

CMP: ₹ 470

Target: ₹ 565 (20%)

Target Period: 12 months

December 28, 2021

BUY

## Management change yielding results...

**About the stock:** Zensar Technologies (Zensar) offers application & IMS services to hi-tech, manufacturing, retail and BFSI.

- Zensar has grown organically and inorganically over the years
- Net debt free and healthy double digit return ratio (with RoCE of 19%)

### Rationale:

- The company grew at ~5% CAGR in FY16-21, lagging its peers. As it goes through a turnaround, we expect it to grow at 12.6% CAGR in FY21-23E
- Margins improved from 14.8% in FY16 to 18.1% in FY21 due to higher offshoring and lower employee costs. The improvement in margin trajectory is expected to continue
- The company has seen healthy client addition in Q2FY22. Client mining and new logo additions are expected to scale up revenues further

**What should investors do?** Zensar's share price has grown by ~2.6x over the past five years (from ~₹ 175 in December 2016 to ~₹ 470 levels in December 2021).

- We remain positive on the stock and maintain BUY rating

**Target Price and Valuation:** We value Zensar at ₹ 565 i.e. 24x P/E on FY23E EPS

### Key triggers for future price performance:

- Zensar is addressing key shortages of the past. The new CEO has devised a strategy to focus on the experience side and build capabilities in digital engineering, data, artificial intelligence and machine learning
- Driving deal momentum, annuity revenues, increasing investment in sales & talent, leadership and tuck-in acquisition to build capability bode well for long term revenue growth
- Expect dollar revenue CAGR of 11% over FY21-23E

**Alternate Stock Idea:** Apart from Zensar, in our IT coverage we also like Infosys

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- BUY with a target price of ₹ 2,060



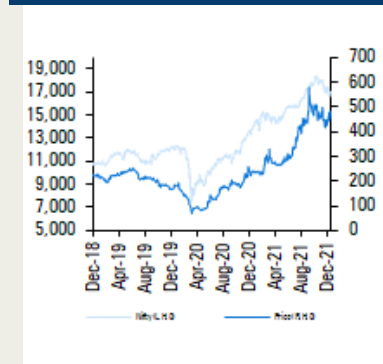
### Particulars

Particular	Amount
Market Cap (₹ Crore)	10,577
Total Debt (₹ Crore)	-
Cash & Inverts (₹ Crore)	1,062
EV (₹ Crore)	9,515
52 week H/L	587 / 222
Equity capital	45
Face value	₹ 2

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	36	36	36	36
FII	39	38	36	36
DII	14	14	17	17
Public	12	12	12	12

### Price Chart



### Recent event & key risks

- Deal wins remain robust
- **Key Risk:** (i) Deceleration in deal pipeline ii) Inability to sustain cost savings

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	3,983	4,182	3,781	4.9%	4,202	4,790	12.6%
EBITDA	493	507	685	9.2%	748	910	15.3%
EBITDA Margin (%)	12.4	12.1	18.1		17.8	19.0	
Reported PAT	314	263	300	-0.6%	413	534	33.4%
EPS (₹)	13.9	11.5	13.2		18.1	23.5	
P/E	33.7	40.8	35.7		25.9	20.0	
ROE (%)	16.1	12.6	12.8		15.6	17.6	
ROCE (%)	17.6	12.5	18.9		19.1	21.7	

Source: Company, ICICI Direct Research

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Total Revenues</b>	<b>4,182</b>	<b>3,781</b>	<b>4,202</b>	<b>4,790</b>
Growth (%)	5.0	-9.6	11.1	14.0
Employee Benefit Expense	3,016	2,515	2,786	3,176
Other Expenses	659	582	668	704
<b>EBITDA</b>	<b>507</b>	<b>685</b>	<b>748</b>	<b>910</b>
Growth (%)	2.9	35.1	9.2	21.7
Depreciation	159	175	175	175
Other Income	88	25	34	42
Interest	61	54	40	40
PBT before Exceptional Items	376	482	567	737
Growth (%)	-15.6	28.3	17.7	30.0
Tax	104	126	147	195
PAT before Exceptional Items	272	356	420	542
Minority interest	8	7	7	8
<b>PAT after exceptional items</b>	<b>263</b>	<b>300</b>	<b>413</b>	<b>534</b>
Growth (%)	-16.0	13.9	37.5	29.5
<b>Diluted EPS</b>	<b>11.5</b>	<b>13.2</b>	<b>18.1</b>	<b>23.5</b>
EPS (Growth %)	-17.3	14.3	37.5	29.5

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Profit before Tax</b>	<b>376</b>	<b>482</b>	<b>567</b>	<b>737</b>
Depreciation	159	175	175	175
Change in working capital	235	315	(54)	(75)
Income Taxes Paid	(115)	(140)	(147)	(195)
<b>CF from operations</b>	<b>686</b>	<b>858</b>	<b>539</b>	<b>632</b>
Other Investments	(237)	(547)	34	42
(Purchase)/Sale of Fixed Assets	(78)	(39)	(231)	(62)
<b>CF from investing Activities</b>	<b>(315)</b>	<b>(528)</b>	<b>(197)</b>	<b>(21)</b>
Inc / (Dec) in Equity Capital	2	1	-	-
Inc / (Dec) in sec.loan Funds	11	(330)	-	-
Dividend & Dividend tax	(120)	(27)	(111)	(144)
Interest Paid on Loans	(12)	(4)	(40)	(40)
<b>CF from Financial Activities</b>	<b>(119)</b>	<b>(359)</b>	<b>(151)</b>	<b>(184)</b>
Net change in cash	252	(29)	190	427
Opening cash	326	517	699	839
<b>Closing cash</b>	<b>517</b>	<b>699</b>	<b>839</b>	<b>1,216</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Equity	45	45	45	45
Reserves & Surplus	2,045	2,297	2,598	2,988
Networth	2,090	2,342	2,643	3,033
Total debt	289	-	-	-
Minority Interest	24	29	29	29
Other liabilities	377	324	324	324
<b>Source of funds</b>	<b>2,779</b>	<b>2,695</b>	<b>2,996</b>	<b>3,386</b>
Fixed assets	458	388	470	458
Intangible assets	230	168	193	142
Goodwill	647	577	577	577
Non current investments	11	154	154	154
Other non current assets	192	154	160	172
Current Investments	267	363	363	363
Cash Balance	517	699	839	1,216
Inventories	94	-	-	-
Debtors	666	589	651	743
Other current assets	514	342	347	373
Trade payables	265	220	240	273
Other Current liabilities	551	518	518	539
<b>Application of funds</b>	<b>2,779</b>	<b>2,695</b>	<b>2,996</b>	<b>3,386</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Diluted EPS	11.5	13.2	18.1	23.5
BV	91.5	102.9	116.1	133.3
DPS	2.8	3.6	4.9	6.3
Cash Per Share	22.6	30.7	36.9	53.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	12.1	18.1	17.8	19.0
PAT Margin	6.3	7.9	9.8	11.1
Debtor days	58	57	57	57
Creditor days	23	21	21	21
<b>Return Ratios (%)</b>				
RoE	12.6	12.8	15.6	17.6
RoCE	12.5	18.9	19.1	21.7
RoIC	17.4	31.2	32.0	40.7
<b>Valuation Ratios (x)</b>				
P/E	40.8	35.7	25.9	20.0
EV / EBITDA	19.9	13.9	12.5	9.9
Market Cap / Sales	2.5	2.8	2.5	2.2
Price to Book Value	5.1	4.6	4.0	3.5
<b>Solvency Ratios</b>				
Debt/Equity	0.1	-	-	-
Debt / EBITDA	0.6	-	-	-
Current Ratio	1.6	1.3	1.3	1.4
Quick Ratio	1.4	1.3	1.3	1.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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