

Zensar Technologies

Sector: IT/Mid-Cap | Earnings Update – 1QFY21

OUT PERFORMER

28 July 2020

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.

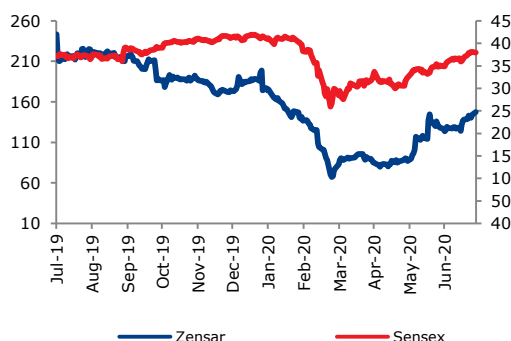
Sensex	38,073
Nifty	11,174
Price	₹ 147
Target Price (12 months)	₹ 157
Recommendation	OUT PERFORMER

52 Week High/Low	271/64
Bloomberg / Reuters	ZENT IN /ZENT BO
Equity (shares in mn)	225.3
Mkt. Cap in mn	₹ 9.8/\$ 0.13
Avg. Daily Vol. ('000)	100.9
Avg. Daily Vol. (mn)	₹ 8.8/\$0.1

Shareholding	Jun 19	Mar 20	Jun 20
Promoters (%)	48.9	49.2	49.2
FII (%)	17.0	17.7	16.0
DII (%)	25.3	24.7	24.5
Others (%)	8.9	8.5	10.2
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	41.8	40.1	41.7
EBITDA	5.1	5.6	6.0
Adj PAT	2.6	3.1	3.4
Adj EPS	11.8	13.6	15.0
% growth	-14.0	15.7	9.8
P/E	12.3	10.6	9.6
P/ BV	1.8	1.6	1.4
EV/EBITDA	4.2	3.8	3.5
EV/Sales	0.5	0.5	0.5
Div Yield (%)	1.8	2.1	2.3
ROE (%)	14.0	15.7	15.4

Performance(%)	1M	3M	12M
ZENSAR	16.2	64.5	-32.4
SENSEX	8.6	19.6	2.4



Top-line continues to remain under pressure though aggressive cost rationalization boosted margins; while management remains optimistic on maintaining margins, healthy deal pipe line provides revenue visibility

- In 1QFY21 Zensar's consolidated revenues declined by 7.4% YoY to ₹ 9,912mn (-2.6% QoQ) mainly due to a sharp decline in retail & financial vertical, down 23% QoQ, 14% QoQ. EBIDTA declined 2% YoY while margin for the quarter stood at 14%. Among verticals Hi-Tech showcased better than expected performance while Retail that remained weak during the quarter, is expected to stabilize by 2QFY21 and grow in 2HFY21. For BFSI segment the company is working on rearranging its value proposition.
- During the quarter EBIT margins increased 20 bps to 10.0% mainly led by forex gain (40 bps), SG&A optimisation (20 bps) and partially offset by lower utilisation. The other key positives for the quarter was reduction in debt by ~US\$15.5 million (~₹1,160mn) QoQ and DSO days dipping by 12 days QoQ to 75 days.
- The deal momentum during the quarter remained healthy with deal TCV going up 36% QOQ taking total deal pipeline worth to US\$1.5 billion. The company's hi tech (46% of revenues) vertical saw an improvement of 3.5% QoQ (in CC terms), which is expected to further improve in coming quarters.
- The healthy deal pipeline coupled with bottoming out of retail vertical, improvement in cloud revenues and ramp up of projects will lead to improvement in revenues in coming quarters. In addition the company has hired Nachiketa Mitra (from cognizant) to restructure and reposition its financial service vertical (~26.6% of revenues) in the long term.
- During the quarter the company's debt declined by ~\$15m to ~\$28.3m while cash balances remain healthy at ~\$ 87m. The client mix remained resilient with Top-5 (+0.9% QoQ, USD) and Top 6-10 accounts (+5.4% QoQ, USD)
- The Total Contract Value of deals signed during the quarter was ~\$150m, marginally lower than the last 6 quarter average run-rate.

Valuation: Though management is making efforts to shift focus from retail to financial services and Hi-tech, the impending weakness in these sectors remains a challenge as well as the new initiatives to revamp financial services vertical need to be monitored. The management remains optimistic on maintaining margins, this coupled with healthy deal pipeline augurs well for the company. However given the recent run-up in stock price we believe most of these factors are largely priced in. At CMP, the stock is trading at a P/E of 10.6x/9.6x over F21/22 EPS. we revise our target price to ₹ 157 based on P/E of 10.5x on FY22 EPS and revise our rating on the stock to an **OUT PERFORMER** given compelling valuations.

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

Results Summary 1QFY21

Y/E March (INR mn)	1QFY21	1QFY20	Growth YoY	4QFY20	Growth QoQ
Revenue	9,912	10,710	-7.4%	10,178	-2.6%
EBITDA	1,430	1,458	-2%	1,416	1.0%
Depreciation	444	379	17%	415	6.8%
Other Income	180	146	23%	161	11.5%
PBT	1014	1059	-4%	990	2.5%
Tax	266	302	-12%	270	-1.7%
PAT	749	757	-1%	720	4.0%
Adjusted PAT*	733	745	-2%	704	4.1%
EBIDTA Margin (%)	14%	14%		13.9%	
Tax Incidence (%)	26%	28%		27.3%	
Adj. PAT Margin (%)	7%	7%		6.9%	

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Served as an officer, director or employee	No

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OUT PERFORMER: The stock's total return is expected to be within 5-15% over the next 12 months.

MARKET PERFORMER: The stock's total return is expected to be between -5% to +5% over the next 12 months.

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