Dividend Yield (%)	1	1	1	1	1
EV/EBITDA (x)	29	19	19	17	14
RoE (%)	12	21	18	16	16
RoCE (%)	12	21	19	17	17

Source: IDBI Capital Research;

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Concall Highlights

- Revenue for the quarter stood at Rs. 13,256mn grew by 1.3%/10.1% QoQ/YoY, despite of furloughs seasonality. Major verticals impacted by furloughs are telecommunication, media & technology (3.5% QoQ) and Banking & financial services (1.3% QoQ). Other verticals like manufacturing & consumer services (6.5% QoQ) and Healthcare & Life-science (3.2% QoQ) cushioned the growth for the quarter.
- Softness was only seen in verticals due to seasonality. Service lines continue to show growth in the quarter and the share of revenue from service lines, that is advanced engineering services (+7.1% QoQ), cloud infrastructure and security services (+1.8% QoQ), data engineering and analytics (-4% QoQ due to extended furloughs in specific accounts), experience services (-3.8% QoQ) and increased to 54.5%, improvement of 60bps in Q3FY25.
- Gross margin stood at 30.1%, a 200bps improvement sequentially primarily driven by improved utilization, net furlough impact of 0.1%, higher level of utilization of 0.9%, other operational efficiencies of 0.8% including PPC benefit & other improvements (exchange benefit of 0.1%). SG&A for the quarter increased by 180bps QoQ on account of one-time saving of ESOP & sales commission (indicated in Q2) and investment in sales & infrastructure. This resulted in only 20bps sequential improvement in EBITDA margin at 15.6%. Also, depreciation in the quarter decline by ~270bps QoQ and company indicated on sustaining the depreciation (1.8% of revenue) going ahead.
- Order book stood at \$ 205.3mn; improvement of 2% QoQ. Management stated the deal pipeline is healthy and robust. This improvement was broad based across geos and large deals are still in pipeline. Company is working on improving the account mining efforts to win deals and improve the market share. Deal pipeline has decline sequentially as it got converted into deals this quarter.
- Management emphasized on focusing to improve share in other verticals and reduce exposure in TMT vertical. And also focusing more on account mining efforts to convert smaller accounts into large ones.
- **Demand environment** – Management is cautious on the macro aspect largely based on new administration formation. Discretionary spend are having some early signs of improvement despite the ongoing macroeconomic uncertainty. Vertical-wise; Healthcare & life-science vertical is witnessing muted spending this year v/s last year due to ongoing macro uncertainty. And also management do not see any material changes in the decision making around large deals. In past, furloughs have come back in TMT

vertical in Q4 and management expects this could occur in Q4FY25 as well. Management seemed optimistic on the revival of discretionary spend if Gen AI picks up in the market

- **Margin guidance:** Company maintained full year margin guidance to be in the range of mid-teens (15%-16%) and it would be achieved on the back of improving utilization, pyramid optimization and new deal wins. Management re-iterated on investing in business (capabilities & sales team).
- Total Headcount for the quarter stood at 10,517 (gross add. of 975) employees with utilization rate of 82.9% and attrition at 10%. Management expects some movement in Q4 due to lower working days and expects the leave days to be lower. Company intends to hire more in the coming quarter and headcount would be calibrated as per the requirement. Company has initiated with 5-6 levels of AI training for the employees to be up breast for the demand.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Revenues (US\$ mn)	157.0	156.2	0.5	144.7	8.5
Revenues	13,256	13,080	1.3	12,041	10.1
COGS	9,266	9,406	(1.5)	8,296	11.7
Gross profit	3,990	3,674	8.6	3,745	6.5
SG&A	1,921	1,663	15.5	1,669	15.1
EBITDA	2,069	2,011	2.9	2,076	(0.3)
Depreciation & amortization	237	297	(20.4)	312	(24.2)
EBIT	1,833	1,714	6.9	1,764	3.9
Other income	270	366	(26.2)	357	(24.4)
PBT	2,103	2,080	1.1	2,121	(0.9)
Tax	505	522	(3.3)	504	0.2
Minority interest	0	0	n.m.	0	n.m.
Adjusted net profit	1,598	1,558	2.5	1,617	(1.2)
Exceptional item	0	0	n.m.	0	n.m.
Reported net profit	1,598	1,558	2.5	1,617	(1.2)
Diluted EPS (Rs)	7.0	6.9	2.5	7.1	(1.4)
As % of net revenue					
Gross profit	30.1	28.1		31.1	
SG&A	14.5	12.7		13.9	
EBITDA	15.6	15.4		17.2	
EBIT	13.8	13.1		14.6	
Reported net profit	12.1	11.9		13.4	
Tax rate	24.0	25.1		23.8	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Year to March	Q3FY25	Q3FY25E	Variance (%)
Revenue (US\$ mn)	157.0	157.0	0.0%
Revenue (Rs mn)	13,256	13,210	0.3%
EBIT (Rs mn)	1,833	1,729	6.0%
EBIT margin (%)	13.8%	13.1%	74 bps
Recurring PAT (Rs mn)	1,598	1,565	2.1%
Recurring PAT margin (%)	12.1%	11.8%	20 bps
EPS (Rs)	7.0	6.9	2.0%

Source: Company; IDBI Capital Research

Exhibit 3: Earnings Revision

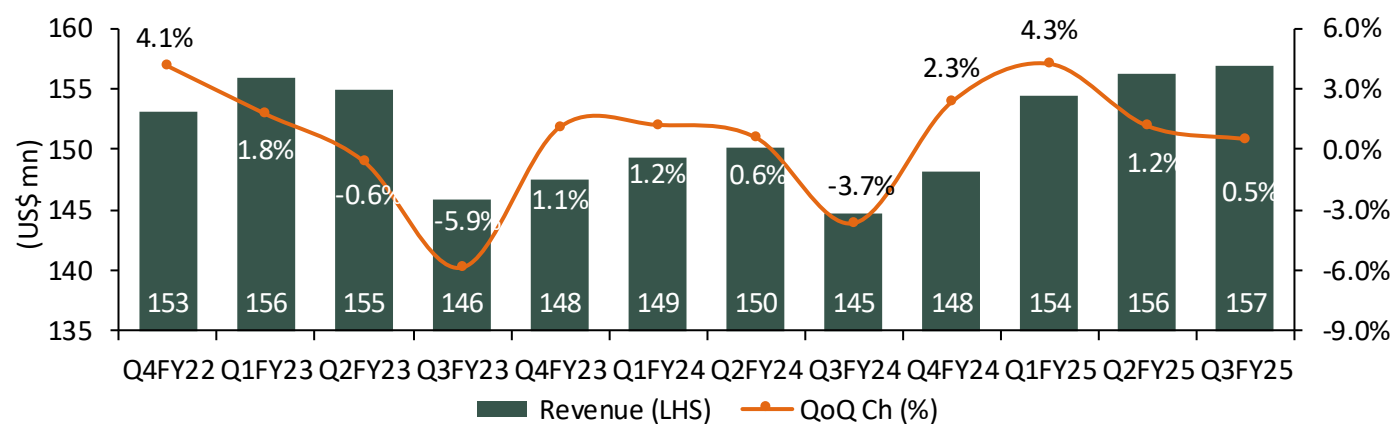
Year-end: March	FY25E			FY26E			FY27E
	New	Old	Chg (%)	New	Old	Chg (%)	New
Revenue (US\$ mn)	640	623	2.6%	688	706	-2.6%	756
Revenue (Rs bn)	53,350	52,609	1.4%	58,176	58,659	-0.8%	64,145
EBIT (Rs mn)	7,475	7,398	1.0%	8,268	8,527	-3.0%	9,309
EBIT margin (%)	14.0%	14.1%	-5 bps	14.2%	14.5%	-32 bps	14.5%
EPS (Rs/sh)	28.8	28.5	0.9%	32.0	32.8	-2.6%	35.6

Source: Company; IDBI Capital Research

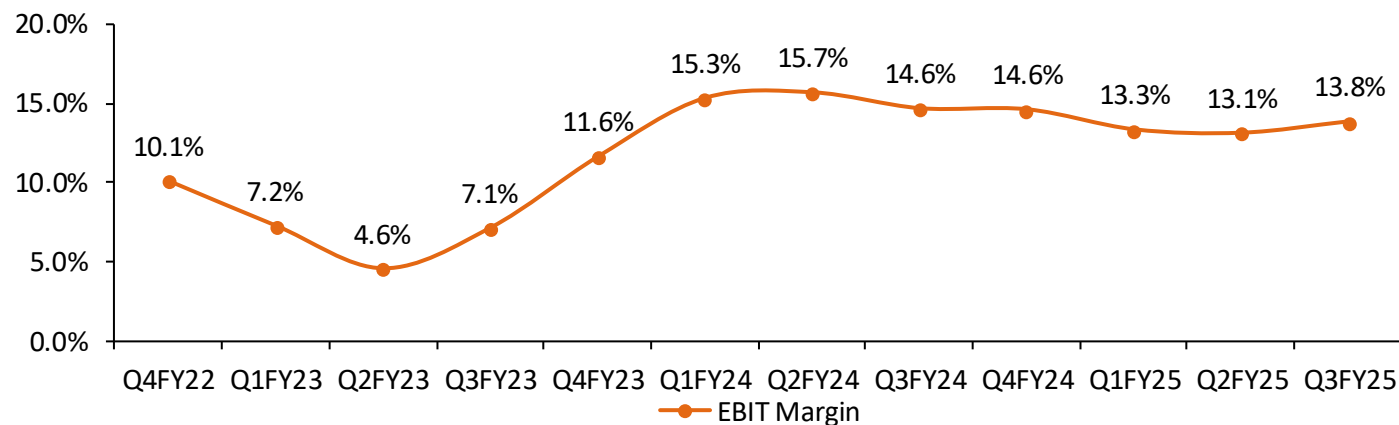
Exhibit 3: Large clients trend

Year-end: March	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
US\$1 mn+	84	87	84	84	85	86	86	87
US\$5 mn+	29	29	29	32	31	31	32	34
US\$10 mn+	14	14	14	14	14	14	15	14
US\$20 mn+	4	4	4	4	4	4	4	5

Source: Company; IDBI Capital Research

Exhibit 4: Q3FY25 Revenue growth was in-line with our estimates

Source: Company; IDBI Capital Research

Exhibit 5: Q3FY25 EBIT margin improved 70 QoQ

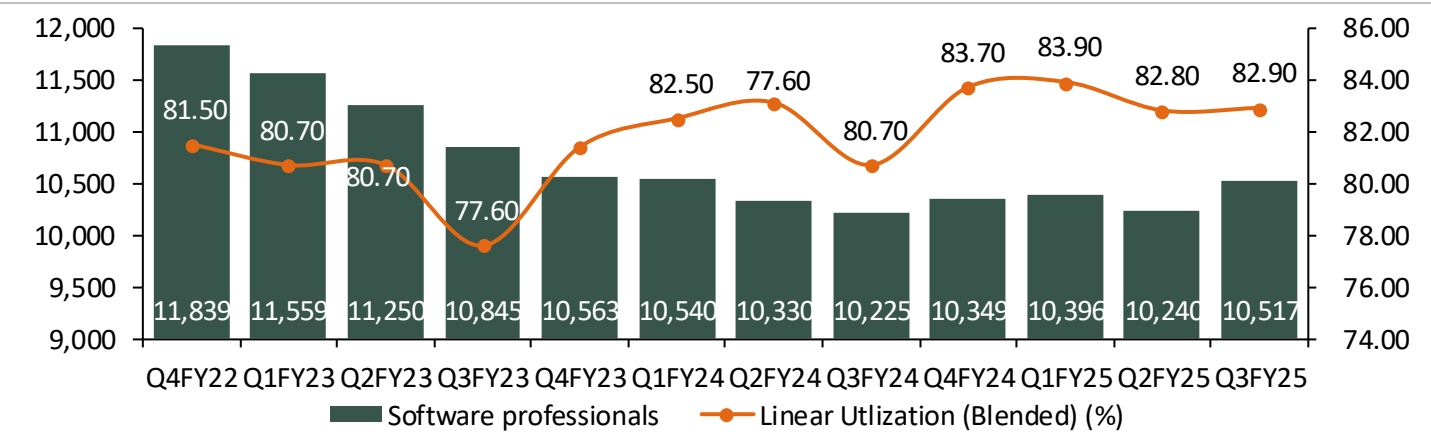
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth across various segments (%)

Parameters	% of revenue	QoQ growth (in CC)
		0.7%
Geography		QoQ growth (in CC)
US	67.3%	0.1%
Europe	21.2%	1.0%
Africa	11.5%	2.3%
Service-Line		QoQ growth
AMS	79.5%	0.3%
IMS	20.5%	1.5%
Verticals		QoQ growth
Hi Tech	21.4%	-3.5%
Manufacturing & Consumer services	27.7%	6.5%
BFSI	40.1%	-1.3%
Healthcare	10.8%	3.2%

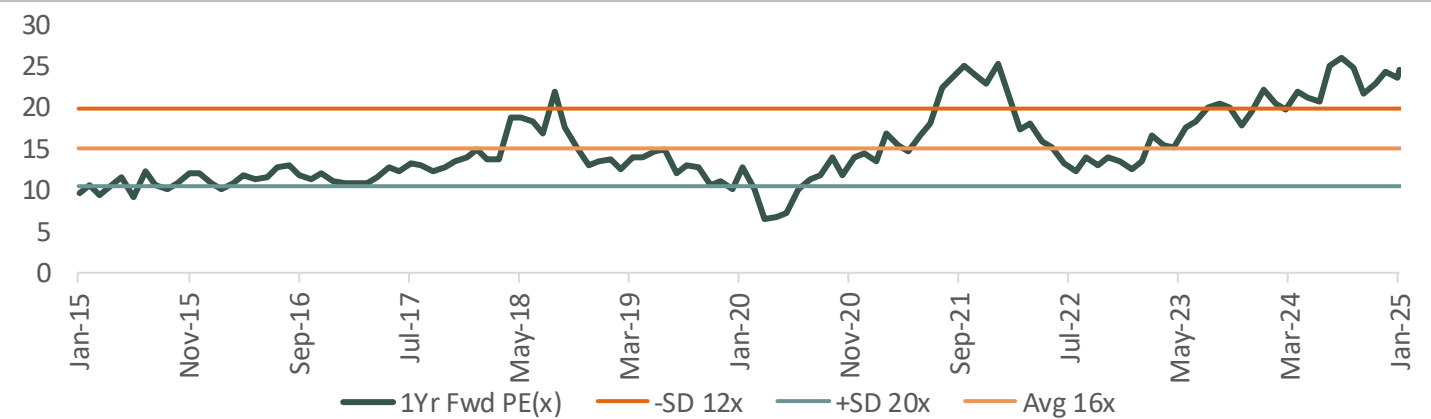
Source: Company; IDBI Capital Research

Exhibit 7: Utilization remained flat at 82.9%



Source: Company; IDBI Capital Research

Exhibit 8: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	42,437	48,483	49,019	53,350	58,176	64,145
<i>Change (yoy, %)</i>	12.2	14	1	9	9	10
Operating expenses	(35,872)	(42,960)	(40,301)	(44,861)	(48,803)	(53,618)
EBITDA	6,565	5,523	8,718	8,489	9,373	10,527
<i>Change (yoy, %)</i>	-4.1	(16)	58	(3)	10	12
<i>Margin (%)</i>	15.5	11.4	17.8	15.9	16.1	16.4
Depreciation	(1,848)	(1,830)	(1,338)	(1,014)	(1,105)	(1,219)
EBIT	4,717	3,693	7,380	7,475	8,268	9,309
Interest paid	(353)	(280)	(209)	(167)	(157)	(148)
Other income	1,377	1,028	1,588	1,250	1,400	1,400
Pre-tax profit	5,741	4,441	8,759	8,558	9,511	10,561
Tax	(1,525)	(1,166)	(2,108)	(2,054)	(2,283)	(2,503)
<i>Effective tax rate (%)</i>	26.6	26.3	24.1	24.0	24.0	23.7
Minority Interest	(54.0)	-	-	-	-	-
Net profit	4,162	3,275	6,651	6,504	7,228	8,058
Exceptional items	-	-	-	-	-	-
Adjusted net profit	4,162	3,275	6,651	6,504	7,228	8,058
<i>Change (yoy, %)</i>	19.2	(21)	103	(2)	11	11
EPS	18.3	14.5	29.4	28.8	32.0	35.6
Dividend per sh	5.0	5.0	5.5	8.6	9.6	10.7
<i>Dividend Payout %</i>	27.3	34.6	18.7	30	30	30

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	26,592	28,984	34,523	39,076	44,136	49,776
Share capital	452	453	453	453	453	453
Reserves & surplus	26,140	28,531	34,070	38,623	43,683	49,323
Total Debt	-	-	-	-	-	-
Other liabilities	3,544	2,866	2,319	2,319	2,319	2,319
Curr Liab & prov	8,299	8,582	8,540	8,654	9,145	9,751
Current liabilities	6,693	6,248	6,331	6,250	6,523	6,860
Provisions	1,606	2,334	2,209	2,404	2,622	2,891
Total liabilities	11,843	11,448	10,859	10,973	11,464	12,070
Total equity & liabilities	38,712	41,210	46,481	51,148	56,698	62,945
Net fixed assets	12,858	11,735	10,393	10,786	11,170	11,542
Investments	-	-	-	-	-	-
Other non-curr assets	3,226	6,291	10,144	10,291	10,449	10,633
Current assets	22,628	23,184	25,944	30,071	35,079	40,770
Inventories	-	-	-	-	-	-
Sundry Debtors	7,967	7,298	7,320	7,967	8,687	9,579
Cash and Bank	8,559	7,280	7,241	10,552	14,657	19,243
Loans and advances	1,636	4,509	6,509	6,509	6,509	6,509
Total assets	38,712	41,210	46,481	51,148	56,698	62,945

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	5,741	4,441	8,759	8,558	9,511	10,561
Depreciation	1,803	1,838	1,559	1,160	1,064	1,168
Tax paid	(1,572)	(1,585)	(2,249)	(2,151)	(2,391)	(2,637)
Chg in working capital	832	(1,921)	(2,064)	(532)	(231)	(285)
Other operating activities	(1,031)	-	(4,726)	39	(233)	(264)
Cash flow from operations (a)	5,772	2,773	1,279	7,073	7,721	8,543
Capital expenditure	(3,330)	(715)	(217)	(1,553)	(1,448)	(1,539)
Chg in investments	-	-	-	-	-	-
Other investing activities	1,121	(1,920)	-	-	-	-
Cash flow from investing (b)	(2,209)	(2,635)	(217)	(1,553)	(1,448)	(1,539)
Equity raised/(repaid)	1	1	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(1,135)	(1,132)	(1,246)	(1,951)	(2,168)	(2,417)
Chg in minorities	(64)	501	321	-	-	-
Other financing activities	(792)	(787)	(176)	(258)	-	-
Cash flow from financing (c)	(1,991)	(1,417)	(1,101)	(2,209)	(2,168)	(2,417)
Net chg in cash (a+b+c)	1,573	(1,279)	(39)	3,311	4,104	4,586

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	117.1	128	153	173	195	220
Adj EPS (Rs)	18.3	14.5	29.4	28.8	32.0	35.6
Adj EPS growth (%)	19.5	-21	103	-2	11	11
EBITDA margin (%)	15.5	11.4	17.8	15.9	16.1	16.4
Pre-tax margin (%)	13.5	9.2	17.9	16.0	16.3	16.5
Net Debt/Equity (x)	-0.3	-0.3	-0.2	-0.3	-0.3	-0.4
ROCE (%)	16.4	12	21	19	17	17
ROE (%)	16.6	12	21	18	16	16
DuPont Analysis						
Asset turnover (x)	1.2	1.2	1.1	1.1	1.0	1.0
Leverage factor (x)	1.5	1.4	1.4	1.3	1.3	1.3
Net margin (%)	9.8	6.8	13.6	12.2	12.4	12.6
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	69	55	55	55	55	55
Payable days	32	24	28	25	25	25

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	41	52	26	26	23	21
Price/Book value (x)	6.4	5.9	4.9	4.3	3.8	3.4
EV/Net sales (x)	3.8	3.4	3.3	3.0	2.7	2.3
EV/EBITDA (x)	25	29	19	19	17	14
Dividend Yield (%)	0.7	0.7	0.7	1.2	1.3	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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