

Zensar Technologies

MARKET PERFORMER

Sector: IT/Mid-Cap | Earnings Update – 4QFY21

3 May 2021

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.

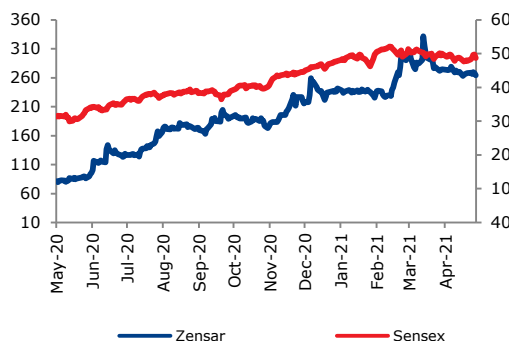
Sensex	48,463
Nifty	14,565
Price	₹265
Target Price (12 months)	₹287
Recommendation	MARKET PERFORMER

52 Week High/Low	₹347/78
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	Mar 20	Dec 20	Mar 21
Promoters (%)	48.9	49.2	49.2
FII (%)	17.7	16.2	16.0
DII (%)	24.7	24.5	24.6
Others (%)	8.5	10.0	10.2
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	37.8	38.8	43.0
EBITDA	6.8	7.0	8.0
Adj PAT	3.5	4.1	4.9
Adj EPS	15.6	18.4	21.8
% growth	32.6	17.6	18.6
P/E	11.4	9.7	8.2
P/ BV	1.7	1.7	1.4
EV/EBITDA	5.5	5.4	4.7
EV/Sales	1.0	1.0	0.9
Div Yield (%)	2.0	2.3	2.7
ROE (%)	16.0	17.4	18.9

Performance(%)	1M	3M	12M
ZENSAR	-4.4%	10.2%	224.7%
SENSEX	0.7%	-0.2%	55.1%



Weak quarter: Topline impacted by weakness in hi-tech and manufacturing verticals while margins continue to remain upbeat

- In 4QFY21 Zensar's (Zent) consolidated revenues declined by 14% YoY to ₹8.7bn, on the back of restructuring at its top client. In addition weak segmental performance led by 3.8% and 2.1% decline in hi-tech and manufacturing, respectively impacted revenues.
- EBITDA margins declined 20 bps QoQ to 19.6% primarily driven by wage hike during the quarter. The company intends to further invest in leadership and sales & marketing efforts to drive growth, which could act as headwinds to margins. On the positive side the company started with 100 associates for the 'Work from Anywhere' program, which has now increased to 550 which has had a positive impact on margins.
- The company reported a 50% decline in deal wins with 4QFY21 TCV of \$100m (on the back of deferrals in BFSI), suggesting a book-to-bill of 1.4x. The overall deal pipeline remained strong at \$1.8b, which look encouraging.
- The new CEO has highlighted his strategy to drive revenue growth in the current quarter with the key focus areas being, growth in its core capabilities, such as data, experience, application services and platform. Investing in its sales infrastructure to boost top-line. Using acquisitions to build capabilities and refining existing capacities.

Valuation: The company's top line remained under pressure over last few quarters on account of challenges in Hi-tech, manufacturing segment and spending cut at key client. Going forward, we believe of the recovery in business from large clients in hi tech, and BFSI business coupled with improvement in cloud, retail & insurance revenues to drive growth in coming quarters. The management remains optimistic of maintaining margins in high double digits. 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 9.7x/8.2x over F22/23 EPS. We revise our target price to ₹287 (earlier ₹255) and maintain our rating on the stock of a **MARKET PERFORMER**.

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

Results Summary 4QFY21

Y/E March (INR mn)	4QFY21	4QFY20	Growth YoY	3QFY21	Growth QoQ
Revenue	8,762	10,178	-14%	9,344	-6%
EBITDA	1,721	1,416	22%	1,854	-7%
Depreciation	445	415	7%	426	4%
Other Income	66	161	-59%	48	38%
PBT	1221	990	23%	1346	-9%
Tax	309	270	14%	353	-12%
PAT	911	720	27%	993	-8%
Adjusted PAT*	889	704	26%	980	-9%
EBITDA Margin (%)	19.6%	13.9%		19.8%	
Tax Incidence (%)	25%	27%		26%	
Adj. PAT Margin (%)	10%	7%		10%	

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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