

Zensar Technologies Ltd

Sector: IT /Mid-Cap | Earnings Update – 4QFY22

BUY

11 May 2022

Background: Zensar is a leading digital solutions and technology services company that specialises in partnering with global organizations 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	54,088
Nifty	16,167
Price	₹ 294
Target Price (12 months)	₹ 400
Recommendation	BUY
52 Week High/Low	₹ 587/265
Bloomberg / Reuters	ZENT IN /ZENT.BO
Equity (shares in mn)	226.1
Mkt. Cap in bn	₹ 66.6 / \$ 0.86
Avg. Daily Vol. ('000)	842.7
Avg. Daily Vol. (mn)	₹ 247.7 / \$ 3.2

Shareholding	Mar-21	Dec-21	Mar-22
Promoters (%)	49.2	49.1	49.1
FII (%)	16.2	17.8	16.6
DII (%)	24.5	14.1	13.4
Others (%)	10.1	19.0	20.9
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2022	2023E	2024E
Revenue	42.4	45.8	49.2
EBITDA	6.6	7.3	8.3
PAT	4.2	4.4	4.6
EPS	18.6	19.8	20.6
% growth	38.8	6.5	4.2
P/E	15.8	14.9	14.3
P/ BV	2.5	2.4	2.2
EV/EBITDA	12.8	11.4	10.1
EV/Sales	2.0	1.8	1.7
Div Yield (%)	1.4	1.5	1.6
ROE (%)	16.6	16.5	16.1

Performance(%)	1M	3M	12M
ZENSAR TECH	(22.0)	(19.4)	9.7
SENSEX	(8.4)	(2.8)	9.9

Moderate quarter; strong topline performance while margins remain muted on account of higher SG&A & Manpower costs

- Zensar tech reported steady quarterly performance in 4QFY22 with a revenue growth of 4.2% QoQ in CC terms to US\$153.2mn. The EBITDA stood at ₹1.6bn (-4.5% YoY/+3.7% QoQ) while EBITDA margin lowered to 14.2%. The broad-based growth across the business verticals boosted the topline while higher SG&A & supply side headwinds weighed on the margins. PAT came at ₹1.3bn (+43.5% YoY/41.6% QoQ) led by higher other income & improved topline.
- EBITDA margins continued its staggered deterioration for fifth consecutive quarter at 14.2% (-540bps YoY/-20bps QoQ) on account of higher cost of delivery & SG&A expenses. The EBITDA margins are anticipated to absorb the effects of the higher employee addition & overall hiring by 1HFY23 end & stabilize thereafter. The management targets to maintain EBITDA margins in the threshold of 15-17% for FY23 & 17-19% over the longer period.
- Zensar's order book in 4QFY22 strengthened further to \$165.6mn (+32.3% QoQ rise) led by broad-based order wins. A couple of clients transitioned to higher category (\$5mn+) during 4QFY22 taking total client to 37. Amongst the order book composition, the renewals contributed 60% while 40% was from new orders secured in 4QFY22. The company recorded bookings growth across all the verticals, geographies & service lines. Despite slowing economic growth in US & UK, the management anticipates demand environment to remain stable for the company.
- LTM attrition soared to 27.9% in 4QFY22(+320bps QoQ). The management anticipates situation to stabilize by end of 1HFY23 led by upskilling and retention initiatives undertaken. The fastened speed of talent acquisition is reflected in strong gross headcount addition that stood at 2,331 during the quarter. The multiple new initiatives (despite being a considerable cost addition) introduced by the management reflect concerted efforts for talent retention.
- Zensar reported broad-based growth on all the business verticals. Banking & insurance posted stellar 35.4% YoY/5.3% QoQ growth driven by improved insurance portfolio & strong traction witnessed amongst all the clients. The consumer services, the highest revenue generator, posted robust growth of 54.1% YoY/3.9% QoQ led by improved business engagements amongst key clients. Hi-Tech & manufacturing segment registered 13.7% YoY/3.2% QoQ growth owing to additional revenue generated via new clients. The emerging segment continued its strong growth momentum in 4QFY22 with 148.5% YoY/6.1% QoQ growth.
- Amongst the business geographies, US, with 70.4% revenue contribution, registered 28.8% YoY/3.4% QoQ growth led by strong growth momentum for all the clients. Europe (19% revenue contribution) posted stellar performance with highest ever quarterly revenue of \$29.1mn (+29.7% YoY/+9.8% QoQ). The strong performance was anchored by robust deal win momentum & experienced strategies to create new business opportunities. The south Africa region marginally dragged the overall growth with subdued performance on QoQ basis (+15.7% YoY).

Valuation: FY22 turned out to be an exceptional year for Zensar on all the key fronts. The recent change of guard & subsequent shift in strategy has started to reflect in the financial performance. Zensar, with its proven business structure, diversified product mix & robust deal pipeline, is well placed for growth over the longer period. In the near term, company is expected to weather the effects of multiple headwinds such as higher attrition rate, stress on margins, weakening economic outlook in key operating regions etc. Resultantly, we have trimmed our FY23/FY24 estimates, implying a revised target price of ₹400 (earlier TP: ₹505)

Risks: Postponement/ suspension of deal pipeline, slowdown in cloud, FS and retail segment.

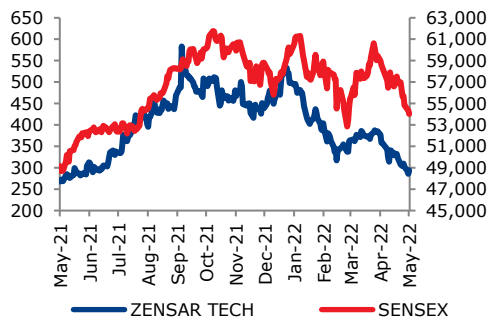
Results Summary 4QFY22

Y/E March (₹ mn)	4QFY22	4QFY21	YoY Growth	3QFY22	QoQ Growth
Revenue	11,538	8,762	31.7%	11,025	4.7%
EBITDA	1,643	1,721	-4.5%	1,585	3.7%
Depreciation	481	445	8.1%	474	1.5%
Other Income	723	66	993.8%	241	200.0%
PBT	1,796	1,221	47.2%	1,263	42.2%
Tax	488	309	57.9%	339	44.0%
PAT	1,308	911	43.5%	924	41.6%
EBITDA Margin (%)	14.2	19.6		14.4	
Tax Incidence (%)	27.2	25.3		26.8	
PAT Margin (%)	11.3	10.4		8.4	

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BUY: The stock's total return is expected to exceed 15% over the next 12 months.

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

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

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