

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR759 TP: INR750 (-1%) Neutral**

## Healthy beat on revenues

### Mid-teens EBITDA margin guidance remains unchanged

- ZENT reported a strong 1QFY25, with revenue growth of 4.3% QoQ in CC (est. 1.9%) driven by sequential growth across all verticals. Deal TCv came in at USD154m (-15% QoQ/flat YoY). EBIT declined 4% QoQ/9.0% YoY to INR1,714m and EBIT margin was down 130bp at 13.3% (-130bp QoQ). Margin fell short of our estimate of 13.9%, due to higher SG&A (+110bp QoQ, one-off due to bad debt provisions) and higher cost of delivery. PAT of INR 1,579m (-8.9% QoQ) beat our estimate of INR1,454m, led by revenue growth and higher other income.
- ZENT reported healthy growth across its portfolio, with all verticals growing for the second consecutive quarter. The management expects BFSI vertical to maintain its pace as large projects are ramping up well. However, Hi-tech, which accounts for 25% of revenues, may face constraints due to anticipated furloughs in 2QFY25, in our view. We expect growth to moderate due to underperformance in Hi-tech (owing to extended furloughs). We estimate FY25 revenue growth of 8.4%, which will pick up in FY26. We factor in a USD revenue CAGR of 10.8% over FY24-26E.
- ZENT reported a one-off impact (110bp) of doubtful debts from a customer's bankruptcy filing. Adjusting for this, the company reported a margin of 16.3%, in line with its mid-teens margin guidance. The management aims to maintain mid-teens EBITDA margins and reinvest above that level for growth. We expect ZENT to deliver 15.9%/16.7% EBITDA margin in FY25/FY26. This will result in an INR PAT CAGR of 6.0% over FY24-26E (partially on high FY24 base).
- We increase our EPS estimates by 6.2% for FY25 on the back of growth surprise in 1Q. We largely maintain our EPS estimate for FY26. Our TP of INR750 implies 23x FY26E EPS. **Retain Neutral.**

### Beat on revenues, miss on margin performance driven by one-offs

- USD revenue stood at USD154.4m, up 4.3% QoQ CC, ahead of our estimates of 1.9% QoQ CC. Reported USD revenue was also up 4.2% QoQ.
- Growth was driven by Healthcare & Life Sciences (up 6.9% QoQ CC) and BFSI (up 6.8% QoQ CC). Manufacturing & Consumer services/ Telecom, Media and tech rose 2.7%/1.2% QoQ CC. In terms of regions, the US registered strong 6.6% QoQ CC growth, while Europe was down 0.1% QoQ CC.
- Deal TCv: bookings came in at USD 154m (-15% QoQ/flat YoY) and the book-to-bill was 1x.
- EBITDA declined 3.9% QoQ/16.0% YoY to INR1,962m and EBITDA margin came in at 15.2% (-130bp QoQ), against our estimates of 16.4%, due to higher SG&A (+110bp QoQ, *one-off due to bad debt provisions*) and higher cost of delivery.
- During the quarter, 855 gross employees were added, bringing the total headcount to 10,396 (up ~1% QoQ growth). LTM attrition was 10.6% (-30bp QoQ). Utilization was up 20bp QoQ at 83.9%.

Bloomberg	ZENT IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	172 / 2.1
52-Week Range (INR)	840 / 456
1, 6, 12 Rel. Per (%)	-3/24/32
12M Avg Val (INR M)	944

### Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	49.0	53.9	61.1
EBIT Margin (%)	15.0	14.0	14.7
PAT	6.6	6.4	7.5
EPS (INR)	29.1	28.2	32.8
EPS Gr. (%)	102.7	-3.3	16.3
BV/Sh. (INR)	157.3	177.4	201.2

### Ratios

RoE (%)	20.3	17.0	17.4
RoCE (%)	15.9	14.3	15.2
Payout (%)	24.0	24.0	24.0

### Valuations

P/E (x)	26.4	27.3	23.4
P/BV (x)	4.9	4.3	3.8
EV/EBITDA (x)	18.4	18.3	14.9
Div Yield (%)	0.9	0.9	1.0

### Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	49.2	49.2	49.2
DII	19.1	17.5	17.3
FII	15.7	16.5	12.6
Others	16.1	16.8	20.9

FII Includes depository receipts

- PAT of INR1,579m (-8.9% QoQ) beat our estimate of INR1,454m, led by revenue growth and higher other income.
- Cash stood at USD280.9m (~14% of MCap).

### Key highlights from the management commentary

- The company witnessed good momentum across its portfolio. Growth in overall company revenue was driven by sequential growth across all verticals for the second quarter in a row.
- Growth is primarily coming from cross-selling, which is working well for the company.
- Margin outlook for FY25 remains unchanged at mid-teens EBITDA margins.
- ZENT has entered into a definitive agreement to acquire a 100% stake in Bridge View Life Sciences, a Pennsylvania-based technology and consulting solutions company in the Life Sciences industry. This move reinforces ZENT's focus on the Healthcare and Life Sciences vertical.

### Valuation and view

- We believe the company's exposure to Hi-tech vertical could continue to weigh on growth in the near term; however, it will be offset by a recovery in BFS. We increase our EPS estimates by 6.2% for FY25 on the back of growth surprise in 1Q. We largely maintain our EPS estimate for FY26. Our TP of INR750 implies 23x FY26E EPS. **Retain Neutral.**

### Quarterly performance

Y/E March	FY24				FY25E				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY24	FY25E	Est. 1QFY25	Var. (%/bp)
Revenue (USD m)	149	150	145	148	154	158	162	168	592	642	151	1.9
QoQ (%)	1.2	0.6	-3.7	2.3	4.3	2.2	2.7	3.7	-2.0	8.4	2.3	196bp
Revenue (INR m)	12,272	12,408	12,041	12,297	12,881	13,255	13,612	14,114	49,018	53,862	12,636	1.9
YoY (%)	2.0	0.5	0.5	1.4	5.0	6.8	13.0	14.8	1.1	9.9	3.0	199bp
GPM (%)	33.6	31.8	31.1	30.6	30.4	32.5	33.0	33.0	31.8	32.2	33.5	-312bp
SGA (%)	14.9	13.2	13.9	14.1	15.2	16.5	16.7	16.8	14.0	16.3	17.1	-195bp
EBITDA	2,301	2,308	2,076	2,030	1,961	2,118	2,216	2,284	8,715	8,579	2,072	-5.4
EBITDA Margin (%)	18.8	18.6	17.2	16.5	15.2	16.0	16.3	16.2	17.8	15.9	16.4	-118bp
EBIT	1,878	1,942	1,764	1,793	1,714	1,862	1,953	2,011	7,377	7,541	1,756	-2.4
EBIT Margin (%)	15.3	15.7	14.6	14.6	13.3	14.1	14.3	14.2	15.0	14.0	13.9	-59bp
Other income	224	306	356	493	383	171	176	182	1,379	912	164	133.2
ETR (%)	25.7	22.7	23.8	24.2	24.7	23.6	23.6	23.6	24.1	23.9	24.3	
Adj. PAT	1,562	1,738	1,616	1,733	1,579	1,554	1,626	1,676	6,649	6,435	1,454	8.6
QoQ (%)	30.9	11.3	-7.0	7.2	-8.9	-1.6	4.7	3.0			-16.1	
YoY (%)	108.0	206.0	111.2	45.3	1.1	-10.6	0.6	-3.3	102.9	-3.2	-6.9	
EPS (INR)	6.8	7.6	7.1	7.6	6.9	6.8	7.1	7.3	29.1	28.2	6.4	8.5

## Key performance indicators

Y/E March	FY24				FY25E	FY24
	1Q	2Q	3Q	4Q	1Q	
Revenue (QoQ CC %)	1.3	0.2	(3.2)	2.0	4.3	
<b>Margins</b>						
Gross Margin	33.6	31.8	31.1	30.6	30.4	31.8
EBIT Margin	15.3	15.7	14.6	14.6	13.3	15.0
Net Margin	12.7	14.0	13.4	14.1	12.3	13.6
<b>Operating metrics</b>						
Headcount	10,540	10,330	10,225	10,349	10,396	10,349
LTM Attrition (%)	15.9	13.1	12.0	10.9	10.6	11
Offshore Rev	48.0	49.1	49.6	50.0	48.6	50.0
<b>Key Geographies (YoY USD %)</b>						
North America	(6.3)	(10.5)	(6.5)	(5.7)	2.4	(7.3)
UK	1.6	20.3	13.5	15.4	6.6	12.6
Africa	(0.8)	8.4	9.7	14.3	4.3	7.9



## Key highlights from the management commentary

## Growth and outlook

- The pipeline remains healthy. In 2Q, the impact of cyber security outages might lead to high spending on cyber security projects.
- Traction in large deals is increasing. It witnessed good momentum across the portfolio. Growth in overall company revenue was driven by sequential growth across all verticals.
- ZENT expects the market to remain unchanged, given the macro situation in FY25.
- There was an impact of furloughs in Hi-tech vertical (impact of 1-2 weeks in Jul'24); 2Q will also see furloughs.
- BFSI vertical has been relatively strong throughout, and the underperformance was primarily due to TMT. The company expects this momentum to continue as large projects in BFSI are ramping up.
- Volume growth and CC organic growth in Africa region are good. Growth was hampered due to the forex impact.
- Effective 1st Jul'24, the company announced salary hikes.
- Utilization improved 20bp sequentially to 83.9%. Attrition came in at 10.6%.
- Partnership with global technology providers has helped in their innovative A/GenAI solutions.
- ZENT has entered into a definitive agreement to acquire a 100% stake in Bridge View Life Sciences, a Pennsylvania-based technology and consulting solutions company in the Life Sciences industry. This move reinforces ZENT's focus on the Healthcare and Life Sciences vertical.
- Acquisition in the right areas (Pharma commercial area – Viva related work) for Healthcare. It is not margin-dilutive/EPS-dilutive this year.

## Margin performance and outlook

- **Margin walk:** The margin decline was mainly due to a 150bp impact from increased operational costs and a 110bp rise in SG&A due to a provision for doubtful debts from a customer filing for Chapter 11. This was partially offset by a 20bp exchange benefit, a 40bp improvement from increased utilization and volume, and a 70bp one-time R&D credit benefit. EBITDA margin (15.2%) included a one-time impact of 1.1%; hence, the effective normalized margin was 16.3%.

- EBIT margin was in line with the guidance of mid-teens margin.
- Industry-level wage increases were given (USD3m impact). License cost is recurring and visa & travel had one-time impact.
- Onsite effort mix is expected to remain in the same range.
- USD1.75m write-offs in receivable owing to bankruptcy of one clients. The company has a better chance of getting receivable under Chapter 11 law as ZENT is positioned as one of the key creditors (USD300k per month billing revenue impact).
- After the bankruptcy filing, whatever services are offered will be paid on priority as per chapter 11.
- ZENT is rationalizing tail accounts, where it does not see much potential.
- Margin outlook for FY25 remains unchanged at mid-teens EBITDA margins.

#### Exhibit 1: Healthcare and banking witnessed a strong growth

Verticals	Contribution to revenue (%)	Growth QoQ (CC)
Hi-Tech	24.7	1.2
Manufacturing	25.8	2.7
Banking	39.7	6.8
Healthcare	9.8	6.9

Source: Company, MOFSL

#### Exhibit 2: North America performed well in 1Q

Geographies	Contribution to revenue (%)	Growth QoQ (CC)
North America	68.7	6.6
Europe	19.8	(0.1)
Africa	11.5	(0.9)

Source: Company, MOFSL

#### Valuation and view

- We believe the company's exposure to Hi-tech vertical could continue to weigh on growth in the near term; however, it will be a recovery in BFS. We increase our EPS estimates by 6.2% for FY25 on the back of growth surprise in 1Q. We largely maintain our EPS estimate for FY26. Our TP of INR750 implies 23x FY26E EPS. **Retain Neutral.**

**Exhibit 3: Revisions to our estimates**

	Revised		Earlier		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
INR/USD	83.4	83.4	83.4	83.4	0.0%	0.0%
USD Revenue - m	642	728	636	712	1.0%	2.2%
Growth (%)	8.4	13.3	7.4	11.9	110bps	140bps
EBIT margin(%)	14.0	14.7	13.8	15.0	20bps	-30bps
PAT (INR m)	6,435	7,485	6,054	7,432	6.3%	0.7%
EPS	28.2	32.8	26.5	32.6	6.2%	0.6%

Source: Company, MOFSL

**Exhibit 4: Operating metrics**

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
<b>Geographic Mix - %</b>									
USA	71	72	70	70	69	66	66	66	69
Europe	18	17	19	18	19	22	21	21	20
ROW	11	11	11	12	11	12	13	13	12
<b>Revenue by delivery - %</b>									
Onsite	58	57	55	54	52	51	50	50	51
Offshore	42	43	45	46	48	49	50	50	49
<b>Client concentration - %</b>									
Top 5	33	35	32	34	34	32	29	28	28
Top 6-10	12	11	13	12	11	11	11	13	14
Top 10	45	46	45	46	45	42	41	41	42
Top 11-20	16	15	17	15	17	16	17	16	17
Top 20	61	61	61	61	62	58	58	57	59
<b>Number of million dollar clients</b>									
1 Million dollar +	86	87	87	84	87	84	84	85	86
5 Million dollar +	26	28	28	29	29	29	32	31	31
10 Million dollar +	13	13	15	14	14	14	14	14	14
20 Million dollar +	4	3	4	4	4	4	4	4	4
<b>Client metrics</b>									
Number of active clients	147	146	148	148	147	148	147	148	148
<b>Employee metrics</b>									
Total headcount	11,559	11,250	10,845	10,563	10,540	10,330	10,225	10,349	10,396
Gross employees added during the period	1,220	1,194	593	552	654	643	627	816	855
Utilization	80.7	80.7	77.6	81.4	82.5	83.1	80.7	83.7	83.9
Attrition	28.1	26.3	22.8	19.8	15.9	13.1	12.0	10.9	10.6

Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Sales</b>	<b>38,988</b>	<b>40,102</b>	<b>36,681</b>	<b>42,437</b>	<b>48,483</b>	<b>49,018</b>	<b>53,862</b>	<b>61,120</b>
Change (%)	29.7	2.9	(8.5)	15.7	14.2	1.1	9.9	13.5
Cost of Services	27,626	28,756	24,417	29,214	35,000	33,434	36,506	40,669
SG&A Expenses	6,283	6,310	5,422	6,659	7,960	6,869	8,777	10,258
<b>EBITDA</b>	<b>5,079</b>	<b>5,037</b>	<b>6,842</b>	<b>6,564</b>	<b>5,523</b>	<b>8,715</b>	<b>8,579</b>	<b>10,193</b>
As a percentage of Net Sales	13.0	12.6	18.7	15.5	11.4	17.8	15.9	16.7
Depreciation	894	1,567	1,732	1,849	1,830	1,338	1,038	1,179
Interest	373	605	536	354	278	209	245	304
Other Income	502	435	367	907	642	1,583	1,177	1,093
Forex	291	449	-113	470	386	5	-19	0
<b>PBT</b>	<b>4,604</b>	<b>3,749</b>	<b>4,828</b>	<b>5,738</b>	<b>4,443</b>	<b>8,756</b>	<b>8,453</b>	<b>9,803</b>
Tax	1,310	1,038	1,261	1,525	1,166	2,107	2,019	2,318
Rate (%)	28.5	27.7	26.1	26.6	26.2	24.1	23.9	23.6
Minority Interest	51	82	70	53	0	0	0	0
<b>Net Income</b>	<b>3,243</b>	<b>2,629</b>	<b>3,497</b>	<b>4,160</b>	<b>3,277</b>	<b>6,649</b>	<b>6,435</b>	<b>7,485</b>
Change (%)	40.6	-18.9	33.0	19.0	-21.2	102.9	-3.2	16.3

Balance Sheet							(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Share Capital	450	451	451	452	453	453	453	453
Reserves	18,973	20,900	23,423	26,417	29,309	35,166	39,806	45,204
<b>Net Worth</b>	<b>19,424</b>	<b>21,351</b>	<b>23,874</b>	<b>26,869</b>	<b>29,762</b>	<b>35,619</b>	<b>40,259</b>	<b>45,657</b>
Loans	2,578	2,886	-	0	0	0	0	0
Other liabilities	924	4,008	3,526	3,544	2,866	2,319	2,319	2,319
<b>Capital Employed</b>	<b>22,925</b>	<b>28,244</b>	<b>27,401</b>	<b>30,413</b>	<b>32,628</b>	<b>37,938</b>	<b>42,578</b>	<b>47,976</b>
<b>Net Block</b>	<b>9,617</b>	<b>13,340</b>	<b>11,330</b>	<b>12,858</b>	<b>11,735</b>	<b>10,393</b>	<b>10,155</b>	<b>9,776</b>
Other LT Assets	1,898	2,039	3,076	3,226	6,291	10,144	10,291	10,512
<b>Curr. Assets</b>	<b>19,360</b>	<b>20,576</b>	<b>19,928</b>	<b>22,628</b>	<b>23,184</b>	<b>25,941</b>	<b>31,495</b>	<b>38,242</b>
Current Investments	454	2,670	7,410	5,141	7,045	9,315	11,315	13,315
Inventories	985	941	0	0	0	0	0	0
Debtors	8,762	6,656	5,888	7,967	7,298	7,320	8,854	10,047
Cash and Bank Balance	3,259	5,258	3,492	5,054	4,744	4,432	5,970	8,803
Other Current Assets	5,901	5,051	3,138	4,466	4,097	4,874	5,356	6,077
<b>Current Liab. and Prov.</b>	<b>7,951</b>	<b>7,711</b>	<b>6,933</b>	<b>8,299</b>	<b>8,582</b>	<b>8,540</b>	<b>9,363</b>	<b>10,554</b>
Trade payables	3,010	2,650	2,201	3,164	2,772	3,095	3,379	3,765
Other liabilities	4,941	5,061	4,732	5,135	5,810	5,445	5,983	6,789
<b>Net Current Assets</b>	<b>11,409</b>	<b>12,865</b>	<b>12,994</b>	<b>14,329</b>	<b>14,602</b>	<b>17,401</b>	<b>22,132</b>	<b>27,688</b>
<b>Application of Funds</b>	<b>22,925</b>	<b>28,245</b>	<b>27,400</b>	<b>30,413</b>	<b>32,628</b>	<b>37,938</b>	<b>42,579</b>	<b>47,976</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>EPS</b>	<b>14.3</b>	<b>11.7</b>	<b>15.3</b>	<b>18.3</b>	<b>14.4</b>	<b>29.1</b>	<b>28.2</b>	<b>32.8</b>
Cash EPS	18.2	18.6	22.9	26.5	22.4	35.0	32.7	37.9
Book Value	86.3	96.3	105.7	119.0	131.5	157.3	177.4	201.2
DPS	2.8	2.8	6.4	5.0	5.0	7.0	6.8	7.9
Payout (%)	19.6	24.0	41.8	27.3	34.8	24.0	24.0	24.0

### Valuation (x)

P/E ratio	53.9	65.8	50.2	41.9	53.5	26.4	27.3	23.4
Cash P/E ratio	42.2	41.2	33.6	29.0	34.3	22.0	23.5	20.3
EV/EBITDA ratio	33.8	32.8	23.7	24.9	29.3	18.4	18.3	14.9
EV/Sales ratio	4.4	4.1	4.4	3.8	3.3	3.3	2.9	2.5
Price/Book Value ratio	8.9	8.0	7.3	6.5	5.8	4.9	4.3	3.8
Dividend Yield (%)	0.4	0.4	0.8	0.7	0.7	0.9	0.9	1.0

### Profitability Ratios (%)

RoE	18.0	12.9	15.5	16.4	11.6	20.3	17.0	17.4
RoCE	15.3	10.6	14.1	12.0	8.6	15.9	14.3	15.2

### Turnover Ratios

Debtors (Days)	82	61	59	69	55	55	60	60
Fixed Asset Turnover (x)	5.0	3.5	3.0	3.5	3.9	4.4	5.2	6.1

### Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
CF from Operations	4,183	4,508	5,432	5,774	5,030	6,901	6,561	7,875
Cash for Working Capital	-2,622	2,354	3,148	-2,427	2,113	-480	-1,341	-944
<b>Net Operating CF</b>	<b>1,561</b>	<b>6,862</b>	<b>8,580</b>	<b>3,347</b>	<b>7,143</b>	<b>6,421</b>	<b>5,220</b>	<b>6,931</b>
Net Purchase of FA	-517	-781	-393	-373	-334	-151	-800	-800
<b>Free Cash Flow</b>	<b>1,043</b>	<b>6,081</b>	<b>8,187</b>	<b>2,974</b>	<b>6,809</b>	<b>6,270</b>	<b>4,420</b>	<b>6,131</b>
Net Purchase of Invest.	-1,894	-2,372	-4,890	400	-4,941	-4,600	-842	-907
<b>Net Cash from Invest.</b>	<b>-2,411</b>	<b>-3,153</b>	<b>-5,283</b>	<b>27</b>	<b>-5,275</b>	<b>-4,751</b>	<b>-1,642</b>	<b>-1,707</b>
Proc. from equity issues	14	15	15	32	4	1	0	0
Proceeds from LTB/STB	-376	-502	-4,505	-1,260	-1,058	-726	-245	-304
Dividend Payments	-633	-1,228	-271	-881	-1,132	-1,246	-1,794	-2,087
<b>Cash Flow from Fin.</b>	<b>-995</b>	<b>-1,714</b>	<b>-4,761</b>	<b>-2,109</b>	<b>-2,186</b>	<b>-1,971</b>	<b>-2,040</b>	<b>-2,391</b>
Exchange difference	-32	4	-20	14	8	-11	0	0
<b>Net Cash Flow</b>	<b>-1,877</b>	<b>1,999</b>	<b>-1,483</b>	<b>1,279</b>	<b>-310</b>	<b>-312</b>	<b>1,538</b>	<b>2,833</b>
<b>Opening Cash Bal.</b>	<b>5,137</b>	<b>3,259</b>	<b>5,258</b>	<b>3,775</b>	<b>5,054</b>	<b>4,744</b>	<b>4,432</b>	<b>5,969</b>
Add: Net Cash	-1,877	1,999	-1,483	1,279	-310	-312	1,538	2,833
<b>Closing Cash Bal.</b>	<b>3,259</b>	<b>5,258</b>	<b>3,775</b>	<b>5,054</b>	<b>4,744</b>	<b>4,432</b>	<b>5,969</b>	<b>8,802</b>

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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