

May 12, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	371		453	
Sales (Rs. m)	50,503	58,603	50,386	59,524
% Chng.	0.2	(1.5)		
EBITDA (Rs. m)	7,669	9,528	8,219	9,940
% Chng.	(6.7)	(4.1)		
EPS (Rs.)	18.7	23.2	20.3	23.9
% Chng.	(7.8)	(2.8)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	36,681	42,437	50,503	58,603
EBITDA (Rs. m)	6,841	6,564	7,669	9,528
Margin (%)	18.6	15.5	15.2	16.3
PAT (Rs. m)	4,022	4,162	4,226	5,240
EPS (Rs.)	17.8	18.4	18.7	23.2
Gr. (%)	49.6	3.3	1.5	24.0
DPS (Rs.)	3.6	5.0	4.0	6.0
Yield (%)	1.2	1.7	1.3	2.0
RoE (%)	18.1	16.6	14.8	16.2
RoCE (%)	20.5	16.8	18.0	21.1
EV/Sales (x)	1.6	1.4	1.2	0.6
EV/EBITDA (x)	8.6	9.2	7.7	3.6
PE (x)	16.6	16.1	15.9	12.8
P/BV (x)	2.9	2.5	2.2	1.3

Key Data

ZENT.BO | ZENT IN

52-W High / Low	Rs.587 / Rs.255
Sensex / Nifty	54,088 / 16,167
Market Cap	Rs.67bn/ \$ 871m
Shares Outstanding	226m
3M Avg. Daily Value	Rs.326.03m

Shareholding Pattern (%)

Promoter's	49.09
Foreign	16.55
Domestic Institution	13.37
Public & Others	21.00
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(21.2)	(36.4)	10.9
Relative	(14.1)	(29.5)	0.8

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Return of consistency in revenue growth

Quick Pointers:

- Return of consistent revenue growth; 6.3% CQGR in past 4 quarters vs -3% CQGR over Q4FY19 to Q4FY21.

- EBITDA margins to be in mid-teens over medium term (vs 15.5% in FY22).

Zensar reported strong revenue beat of USD153.2mn, 4.2% QoQ CC, +4.1% QoQ USD (Ple: 2%, Cons: 2%), thereby consistently delivering healthy revenue growth for four consecutive quarters. It is on-track in management's aspiration of delivering sustainable, consistent and predictable growth. Revenue growth momentum is expected to sustain, given strong headcount addition (11% QoQ, 45% YoY) and deal wins (+32% QoQ, +66% YoY) in Q4. However, margins are expected to remain under pressure in FY23 due to weak exit margins (flat QoQ, -474bps YoY), very high attrition levels (LTM attrition at 27.9%, Quarterly attrition down QoQ) and investments for growth.

Our EPS estimates decrease by 8%/3% for FY23/24, led by decrease in margin estimates. We value Zensar at earnings multiple of 16x (earlier:19x) factoring in sharp decline in margin profile, lower than industry growth and increased risk free rates. With FY24EPS of INR 23.2, we arrive at a changed TP of INR 371 (earlier: 453). Zensar is currently trading at attractive multiples of 16x/13x on FY23/24 EPS of 18.7/23.2 with revenue and EPS CAGR of 16% and 12% over FY22-24E. Maintain 'BUY'.

- Strong beat in revenue:** Zensar reported revenue of USD153.2mn, 4.2% QoQ CC, +4.1% QoQ USD (Ple: 2%, Cons: 2%). Beat in revenue is led by recovery in HiTech (3.3% QoQ USD), Manufacturing (2% QoQ USD) and healthy growth in Banking (5.6% QoQ USD), Insurance (4.7% QoQ USD) and Retail (4.1% QoQ USD).

- In terms of geography, growth was led by Europe (9.9% QoQ USD) followed by US (3.4% QoQ USD), while Africa continued to remain muted 0.4% QoQ USD.

- Strong deal wins in Q4:** Q4 Deal TCv of USD165.6mn grew +32% QoQ, +66% YoY. Deal wins were broad-based with healthy mix of discretionary and non-discretionary. However, FY22 Deal TCv degrew by 8% YoY and is USD 575 mn.

- Inline margins:** EBIT margins came at 10.1%, flat QoQ (Ple: 10.2%, Cons: 10.4%). EBITDA margin declined 20bps QoQ. EBITDA Margin walk: Tailwinds: 1) 1.1% benefit from volume and utilization, 2) +0.1% from currency impact offset by headwinds from i) -0.6% impact of higher cost delivery and ii) -0.8% impact of SG&A.

- Margin guidance:** Management mentioned that EBITDA margins are expected to be in mid-teens over medium term and in high teens over long term. Margin levers are pyramid optimization, shift to offshore (Columbia, Kolkata) near shore (Poland) and improving pricing.

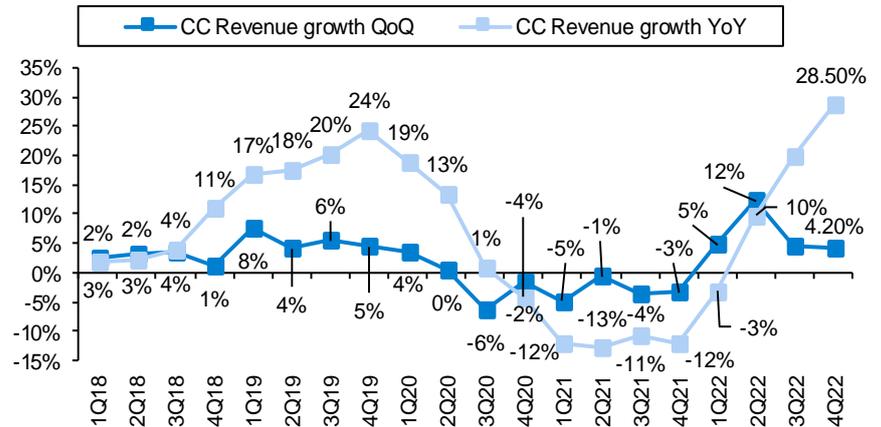
- **Strong headcount addition; Quarterly annualized attrition dipped QoQ:** Zensar did strong net headcount addition of 1198 employees. Total headcount is up 11% QoQ and 45% YoY. LTM Attrition increased by 120 bps QoQ to 27.9%. However, quarterly annualized attrition dipped QoQ.
- Utilization increased to 81.5%, +60 bps QoQ, +20bps YoY. Utilization is expected to trend down in short term, due to aggressive fresher intake. Offshore effort mix increased by 130bps QoQ to 43.6%.
- Other Income was high due one-off gains -1) write-back of earnouts due to stretched targets in an old acquisition, 2) forex gains and 3) reversal of an accrued liability due to a transaction in its African subsidiary.
- DSO increased by 12 days QoQ due to delayed billing in one of the client. However, this should normalize in the next quarter.
- Experience Services is performing well due to wins in product engineering and product strategy. Advanced Engineering Services (AES) is gaining traction due to transformation from Digital Engineering provider to full scale enterprise transformation across industries. Zensar is winning deals with HiTech and Fintech players in Data Engineering & Analytics. Company expanded Salesforce practice into local markets of America. Digital Foundation Services is developing new products and solutions leveraging strong partnerships with Hyperscalers.
- **Appointment of new CFO:** Zensar appointed new CFO, Mr. Sachin Zute. He has 20+ years of experience in Banking, IT Services and Consulting. Prior to Zensar he was with Infosys, where he served as VP Finance and Head of Business Finance Industry segments, M&A and Treasury.

Exhibit 1: Q4FY22: Quick view on results

Consol P&L (in INR mn except EPS)	4QFY22	3QFY22	QoQ gr.	4QFY21	YoY gr.	Ple	Variance
Revenues (USD mn)	153.2	147.1	4.1%	120.2	27.5%	150.0	2.1%
Revenues (INR mn)	11,538	11,025	4.7%	8,767	31.6%	11,283	2.3%
EBITDA	1642	1,584.00	3.7%	1743	-5.8%	1636	0.4%
<i>EBITDA Margins</i>	<i>14.2%</i>	<i>14.4%</i>	<i>-14bp</i>	<i>19.9%</i>	<i>-551bp</i>	<i>14.5%</i>	<i>-27bp</i>
EBIT	1161	1110	4.6%	1298	-14.5%	1151	0.9%
<i>EBIT Margins</i>	<i>10.1%</i>	<i>10.1%</i>	<i>-1bp</i>	<i>14.8%</i>	<i>-474bp</i>	<i>10.2%</i>	<i>-14bp</i>
PAT	1299	909	42.9%	905	43.5%	814	59.6%
EPS	5.7	4.1	39.6%	4.1	38.5%	3.6	56.4%

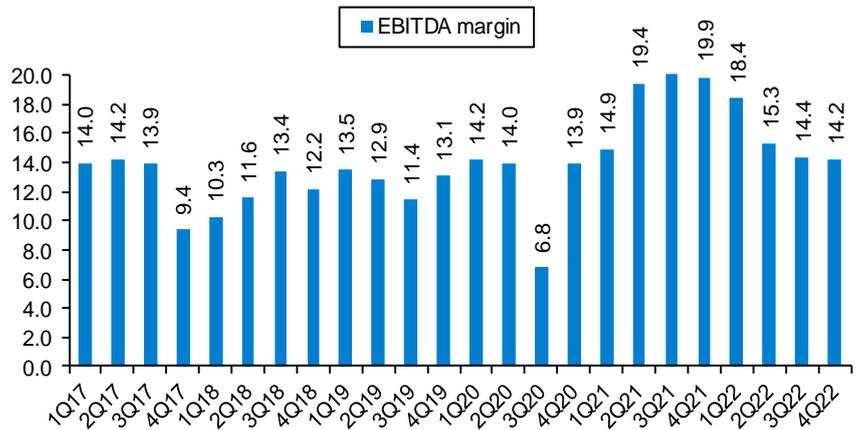
Source: Company, PL

Exhibit 2: Healthy sequential CC growth in Q4



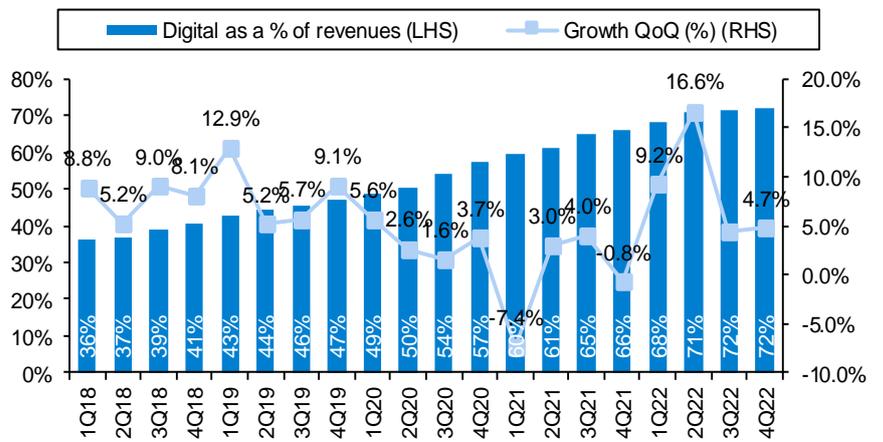
Source: Company, PL

Exhibit 3: EBITDA margins remain under pressure due to supply side costs



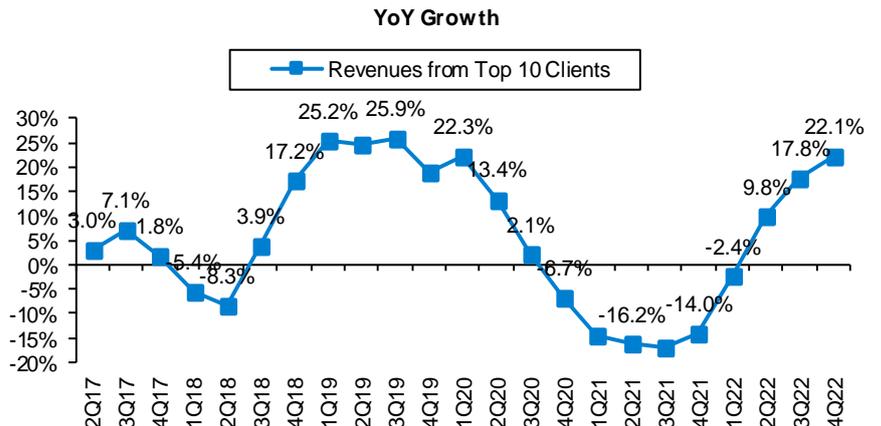
Source: Company, PL

Exhibit 4: Digital remains the key growth driver



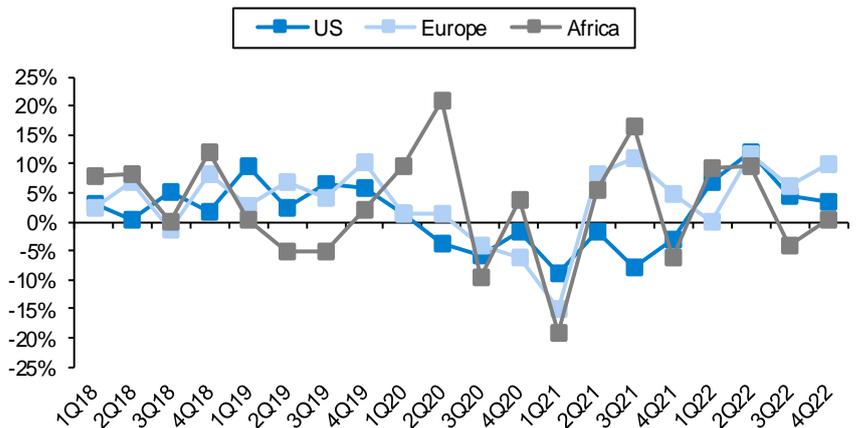
Source: Company, PL

Exhibit 5: Continue to Focus on mining top clients



Source: Company, PL

Exhibit 6: Strong growth across Europe



Source: Company, PL

Exhibit 7: Geography-wise revenues

Geography Revenues (USD mn)	4QFY22	3QFY22	QoQ gr.	4QFY21	YoY gr.
USA	107.9	104.3	3.4%	83.7	28.9%
Europe	29.1	26.5	9.9%	22.4	30.2%
Africa	16.4	16.3	0.4%	14.2	15.6%
Total	153.4	147.1	4.3%	120.2	27.6%
-as a % of total					
USA	70.4%	70.9%	-50bp	69.6%	80bp
Europe	19.0%	18.0%	100bp	18.6%	40bp
Africa	10.7%	11.1%	-40bp	11.8%	-110bp

Source: Company, PL

Exhibit 8: Vertical-wise revenues

Vertical Revenues (USD mn)	4QFY22	3QFY22	QoQ gr.	4QFY21	YoY gr.
Manufacturing	70	68	3.0%	62	13.6%
Hi Tech	56	54	3.3%	47	18.7%
Mfg	15	14	2.0%	15	-2.4%
Retail and Consumer Services	25	24	4.1%	18	34.1%
Financial Services	58	55	5.3%	40	45.5%
Insurance	27	26	4.7%	24	11.7%
Banking	22	21	5.6%	12	82.3%
Emerging	9	9	5.9%	4	150.7%
Total Revenues	162	156	4.1%	124	30.9%
-as a % of total					
Manufacturing	45.9%	46.4%	-50bp	51.5%	-560bp
Hi Tech	36.4%	36.7%	-30bp	39.1%	-270bp
Mfg	9.5%	9.7%	-20bp	12.4%	-290bp
Retail and Consumer Services	16.1%	16.1%	0bp	15.3%	80bp
Financial Services	37.9%	37.5%	40bp	33.2%	470bp
Insurance	17.7%	17.6%	10bp	20.2%	-250bp
Banking	14.3%	14.1%	20bp	10.0%	430bp
Emerging	5.9%	5.8%	10bp	3.0%	290bp

Source: Company, PL

Exhibit 9: Revenues by service-offerings

Revenue By Service Offering (USD Mn)	4QFY22	3QFY22	QoQ gr.	4QFY21	YoY gr.
Digital & Application Services (DAS)	125	121	3.4%	102	22.7%
-Digital Services	92	88	4.0%	67	36.3%
-Core Application Services	34	33	1.8%	35	-3.3%
Cloud and Infrastructure Services (CIS)	28	26	7.7%	18	54.5%
-Cloud, Digital Led next gen CIS	19	17	8.6%	12	55.5%
-Core Infrastructure Services	9	9	5.9%	6	52.4%
-Third Party Maintenance	0	0	NA	0	NA
Total	153	147	4.1%	120	27.6%
Total Digital Services	101	86	16.6%	77	31.5%
-as a % of total					
Digital & Application Services (DAS)	81.7%	82.3%	-60bp	84.9%	-320bp
-Digital Services	59.8%	59.9%	-10bp	55.9%	390bp
-Core Application Services	22.0%	22.5%	-50bp	29.0%	-700bp
Cloud and Infrastructure Services (CIS)	18.3%	17.7%	60bp	15.1%	320bp
-Cloud, Digital Led next gen CIS	12.2%	11.7%	50bp	10.0%	220bp
-Core Infrastructure Services	6.1%	6.0%	10bp	5.1%	100bp
-Third Party Maintenance	0.0%	0.0%	0bp	0.0%	0bp
Total	100.0%	100.0%		100.0%	
Total Digital Services	72.0%	71.5%	50bp	65.9%	610bp

Source: Company, PL

**Exhibit 10: Headcount Metrics**

Headcount Details	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Technical - Onsite	2537	2368	2318	2218	1951	1811	1820	1870	2120	2187	2356
Technical - Offshore	6353	6474	6119	5919	5768	6071	6338	6654	7273	7472	8519
Total	10219	9951	9524	9027	8614	7882	8158	9512	10375	10641	11839
Net Additions	53	-268	-427	-497	-413	-732	276	1354	863	266	1198

Source: Company, PL

Exhibit 11: Client concentration (% of total revenues)

Client Details	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Top 5 Clients	37.0	38.0	37.6	39.6	37.2	41.2	38.0	37.8	37.0	38.4	35.0	34.2	33.3
Top 10 Clients	47.9	49.2	48.0	49.3	47.7	51.4	48.7	47.8	48.0	49.4	47.4	47.0	46.0
Top 20 Clients	59.3	61.3	62.6	63.6	61.3	65.2	62.9	61.9	63.0	63.7	61.9	61.3	62.0

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	36,681	42,437	50,503	58,603
YoY gr. (%)	(12.2)	15.7	19.0	16.0
Employee Cost	24,418	29,214	35,006	40,284
Gross Profit	12,263	13,223	15,497	18,319
Margin (%)	33.4	31.2	30.7	31.3
SG&A Expenses	5,422	6,659	7,828	8,790
Other Expenses	-	-	-	-
EBITDA	6,841	6,564	7,669	9,528
YoY gr. (%)	33.5	(4.0)	16.8	24.2
Margin (%)	18.6	15.5	15.2	16.3
Depreciation and Amortization	1,732	1,849	2,056	2,344
EBIT	5,109	4,715	5,613	7,184
Margin (%)	13.9	11.1	11.1	12.3
Net Interest	511	354	200	200
Other Income	769	1,379	400	200
Profit Before Tax	5,367	5,740	5,813	7,184
Margin (%)	14.6	13.5	11.5	12.3
Total Tax	1,260	1,525	1,540	1,904
Effective tax rate (%)	23.5	26.6	26.5	26.5
Profit after tax	4,107	4,215	4,273	5,280
Minority interest	85	53	47	40
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,022	4,162	4,226	5,240
YoY gr. (%)	50.2	3.5	1.5	24.0
Margin (%)	11.0	9.8	8.4	8.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,022	4,162	4,226	5,240
YoY gr. (%)	50.2	3.5	1.5	24.0
Margin (%)	11.0	9.8	8.4	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,022	4,162	4,226	5,240
Equity Shares O/s (m)	226	226	226	151
EPS (Rs)	17.8	18.4	18.7	23.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	5,560	5,607	6,007	6,407
Tangibles	3,884	3,810	4,010	4,210
Intangibles	1,675	1,797	1,997	2,197
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	5,560	5,607	6,007	6,407
Tangibles	3,884	3,810	4,010	4,210
Intangibles	1,675	1,797	1,997	2,197
Capital Work In Progress	1	12	12	12
Goodwill	5,770	7,239	7,239	7,239
Non-Current Investments	1,846	1,862	1,862	1,862
Net Deferred tax assets	492	539	539	539
Other Non-Current Assets	738	825	825	825
Current Assets				
Investments	3,633	1,636	1,636	1,636
Inventories	-	-	-	-
Trade receivables	5,888	7,967	9,685	11,239
Cash & Bank Balance	6,986	8,559	8,299	10,680
Other Current Assets	1,526	1,825	1,825	1,825
Total Assets	34,334	38,712	40,571	44,905
Equity				
Equity Share Capital	451	452	452	452
Other Equity	22,972	26,417	29,739	34,075
Total Networkth	23,423	26,869	30,191	34,527
Non-Current Liabilities				
Long Term borrowings	2,539	2,348	2,000	1,500
Provisions	32	37	37	37
Other non current liabilities	156	601	611	621
Current Liabilities				
ST Debt / Current of LT Debt	-	1,005	-	-
Trade payables	2,201	3,164	3,044	3,532
Other current liabilities	5,183	4,130	4,150	4,170
Total Equity & Liabilities	34,334	38,712	40,571	44,905

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	4,820	5,741	5,766	7,144
Add. Depreciation	1,747	1,848	2,056	2,344
Add. Interest	425	334	200	200
Less Financial Other Income	769	1,379	400	200
Add. Other	(161)	(632)	(400)	(200)
Op. profit before WC changes	6,832	7,291	7,622	9,488
Net Changes-WC	3,148	(2,427)	(1,828)	(1,055)
Direct tax	(1,400)	(1,517)	(1,540)	(1,904)
Net cash from Op. activities	8,580	3,347	4,253	6,529
Capital expenditures	39	(2,474)	(400)	(400)
Interest / Dividend Income	76	201	400	200
Others	(5,399)	2,105	-	-
Net Cash from Inv. activities	(5,283)	(168)	-	(200)
Issue of share cap. / premium	15	32	-	-
Debt changes	(4,376)	(971)	(1,353)	(500)
Dividend paid	(271)	(881)	(904)	(904)
Interest paid	(37)	(6)	(200)	(200)
Others	-	-	-	-
Net cash from Fin. activities	(4,669)	(1,826)	(2,457)	(1,604)
Net change in cash	(1,372)	1,353	1,796	4,725
Free Cash Flow	8,115	873	3,853	6,129

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	17.8	18.4	18.7	23.2
CEPS	25.5	26.6	27.8	50.3
BVPS	103.8	118.9	133.6	229.2
FCF	36.0	3.9	17.1	40.7
DPS	3.6	5.0	4.0	6.0
Return Ratio(%)				
RoCE	20.5	16.8	18.0	21.1
ROIC	27.4	19.3	19.4	24.2
RoE	18.1	16.6	14.8	16.2
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Debtor (Days)	59	69	70	70
Valuation(x)				
PER	16.6	16.1	15.9	12.8
P/B	2.9	2.5	2.2	1.3
P/CEPS	25.5	26.6	27.8	50.3
EV/EBITDA	8.6	9.2	7.7	3.6
EV/Sales	1.6	1.4	1.2	0.6
Dividend Yield (%)	1.2	1.7	1.3	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	9,368	10,506	11,025	11,538
YoY gr. (%)	(1.2)	12.2	21.6	31.6
Raw Material Expenses	6,109	7,292	7,758	8,055
Gross Profit	3,259	3,214	3,267	3,483
Margin (%)	34.8	30.6	29.6	30.2
EBITDA	1,726	1,612	1,584	1,642
YoY gr. (%)	21.7	(11.3)	(15.0)	(5.8)
Margin (%)	18.4	15.3	14.4	14.2
Depreciation / Depletion	426	468	474	481
EBIT	1,300	1,144	1,110	1,161
Margin (%)	13.9	10.9	10.1	10.1
Net Interest	89	87	89	89
Other Income	184	229	241	725
Profit before Tax	1,395	1,286	1,262	1,797
Margin (%)	14.9	12.2	11.4	15.6
Total Tax	369	328	339	489
Effective tax rate (%)	26.5	25.5	26.9	27.2
Profit after Tax	1,026	958	923	1,308
Minority interest	16	14	14	9
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,010	944	909	1,299
YoY gr. (%)	39.0	7.5	(7.9)	43.5
Margin (%)	10.8	9.0	8.2	11.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,010	944	909	1,299
YoY gr. (%)	39.0	7.5	(7.9)	43.5
Margin (%)	10.8	9.0	8.2	11.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,010	944	909	1,299
Avg. Shares O/s (m)	45	45	45	45
EPS (Rs)	22.4	20.9	20.1	28.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-22	BUY	453	384
2	25-Jan-22	BUY	517	416
3	04-Jan-22	BUY	528	533
4	27-Oct-21	BUY	539	453
5	05-Oct-21	BUY	496	479
6	06-Aug-21	BUY	424	429
7	27-Jul-21	BUY	424	401

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,535	1,270
2	Coforge	BUY	5,559	4,512
3	Cyient	BUY	1,208	899
4	HCL Technologies	Accumulate	1,169	1,099
5	Infosys	Accumulate	1,899	1,749
6	L&T Technology Services	Accumulate	4,549	4,244
7	Larsen & Toubro Infotech	BUY	6,369	4,593
8	Mindtree	BUY	4,778	3,958
9	Mphasis	BUY	3,379	2,843
10	Persistent Systems	BUY	4,915	4,309
11	Redington (India)	BUY	200	150
12	Sonata Software	Accumulate	833	748
13	Tata Consultancy Services	BUY	4,221	3,696
14	TeamLease Services	Accumulate	4,647	4,034
15	Tech Mahindra	BUY	1,837	1,499
16	Wipro	BUY	616	509
17	Zensar Technologies	BUY	453	384

PL's Recommendation Nomenclature (Absolute Performance)

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

ANALYST CERTIFICATION

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