

Zensar Technologies

Sector: IT /Mid-Cap | Earnings Update – 4QFY19

BUY

7 May 2019

Background Zensar Technologies is an RPG Group company, with end-to-end services from IT development to business process outsourcing. In 4QFY19: revenue share from services: Application Management Services (84.7%), Infrastructure Management Services (15.3%). The Company's business is primarily classified into Manufacturing (51.8%), Retail & Consumer services (21.6%), Financial Services (22.2%), and Emerging (4.4%). The company's business is spread across USA (76.2%), Europe (14.9%), Africa (8.0%) and RoW (0.9%). It receives 67.4% of revenues from onsite and 32.6% of revenues from offshore. Fixed price contracts revenue share is 53.7% and Time & Materials (46.3%). Company received 84.5% revenue from repeat business, and has 327 active clients.

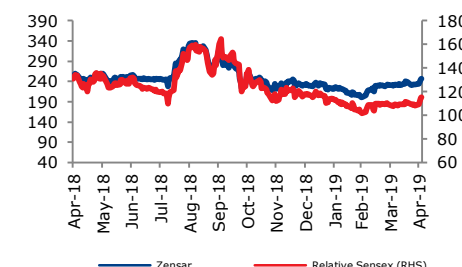
Sensex	38,694
Nifty	10,618
Price	INR 242
Target Price (12 months)	INR 307
Recommendation	BUY
52 Week High/Low	352/146
Bloomberg / Reuters	ZENT IN /ZENT BO
Equity (shares in mn)	225.2
Mkt. Cap in bn	INR 54.5/\$ 0.79
Avg. Daily Vol. ('000)	152.6
Avg. Daily Vol. (mn)	INR 36.9/\$0.53

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	48.88	48.85	48.87
FII (%)	6.36	16.86	16.77
DII (%)	11.72	19.21	2.63
Others (%)	33.04	15.08	31.73
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Revenue	39.7	45.6	50.6
EBITDA	4.9	6.2	7.2
Adj PAT	3.1	3.4	4.3
Adj EPS	14.0	15.3	19.2
% growth	29.8	9.5	25.5
P/E	17.3	15.8	12.6
P/ BV	3.3	2.9	2.5
EV/EBITDA	10.2	7.7	7.5
EV/Sales	1.2	1.0	1.1
Div Yield (%)	1.3	1.4	1.8
ROE (%)	19.0	19.5	21.0

Performance %	1M	3M	12M
Zensar	7.3	9.0	-4.0
Sensex	0.2	6.8	11.0



Encouraging close to FY19

- In 4QFY19, Zensar consolidated revenue grew by 2.1% QoQ to INR 10,574mn (CSEC estimate of INR 10,483mn). Revenues grew 4.5% QoQ to USD 150.1mn (+4.1% QoQ in CC terms) led by a 5.2% QoQ growth in core business. Total Digital services were up 7.7% sequentially and 37.7% YoY in CC terms and contributed 44.7% to FY19 revenues.
- The recent acquisitions of the company- Keystone, Indigo Slate, Cynosure and Foolproof grew by 16%/6.5%/18.3% and 10% QoQ respectively contributing to the top-line growth.
- The EBITDA margins of the Core business (93.5% of revenues) stood at 14.1% and the overall margins at 12.3%. The overall margins expanded by ~162bps QoQ on account of improvement in utilization, lower sub-contracting costs and absence of furloughs.
- The company aims to increase its core business margins to 15% through improvement in utilization, reduction in subcontracting costs, focusing on margin accretive cloud infrastructure deals and improving realizations from digital business. The non-core business would also be gradually wound down which would further aid margins.
- Among geographies growth was lead by Europe (+ 7.5% QoQ) and US (+ 4.6% QoQ). While Africa and RoW declined by 2.0/27.0% QoQ respectively. Amongst industry verticals, Hi-tech & manufacturing reported healthy growth of 8.4% QoQ. Retail & Consumer Services also witnessed a growth of 6.7% QoQ while financial services vertical witnessed a decline of 4.3% QoQ.
- Amongst Services, growth was lead by digital and application services (+6.3% QoQ) and cloud, digital led next gen CIS (+6.9% QoQ) while core infrastructure services de-grew by 18.1% QoQ.
- Utilization improved by 170bps QoQ to 83.4%. Attrition reduced by 20bps QoQ to 15.6%. Net headcount increased by 260, taking the total headcount to 10,073.
- The total deal wins for the quarter stood at USD 150mn. For FY19, the total contract value stands at USD 750mn vs USD400mn in FY18. The deal momentum remains robust and unaffected by any macro-economic uncertainties in client verticals/geographies.

Valuation: We expect Zensar's top-line to grow by ~15% in FY20E on account of strong deal wins and robust growth of digital revenues. At CMP, the stock is trading at a P/E of 15.8X/12.6X over F20/21 EPS. We maintain our target price of INR 307 based on P/E of 16.0x FY21 EPS with a **BUY** rating on the stock. **Risks:** slowdown in deal win traction and lower than expected growth in digital.

Results Summary 4QFY19

Y/E March (INR mn)	4QFY19	4QFY18	YoY	3QFY19	QoQ
Revenue	10,574	8,147	29.8%	10,355	2.1%
EBITDA	1,298	1,000	29.9%	1,104	17.7%
Depreciation	251	139	80.9%	237	5.9%
Other Income	250	42	500.4%	25	896.0%
PBT	1187	1041	14.1%	783	51.7%
Tax	355	300	18.5%	218	62.8%
PAT	832	741	12.3%	565	47.3%
Adj PAT	832	741	12.3%	565	47.3%
EBITDA Margin (%)	12.3	12.3		10.7	
Tax Incidence (%)	29.9	28.8		27.9	
PAT Margin (%)	7.9	9.1		5.3	

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RESEARCH			
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Keerthi S	Fundamental Analyst	+91-44 - 4004 7363	keerthi@chola.murugappa.com
Sai Lavanya K	Fundamental Analyst	+91-44 - 4004 7266	sailk@chola.murugappa.com
Sahil Jain	Fundamental Associate	+91-44 - 4004 7360	sahilj@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Kishore K Ganti	Mumbai	+91-22-26597239	kishorekg@chola.murugappa.com
Bhavesk Katariya	Mumbai	+91-9860297739	bhaveskgk@chola.murugappa.com
Sudhanshu Kumar	Institutional Equities*	+91 - 9953175955	sudhanshuk@chola1.murugappa.com
Balaji H	Compliance Officer	044 – 4004 7226	balajih@chola.murugappa.com

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