

# Zensar Technologies

## Operational reset

Zensar reported a strong EBITDA margin expansion of ~324bps QoQ (substantial beat), while the revenue remained flat sequentially (+0.4% QoQ CC). The strong and sustainable margin improvement during the quarter was on account of lower sub-contracting, higher utilization, better productivity & business mix (lower pass-through) and FX. Margins are now expected to be in the range of mid-teens level, supported by continued gains in productivity—subcontracting expenses, pyramid rationalisation and utilisation improvement, going forward. We have factored in EBITDAM of 14.3/14.7% for FY24/25E respectively (at Q4FY23 levels). Softness in consumer services, banking and emerging verticals was offset by a recovery in insurance, hi-tech and manufacturing verticals. The management expects challenges in consumer and hi-tech verticals going ahead and cited the uncertainty in the current demand environment with delay in decision-making. While deal bookings provide growth visibility, we trim our revenue estimate by 2-3%, factoring challenges in hi-tech and consumer verticals; but increase EPS estimates by ~15% supported by a better operational trajectory for FY24/25E. We maintain our BUY rating with a TP of INR 445, based on 18x Mar-25E EPS. The stock trades at a P/E of 15.9/13.7x FY24/25E EPS, a discount of ~13% to 5Y average P/E multiple.

- Q4FY23 highlights:** (1) Zensar's overall revenue came in line with our estimates at USD 147.5mn, +0.4/-0.3% QoQ/YoY CC; while service revenue grew by 2% QoQ CC in Q4. (2) Among the verticals, insurance/hi-tech/manufacturing grew +8.0/+7.5/+4.3% QoQ CC respectively while consumer/emerging/banking declined 12.7/6.7/2.1% QoQ CC respectively due to delayed decision making and budget tightening by key clients. (3) Within geographies, US and South Africa grew +1.5/+4.1% while Europe registered de-growth of -2.1% QoQ. (4) EBITDAM expanded 324bps QoQ to 14.5% (vs an expectation of 12.6%), led by FX tailwind (+30bps), volume and utilisation improvement (+190bps), lower cost of delivery including sub-con expenses (+230bps), which were partially offset by SG&A impact (-140bps). (5) The headcount declined by 282 employees in Q4 but the management intends to increase the billable headcount and utilization (wage hike in Q2FY24E). (6) The TCW at USD 175mn was up 34% QoQ in Q4 and it provides visibility.
- Outlook:** We expect USD revenue growth of 3.7/9.3% and an EBITDAM of 14.3/14.7% for FY24/25E respectively, resulting in revenue/EPS CAGRs of +7/31% over FY23-25E. Cash at 22% of market-cap and FCF yield at ~10% support valuations.

### Quarterly Financial Summary

YE March (INR bn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Revenue (USD Mn)	148	153	(3.7)	146	1.1	494	569	604	627	685
Net Sales	12.13	11.54	5.1	11.98	1.3	36.68	42.44	48.48	52.00	57.54
EBIT	1.41	1.16	21.2	0.85	65.3	5.11	4.72	3.69	5.94	6.87
APAT	1.19	1.30	(8.2)	0.77	55.8	3.50	4.16	3.28	4.88	5.65
Diluted EPS (INR)	5.2	5.7	(8.1)	3.4	55.9	15.3	18.2	14.3	21.3	24.7
P/E (x)						22.2	18.6	23.7	15.9	13.7
EV / EBITDA (x)						9.4	9.8	10.9	7.7	6.4
RoE (%)						15.7	16.3	11.3	15.1	16.1

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Revenue (USD mn)	642	627	-2.4	706	685	-3.0
Revenue	53.28	52.00	-2.4	59.34	57.54	-3.0
EBIT	4.91	5.94	20.9	5.87	6.87	17.1
EBIT margin (%)	9.2	11.4	220bps	9.9	11.9	205bps
APAT	4.12	4.88	18.4	4.92	5.65	14.8
EPS (INR)	18.0	21.3	18.4	21.5	24.7	14.8

Source: Company, HSIE Research

## BUY

CMP (as on 12 May 23)	INR 340
Target Price	INR 445
NIFTY	18,315

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 330	INR 445
EPS %	FY24E +18.4	FY25E +14.8

### KEY STOCK DATA

Bloomberg code	ZENT IN
No. of Shares (mn)	226
MCap (INR bn) / (\$ mn)	77/940
6m avg traded value (INR mn)	406
52 Week high / low	INR 344/202

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	29.4	55.3	11.1
Relative (%)	27.2	54.9	(6.1)

### SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	49.15	49.21
FIs & Local MFs	11.47	15.47
FPIs	10.75	10.53
Public & Others	28.63	24.79
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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