

Zensar Technologies

MARKET PERFORMER

Sector: IT/Mid-Cap | Earnings Update – 3QFY21

27 January 2021

Background: Zensar is a leading digital solutions and technology services company that specialises in partnering with global organisations across industries on their Digital Transformation journey. A technology partner of choice, backed by strong track-record of innovation; credible investment in Digital solutions; assertion of commitment to client's success, Zensar's comprehensive range of digital and technology services and solutions enable its customers to achieve new thresholds of business performance. Zensar, with its experience in delivering excellence and superior client satisfaction through myriad technology solutions, is uniquely positioned to help them surpass challenges around running their existing business most efficiently, helping in their legacy transformation, and planning for business expansion and growth through innovative and digital ways.

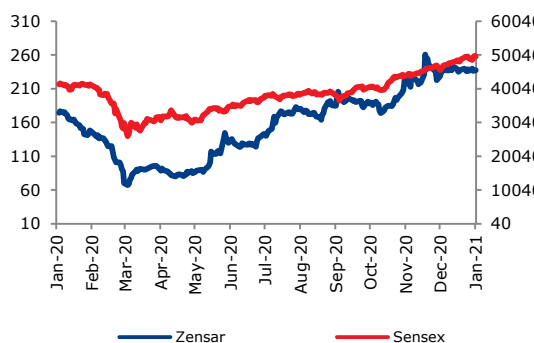
Sensex	47,410
Nifty	13,967
Price	₹238
Target Price (12 months)	₹255
Recommendation	MARKET PERFORMER

52 Week High/Low	₹267/64
Bloomberg / Reuters	ZENT IN /ZENT BO
Equity (shares in mn)	226
Mkt. Cap in mn	₹9.8/\$0.13
Avg. Daily Vol. ('000)	100.9
Avg. Daily Vol. (mn)	₹8.8/\$0.1

Shareholding	Dec 19	Sept 20	Dec 20
Promoters (%)	48.9	49.2	49.2
FII (%)	17.9	16.0	16.2
DII (%)	24.7	24.5	24.5
Others (%)	8.4	10.2	10.0
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021E	2022E	2023E
Revenue	38.3	41.4	45.4
EBITDA	6.7	7.3	7.9
Adj PAT	3.4	4.3	4.8
Adj EPS	15.3	19.1	21.2
% growth	30.1	24.5	11.2
P/E	11.6	9.3	8.4
P/ BV	1.9	1.7	1.4
EV/EBITDA	4.3	4.0	3.7
EV/Sales	0.8	0.7	0.6
Div Yield (%)	1.9	2.4	2.7
ROE (%)	17.6	19.1	18.4

Performance(%)	1M	3M	12M
ZENSAR	3.7%	25.1%	21.2%
SENSEX	8.9%	21.9%	20.1%



Topline continues to remain under pressure, while margins improve sharply.

- In 3QFY21 Zensar's (Zent) consolidated revenues declined by 8% YoY to ₹9.3bn, on the back of restructuring at its top client, the management guided for a weak 4Q on continued drag from the top client.
- EBITDA margins expanded 120bp QoQ to 20.6% and EBIT margins 110bps to 15.9%. Expansion was seen despite lower utilization (-320bps QoQ) and on the back of a better offshore mix (+300bps QoQ) and sales cost optimization. PAT stood at ₹987m, an increase of 12.3% sequentially led by higher operating income.
- Zensar continued to report healthy deal wins with 3QFY21 TCV of \$200m, suggesting a book-to-bill of 1.6x. The overall deal pipeline remained strong at USD1.7b, which look encouraging.
- The company started with 100 associates for the 'Work from Anywhere' program, which has now increased to 550. This has had a massive positive impact on margins.
- Management alluded that 4Q would remain impacted on account of continued weakness in the top account. The business continues to gather steam, with several deals on the verge of closing, and a solid pipeline. Going forward, the company strategy would be to focused on delivering consistent profitable growth with a higher focus on deal closures. The top line being the clear priority.
- There has been significant improvement in cash position in 3Q; Zensar is now a zero-debt company with the highest ever net cash position of \$160.2m.

Valuation: The company's top line remained under pressure over last few quarters on account of challenges in Retail segment followed by pandemic led disruptions and spending cut at key client. However we expect the growth to come back in coming quarters, given healthy deal pipeline worth ~₹200bn. The strong traction seen in BFSI, Cloud coupled with recovery in retail and Hi-Tech are likely to drive growth in coming quarters. The management remains optimistic of maintaining margins in a narrow band. We believe Zensar with its proven business structure, diversified product mix and long term deal pipeline to benefit from current up cycle in technology. At CMP, the stock is trading at a P/E of 9.3x/8.4x over F22/23 EPS. We revise our target price to ₹255 (earlier ₹198) revise our rating on the stock to a **MARKET PERFORMER**.

Risks: Slowdowns in deal win traction and lower than expected growth in digital.

Results Summary 3QFY21

Y/E March (INR mn)	3QFY21	3QFY20	Growth YoY	2QFY21	Growth QoQ
Revenue	9,344	10,206	-8%	9,795	-5%
EBITDA	1,854	696	166%	1,842	1%
Depreciation	426	412	3%	432	-1%
Other Income	48	396	-88%	-29	-264%
PBT	1346	553	144%	1249	8%
Tax	353	141	150%	329	7%
PAT	993	412	141%	920	8%
Adjusted PAT*	980	395	148%	902	9%
EBITDA Margin (%)	20%	7%		18.8%	
Tax Incidence (%)	26%	25%		26.3%	
Adj. PAT Margin (%)	10%	4%		9.2%	

Kedar Kadam +91-44-40047361

kedarsk@chola.murugappa.com

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Disclosure of Interest Statement	Update
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Served as an officer, director or employee	No

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RESEARCH			
Kedar S Kadam	DGM & Head of Research	+91-44 - 4004 7361	kedarsk@chola.murugappa.com
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Arjun Prasad Pasumarthi	Fundamental Analyst	+91-44 - 4004 7363	arjunpp@chola.murugappa.com
Ammar Haider	Associate	+91-44 - 4004 7360	amarh@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Hardik Shah	Mumbai	+91-9833203915	hardikss@chola.murugappa.com
Bhavesh Katariya	Mumbai	+91-9860297739	bhaveshgk@chola.murugappa.com
Balaji H	Compliance Officer	044-30007226	balajih@chola.murugappa.com
Gayathri Devi	Customer service	1800 425 4477	gayathrids@chola.murugappa.com

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