SELL
TP: Rs 700 | ⩒ 16%

ZENSAR TECHNOLOGIES | IT Services | 24 January 2025

Headed towards double digit growth in FY26

- **Delivered better-than-expected revenue and margin. After a mid-single digit FY25, revenue growth in double digits in FY26 likely**
- **Believe TMT pain which had dragged growth has hit a bottom. EBITDA margin expected to be ~15% as the company re-invests**
- **EBIT margin estimates lowered to take care of investments in SGA and in AI/Gen AI. Retain 'SELL' despite raising Target PE multiple**

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Delivered better-than-expected revenue and margin. Revenue grew 0.7% QoQ and was better than our estimate of 1% decline. The EBIT margin at 13.8% came in better than our estimate of 13.1%

TMT which had been a drag on growth in FY25 will likely not be a headwind in FY26. The sharp reduction in contribution from the segment at 21.4% in 3QFY25 compared to 25.9% in the base quarter tells us the story of weakness. While the top Hi-Tech client has been weak, the company is seeking to diversify beyond that client in the vertical

Order inflow has been strong: Zensar saw the second consecutive quarter >US$200mn order inflow. The deal pipeline is strong, but it has slightly reduced as many deals have been converted into the order book. This reduction is viewed positively, as it reflects a strong order book and improved win rates over the last few quarters

Zensar is actively working to reduce its reliance on discretionary spending, which has historically been a source of revenue fluctuations. The company has been focusing on increasing annuity revenues to smoothen revenue fluctuations. This is being achieved through large deals and a focus on Cloud and Infrastructure Services, where Zensar has seen sequential growth.

Reiterate sell: We have tweaked the EPS estimates by increasing the US revenue while lowering the EBIT margins. We have also reduced the discount to the benchmark Target PE multiple of TCS from 25% to 20% to get to a Target PE multiple of 19.7x. We would continue to give it a lower PE multiple compared to Persistent and Coforge as there is a shorter history of sustained performance. While the first year of Manish Tandon, CEO, was focused on margin expansion, the second year had to be a balance between margin and revenue growth. We need a few more quarters of sustained revenue performance to gain that confidence.

Key changes

Target	Rating
▲	◄►

Ticker/Price	ZENT IN/Rs 837
Market cap	US$ 2.2bn
Free float	50%
3M ADV	US$ 10.7mn
52wk high/low	Rs 870/Rs 515
Promoter/FPI/DII	49%/15%/20%

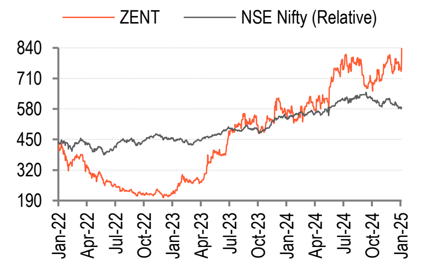
Source: NSE | Price as of 23 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	49,018	53,124	60,575
EBITDA (Rs mn)	8,716	8,247	9,691
Adj. net profit (Rs mn)	6,650	6,388	7,088
Adj. EPS (Rs)	29.1	28.0	31.2
Consensus EPS (Rs)	29.1	28.2	32.9
Adj. ROAE (%)	20.9	17.9	18.1
Adj. P/E (x)	28.7	29.9	26.8
EV/EBITDA (x)	20.9	22.1	19.0
Adj. EPS growth (%)	102.6	(3.8)	11.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Key points from the results and the concall

- Reported revenue for 3QFY25 stood at $157mn, 0.5% growth QoQ despite furloughs and shutdowns in some customers. Revenue grew by 8.6% YoY in reported terms. In constant currency terms, revenue grew 0.7% QoQ and 7.5% YoY. This was better than our estimate of 1% decline.
- On a QoQ basis, advanced engineering services grew by 7.1%, cloud infrastructure and security services grew by 1.8%, while application services and enterprise applications declined by 0.7%. Experience services revenue dipped by 3.8%, and data engineering and analytics saw a 4% decline due to extended furloughs in specific accounts
- The gross margin for the quarter was 30.1%, a 200 bps increase QoQ, driven by improved utilization, higher leave utilization, other operational efficiencies, and an exchange benefit.
- SG&A increased by 180 bps QoQ, mainly due to one-time savings in ESOP and sales commission in the previous quarter, as well as investments in sales and infrastructure.
- EBITDA for 3QFY25 stood at 15.6%, improving by 20 bps QoQ, within the guided range of mid-teens. The EBIT margin at 13.8% came in better than our estimate of 13.1%
- The order book for the quarter was at a record high of US$205.3mn, the second consecutive quarter of US$200mn plus number. The order booking in 3QFY25 is broad-based and does not include any large deals. The company is still in play for the two potential large deals mentioned previously, with hopes for positive news soon.
- Early signs of improvement in discretionary spending have been observed, based on client conversations and order bookings, despite ongoing macroeconomic uncertainties
- While furlough impact will be limited in the next quarter due to its extension only into the first week of January, the number of working days in the next quarter will be fewer. This may be balanced by lower leave numbers compared to the previous quarter.
- TMT revenues accounted for 21.4% of total revenues in 3QFY25, down from 22.7% in the previous quarter and 25.9% in the same quarter last year.
- The objective is to ensure that the rest of the business grows faster than TMT. While TMT may continue to see a decline in its percentage of total revenue, the focus is on achieving growth in absolute revenue terms for the TMT segment going forward
- The focus has been on broadening the client base and mining customers at the lower end of the pyramid, which has contributed to growth within the non-top 20 client segment. Over the next 12 months, the emphasis will continue to strengthen the farming capabilities while also pursuing new client logos.

- The improvement in farming capabilities is reflected in the addition of another client to the US$20mn+ client bucket. Despite challenges in one sector, overall secular growth has been achieved, showcasing the success of these efforts.
- The increase in the number of US$1 mn+ and US$5 mn+ customer relationships is indeed linked to the efforts in broadening the High-Tech vertical and acquiring significant new logos.
- The strategy is to continue improving the farming of existing large clients while also pursuing new logo wins in the High-Tech sector. The reduction in the percentage contribution from the top customer indicates a broader client base and growing diversification within the TMT sector.
- The expectation of growth in the TMT segment in the next quarter is primarily based on the reduction of furlough impacts, which were significant in 3Q. The growth is not necessarily driven by furlough reversals alone but is influenced by the typical pattern where furlough impacts reduce in the next quarter
- As growth continues, the hiring momentum is expected to pick up. The company plans to add more employees, including those from campuses, to support this growth
- The deal pipeline is strong, but it has slightly reduced as many deals have been converted into the order book. This reduction is viewed positively, as it reflects a strong order book and improved win rates over the last few quarters
- The demand environment in Healthcare and Life Sciences is softer than usual, with both sectors experiencing some uncertainty. In Life Sciences, decision-making is delayed due to competition between Viva and Salesforce in the CRM space, and in healthcare, the new administration's focus on reducing healthcare costs is causing companies to be more cautious with spending. Additionally, the renegotiation of drug prices under Medicare, including for GLP-1 drugs, is contributing to a more conservative spending outlook.
- Regarding discretionary spending, the company said that it should not be compared to the pandemic boom, as that was an extraordinary event. Instead, discretionary spend should be viewed in the context of pre-pandemic levels. Currently, discretionary spending is around 75%-80% of pre-COVID levels.
- While Generative AI is an exciting new technology, it has not fully taken off because it is still evolving. Generative AI is primarily based on LLMs, which are seen as platforms or operating systems. However, to truly drive adoption, there is a need for Agentic AI, which involves building specific applications on top of LLMs to perform designated tasks
- Zensar is actively working to reduce its reliance on discretionary spending, which has historically been a source of revenue fluctuations. The company has been focusing on increasing annuity revenues to smoothen revenue fluctuations. This is being achieved through large deals and a focus on Cloud and Infrastructure Services, where Zensar has seen sequential growth.
- Zensar estimates that last year, around 80% of its order bookings came from discretionary spending. In FY25r, that proportion has likely decreased to around

70%, reflecting a shift towards more stable, non-discretionary revenues. Zensar aims to continue this trend, further reducing its reliance on discretionary spending.

- Regarding the outlook for FY26 the company is hopeful and will strive to achieve double-digit growth in FY26.
- The company remains committed to maintaining mid-teens EBITDA margins, viewing this as a flexible target rather than a fixed number. The approach allows for some fluctuation within the range. The goal is to stay within the mid-teens range while achieving sustainable growth for the company
- Voluntary attrition stood at 10%, the lowest in recent years.
- Client concentration improved, with the top 5 customers contributing 27.5% of revenue.

View on the Indian IT services sector: We reinitiated coverage on the Indian IT Services with UW stance through a report on 1 January, 2025 (**Slow is the (new/old) normal**).

Current valuations are disconnected with fundamentals. Since 1 June 2024, Nifty IT has outperformed Nifty significantly. However, consensus earnings for FY25 and FY26 have not moved much during this period. It has been an entirely PE expansion story. Tier-1 and Tier-2 Indian IT services stocks are trading at +1 SD and +2 SD above their five-year means respectively. The PE premium of Tier-2 to Tier-1 is at its historic peak.

Current high PE multiples imply sharp growth pickup in FY25-FY27E. We think it will be slower. We do not believe structurally Indian IT services industry will see the pandemic's 'compressed transformation' type of demand in the foreseeable future. We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR – seen during FY15-FY20.

10-year study of valuations and earnings growth indicates that Indian IT stocks are currently trading at +2.1 SD to +18.3 SD higher valuations compared to the mean multiples during the FY15-FY20 period. Yes, we would admit that certain companies have undergone a structural change for the better, but not to the extent that the bulls assume and not all of them.

Multiple speed breakers post FY25 drives our underweight stance

- Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc all point to uncertainty in the coming days which may delay decision making.
- Higher for longer interest rate environment: One of reasons for optimism around the Indian IT service sector in recent quarters has been the view that US would achieve a soft landing in 2025 (which we define as 0.5- 1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the recent peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for

the weak growth was of ‘macro uncertainty’. However, recent inflation prints, stronger GDP growth, and a higher fiscal deficit have raised concerns. With US 10-year yields rising to 4.7% from a September 2024 low of 3.6%, there are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US consumption in areas like housing, autos and retail.

- Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.

- Gen AI – value compressive in the near term: Gen AI has significantly boosted revenue in semiconductors, data centers, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arise due to heavy investment in surrounding services

- Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyperscalers, are increasing capex on AI-related data centers. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS

- Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach $85bn, double that in FY15. Due to the higher base now, growth may not be as rapid as it was when the base was lower

- The weak TCV for certain players in 1HFY25 and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26

How we are valuing companies: We are using PE methodology and using TCS as our industry benchmark. The target PE multiple used for TCS is 24.6x (which is the average PE multiple of TCS over the last 5 years less 1SD). This is by no means pessimistic. 24.6x is higher than the 23.6x multiple which was the mean multiple of the FY15-FY20 time frame when revenue growth was ~150bps faster. During the Global Financial Crisis (GFC) downturn, the stock traded in the single digit PE multiple territory. We are using a 1SD discount to the five-year PE as we believe that industry and TCS will see a ‘slower for longer’ growth situation.

Why use a PE multiple that is 1SD lower than 5-year mean of TCS:

Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27.

While the strong consensus estimates seem to imply a soft-landing macro scenario in the US, the higher probability event is a ‘no landing, higher-for-longer interest rate’ scenario which we believe has a 50-60% probability. The probability of a recession is also not insignificant (20% based on Bloomberg estimates).

Some of the speed breakers are industry/technology related, and some are related to the macro and policy environment especially in the US which is the key market for

Indian IT services firms. Besides the US, we believe the European market macro looks quite bad (Europe – including UK – forms about 30-40% of revenue for Indian IT services firms) and corporate IT spending would be muted

Tier- 2 valuation reflects growth gap between it and Tier-1:

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to the Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take out projects which are likely to impact their margins adversely.

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E Mar (Rs mn)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	3QFY25E	Deviation (%)
Net Sales (USD mn)	**144.7**	**156.2**	**157.0**	**8.5**	**0.5**	**153.5**	**2.3**
Net Sales	**12,041**	**13,080**	**13,256**	**10.1**	**1.3**	**12,954**	**2.3**
Direct Cost	8,296	9,406	9,266	11.7	(1.5)	9,218	0.5
Gross Profit	3,745	3,674	3,990	6.5	8.6	3,736	6.8
% of Sales	31.1	28.1	30.1			28.8	
SG&A	1,669	1,663	1,921	15.1	15.5	1,730	11.0
% of Sales	13.9	12.7	14.5			13.4	
EBITDA	**2,076**	**2,011**	**2,069**	**(0.3)**	**2.9**	**2,005**	**3.2**
EBITDA Margin (%)	**17.2**	**15.4**	**15.6**			**15.5**	**0.8**
Depreciation	312	297	237	(24.0)	(20.2)	310	(23.5)
EBIT	**1,764**	**1,714**	**1,832**	**3.9**	**6.9**	**1,696**	**8.0**
EBIT Margin (%)	**14.6**	**13.1**	**13.8**			**13.1**	
Finance Costs	64	45	37	(42.2)	(17.8)	45	(17.8)
Other Income (net)	420	411	307	(26.9)	(25.3)	549	(44.1)
Profit Before Tax	2,120	2,080	2,102	(0.8)	1.1	2,199	(4.4)
Provision for Taxation - Current & Deferred	504	522	505	0.2	(3.3)	537	(5.9)
Effective Tax Rate	23.8	25.1	24.0			24.4	
Net Profit	1,616	1,558	1,597	(1.2)	2.5	1,663	(4.0)
Minority Share of Net Profit	-	-	-			-	
PAT attributable to equity shareholders after Minority Interest	**1,616**	**1,558**	**1,597**	**(1.2)**	**2.5**	**1,663**	**(4.0)**
NPM (%)	**13.4**	**11.9**	**12.0**			**12.8**	

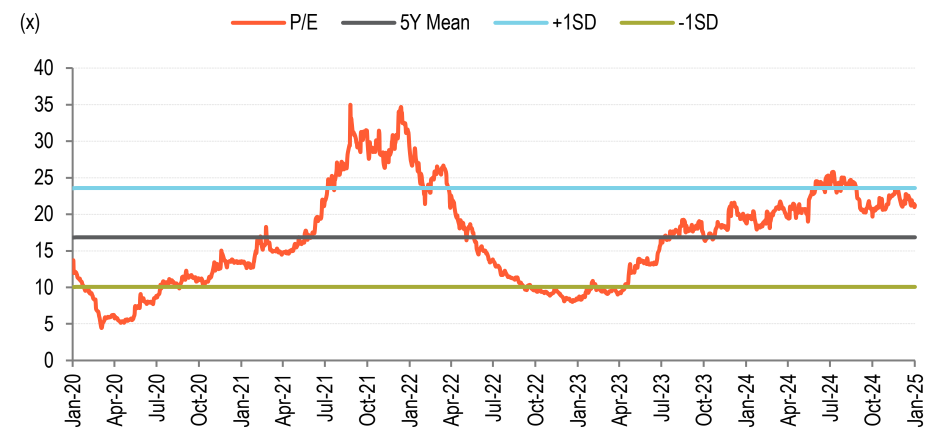
Source: Company, BOBCAPS Research

Fig 2 – Revised Estimates

	New			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.4	87.3	89.3	84.1	85.4	86.6	0.4	2.1	3.1
USD Revenue (USD mn)	629	694	767	622	675	732	1.2	2.9	4.8
USD revenue growth (%)	6.3	10.3	10.5	5.0	8.5	8.5			
Revenue (Rsmn)	53,124	60,575	68,471	52,290	57,629	63,394	1.6	5.1	8.0
EBIT (Rsmn)	7,171	8,286	9,606	7,084	8,283	9,058	1.2	0.0	6.1
EBIT Margin (%)	13.5	13.7	14.0	13.5	14.4	14.3			
PAT (Rsmn)	6,388	7,088	8,393	6,684	7,334	8,251	(4.4)	(3.3)	1.7
FDEPS (Rs)	28.0	31.2	37.0	29.4	32.4	36.4	(4.7)	(3.5)	1.5

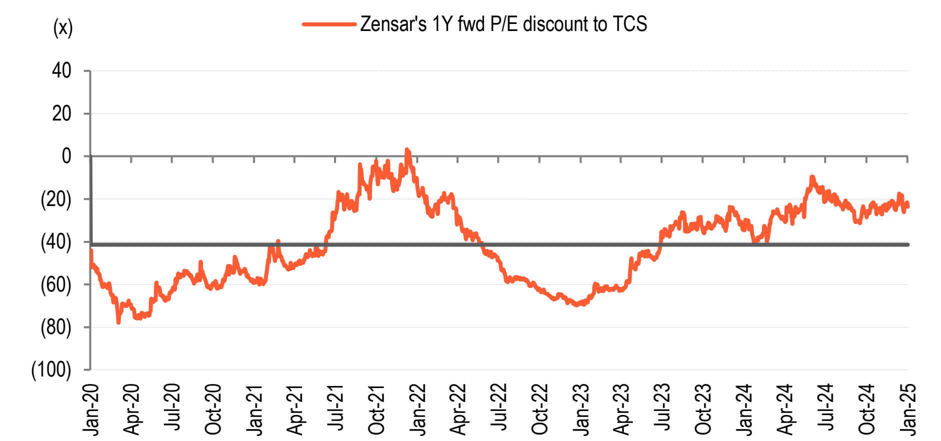
Source: Company, BOBCAPS Research

Fig 3 – 5 Year PE trend



Source: Company, BOBCAPS Research

Fig 4 – Premium/ Discount to TCS



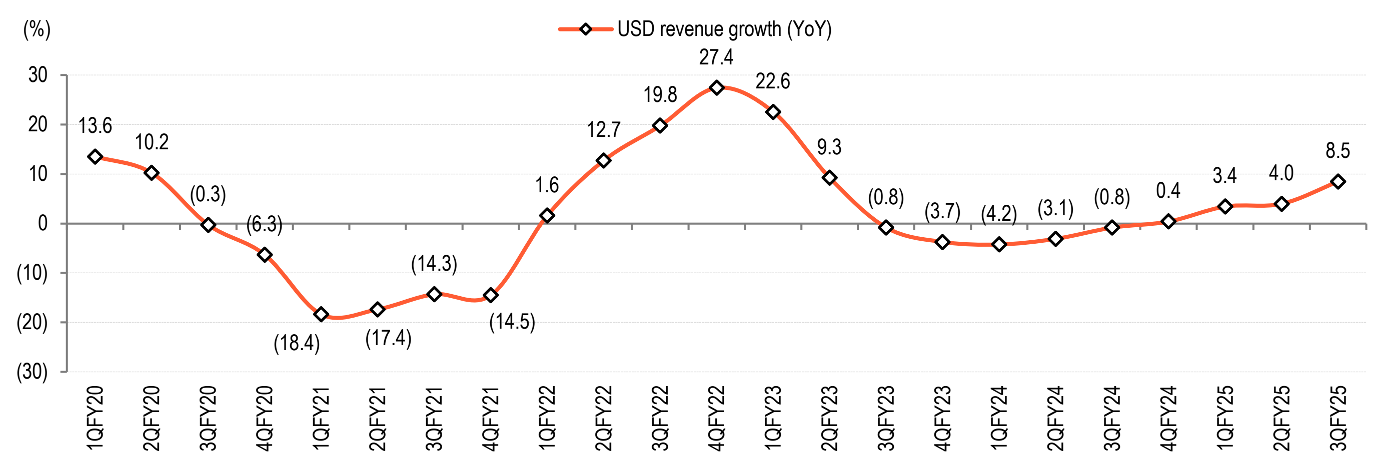
Source: Company, BOBCAPS Research

Fig 5 – P&L at a glance

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Average INR/USD	67.1	64.4	70.0	70.9	74.3	74.5	80.2	82.8	84.4	87.3	89.3
Net sales (US$mn)	**455.6**	**482.2**	**566.9**	**589.5**	**494.0**	**569.4**	**604.3**	**592.3**	**629.3**	**694.1**	**767.1**
-Growth (%)	**0.6**	**5.8**	**17.6**	**4.0**	**(16.2)**	**15.3**	**6.1**	**(2.0)**	**6.3**	**10.3**	**10.5**
Net Sales	**30,556**	**31,077**	**39,663**	**41,768**	**36,682**	**42,437**	**48,483**	**49,018**	**53,124**	**60,575**	**68,471**
-Growth (%)	**3.1**	**1.7**	**27.6**	**5.3**	**(12.2)**	**15.7**	**14.2**	**1.1**	**8.4**	**14.0**	**13.0**
Direct cost	21,603	22,068	28,286	30,159	24,417	29,214	35,000	33,434	37,303	42,421	48,115
Gross Profit	**8,953**	**9,009**	**11,377**	**11,608**	**12,264**	**13,222**	**13,483**	**15,584**	**15,820**	**18,153**	**20,356**
Gross Margin	**29.3**	**29.0**	**28.7**	**27.8**	**33.4**	**31.2**	**27.8**	**31.8**	**29.8**	**30.0**	**29.7**
SGA Expenses	5,135	5,360	6,611	6,482	5,423	6,659	7,960	6,868	7,574	8,462	8,982
% of sales	16.8	17.2	16.7	15.5	14.8	15.7	16.4	14.0	14.3	14.0	13.1
Other operating income	48	79	162	2	-	-	-	-	-	-	-
EBITDA	3,866	3,728	4,928	5,128	6,841	6,564	5,523	8,716	8,247	9,691	11,375
% of sales	12.7	12.0	12.4	12.3	18.7	15.5	11.4	17.8	15.5	16.0	16.6
Depreciation & Amortisation	486	651	894	1,592	1,733	1,849	1,830	1,338	1,076	1,406	1,769
% of sales	1.6	2.1	2.3	3.8	4.7	4.4	3.8	2.7	2.0	2.3	2.6
EBIT	**3,381**	**3,078**	**4,034**	**3,536**	**5,109**	**4,715**	**3,693**	**7,378**	**7,171**	**8,286**	**9,606**
% of sales	**11.1**	**9.9**	**10.2**	**8.5**	**13.9**	**11.1**	**7.6**	**15.1**	**13.5**	**13.7**	**14.0**
Other income (net)	105	438	420	279	(281)	1,023	750	1,379	1,299	1,103	1,510
PBT	3,486	3,515	4,454	3,815	4,828	5,738	4,443	8,757	8,470	9,389	11,116
-PBT margin (%)	11.4	11.3	11.2	9.1	13.2	13.5	9.2	17.9	15.9	15.5	16.2
Provision for tax	1,103	1,051	1,267	1,057	1,262	1,525	1,166	2,107	2,082	2,300	2,723
Effective tax rate (%)	31.6	29.9	28.5	27.7	26.1	26.6	26.2	24.1	24.6	24.5	24.5
Net profit	2,383	2,464	3,186	2,758	3,566	4,213	3,277	6,650	6,388	7,088	8,393
Minority Interest	35	50	51	82	70	53	0	0	0	0	0
Net reported profit	**2,348**	**2,414**	**3,136**	**2,676**	**3,497**	**4,161**	**3,277**	**6,650**	**6,388**	**7,088**	**8,393**
-Growth (%)	**(24.0)**	**2.8**	**29.9**	**(14.7)**	**30.7**	**19.0**	**(21.2)**	**102.9**	**(3.9)**	**11.0**	**18.4**
-Net profit margin (%)	**7.7**	**7.8**	**7.9**	**6.4**	**9.5**	**9.8**	**6.8**	**13.6**	**12.0**	**11.7**	**12.3**

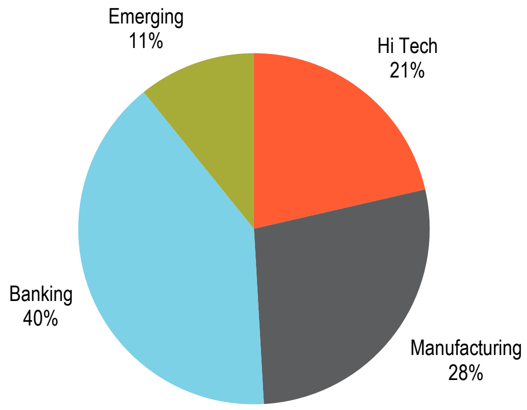
Source: Company, BOBCAPS Research

Fig 6 – USD Revenue growth (YoY)



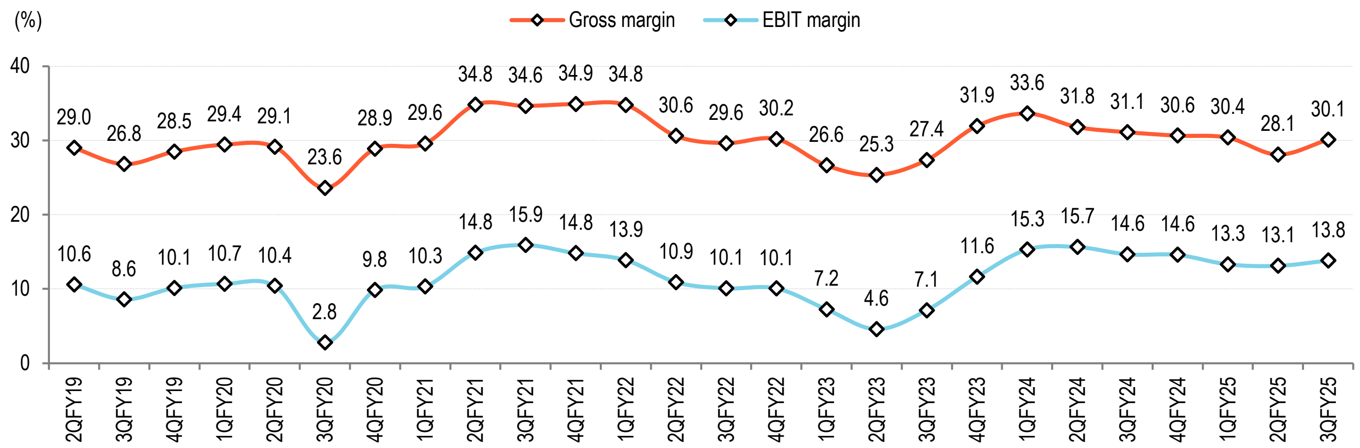
Source: Company, BOBCAPS Research

Fig 7 – Vertical mix for 3QFY25



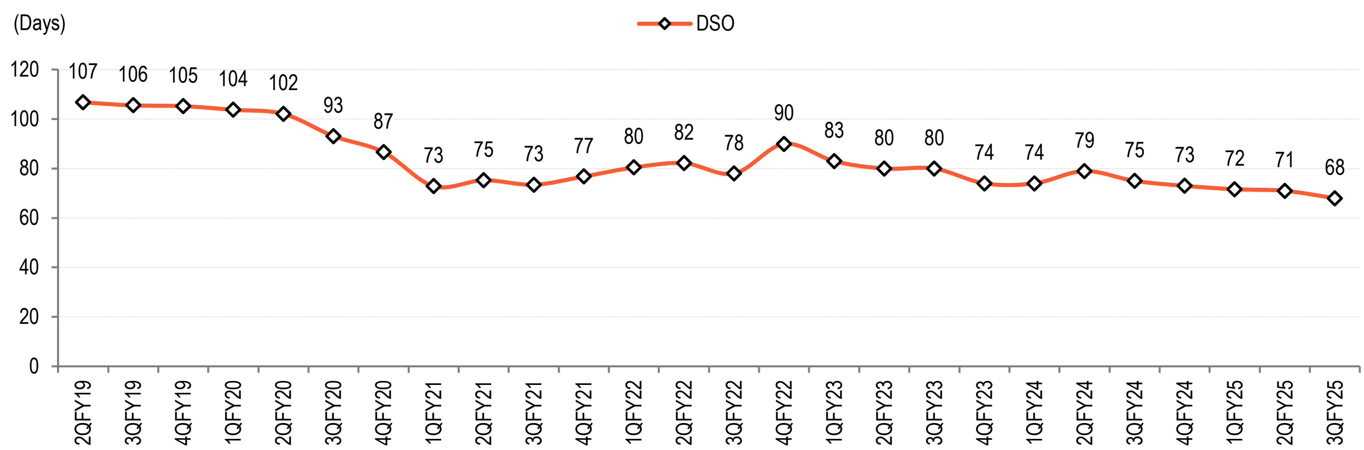
Source: Company, BOBCAPS Research

Fig 8 – Gross Margin and EBIT Margin



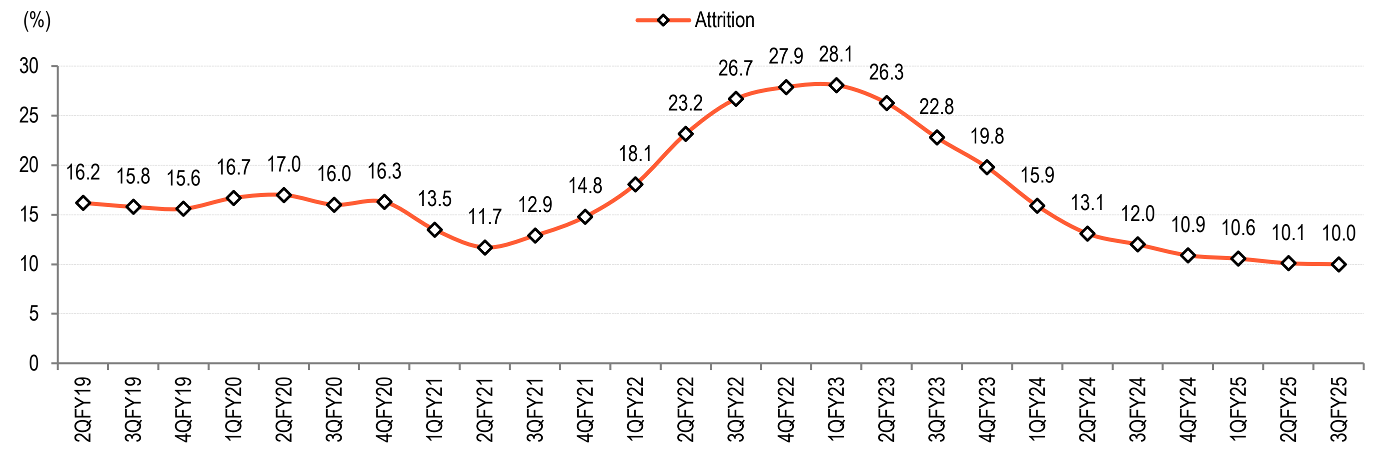
Source: Company, BOBCAPS Research

Fig 9 – DSO



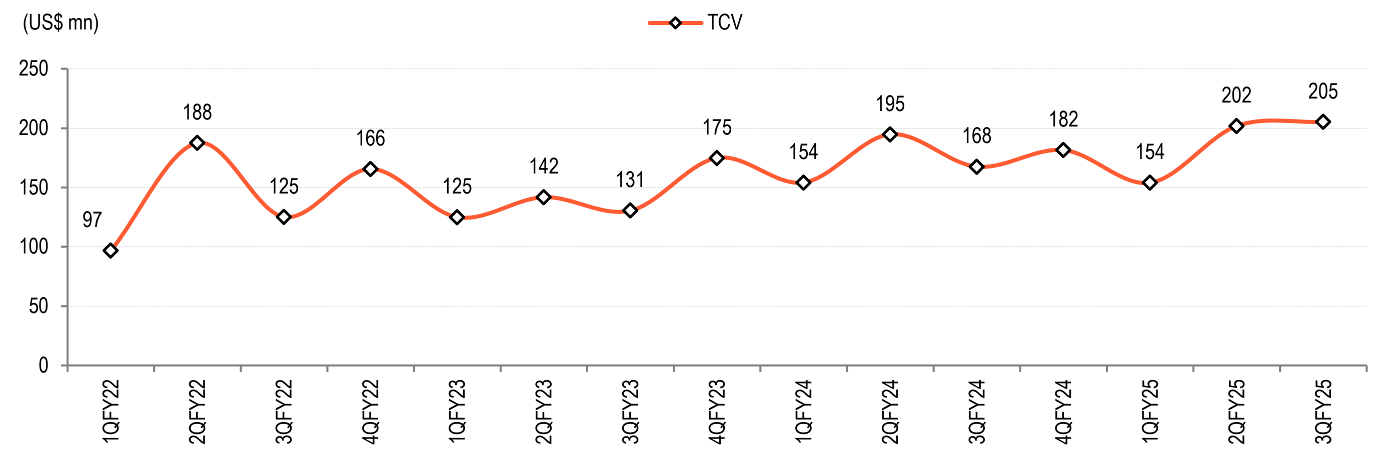
Source: Company, BOBCAPS Research

Fig 10 – Attrition trend



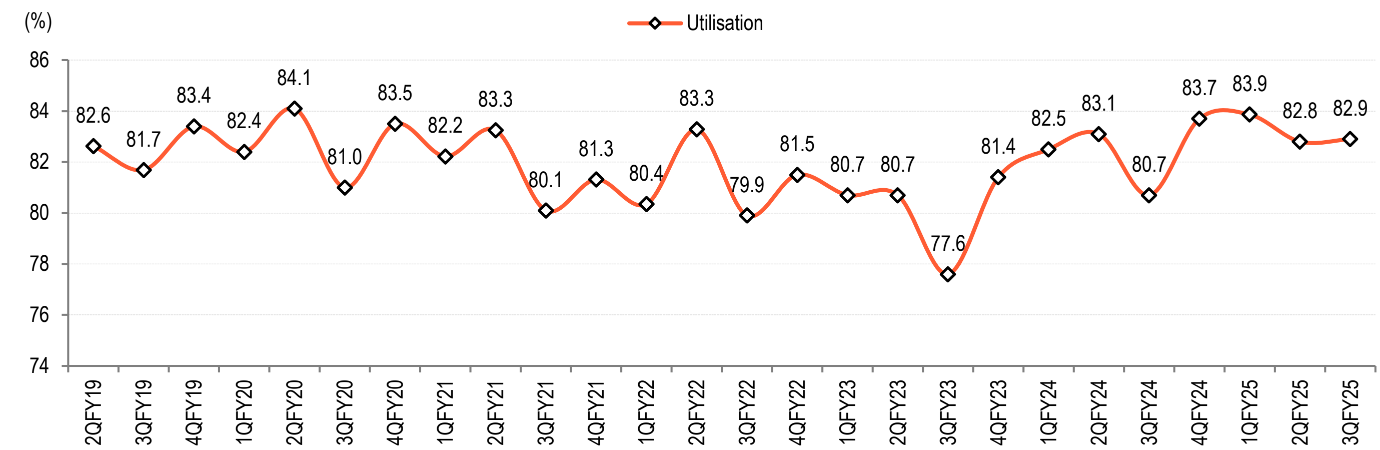
Source: Company, BOBCAPS Research

Fig 11 – TCV



Source: Company, BOBCAPS Research

Fig 12 – Utilization (%) – excluding trainees



Source: Company, BOBCAPS Research

Fig 13 – Quarterly Snapshot

Year to 31 March	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
INR/USD	77.19	79.65	82.08	82.22	82.20	82.61	83.21	83.03	83.40	83.70	84.40
Revenue (in USD mn)	156	155	146	148	149	150	145	148	154	156	157
(Rs mn)											
Revenue	12,034	12,346	11,976	12,127	12,272	12,408	12,041	12,297	12,881	13,080	13,256
Gross margin	3,205	3,128	3,277	3,873	4,126	3,945	3,745	3,768	3,913	3,674	3,990
SGA	1,844	2,074	1,928	2,114	1,825	1,637	1,669	1,738	1,952	1,663	1,921
EBITDA	1,361	1,054	1,349	1,759	2,301	2,308	2,076	2,030	1,961	2,011	2,069
Depreciation and Amortisation	490	492	497	351	423	366	312	237	247	297	237
EBIT	871	562	852	1,408	1,878	1,942	1,764	1,793	1,714	1,714	1,832
Forex gain/loss	98	159	71	58	5	-	60	(60)	(19)	(181)	(109)
Other income	115	125	188	214	279	363	360	581	444	592	416
Interest	64	75	76	63	60	57	64	28	42	45	37
PBT	1,020	771	1,035	1,617	2,102	2,248	2,120	2,286	2,097	2,080	2,102
Tax	269	203	270	424	540	510	504	553	518	522	505
PAT	751	568	765	1,193	1,562	1,738	1,616	1,733	1,579	1,558	1,597
EPS	3.32	2.51	3.38	5.27	6.90	7.67	7.13	7.65	6.96	6.88	7.04
YoY Growth											
USD Revenue	22.6	9.3	(0.8)	(3.7)	(4.2)	(3.1)	(0.8)	0.4	3.4	4.0	8.5
INR Revenues	28.5	17.5	8.6	5.1	2.0	0.5	0.5	1.4	5.0	5.4	10.1
Gross profit	(1.6)	(2.7)	0.3	11.2	28.7	26.1	14.3	(2.7)	(5.2)	(6.9)	6.5
EBIT	(33.0)	(50.9)	(23.2)	21.3	115.6	245.6	107.0	27.3	(8.7)	(11.7)	3.9
Net profit	(25.7)	(39.8)	(15.8)	(8.0)	108.0	206.0	111.2	45.3	1.1	(10.4)	(1.2)
QoQ Growth											
USD Revenues	1.8	(0.6)	(5.9)	1.1	1.2	0.6	(3.7)	2.35	4.28	1.14	0.5
INR Revenues	4.3	2.6	(3.0)	1.3	1.2	1.1	(3.0)	2.1	4.7	1.5	1.3
EBIT	(25.0)	(35.5)	51.6	65.3	33.4	3.4	(9.2)	1.6	(4.4)	0.0	6.9
Net profit	(42.1)	(24.4)	34.7	55.9	30.9	11.3	(7.0)	7.2	(8.9)	(1.3)	2.5
Margins (%)											
Gross margin	26.6	25.3	27.4	31.9	33.6	31.8	31.1	30.6	30.4	28.1	30.1
EBITDA	11.3	8.5	11.3	14.5	18.8	18.6	17.2	16.5	15.2	15.4	15.6
EBIT	7.2	4.6	7.1	11.6	15.3	15.7	14.6	14.6	13.3	13.1	13.8
PAT	6.2	4.6	6.4	9.8	12.7	14.0	13.4	14.1	12.3	11.9	12.0
SGA	15.3	16.8	16.1	17.4	14.9	13.2	13.9	14.1	15.2	12.7	14.5

Source: Company, BOBCAPS Research

Fig 14 – Key Metrics

Key Metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Revenue (USD mn)	156	155	146	148	149	150	145	148	154	156	157
P and L (Rs mn)											
Revenue	12,034	12,346	11,976	12,127	12,272	12,408	12,041	12,297	12,881	13,080	13,256
EBITDA	1,361	1,054	1,349	1,759	2,301	2,308	2,076	2,030	1,961	2,011	2,069
EBIT	871	562	852	1,408	1,878	1,942	1,764	1,793	1,714	1,714	1,832
PAT	751	568	765	1,193	1,562	1,738	1,616	1,733	1,579	1,558	1,597
Vertical Mix (%)											
Hi Tech	27.4	25.7	25.9	27.6	26.2	27.2	25.9	25.5	24.7	22.4	21.4
Manufacturing	13.2	12.4	12.2	12.7	12.4	25.9	26.1	26.3	25.8	26.2	27.7
Banking	16.7	17.5	18.4	16.1	17.7	37.3	38.6	38.7	39.7	40.9	40.1
Emerging	7.5	9.8	7.9	7.3	6.7	9.6	9.4	9.5	9.8	10.5	10.8
Retail and Consumer services	18.8	17.9	19.7	19.3	20.9	-	-	-	-	-	-
Insurance	16.5	16.7	15.8	17.0	16.1	-	-	-	-	-	-
Geographical Mix (%)											
US	70.9	71.6	70.0	70.3	69.4	66.1	66.0	67.2	68.7	67.6	67.3
Europe	18.1	17.4	18.7	18.1	19.2	21.6	21.4	20.8	19.8	21.1	21.2
Africa	11.0	11.0	11.3	11.6	11.4	12.3	12.5	12.0	11.5	11.3	11.5
Service offering Mix (%)											
Digital services	58.4	57.7	58.6	58.7	56.8	56.2	54.4	55.6	55.7	55.5	54.4
Core Application Services	23.7	22.3	22.0	23.9	24.9	25.6	27.0	25.9	26.0	24.3	25.0
Cloud, Digital Led next gen CIS	11.9	12.0	13.6	12.7	18.3	18.2	18.5	18.4	18.3	20.3	20.5
Core Infrastructure Services	5.9	8.0	5.7	4.7	-	-	-	-	-	-	-
Revenue Mix (%)											
Onsite	58.4	57.1	55.3	53.6	52.0	50.9	50.4	50.0	51.4	49.7	49.5
Offshore	41.6	42.9	44.7	46.4	48.0	49.1	49.6	50.0	48.6	50.3	50.5
IT Utilization (%) (excluding trainees)	80.7	80.7	77.6	81.4	82.5	83.1	80.7	83.7	83.9	82.8	82.9
Clients Concentration (%)											
Top 5 Clients	33.3	34.6	31.9	34.3	34.0	31.5	29.2	28.3	28.3	28.1	27.5
Top 10 Clients	45.2	45.5	44.7	46.1	45.2	42.2	40.6	40.8	42.1	42.0	41.0
Top 20 Clients	61.2	60.7	61.3	61.4	61.7	48.3	57.5	57.2	58.7	58.4	56.8
Number of Client											
1 USD mn +	86.0	87.0	87.0	84.0	87.0	84.0	84.0	85.0	85.0	86.0	87.0
5 USD mn +	26.0	28.0	28.0	29.0	29.0	29.0	32.0	31.0	31.0	32.0	34.0
10 USD mn +	13.0	13.0	15.0	14.0	14.0	14.0	14.0	14.0	14.0	15.0	14.0
20 USD mn +	4.0	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0
Employees	11,559.0	11,250.0	10,845.0	10,563.0	10,540.0	10,330.0	10,225.0	10,349.0	10,396.0	10,240.0	10,517.0
TTM Attrition (%)	28.1	26.3	22.8	19.8	15.9	13.1	12.0	10.9	10.6	10.1	10.0

Source: Company, BOBCAPS Research

Fig 15 – QoQ and YoY growth of various parameters

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
QoQ Growth (%)											
Company	1.8	(0.6)	(5.9)	1.1	1.2	0.6	(3.7)	2.3	4.3	1.1	0.5
Service Offering											
Digital services	(0.6)	(1.8)	(4.4)	1.3	(2.1)	(0.5)	(6.7)	4.6	4.4	0.8	(1.5)
Core Application Services	9.6	(6.5)	(7.1)	9.8	5.5	3.4	1.6	(1.8)	4.7	(5.5)	3.4
Cloud, Digital Led next gen CIS	(0.7)	0.3	6.7	(5.6)	45.9	0.1	(2.1)	1.8	3.7	12.2	1.5
Core Infrastructure Services	(1.6)	34.8	(32.9)	(16.6)	-	-	-	-	-	-	-
Industry											
Hi Tech	(23.4)	(6.7)	(5.1)	7.7	(3.9)	4.4	(8.3)	0.8	1.1	(8.4)	(4.0)
Manufacturing	41.4	(6.6)	(7.4)	5.2	(1.2)	110.1	(2.9)	3.1	2.3	2.7	6.3
Retail and Consumer services	18.8	(5.3)	3.6	(1.0)	9.6	-	-	-	-	-	-
Insurance	(5.1)	0.6	(10.9)	8.8	(4.1)	-	-	-	-	-	-
Banking	18.8	4.2	(1.0)	(11.5)	11.3	112.0	(0.3)	2.6	7.0	4.2	(1.5)
Emerging	29.4	29.9	(24.1)	(6.6)	(7.1)	44.1	(5.7)	3.4	7.1	8.9	3.4
Geography											
US	2.5	0.4	(8.0)	1.5	(0.1)	(4.2)	(3.8)	4.2	6.6	(0.5)	0.1
Europe	(3.1)	(4.4)	1.2	(2.1)	7.4	13.2	(4.6)	(0.5)	(0.7)	7.8	1.0
Africa	4.6	(0.6)	(3.3)	3.8	(0.5)	8.5	(2.1)	(1.7)	(0.2)	(0.5)	2.3
Client Concentration											
Top 5	1.8	3.3	(13.2)	8.7	0.3	(6.8)	(10.7)	(0.8)	4.4	0.3	(1.6)
Top 10	0.0	0.1	(7.5)	4.3	(0.8)	(6.1)	(7.3)	2.9	7.5	1.0	(1.9)
Top 20	0.4	(1.4)	(4.9)	1.3	1.7	(21.2)	14.7	1.8	7.0	0.6	(2.2)
YoY Growth (%)											
Company	22.6	9.3	(0.8)	(3.7)	(4.2)	(3.1)	(0.8)	0.4	3.4	4.0	8.5
Service Offering											
Digital services	23.6	2.5	(3.0)	(5.5)	(6.9)	(5.6)	(7.9)	(4.9)	1.4	2.7	8.5
Core Application Services	5.6	4.7	(3.0)	4.6	0.6	11.2	21.7	8.8	8.0	(1.3)	0.5
Cloud, Digital Led next gen CIS	44.8	36.0	15.3	0.2	47.3	47.0	34.9	45.5	3.4	16.0	20.2
Core Infrastructure Services	60.1	56.2	(5.8)	(25.8)	-	-	-	-	-	-	-
Industry											
Hi Tech	(19.9)	(28.1)	(30.0)	(27.0)	(8.4)	2.6	(0.8)	(7.2)	(2.4)	(14.4)	(10.4)
Manufacturing	43.6	25.6	24.7	28.7	(10.0)	102.4	112.2	107.9	115.3	5.2	15.2
Retail and Consumer services	58.6	27.1	21.4	15.4	6.5	-	-	-	-	-	-
Insurance	8.3	(2.9)	(11.0)	(7.5)	(6.6)	-	-	-	-	-	-
Banking	106.2	56.8	29.4	8.4	1.5	106.5	108.1	141.4	132.1	14.0	12.7
Emerging	150.4	180.4	35.1	19.1	(14.4)	(5.1)	18.0	30.7	50.6	13.7	24.7
Geography											
US	23.8	11.1	(2.1)	(3.9)	(6.3)	(10.5)	(6.5)	(4.0)	2.4	6.4	10.6
Europe	25.9	8.2	3.0	(8.3)	1.6	20.3	13.5	15.4	6.7	1.6	7.5
Africa	10.8	0.1	1.0	4.4	(0.8)	8.4	9.7	3.9	4.2	(4.5)	(0.2)
Client Concentration											
Top 5	6.3	8.1	(7.5)	(0.8)	(2.2)	(11.8)	(9.2)	(17.2)	(13.8)	(7.2)	2.2
Top 10	12.1	4.8	(5.7)	(3.5)	(4.2)	(10.1)	(9.9)	(11.1)	(3.7)	3.5	9.6
Top 20	17.8	7.2	(0.8)	(4.7)	(3.5)	(22.9)	(7.0)	(6.5)	(1.6)	25.7	7.2

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**48,483**	**49,018**	**53,124**	**60,575**	**68,471**
EBITDA	5,523	8,716	8,247	9,691	11,375
Depreciation	1,830	1,338	1,076	1,406	1,769
EBIT	3,693	7,378	7,171	8,286	9,606
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	750	1,379	1,299	1,103	1,510
Exceptional items	0	0	0	0	0
EBT	4,443	8,757	8,470	9,389	11,116
Income taxes	1,166	2,107	2,082	2,300	2,723
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**3,277**	**6,650**	**6,388**	**7,088**	**8,393**
Adjustments	0	0	0	0	0
Adjusted net profit	**3,277**	**6,650**	**6,388**	**7,088**	**8,393**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,772	3,224	3,605	4,092	4,619
Other current liabilities	5,810	5,445	5,370	5,804	6,275
Provisions	42	48	51	51	51
Debt funds	0	0	0	0	0
Other liabilities	3,602	3,241	3,644	3,644	3,644
Equity capital	453	453	454	454	454
Reserves & surplus	28,531	34,067	36,488	41,081	46,525
Shareholders' fund	28,984	34,520	36,942	41,535	46,979
Total liab. and equities	**41,210**	**46,478**	**49,612**	**55,126**	**61,568**
Cash and cash eq.	7,280	7,241	4,801	6,727	9,474
Accounts receivables	7,298	7,320	7,522	8,537	9,637
Inventories	0	0	0	0	0
Other current assets	4,097	4,874	5,743	6,007	6,293
Investments	4,509	6,506	10,862	12,862	14,862
Net fixed assets	1,122	811	1,003	1,313	1,622
CWIP	0	52	60	60	60
Intangible assets	8,473	8,103	9,780	9,780	9,780
Deferred tax assets, net	958	1,099	1,359	1,359	1,359
Other assets	7,473	10,472	8,481	8,481	8,481
Total assets	**41,210**	**46,478**	**49,612**	**55,126**	**61,568**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**6,320**	**7,480**	**7,278**	**8,720**	**10,358**
Capital expenditures	707	(4)	2,685	1,715	2,078
Change in investments	2,873	1,997	4,356	2,000	2,000
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**2,166**	**2,001**	**1,671**	**285**	**(78)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(1,133)	(2,378)	(2,268)	(2,495)	(2,949)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**(1,133)**	**(2,378)**	**(2,268)**	**(2,495)**	**(2,949)**
Chg in cash & cash eq.	**(1,279)**	**(39)**	**(2,440)**	**1,926**	**2,747**
Closing cash & cash eq.	**7,280**	**7,241**	**4,801**	**6,727**	**9,474**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	14.5	29.4	28.2	31.2	37.0
Adjusted EPS	14.4	29.1	28.0	31.2	37.0
Dividend per share	5.0	10.5	10.0	11.0	13.0
Book value per share	128.0	152.4	162.9	183.1	207.1

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.8	3.7	3.4	3.0	2.7
EV/EBITDA	33.0	20.9	22.1	19.0	16.2
Adjusted P/E	58.2	28.7	29.9	26.8	22.6
P/BV	6.5	5.5	5.1	4.6	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.8	75.9	75.4	75.5	75.5
Interest burden (PBT/EBIT)	120.3	118.7	118.1	113.3	115.7
EBIT margin (EBIT/Revenue)	7.6	15.1	13.5	13.7	14.0
Asset turnover (Rev./Avg TA)	121.3	111.8	110.6	115.7	117.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.3
Adjusted ROAE	11.8	20.9	17.9	18.1	19.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	14.2	1.1	8.4	14.0	13.0
EBITDA	(15.9)	57.8	(5.4)	17.5	17.4
Adjusted EPS	(21.5)	102.6	(3.8)	11.6	18.4
Profitability & Return ratios (%)					
EBITDA margin	11.4	17.8	15.5	16.0	16.6
EBIT margin	7.6	15.1	13.5	13.7	14.0
Adjusted profit margin	6.8	13.6	12.0	11.7	12.3
Adjusted ROAE	11.8	20.9	17.9	18.1	19.0
ROCE	8.6	15.9	13.8	14.6	15.1
Working capital days (days)					
Receivables	74	73	52	51	51
Inventory	NA	NA	NA	NA	NA
Payables	21	24	24	24	24
Ratios (x)					
Gross asset turnover	43.2	60.4	52.9	46.2	42.2
Current ratio	2.7	3.0	3.2	3.4	3.7
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.3)	(0.2)	(0.1)	(0.2)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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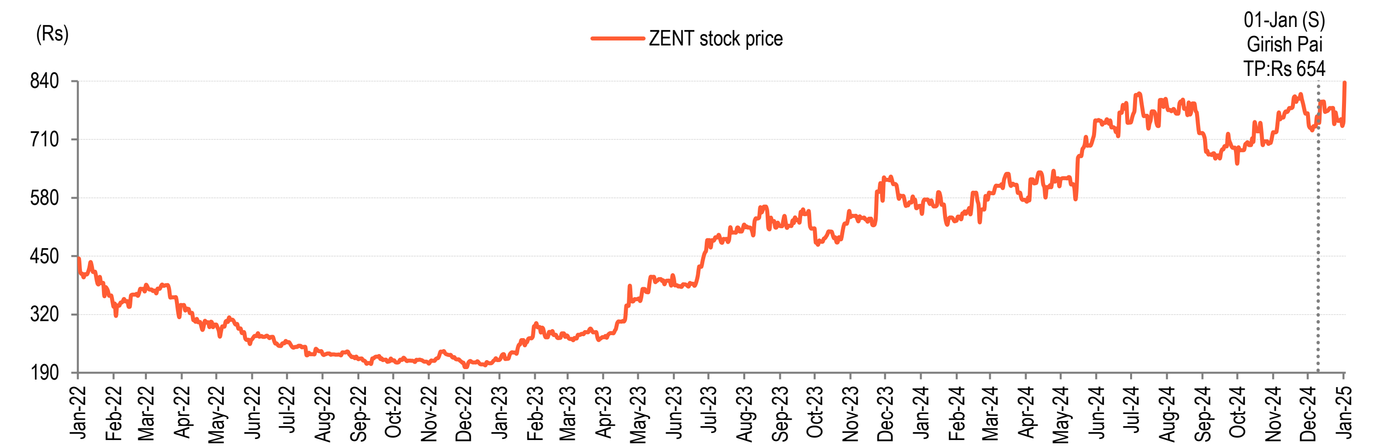
Ratings and Target Price (3-year history): ZENSAR TECHNOLOGIES (ZENT IN)



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