

**NOT RATED****ZENSAR  
TECHNOLOGIES**

| IT Services

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**Starts FY25 well on revenue. But challenges ahead?**

- 1Q growth was better than expected though margins were weak because of one-off client bankruptcy
- Unexpected furloughs in the TMT sector could act as a drag in 2Q. Zensar will likely eke out a mid-single USD growth in FY25 (-2% in FY24)
- EBITDA margin is expected to be in mid-teens. We will be initiating coverage on the sector and company soon

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**Delivers a strong quarter due to US BFSI:** Zensar delivered better-than-expected revenue growth of 4.3% in constant currency (CC) terms QoQ. For the second consecutive quarter, it registered sequential QoQ growth across all its verticals. The BFSI vertical (~40% of revenue) at 6.8% CC QoQ drove growth. BFSI contributed ~60% of incremental revenue of US\$ 6.3mn QoQ. This seems to be coming from US geography, which grew by 6.6% QoQ. This is in line with commentary we have heard on US BFSI from most of Zensar's peers, both large and mid-sized.

**New age services drove growth:** In service lines, Data Engineering and Analytics grew QoQ by 17.9%. Advanced Engineering Services grew by 9.3%. Data Engineering and Analytics growth is seen across many service providers in 1QFY25 and probably is in preparation of Gen AI initiatives.

**One offs hit margins:** However, the 1Q EBIT margin dropped 130bps QoQ and 200bps YoY. This is even before salary hikes that kick in from 1 July 2024. Excluding the one-offs in both direct costs as well as SGA, EBITDA margin would have been 15.6% (reported 15.2%), a 90 bps drop QoQ and 320bps YoY. Gross margin for the quarter stood at 30.4%, a drop of 20bps QoQ. Travel, visa, licences had a negative margin impact of 150 bps, offset by exchange benefit of 20bps. Utilisation and volume positively impacted margin by 40bps. There was also a one-time benefit of 70bps on account of R&D credit.

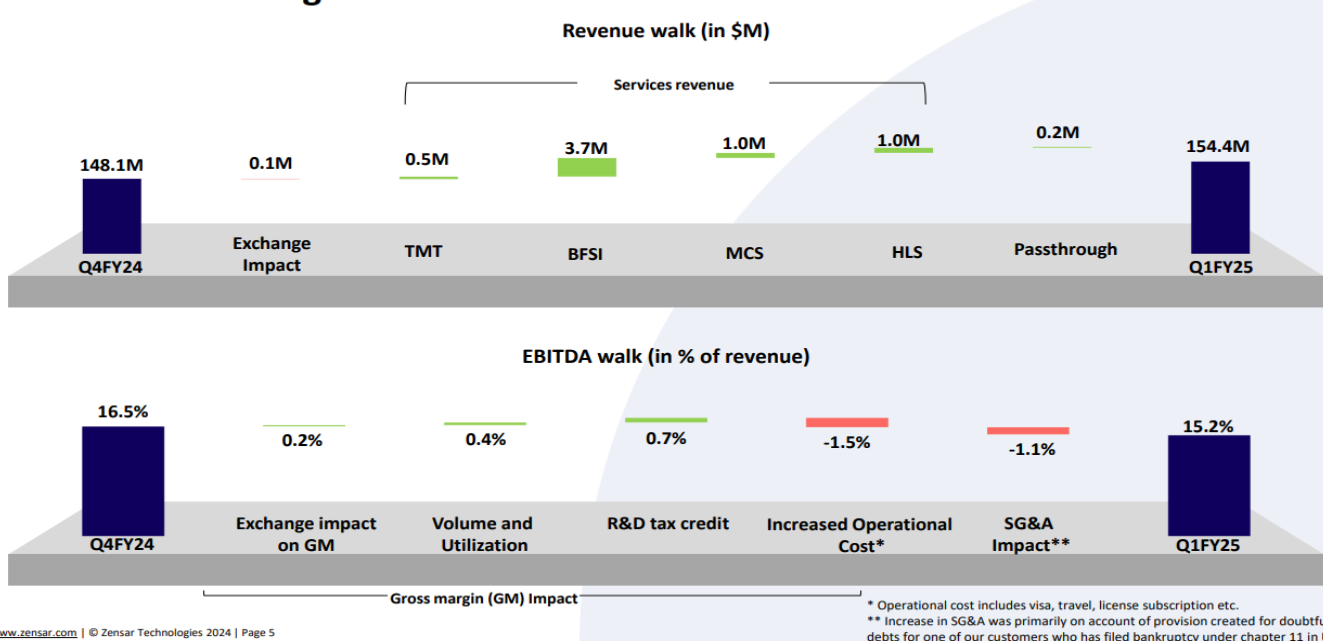
**Zensar CEO wants to drive revenue growth in FY25. It was all about margins in FY24:** EBITDA margin improved from 8.5% to 17.8% in FY24, during CEO Manish Tandon's tenure (last six quarters). He highlighted that in FY25 there were opportunities to optimise EPS growth by focusing on revenues, contrary to FY24 where there were opportunities to improve margins. For FY25, Zensar aims to grow higher than the industry average by winning larger deals, focus on true verticalisation, and execute more annuity-like managed services projects.



- SG&A increased 110bps QoQ primarily on account of a provision for doubtful debts due to a customer bankruptcy under Chapter 11.
- Besides margins, the other weak element of the result is the total contract value of order inflow which is US\$ 154mn, which is 15% down QoQ and flat YoY.
- At its analyst meeting a few months ago, Zensar stated it was investing in the 'true verticalisation' of its entire portfolio. BFSI was the first vertical to be infused with this integration of 'people, process and technology', and has shown resilience in comparison to peers/industry. This integration has advanced more in manufacturing and consumer services, followed by Telecommunication, Media and Technology (TMT). It is starting from scratch in Healthcare and Life Sciences (HLS).
- At the same analyst meet, Zensar indicated that it was working on farming zero revenue MSAs (master services agreements) that it had signed with major logos earlier.
- Another driver of growth in the times to come will be the HLS business, which is currently only 10% of revenue but growing fast. In Jul'24, Zensar acquired a 100% stake in Bridge View Life Sciences, a Pennsylvania-based technology and consulting solutions company in the Life Sciences industry
- While the quarter was good from a revenue perspective the CEO stated, "The macroeconomic situation along with geopolitical threat and cyber security challenges continue to make the environment volatile. We expect markets to remain unchanged in FY25."
- He was also of the view that the recent CrowdStrike related IT outage could shift spends towards cyber security.

Fig 1 – 1QFY25 performance

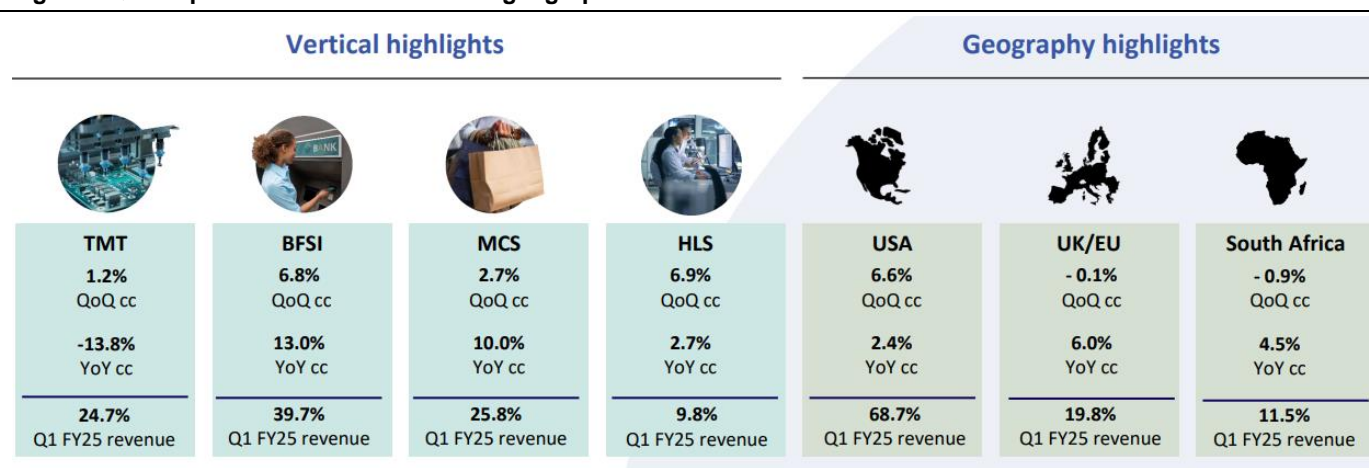
### Revenue and margin walk



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Source: Company, BOBCAPS Research

**Fig 2 – 1QFY25 performance – vertical and geographic markets**



Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

Y/E March	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	1QFY25E	Dev (%)
Net Sales (US\$ mn)	149.3	148.1	154.4	3.4	4.3	149.6	3.2
Net Sales	12,272	12,297	12,881	5.0	4.7	12,468	3.3
Direct Cost	8,146	8,529	8,968	10.1	5.1	8,593	4.4
Gross Profit	4,126	3,768	3,913	(5.2)	3.8	3,875	1.0
% of Sales	33.6	30.6	30.4			31.1	
SG&A	1,825	1,738	1,952	7.0	12.3	1,790	9.0
% of Sales	14.9	14.1	15.2			14.4	
EBITDA	2,301	2,030	1,961	(14.8)	(3.4)	2,085	(5.9)
EBITDA Margin (%)	18.8	16.5	15.2			16.7	(8.9)
Depreciation	423	237	247	(41.6)	4.2	248	(0.5)
EBIT	1,878	1,793	1,714	(8.7)	(4.4)	1,836	(6.7)
EBIT Margin (%)	15.3	14.6	13.3			14.7	
Finance Costs	60	28	42	(30.0)	50.0	28	50.0
Other Income (net)	284	521	425	49.6	(18.4)	456	(6.8)
Profit Before Tax	2,102	2,286	2,097	(0.2)	(8.3)	2,264	(7.4)
Provision for Taxation - Current & Deferred	540	553	518	(4.1)	(6.3)	543	(4.7)
Effective Tax Rate	25.7	24.2	24.7			24.0	
Net Profit	1,562	1,733	1,579	1.1	(8.9)	1,721	(8.2)
PAT attributable to equity shareholders after Minority Interest	1,562	1,733	1,579	1.1	(8.9)	1,721	(8.2)
NPM (%)	12.7	14.1	12.3			13.8	

Source: Company, BOB Caps Research

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