

Zensar Technologies Ltd

BUY

Sector: IT /Mid-Cap | Earnings Update – 3QFY22

27 January 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.

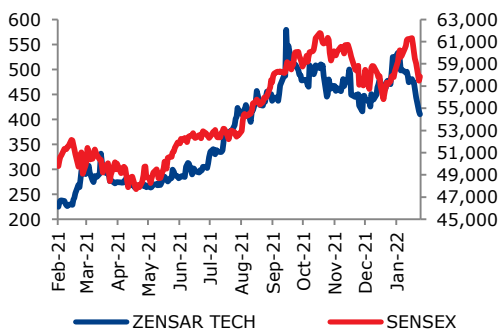
Sensex	56,645
Nifty	16,927
Price	₹ 403
Target Price (12 months)	₹ 505
Recommendation	BUY

52 Week High/Low	₹ 587/222
Bloomberg / Reuters	ZENT IN /ZENT.BO
Equity (shares in mn)	226.1
Mkt. Cap in bn	₹ 93.1/ \$ 1.2
Avg. Daily Vol. ('000)	1,827.1
Avg. Daily Vol. (mn)	₹ 752.7 /\$ 10

Shareholding	Dec-20	Sep-21	Dec-21
Promoters (%)	49.2	49.1	49.1
FII (%)	16.2	15.8	17.8
DII (%)	24.6	21.0	14.1
Others (%)	10.0	14.2	19.0
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2022E	2023E	2024E
Revenue	43.5	50.2	54.4
EBITDA	7.4	8.5	10.1
PAT	4.1	4.6	5.9
EPS	18.2	20.6	26.0
% growth	36.4	13.1	26.1
P/E	22.1	19.5	15.5
P/ BV	3.8	3.4	2.9
EV/EBITDA	11.2	9.8	8.3
EV/Sales	1.9	1.7	1.5
Div Yield (%)	1.0	1.1	1.4
ROE (%)	17.5	18.3	20.0

Performance(%)	1M	3M	12M
ZENSAR TECH	(12.7)	(1.4)	70.6
SENSEX	0.8	1.0	22.0



Steady quarter: Healthy topline growth despite seasonal weakness in Hitech and Manufacturing verticals; Long term growth trajectory remains intact. Management retains guidance of mid teen digit operating margins going forward

- Zensar Tech reported revenue growth of 4.7% QoQ in cc terms to US\$147.1mn in 3QFY22. The subdued growth (vs 2QFY22 12% QoQ) was owing to seasonality during the quarter: furloughs in Hi-tech and Manufacturing segments. The company is confident of growth recovery in these segments from 4QFY22. The management is optimistic on the company's growth trajectory and expects the company to show visibility in growth & profitability in the next 2-4 quarters.
- During the quarter the company's order book stood at US\$ 125.1mn of which 68% were renewals and 32% were net new wins. The company management expects demand environment to remain healthy for mid and small size deals during the near term. Zensar added 1 client each in US\$20mn bucket and US\$10mn bucket.
- The growth among business verticals were: Banking 76.5% QoQ, Insurance at 8.9% QoQ and Consumer services at 26% QoQ. The sequential growth was driven by new logo addition, new leadership and absence of furloughs in these verticals. The company has setup a dedicated team to focus on acquiring new logos for Hi-Tech, Manufacturing and Emerging verticals. This strategy is expected to payoff in the coming quarters.
- From a geographic perspective topline growth during the quarter was led by Europe which increased by 6% QoQ while US markets increased by 4.4% QoQ. Africa region witnessed a decline of 4.1% QoQ owing to ZAR depreciation against USD and partly due to the economic impact of the omicron covid variant in the region. The company expects the growth in Africa region to normalise from 4QFY22 onwards.
- In 3QFY22 EBITDA margins declined to 14.3% (down 100 bps QoQ). The decline in margins was on account of lower volume and utilization (80.1%, down 320bps QOQ), adverse forex movements and SG&A impact. However the decline was marginally mitigated by lower cost of delivery. The sub-contracting costs increased to 15.2% (vs 14.9% in 2QFY22). The company expects this cost to remain elevated for the next few quarters on account of strong demand. However, the management maintained its margin guidance in mid-teen digit levels for the next 4-5 quarters.
- Gross headcount additions stood at 991 during 3QFY22. Meanwhile LTM Attrition improved to 14.1% (down 910bps QoQ). Zensar has put in place strategies to manage supply side challenges such as: Upskill and fast tracking career paths existing talent, aggressive hiring (plans to add 5x 1HFY22 freshers in 2HFY22).

Valuation: The Green shoots of recovery are quiet visible with the change in strategy by the company's new CEO. The topline is expected to continue its robust growth into 2HFY22 driven by recovery in clients' business. The company is investing in its sales force and offshoring which is expected to be margin accretive in the medium term. The management remains optimistic of maintaining margins in high double digits which is a positive. We believe Zensar with its proven business structure, diversified product mix and long term deal pipeline will benefit from current up cycle in technology. At CMP, the stock is trading at a P/E of 19.5x/15.5x over F23/24 EPS. We maintain our target price on the stock at ₹505 and upgrade our rating on the stock to BUY (Earlier: OUT PERFORMER).

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

Results Summary 3QFY22

Y/E March (₹ mn)	3QFY22	3QFY21	YoY Growth	2QFY22	QoQ Growth
Revenue	11,025	9,344	18.0%	10,506	4.9%
EBITDA	1,585	1,854	-14.5%	1,612	-1.7%
Depreciation	474	426	11.2%	468	1.3%
Other Income	241	48	NA	229	5.2%
PBT	1,263	1,346	-6.2%	1,286	-1.8%
Tax	339	353	-3.9%	328	3.4%
PAT	924	993	-6.9%	958	-3.5%
EBITDA Margin (%)	14.4	19.8		15.3	
Tax Incidence (%)	26.8	26.2		25.5	
PAT Margin (%)	8.4	10.6		9.1	

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Served as an officer, director or employee	No

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