

July 27, 2021

## Q1FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	424		285	
Sales (Rs. m)	40,190	47,969	38,185	44,530
% Chng.	5.3	7.7		
EBITDA (Rs. m)	7,124	8,700	6,973	8,247
% Chng.	2.2	5.5		
EPS (Rs.)	17.4	21.6	17.0	20.2
% Chng.	2.0	7.2		

### Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	36,681	40,190	47,969	56,014
EBITDA (Rs. m)	6,841	7,124	8,700	10,371
Margin (%)	18.6	17.7	18.1	18.5
PAT (Rs. m)	4,022	3,943	4,925	5,813
EPS (Rs.)	17.8	17.4	21.6	25.5
Gr. (%)	49.8	(2.2)	24.6	17.8
DPS (Rs.)	3.4	3.3	4.1	7.3
Yield (%)	0.8	0.8	1.0	1.8
RoE (%)	18.1	15.8	17.4	17.9
RoCE (%)	20.5	19.3	21.4	22.4
EV/Sales (x)	2.2	2.3	2.0	1.1
EV/EBITDA (x)	12.1	13.3	10.9	6.2
PE (x)	22.6	23.1	18.5	15.7
P/BV (x)	3.9	3.4	3.0	1.7

### Key Data

ZENT.BO | ZENT IN

52-W High / Low	Rs.423 / Rs.139
Sensex / Nifty	52,579 / 15,746
Market Cap	Rs.91bn/ \$ 1,216m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.1062.59m

### Shareholding Pattern (%)

Promoter's	49.18
Foreign	0.54
Domestic Institution	37.69
Public & Others	12.59
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	31.5	66.8	172.2
Relative	32.4	50.4	96.4

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## Refresh!

### Quick Pointers:

- Highest quarterly organic growth in last 6 years, +5.8% QoQ USD
- Margins face near term headwinds from wage hike (1Q22), supply side pressures due to talent war and investments done to strengthen sales team.

**Zensar's revenue growth (+5.8% QoQ USD) is back after seven quarters of muted growth, indicating new management's (CEO Mr. Ajay Bhutoria joined in Jan 21) refreshed strategy is headed in right direction. Strong performance was driven by HiTech (+13.4% QoQ USD) and Banking (+4.8% QoQ) while rest of the verticals showed muted growth. Deal win TCV was soft at \$96.7 mn vs quarterly average TCV of \$150 mn in FY21 largely due to conservatism of management in reporting TCV. Management mentioned that they have signed good amount of new logos this quarter and expect it to reflect in order book as they start delivering.**

**EBIT margin was in-line with our estimates at 13.9%, -93bps QoQ. Margins are expected to trend down due to near term headwinds from wage hike (1Q22), supply side pressures due to talent war and investments done to strengthen sales team partially offset by pyramid optimization, increased offshoring and utilization.**

**New CEO has realigned GTM strategy to tap the strong demand in experience led services and advanced data & digital engineering services. However, management mentioned that it would take around 3-7 quarters for the new strategy to fully playout and yield sustainable predictable growth. We expect Revenue and EPS CAGR of 13% and 10.4% respectively over FY21-23E. We value Zensar on Sep23 EPS (roll over) of INR 23.6 to arrive at a changed TP of INR 424 (earlier: 290). Zensar is currently trading at multiples of 23.1/18.5 on EPS of 17.4/21.6 on FY22/23 respectively. Maintain Buy.**

- Strong beat in revenue:** Zensar reported revenue of \$127.2 Mn, +5.8% QoQ USD, much higher than our and cons estimates (Ple: 2%, Cons: 2.3%). Growth momentum is back (highest organic growth in last six years) after several quarters of underperformance driven by HiTech vertical (+13.4% QoQ USD) and Banking (+4.8% QoQ). Performance was muted in rest of the verticals.
- Among geographies growth was led by Africa (+9.4% QoQ USD) and US (+6.7% QoQ USD). Europe was flat (+0.1% QoQ USD) as certain client specific projects ended and one of the client got acquired by a larger organization. But they have added new clients in Experience led engineering space in European region this quarter which should reflect in revenue in coming quarters.
- Steady recovery in HiTech to continue:** HiTech posted a strong growth this quarter as demand has recovered and accelerated in their major clients in this vertical. Management is confident that demand momentum will continue in this vertical.

*Zensar conducted a massive exercise to roll out detailed 21 playbooks that will enable associates to approach the market with a crystallized set of services and value propositions for their clients.*

*Zensar scaled an existing customer in to \$20mn+ category and added 1 client added each in \$10mn+ and \$1mn+ category.*

- **Broadening addressable market in Insurance:** Insurance vertical declined 2.2% due to client specific issues and project ramp ups. Management mentioned that they are expanding deeper (mining larger clients) in property and casualty insurance segment and also expanding in to life insurance. They are reinforcing partnership with Guidewire and also building capabilities in other platforms like Duck Creek.
- **New leadership for HiTech and consumer verticals:** Zensar has done internal rotation of top leadership and have appointed new 1) head of high-tech manufacturing, 2) Consumer Services head for markets and 3) Head of delivery for Consumer Services. We note that the company hasn't hired any external leader post joining of new CEO Mr. Ajay Bhutoria.
- **Strong growth in digital revenue:** Share of digital revenue continues to improve (+9.2% QoQ) and now accounts for 68% of revenue share, +210 bps QoQ, +850 bps YoY. Zensar is experiencing strong traction in Experience led engineering and advanced engineering.
- **Softness in deal wins:** Zensar won 8 large deals with deal TCV of \$96.7 mn with 50% net new wins. This is lower than quarterly average deal win TCV of \$150 mn in FY21. Management mentioned that they have become more conservative in terms of reporting deal TCV. Since they have signed good amount of new logos this quarter, they expect it to reflect in order book as they start delivering.
- **Strong growth across Top 5 and 6-10 clients:** Growth was back across top 10 clients - Top 5 clients grew +9.8% QoQ USD and Top 6-10 accounts grew 5.8% QoQ USD. Growth was soft for Top11-20 accounts (0.9% QoQ USD).
- **In-line margins:** EBIT margins came at 13.9%, -93bps QoQ (Ple: 14%, Cons: 14.3%). Sequential decline in margins was led by 1) 130bps QoQ drop in utilization 80.4%, 2) Higher cost of delivery and 3) 140 bps QoQ increase in SG&A costs partially offset by 60bps decline in D&A charge. DSO including unbilled revenue increased by 3days QoQ to 80 days.
- Onsite revenue share increased this quarter by 170bps QoQ due to starting phase of certain large deals. However, offshore effort mix improved by 37 bps QoQ to 78.1%.
- **Margins to decline in coming quarters:** Zensar has announced salary hike in 2Q22 from July 21. We believe, impact of this will be around ~200bps (vs ~100 bps overall impact of wage hike in 4Q21 due to support from cost optimization.) Management mentioned that supply side pressures and investments to strengthen sales engine will be major headwinds to margins. These will be partially offset by employee pyramid optimization, productivity improvement, higher offshoring and improving profitability in specific accounts.
- **Sharp jump in attrition and strong headcount addition:** Rising attrition remains a concern with LTM attrition jumping by 330 bps QoQ to 18.1% in 1Q22. Company is increasing its supply base by moving to Tier 2 & 3 cities and promoting work from anywhere. Strong hiring momentum continued to fulfill the strong order book. Net headcount addition of 1,354 employees, 17% QoQ, was highest ever in a quarter. On vaccination front, 65% of associates have been vaccinated with at least one dose of COVID.

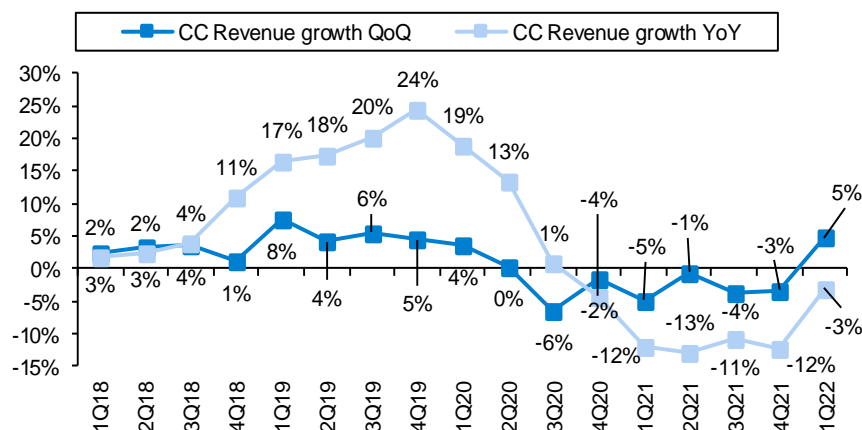
- Acquisition:** Zensar announced acquisition of M3bi on 15<sup>th</sup> May 2021. M3bi is an Arizona based data and digital engineering firm. The acquisition has been completed in the month of July and its revenues will be included in Zensar's performance from Q2 onwards. M3bi reported revenue of \$26.75 Mn in CY20 (5.4% of Zensar's FY21 revenue) and is expected to grow in CY21. Management mentioned that M3bi margins are slightly lower than Zensar's margins.
- Strategic refresh to improve sales focus:** Zensar's new CEO Mr. Ajay Bhutoria has announced new strategy to improve sales focus and benefit from strong demand environment. Zensar will be sharpening GTM by realigning company resources along five strategic growth areas – 1) experienced services – supported by earlier acquired entities Foolproof and Indigo Slate, 2) advanced engineering services, 3) data engineering analytics (AI/ML), 4) application services, and digital foundation services.
- Zensar is also strengthening its sales team. It has restructured/hired several business heads and is bringing in senior delivery personnel. To manage the ongoing talent war, it has strengthened its talent engine by expanding its recruitment team to hire both offshore and onsite (especially Europe) talent and is investing in training freshers.
- However, management mentioned that it would take around 3-7 quarters for the new strategy to fully payout and yield sustainable predictable growth.

**Exhibit 1: Q1FY22: Quick view on results**

Consol P&I ( in INR mn except EPS)	1QFY22	4QFY21	QoQ gr.	1QFY21	YoY gr.	Ple	Variance
Revenues (USD mn)	127.2	120.2	5.8%	125.2	1.6%	122.6	3.7%
Revenues (INR mn)	9,368	8,767	6.9%	9,485	-1.2%	9,195	1.9%
EBITDA	1726	1,743.00	-1.0%	1418	21.7%	1655	4.3%
<i>EBITDA Margins</i>	<i>18.4%</i>	<i>19.9%</i>	<i>-146bp</i>	<i>14.9%</i>	<i>493bp</i>	<i>18.0%</i>	<i>42bp</i>
EBIT	1300	1298	0.2%	979	32.6%	1287	1.0%
<i>EBIT Margins</i>	<i>13.9%</i>	<i>14.8%</i>	<i>-93bp</i>	<i>10.3%</i>	<i>448bp</i>	<i>14.0%</i>	<i>-12bp</i>
PAT	1010	905	11.6%	727	39.0%	872	15.8%
EPS	4.6	4.1	10.6%	3.3	38.2%	3.9	16.3%

Source: Company, PL

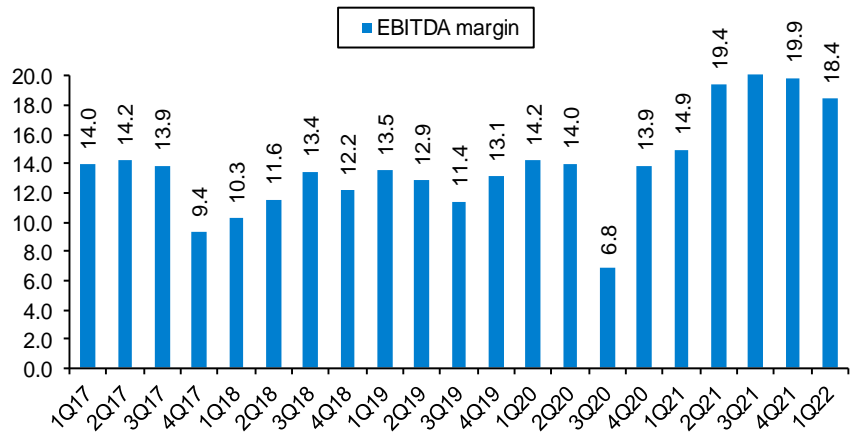
Revenue of \$127.2 Mn, +5.8% QoQ USD, much higher than our and cons estimates (Ple: 2%, Cons: 2.3%). CC revenue growth was 5% QoQ and -3% YoY

**Exhibit 2: Growth momentum is back**


Source: Company, PL

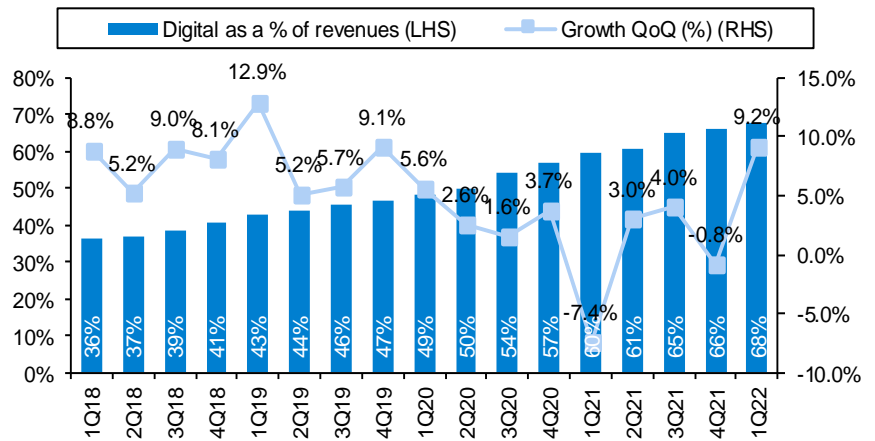
EBIDTA margin for the quarter came in at 18.2% down by 146 bps due to increased cost of delivery and opex investments

Exhibit 3: EBITDA margin declined due to investments in SG&A



Source: Company, PL

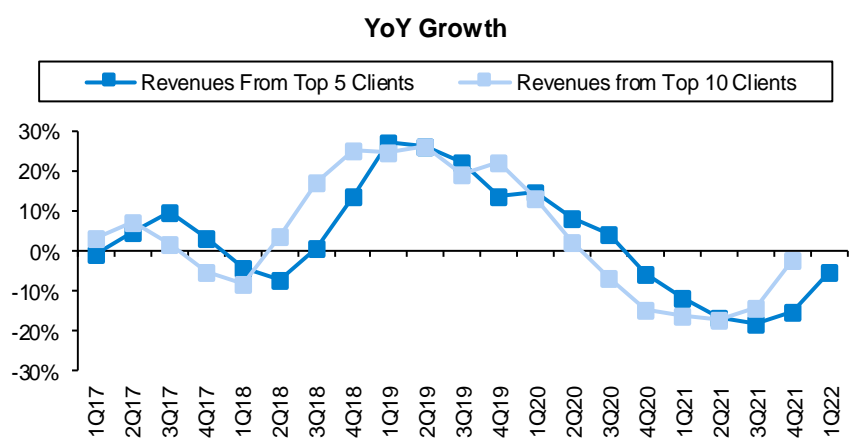
Exhibit 4: Digital remains the key growth driver



Source: Company, PL

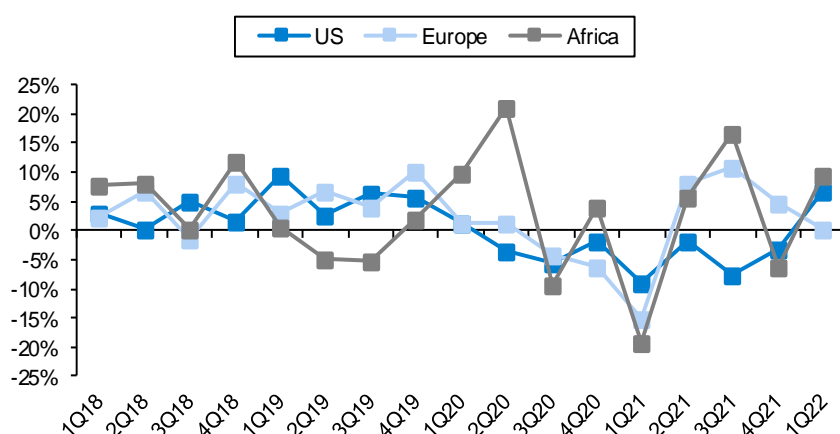
Growth was back across top 10 clients - Top 5 clients grew +9.8% QoQ USD and Top 6-10 accounts grew 5.8% QoQ USD. Growth was soft for Top11-20 accounts (0.9% QoQ USD).

Exhibit 5: Continue to Focus on mining top clients



Source: Company, PL

Among geographies growth was led by Africa (+9.4% QoQ USD) and US (+6.7% QoQ USD). Europe was flat (+0.1% QoQ USD) as certain client specific projects ended and one of the client got acquired by a larger organization.

**Exhibit 6: Strong growth across US and Europe (QoQ USD)**


Source: Company, PL

**Exhibit 7: Geography-wise revenues**

Geography Revenues (USD mn)	1QFY22	4QFY21	QoQ gr.	1QFY21	YoY gr.
USA	89.3	83.7	6.7%	95.2	-6.2%
Europe	22.4	22.4	0.1%	17.8	25.9%
Africa	15.5	14.2	9.4%	12.3	26.5%
<b>Total</b>	<b>127.2</b>	<b>120.2</b>	<b>5.8%</b>	<b>125.2</b>	<b>1.6%</b>
<b>-as a % of total</b>					
USA	70.2%	69.6%	60bp	76.0%	-580bp
Europe	17.6%	18.6%	-100bp	14.2%	340bp
Africa	12.2%	11.8%	40bp	9.8%	240bp

Source: Company, PL

**Exhibit 8: Vertical-wise revenues**

Vertical Revenues (USD mn)	1QFY22	4QFY21	QoQ gr.	1QFY21	YoY gr.
Manufacturing	68	62	9.3%	73	-7.8%
Hi Tech	53	47	13.4%	58	-7.9%
Mfg	14	15	-3.6%	16	-7.4%
Retail and Consumer Services	18	18	0.3%	15	22.8%
Financial Services	36	36	0.2%	34	8.4%
Insurance	24	24	-2.0%	24	1.1%
Banking	13	12	4.8%	10	25.7%
Emerging	5	4	30.5%	3	44.6%
<b>Total Revenues</b>	<b>127</b>	<b>120</b>	<b>5.8%</b>	<b>125</b>	<b>1.6%</b>
<b>-as a % of total</b>					
Manufacturing	53.2%	51.5%	170bp	58.6%	-540bp
Hi Tech	41.9%	39.1%	280bp	46.2%	-430bp
Mfg	11.3%	12.4%	-110bp	12.4%	-110bp
Retail and Consumer Services	14.5%	15.3%	-80bp	12.0%	250bp
Financial Services	28.6%	30.2%	-160bp	26.8%	180bp
Insurance	18.7%	20.2%	-150bp	18.8%	-10bp
Banking	9.9%	10.0%	-10bp	8.0%	190bp
Emerging	3.7%	3.0%	70bp	2.6%	110bp

Source: Company, PL

**Exhibit 9: Revenues by service-offerings**

Revenue By Service Offering (USD Mn)	1QFY22	4QFY21	QoQ gr.	1QFY21	YoY gr.
Digital & Application Services (DAS)	109	102	6.4%	102	6.9%
-Digital Services	74	67	9.6%	63	16.5%
-Core Application Services	35	35	0.3%	38	-9.0%
Cloud and Infrastructure Services (CIS)	19	18	2.3%	24	-21.1%
-Cloud, Digital Led next gen CIS	13	12	6.9%	11	15.3%
-Core Infrastructure Services	6	6	-6.6%	7	-16.9%
-Third Party Maintenance	0	0	NA	5	NA
<b>Total</b>	<b>127</b>	<b>120</b>	<b>5.8%</b>	<b>125</b>	<b>1.7%</b>
<b>Total Digital Services</b>	<b>86</b>	<b>79</b>	<b>9.2%</b>	<b>74</b>	<b>16.1%</b>
<b>-as a % of total</b>					
Digital & Application Services (DAS)	85.4%	84.9%	50bp	81.2%	420bp
-Digital Services	57.9%	55.9%	200bp	50.5%	740bp
-Core Application Services	27.5%	29.0%	-150bp	30.7%	-320bp
Cloud and Infrastructure Services (CIS)	14.6%	15.1%	-50bp	18.8%	-420bp
-Cloud, Digital Led next gen CIS	10.1%	10.0%	10bp	8.9%	120bp
-Core Infrastructure Services	4.5%	5.1%	-60bp	5.5%	-100bp
-Third Party Maintenance	0.0%	0.0%	0bp	4.3%	-430bp
Total	100.0%	100.0%		100.0%	
Total Digital Services	68.0%	65.9%	210bp	59.5%	850bp

Source: Company, PL

**Exhibit 10: Headcount Metrics**

Headcount Details	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Technical - Onsite	2,346	2,412	2,579	2,537	2,368	2,318	2,218	1,951	1,811	1,820	1,870
Technical - Offshore	5,922	6,188	6,213	6,353	6,474	6,119	5,919	5,768	6,071	6,338	6,654
Technical - BPO/others	283	275	213	205	197	186					
Marketing	76	76	80	85	90	88					
Support	829	797	1,081	1,039	822	813					
<b>Total</b>	<b>9,456</b>	<b>9,748</b>	<b>10,166</b>	<b>10,219</b>	<b>9,951</b>	<b>9,524</b>	<b>9,027</b>	<b>8,614</b>	<b>7,882</b>	<b>8,158</b>	<b>9,512</b>
Net Additions	(26)	292	418	53	(268)	(427)	(497)	(413)	(732)	276	1,354

Source: Company, PL

**Exhibit 11: Client concentration (% of total revenues)**

Client Details	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Top 5 Clients	37.6%	38%	38%	37%	38%	38%	40%	37%	41%	38%	38%	37%	38%
Top 10 Clients	45.7%	47%	49%	48%	49%	48%	49%	48%	51%	49%	48%	48%	49%
Top 20 Clients	57.1%	58%	60%	59%	61%	63%	64%	61%	65%	63%	62%	63%	64%

Source: Company, PL

**Exhibit 12: Revenue contribution across geographies (%)**

Revenue by geographical	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
USA	74.1%	74.3%	77%	77%	76%	74.0%	74.2%	74%	76.0%	74.4%	70.3%	69.6%	70.2%
Europe	13.7%	14.3%	15%	15%	15%	15.3%	15.6%	14.90%	14.20%	15.30%	17.40%	18.60%	17.60%
Africa	9.8%	9.1%	8%	8%	9%	10.6%	10.2%	11%	9.80%	10.30%	12.30%	11.80%	12.20%
Rest of the World	2.4%	2.3%											
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>36,681</b>	<b>40,190</b>	<b>47,969</b>	<b>56,014</b>
YoY gr. (%)	(12.2)	9.6	19.4	16.8
Employee Cost	24,418	26,707	32,015	37,241
Gross Profit	12,263	13,484	15,955	18,773
Margin (%)	33.4	33.5	33.3	33.5
SG&A Expenses	5,422	6,360	7,254	8,402
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>6,841</b>	<b>7,124</b>	<b>8,700</b>	<b>10,371</b>
YoY gr. (%)	33.5	4.1	22.1	19.2
Margin (%)	18.6	17.7	18.1	18.5
Depreciation and Amortization	1,732	1,760	1,919	2,241
<b>EBIT</b>	<b>5,109</b>	<b>5,364</b>	<b>6,782</b>	<b>8,131</b>
Margin (%)	13.9	13.3	14.1	14.5
Net Interest	511	389	200	200
Other Income	769	449	212	107
<b>Profit Before Tax</b>	<b>5,367</b>	<b>5,424</b>	<b>6,794</b>	<b>8,038</b>
Margin (%)	14.6	13.5	14.2	14.3
Total Tax	1,260	1,406	1,797	2,155
Effective tax rate (%)	23.5	25.9	26.5	26.8
<b>Profit after tax</b>	<b>4,107</b>	<b>4,018</b>	<b>4,997</b>	<b>5,883</b>
Minority interest	85	75	72	70
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,022</b>	<b>3,943</b>	<b>4,925</b>	<b>5,813</b>
YoY gr. (%)	50.2	(2.0)	24.9	18.0
Margin (%)	11.0	9.8	10.3	10.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,022</b>	<b>3,943</b>	<b>4,925</b>	<b>5,813</b>
YoY gr. (%)	50.2	(2.0)	24.9	18.0
Margin (%)	11.0	9.8	10.3	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,022	3,943	4,925	5,813
<b>Equity Shares O/s (m)</b>	<b>226</b>	<b>226</b>	<b>226</b>	<b>150</b>
<b>EPS (Rs)</b>	<b>17.8</b>	<b>17.4</b>	<b>21.6</b>	<b>25.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>8,761</b>	<b>10,761</b>	<b>12,761</b>	<b>14,761</b>
Tangibles	5,559	6,559	7,559	8,559
Intangibles	3,202	4,202	5,202	6,202
<b>Acc: Dep / Amortization</b>	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>8,761</b>	<b>10,761</b>	<b>12,761</b>	<b>14,761</b>
Tangibles	5,559	6,559	7,559	8,559
Intangibles	3,202	4,202	5,202	6,202
Capital Work In Progress	1	1	1	1
Goodwill	5,770	5,770	5,770	5,770
Non-Current Investments	1,846	1,846	1,846	1,846
Net Deferred tax assets	492	492	492	492
Other Non-Current Assets	738	738	738	738
<b>Current Assets</b>				
Investments	3,633	3,733	3,833	3,933
Inventories	-	1,542	1,840	2,148
Trade receivables	5,888	8,258	9,857	11,510
Cash & Bank Balance	6,986	(4,565)	(4,493)	(3,809)
Other Current Assets	1,526	1,526	1,526	1,526
<b>Total Assets</b>	<b>37,535</b>	<b>35,410</b>	<b>40,139</b>	<b>45,568</b>
<b>Equity</b>				
Equity Share Capital	451	451	451	451
Other Equity	22,972	26,009	29,803	34,280
<b>Total Network</b>	<b>23,423</b>	<b>26,460</b>	<b>30,254</b>	<b>34,731</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	2,539	2,539	2,539	2,539
Provisions	32	32	32	32
Other non current liabilities	156	166	176	186
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	500	1,000	1,500
Trade payables	2,201	2,202	2,628	3,069
Other current liabilities	5,183	2,731	2,751	2,771
<b>Total Equity &amp; Liabilities</b>	<b>34,334</b>	<b>35,410</b>	<b>40,139</b>	<b>45,568</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	4,820	5,349	6,722	7,968
Add. Depreciation	1,747	1,760	1,919	2,241
Add. Interest	425	389	200	200
Less Financial Other Income	769	449	212	107
Add. Other	(161)	(103)	(188)	(293)
Op. profit before WC changes	6,832	7,395	8,652	10,115
Net Changes-WC	3,148	(9,787)	(2,121)	(2,194)
Direct tax	(1,400)	(1,406)	(1,797)	(2,155)
<b>Net cash from Op. activities</b>	<b>8,580</b>	<b>(3,798)</b>	<b>4,734</b>	<b>5,767</b>
Capital expenditures	39	(2,000)	(2,000)	(2,000)
Interest / Dividend Income	76	276	200	200
Others	(5,399)	(100)	(100)	(100)
<b>Net Cash from Inv. activities</b>	<b>(5,283)</b>	<b>(1,824)</b>	<b>(1,900)</b>	<b>(1,900)</b>
Issue of share cap. / premium	15	-	-	-
Debt changes	(4,376)	500	500	500
Dividend paid	(271)	(906)	(1,131)	(1,335)
Interest paid	(37)	(389)	(200)	(200)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(4,669)</b>	<b>(795)</b>	<b>(831)</b>	<b>(1,035)</b>
<b>Net change in cash</b>	<b>(1,372)</b>	<b>(6,417)</b>	<b>2,003</b>	<b>2,831</b>
Free Cash Flow	8,115	(5,798)	2,734	3,767

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Revenue</b>	<b>9,364</b>	<b>9,065</b>	<b>8,767</b>	<b>9,368</b>
YoY gr. (%)	(12.7)	(11.2)	(13.9)	(1.2)
Raw Material Expenses	6,106	5,925	5,708	6,109
Gross Profit	3,258	3,140	3,059	3,259
Margin (%)	34.8	34.6	34.9	34.8
<b>EBITDA</b>	<b>1,817</b>	<b>1,863</b>	<b>1,743</b>	<b>1,726</b>
YoY gr. (%)	21.1	167.7	23.1	21.7
Margin (%)	19.4	20.6	19.9	18.4
Depreciation / Depletion	427	421	445	426
<b>EBIT</b>	<b>1,390</b>	<b>1,442</b>	<b>1,298</b>	<b>1,300</b>
Margin (%)	14.8	15.9	14.8	13.9
Net Interest	132	130	122	89
Other Income	(39)	48	66	184
<b>Profit before Tax</b>	<b>1,219</b>	<b>1,360</b>	<b>1,242</b>	<b>1,395</b>
Margin (%)	13.0	15.0	14.2	14.9
Total Tax	323	360	314	369
Effective tax rate (%)	26.5	26.5	25.3	26.5
<b>Profit after Tax</b>	<b>896</b>	<b>1,000</b>	<b>928</b>	<b>1,026</b>
Minority interest	18	13	23	16
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>878</b>	<b>987</b>	<b>905</b>	<b>1,010</b>
YoY gr. (%)	9.7	148.6	30.2	39.0
Margin (%)	9.4	10.9	10.3	10.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>878</b>	<b>987</b>	<b>905</b>	<b>1,010</b>
YoY gr. (%)	9.7	148.6	30.2	39.0
Margin (%)	9.4	10.9	10.3	10.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>878</b>	<b>987</b>	<b>905</b>	<b>1,010</b>
Avg. Shares O/s (m)	45	45	45	45
<b>EPS (Rs)</b>	<b>19.5</b>	<b>22.0</b>	<b>20.1</b>	<b>22.5</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	17.8	17.4	21.6	25.5
CEPS	25.5	25.3	30.3	53.5
BVPS	103.8	117.3	134.1	230.9
FCF	36.0	(25.7)	12.1	25.0
DPS	3.4	3.3	4.1	7.3
<b>Return Ratio(%)</b>				
RoCE	20.5	19.3	21.4	22.4
ROIC	27.4	13.9	15.4	16.5
RoE	18.1	15.8	17.4	17.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	0.1	0.1	0.1
Debtor (Days)	59	75	75	75
<b>Valuation(x)</b>				
PER	22.6	23.1	18.5	15.7
P/B	3.9	3.4	3.0	1.7
P/CEPS	25.5	25.3	30.3	53.5
EV/EBITDA	12.1	13.3	10.9	6.2
EV/Sales	2.2	2.3	2.0	1.1
Dividend Yield (%)	0.8	0.8	1.0	1.8

Source: Company Data, PL Research



**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-21	BUY	290	276
2	04-Jan-21	BUY	257	243
3	23-Nov-20	BUY	215	225
4	05-Oct-20	BUY	216	192
5	01-Oct-20	BUY	216	192
6	02-Sep-20	BUY	199	173

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	4,327	4,194
2	Cyient	BUY	1,088	946
3	HCL Technologies	BUY	1,094	1,000
4	Infosys	BUY	1,832	1,577
5	L&T Technology Services	BUY	3,149	2,911
6	Larsen & Toubro Infotech	Accumulate	4,623	4,289
7	Mindtree	BUY	3,229	2,505
8	Mphasis	BUY	2,770	2,530
9	Persistent Systems	Hold	2,851	3,039
10	Redington (India)	BUY	301	279
11	Sonata Software	BUY	834	757
12	Tata Consultancy Services	BUY	3,776	3,259
13	TeamLease Services	BUY	4,136	3,604
14	Tech Mahindra	BUY	1,237	1,149
15	Wipro	BUY	678	576
16	Zensar Technologies	BUY	290	276

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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