

Zensar Technologies

Sector: IT/Mid-Cap | Earnings Update – 4QFY20

Buy

20 May 2020

Background: Zensar Technologies is an RPG Group company, with end-to-end services from IT development to business process outsourcing. The company's business is spread across USA, Europe and Africa with around 308 active clients. The company's portfolio focuses on Hi-tech & manufacturing, retail and BFSI sectors. Zensar provides Analytics, Cloud & infrastructure, enterprise applications, digital experience and service line transformation services. In FY19, the company acquired Indigo Slate; a US based digital marketing company.

Sensex	30,141
Nifty	8,873
Price	₹ 88
Target Price (12 months)	₹ 112
Recommendation	BUY
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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	Mar 18	Dec 19	Mar 20
Promoters (%)	32.7	49.0	49.2
FII (%)	7.4	17.9	17.7
DII (%)	11.8	24.7	24.7
Others (%)	48.1	8.4	8.5
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	41.8	40.1	41.2
EBITDA	4.9	5.5	6.0
Adj PAT	2.5	3.0	3.3
Adj EPS	11.0	13.4	14.8
% growth	-19.5	21.7	10.5
P/E	8.0	6.6	5.9
P/ BV	1.1	1.0	0.9
EV/EBITDA	1.8	1.6	1.5
EV/Sales	0.2	0.2	0.2
Div Yield (%)	2.8	3.4	3.8
ROE (%)	13.2	15.6	15.3

Performance(%)	1M	3M	12M
ZENSAR	-8.9	-44.5	-65.9
SENSEX	1.4	-24.6	-16.6

Muted quarter; operational efficiency aid margin improvement

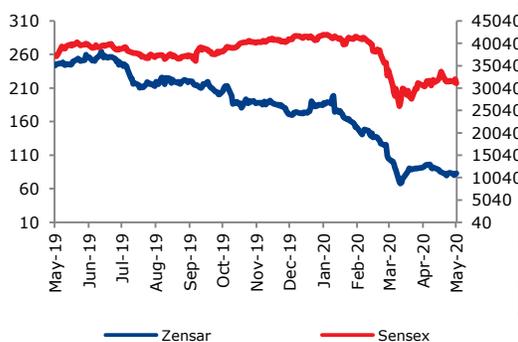
- In 4QFY20 Zensar's consolidated revenues declined by 3.7% YoY to ₹ 10,178mn (-0.3% QoQ in CC terms) mainly due to a decline across verticals except retail (due to lower base). EBIDTA declined by ~4% YoY while margin for the quarter stood at ~12%.
- All three regions registered revenue growth in FY20 compared to FY19, US +3.3% and Europe +10.4% while Africa region registered growth of 26.9% YoY; within Africa region SA accounted for 10% of total revenue.
- Among segments; Financial services revenue declined marginally by 1.8% QoQ but grew 14.6% YoY and 18.6% in FY20 vis-à-vis FY19; Banking revenues increased 5.1% QoQ 43.9% YoY while Insurance registered a growth of 4.6% YoY. Retail vertical witnessed 5.8% QoQ growth
- Amongst Services vertical, growth was led by Digital Services which grew 15.4% YoY & 3.7% QoQ in USD terms, constituting total of 57.2% of the revenue in 4QFY20. Full year growth in FY20 was 21.9%. Cloud & infrastructure Services grew 8.0% in FY20 vis-à-vis FY19. Next Gen Cloud grew 3.6% QoQ & 22.5% YoY.
- Zensar registered a steady increase in the number of \$5mn per annum customer accounts which grew by ~5% YoY. Thus further cementing Management's statement on how products such as new age digital, data and cloud offerings are helping their clients. The total deal wins for the quarter stood at USD 110mn+ despite challenging environment.
- The management also spoke about how they worked on improving their cash management which resulted in ~300% YoY increase in operating cash flow.

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. We believe that margin recovery guidance to earlier levels of 15% in FY21 would be a challenge. Although the deal pipeline remains healthy, it has not been reflected in numbers so far. At CMP, the stock is trading at a P/E of 6.6x/5.9x over F21/22 EPS. Given the challenging medium term outlook, we revise our target price to INR 112 based on P/E of 7.5x on FY22 EPS and upgrade the stock to a **Buy** given compelling valuations.

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

Results Summary 4QFY20

Y/E March (INR mn)	4QFY20	4QFY19	Growth YoY	3QFY20	Growth QoQ
Revenue	10,178	10,574	-3.7%	10,206	-0.3%
EBITDA	1,246	1,298	-4%	696	79.1%
Depreciation	415	251	65%	412	0.8%
Other Income	161	250	-36%	396	-59.3%
PBT	820	1187	-31%	553	48.4%
Tax	270	355	-24%	141	91.7%
PAT	550	832	-34%	412	33.6%
Adjusted PAT*	535	827	-35%	395	35.2%
EBIDTA Margin (%)	12%	12%		6.8%	
Tax Incidence (%)	33%	30%		25.5%	
Adj. PAT Margin (%)	5%	8%		3.9%	



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

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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