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YEARS

# Initiating Coverage Zensar Technologies Ltd.

09-April-2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs. 274	Buy at LTP & add more on dips to Rs 242-246 band	Rs. 300	Rs. 315	2 quarters

HDFC Scrip Code	ZENTEC
BSE Code	504067
NSE Code	ZENSARTECH
Bloomberg	ZENT IN
CMP Apr 08, 2021	274
Equity Capital (Rs cr)	45.7
Face Value (Re)	2.0
Equity Share O/S (cr)	22.9
Market Cap (Rs cr)	6265.6
Book Value (Rs)	91.4
Avg. 52 Wk Volumes	415712
52 Week High	347.0
52 Week Low	73.0

Share holding Pattern % (Dec, 2020)	
Promoters	49.2
Institutions	40.8
Non Institutions	10.0
Total	100.0

## Fundamental Research Analyst

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### Our Take:

Zensar's primary business involves providing digital and technology solutions to global customers. It is engaged in key business verticals like high-tech manufacturing, infrastructure and BFSI. The company intends to continue its focus on cloud and digital transformation and has been targeting on improving its deal pipeline. Along with this, it also plans to use excess cash to acquire meaningful targets and bag new M&A deals.

Zensar's deal booking momentum was strong at US\$ 200 mn, with deal pipeline having expanded QoQ; it is at an all-time high level of US\$1.7 bn+. Around 50% of pipeline is in large deals and the company is seeing momentum in BFSI and Digital Foundation Services (DFS). We expect strong recovery from supply side constraints and recovery because of the ramp-up in new deal wins. However, spending from top clients is likely to remain tepid. The company is optimistic about demand in the digital and retail services, but we believe these could recover at a relatively slow pace.

Zensar will continue investing in the sales & solution team and leadership team, bring in new capabilities, and grow inorganically. In the DFS business, investments around cloud business, digital product engineering, data engineering, analytics and AI/ML (Artificial Intelligence/Machine Learning) areas will be continued. Also, for bagging larger deals, if the margins in a particular deal are quite comfortable, the company is likely to undertake investment. We expect that the company to continue investing in these verticals and focus on leveraging strengths to drive growth.

### Valuations & Recommendation:

Zensar has a diversified mix of services and multiple long-term contracts spread across verticals, along with healthy cash on the balance sheet. We expect it to pursue inorganic acquisitions (in cloud or software engineering side). Hence, we expect revenue of the company to grow in the long term. Further, improving margins are expected to boost the bottom line. A visible and consistent growth in the digital business has resulted in stable and consistent growth in the past fiscal coupled with its legacy business performance.

Zensar is amongst the cheaper mid-tier IT Services stock; due to a reason of long term streak of growth underperformance. We think that a gradual turnaround in fortunes may be round the corner.

We believe the base case fair value of the stock is Rs 300 (14.75x FY23E EPS) and the bull case fair value of the stock is Rs 315 (15.5x FY23E EPS) over the next two quarters. Investors can buy at LTP and add further on dips in the Rs 242-246 band (12.0x FY23E EPS). At the LTP of Rs 274, the stock is trading at 13.5x FY23E EPS.

## Financial Summary (Consolidated)

Particulars (Rs Cr)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	934.4	1020.6	-8.4	979.5	-4.6	3725.2	4010.4	3718.0	4035.1	4474.8
EBITDA	185.4	69.6	166.4	95.4	94.3	524.6	503.7	683.7	739.8	838.7
Depreciation	42.6	41.2	3.4	43.2	-1.4	86.3	156.7	171.0	187.0	206.6
Other Income	45.0	39.6	13.7	-3.9	-1248.7	79.3	88.4	-12.5	47.7	48.8
Interest Cost	13.0	12.7	2.1	13.2	-1.2	37.3	60.5	53.1	40.0	45.5
Tax	35.7	14.1	153.0	32.9	8.5	136.7	103.8	130.4	145.7	165.2
APAT	106.8	39.5	170.0	-10.1	-1154.8	338.6	262.9	359.4	409.6	464.9
Diluted EPS (Rs)	4.7	1.7	170.0	-0.4	-1154.8	14.8	11.5	15.7	17.9	20.3
RoE-%						18.8	13.0	16.5	17.3	17.9
P/E (x)						18.5	23.8	17.4	15.3	13.5
EV/EBITDA						11.6	11.3	8.0	7.0	5.9

(Source: Company, HDFC sec)

## Zensar's Q3FY21 results key takeaway

Zensar reported a mixed set of numbers with revenue below expectations but on the margin front, it performed exceptionally well. The company reported 4.6% QoQ and 8.4%YoY decline in revenue to Rs 934.4cr, and revenue de-grew by 3.7% QoQ and 10.6% YoY on cc basis in Q3FY21, led by a -10.6% QoQ de-growth in the Hi-tech vertical (39.6% of revenue) and an 8.7% decline in Insurance vertical (19.3% of revenue).

Reported PAT stood at Rs 106.8cr vs. a net loss of 10.6cr in Q2FY21 and Rs 39.5cr in Q3FY20. A one-time gain of Rs 31cr supported the growth in PAT. This growth was further aided by higher other income of Rs 45cr. Net profit margin stood at 11.0% (+151 bps QoQ)

Digital transformation is the outcome of changes that occur with the application of digital technologies. It helps enterprises improve customer experience, optimize the workforce, enhance operational activities, and transform products and services of the organization. Technology companies are planning to capitalize on the ongoing digital transformation in the business. The global digital transformation market size is expected to grow from US\$ 469.8 bn in 2020 to US\$ 1009.8 bn by 2025, at a Compound Annual Growth Rate (CAGR) of 16.5% during the forecast period. Major growth drivers of the digital transformation market are the increasing penetration of mobile devices and app and the increasing adoption of cloud services. The global public cloud service revenue is forecasted to reach US\$308.5 bn in 2021 and US\$354.6 bn by 2022.

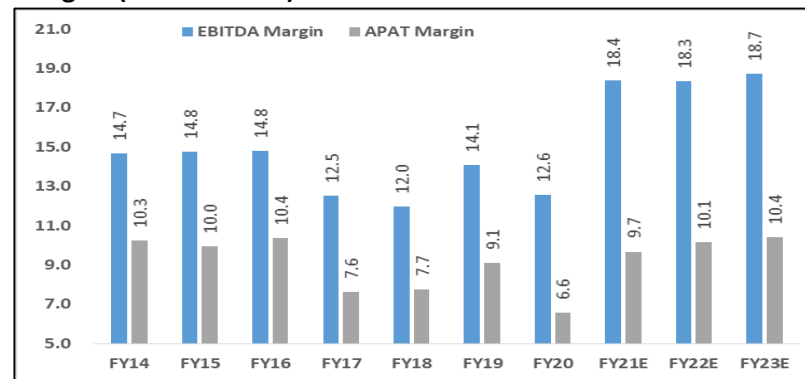
Quarter	Percentage of Total Revenue
Q1FY19	43.0%
Q2FY19	44.2%
Q3FY19	44.9%
Q4FY19	46.4%
Q1FY20	50.5%
Q2FY20	52.3%
Q3FY20	56.2%
Q4FY20	59.6%
Q1FY21	62.2%
Q2FY21	63.8%
Q3FY21	65.0%

Zensar's revenue from the digital segment has grown from 5.0% in FY14 to 54.5% in FY20 and 65% in Q3FY21. The digital revenues continue to grow for the company and technology upgradation cycle has emerged. Over FY15-20, the company acquired five companies to build its digital capabilities. It has made two acquisitions in the digital customer experience (Foolproof and Indigo Slate) while the two other companies, Keystone Logistic Solution and Professional Access, were acquired to strengthen its Oracle practice. Also, the acquisition of Cynosure was aimed at strengthening its Guidewire Implementation Services. Going forward, we expect certain verticals like Consumer Services and BFS to show growth and we believe that the company is likely to resume its growth momentum from FY22E.

## Offshoring, cost rationalization to maintain sustainable margins

Zensar EBITDA margin expanded to 19.8% vs. 9.7% in Q2FY21 to 16.0% on the back of cost optimization, lower subcontracting expenses, higher offshoring mix despite reduction in utilization. One of the structural change witnessed in COVID times is growing acceptability of offshoring among IT clients due to work from home and work from anywhere situation. Considering the improved productivity and seamless execution during COVID times, offshoring trend witnessed improved traction. Apart from this, rationalization of subcontracting cost, automation, pyramid rationalisation and higher digital value could maintain margin defensibility despite headwinds (like wage hikes, higher travel & other discretionary spends). Margins at current levels are not sustainable, given salary hikes and certain travel costs emanating as business normalizes. However, travel costs will not go back to pre-COVID levels. Similarly, offshoring levels are expected to increase in the years ahead based on the type of deal wins. With the completion of TPM business divestment in Dec '20, margins are likely to be less impacted and could sustain in the range of 18-19%, going forward.

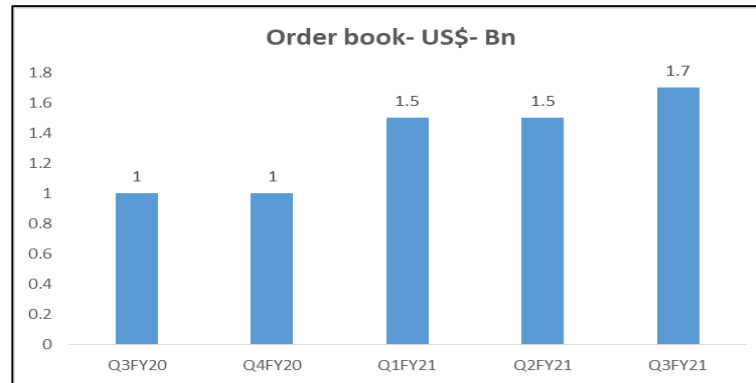
## Margins (Consolidated)-%



## Healthy deal wins and strong deal pipeline

Zensar's total contract value (TCV) stood at US\$200 mn in Q3FY21, with the company maintaining healthy mix of large and mid-sized deals. 40% of total TCV is net new wins. Digital revenue mix is at 65% (+120 bps QoQ) in Q3FY21. Some of the new logos closed in the quarter were large insurance retailers in the US and UK. The company expects hi-tech and BFS verticals to regain with continued focus on building pipeline and deal closures. The pipeline is around modernization in terms of digital foundation services and customer experience, which is the key investment area for its insurance clients. Closure of certain good logos in this quarter will support the growth momentum of this vertical as well. Europe and South Africa regions are expected to continue growth momentum on the back of new deal signings and strong pipeline.

## Order book- US\$- Bn



## Pipeline spread across Zensar's offerings

Digital Foundation Services	Digital Application Services
Managed Services Implementation	New-age Experience Design
Digital Security	Agile Delivery & Product Management
Digital Workplace Services	End to End Digital Modernization
Digital Infrastructure & Operations	Intelligent Automation

(Source: Company, HDFC sec)

## Long-term Triggers

### Established and diversified offerings, Strategic Partnerships and strong parentage

- Zensar's business is diversified across various service offerings, such as the application management services comprising application development and support services, testing services and product engineering, infrastructure management services and the digital offerings.
- The company has sectoral diversification across the manufacturing (core manufacturing and hi-tech), retail, and banking and financial services (BFSI) domains. Hi-tech contributed 39.6%, core manufacturing 12.3%, retail 15.3%, BFS 9.6%, Insurance 19.3% and emerging

contributed 3.9% to sales in Q3FY21. Manufacturing (Hi-tech) and BFSI (Insurance) are the focus verticals for the management, going forward. In Q3FY21, BFS was up by 5.5% QoQ and 0.5% YoY, while Hi-tech was down by 10.2% QoQ and 14.1% YoY; core manufacturing was marginally up by 0.6% QoQ and it was down by 16.4%, while retail segment grew by 7.7% QoQ and was down by 1.4% YoY.

- Zensar continued to drive partnerships and collaborations, with leading software and technology providers such as Oracle, Adobe, Salesforce, Guidewire Automation Anywhere and many others. The strategic acquisitions of Foolproof, Keystone Logic, Cynosure and Indigo Slate continued to largely see good business outcomes. Zensar is also co-innovating with its partners across a range of services such as Oracle Cruise to Cloud, Oracle ERP, CRM, Digital Experience Platform, Omni Channel Experience, Salesforce Lightning, Guidewire Cloud and so on. This could bring cross-selling opportunities to deliver new age cutting edge solutions.
- Zensar is a part of the ~US\$ 3 bn RPG enterprise group and the US\$ 40 bn APAX, which has a diversified presence in infrastructure, tyres, technology and pharmaceuticals. Zensar derives financial flexibility and benefits from the strong management lineage of the group.

### **Merger of the US-based subsidiaries to lead to greater synergies**

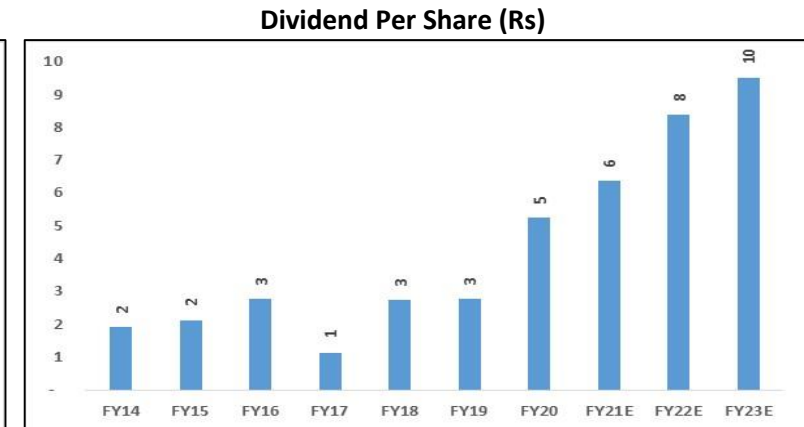
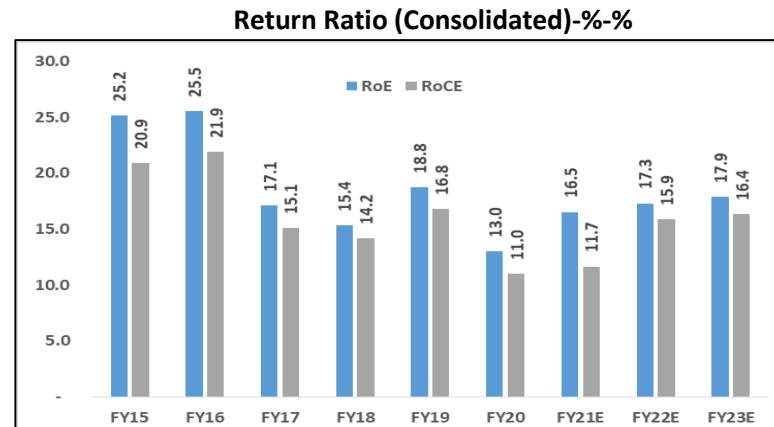
On 18<sup>th</sup> March 2021, Zensar has, in principal, approved the merger of the US-based 100% step-down subsidiaries (Merging Entities) into Zensar Technologies Inc., US, a material wholly-owned subsidiary of the company. Keystone Logic Inc., Professional Access, Cynosure Inc. and Indigo Slate Inc. are the four merging entities. The entities are engaged in providing digital solutions and technology services to global organizations. Consequent to the merger, the merging entities would cease to exist as step-down subsidiaries/subsidiaries of the company. The rationale for the merger is to achieve greater business synergies and higher operational efficiencies. It will also lead to effective management and unified control of operations.

### **Strong fundamentals led by healthy debt protection metrics and liquidity**

- Zensar's portfolio has witnessed multiple challenges over the past six quarters, initially impacted by Retail, then by the pandemic and now by softness in top Hi-tech client. While there have been continuous challenges, the lead indicators of deal wins and pipeline continue to look strong. The company has reported stable growth in the past. We expect consolidated revenue to grow by 8.5% and 10.9% in FY22E and FY23E, respectively.
- Zensar had announced the sale of its third-party maintenance (TPM) business unit to Service Express, which is a TPM provider based in Michigan, US. Zensar had divested its entire shareholding in PSI Holding Group Inc., which is held by its wholly-owned subsidiary Zensar Technologies Inc. The sale is in line with its long-term strategy of identifying non-core units. The sale could provide liquidity, going forward.



- Zensar is now a zero-debt company with highest ever net cash position of Rs ~1,150 crore (US\$160.2 Mn) as on 31st Dec, 2020.
- We expect the FCF to remain positive, going forward, even after factoring in annual capex. Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future.
- The expectation of rise in net profit margin could help report a healthy return ratio. We expect RoCE at 15.5-16.5% and RoE at 17-18% in FY22E and FY23E, respectively.
- The company has been maintaining a healthy dividend pay-out over the past, which stood at ~55% in FY20. The company has recommended an interim dividend of Rs. 1.20 per equity share and Jan 29 2021 was the record date for this payment. We expect dividend per share at Rs 8.4 and Rs 9.5 in FY22E and FY23E, respectively.



(Source: Company, HDFC sec)

## What could go wrong?

- INR appreciation against the USD, pricing pressure, retention of the skilled headcount, strict immigration norms and rise in visa costs are key concerns.
- The increasing competition and pricing pressures from the existing incumbents may impact the company's future growth and profitability indicators. Zensar is adapting to the changing technology landscape by focusing on digital technologies.



- Zensar derived 37.8% of its revenues from its top five clients and 47.8% from the top ten clients in Q3FY21 with moderately high dependence on a single client, exposing it to client concentration risks. However, this risk is partially mitigated by a strong and established relationship and the growing wallet share of business with the client.
- The inability to grow organically. The company historically has mainly grown on the back of acquisitions. In case it is unable to turn around, any acquisition can impact the margins in the near term.
- Any change in the contract nitty gritty from large clients like non-renewal of contracts or higher discounts due to aggressive competition intensity can impact the sustainability and scalability from such clients.
- Any shift in customer preferences, priorities, and internal strategies can have an adverse impact on the company's operations and outlook. Zensar does have the benefit of being well-entrenched with its customers.
- Acquisition of companies with significant negative cash flow and P&L variation or nonalignment with the overall company strategy and growth outlook can lead to derailment of overall growth objective and business loss.
- Any reputation loss on account of breach in compliance can impact the growth prospects and new order inflows of the company.
- The company faces delivery and execution risk arising out of changing customer requirements, comprehension of those requirements, and timeliness of the response.
- Zensar has guided for a weak Q4 on continued drag from the top client. This could lead to high single digit decline for FY21E.

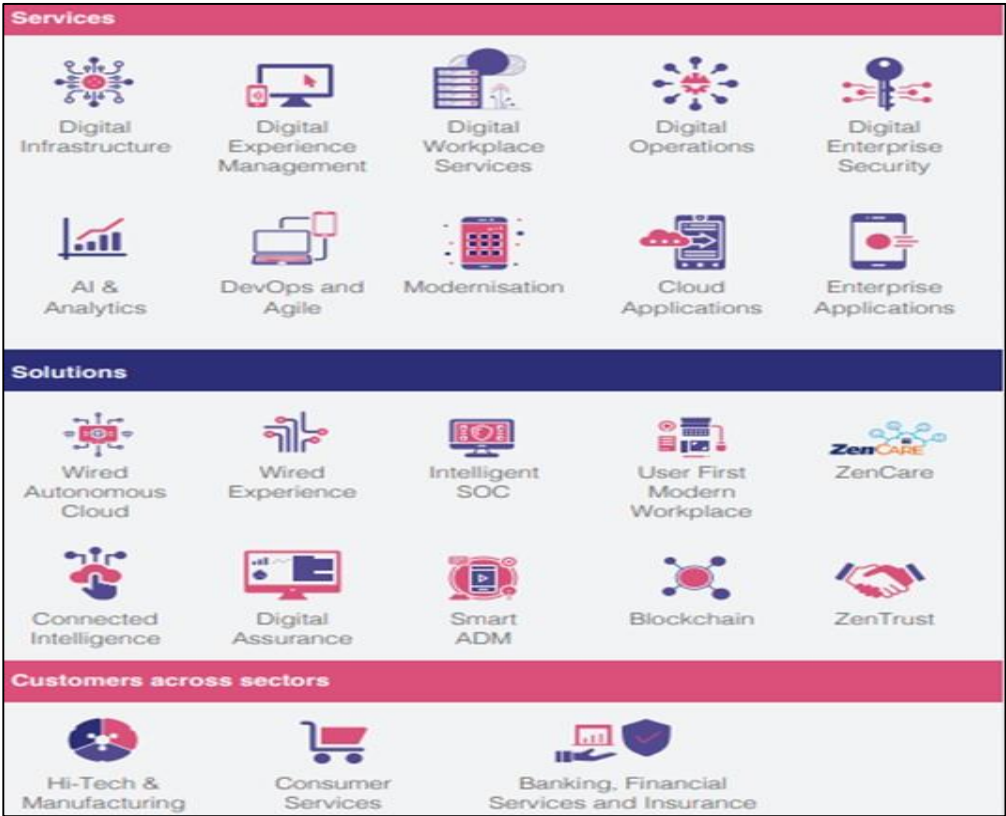
## Company Profile:

Zensar is a leading digital solutions and technology services company that specializes in partnering with global organizations across industries in their Digital Transformation journey. Zensar provides a comprehensive range of digital and technology services and solutions, which allows its clients to achieve new thresholds of business performance. Currently, the business segments are application management services (including application development, Oracle and SAP work and digital services), IMS and cloud digital services. Initially, it was a joint venture between RPG Enterprises and Fujitsu Ltd, which started functioning in its present organisational structure from 2001. The company employs ~8,809 associates and enjoys a footprint in more than 22 countries; it has over 300 customers and provides services that include IT consulting, application development and maintenance, and package implementation.

Zensar works with 10 out of the 12 top companies in Africa and is amongst the top 3 IT services companies in this region. Since Africa is a developing economy with comparatively lower competitive intensity, Zensar stands to be a prime beneficiary of increasing technology spends in the region.

The 3x3x3 strategy followed by Zensar translates to focusing on 3 verticals - Hi-Tech & Manufacturing, Consumer Services and BFSI; 3 geographies - US, Europe and Africa, and 3 Service offerings, namely - Application management services (AMS), Infrastructure Management Services (IMS) and Digital Enterprise Services.

**Business Overview**



(Source: Company, HDFC sec)

## Segment Metrics (Consolidated)

Rs. Cr	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Segment Revenue</b>											
Digital and Application Services	769.1	821.7	860.9	895.2	887.8	917.7	857.4	852.3	805.2	797.1	769.8
Digital Foundation Services	135.5	147.1	174.6	162.2	183.2	154.6	163.2	165.5	186.0	182.3	164.6
<b>Total Rev</b>	<b>904.7</b>	<b>968.7</b>	<b>1035.6</b>	<b>1057.4</b>	<b>1071.0</b>	<b>1072.3</b>	<b>1020.6</b>	<b>1017.8</b>	<b>991.2</b>	<b>979.5</b>	<b>934.4</b>
<b>Segment Revenue-%</b>											
Digital and Application Services	85.0	84.8	83.1	84.7	82.9	85.6	84.0	83.7	81.2	81.4	82.4
Digital Foundation Services	15.0	15.2	16.9	15.3	17.1	14.4	16.0	16.3	18.8	18.6	17.6
<b>PBIT</b>											
Digital and Application Services	117.9	115.5	108.9	124.1	136.7	144.2	62.0	127.1	118.8	154.8	171.0
Digital Foundation Services	7.1	15.3	12.1	5.2	12.7	18.7	28.2	20.8	25.3	29.0	23.2
<b>Total PBIT</b>	<b>125.0</b>	<b>130.8</b>	<b>121.1</b>	<b>129.3</b>	<b>149.4</b>	<b>162.9</b>	<b>90.2</b>	<b>147.9</b>	<b>144.0</b>	<b>183.8</b>	<b>194.2</b>
<b>PBIT-%</b>											
Digital and Application Services	15.3	14.1	12.7	13.9	15.4	15.7	7.2	14.9	14.7	19.4	22.2
Digital Foundation Services	5.3	10.4	7.0	3.2	6.9	12.1	17.3	12.6	13.6	15.9	14.1

(Source: Company, HDFC sec)

## Operating Metrics

### Industry %

Rs. Cr	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Manufacturing	50.0	52.5	50.9	51.8	52.0	52.1	54.2	53.1	57.9	55.0	51.9
Retail and Cons- Services	24.7	21.7	21.0	21.6	18.0	16.5	13.8	15.0	12.4	13.9	15.3
Financial Services	23.5	23.0	24.1	22.2	25.1	28.9	29.3	29.4	27.3	29.0	28.9
Emerging	1.8	2.8	4.0	4.4	4.9	2.5	2.7	2.5	2.4	2.1	3.9

## Geography %

Rs. Cr	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
North Americas	74.1	74.3	76.0	76.2	75.3	72.9	73.1	73.2	74.9	73.3	70.3
Europe	13.7	14.3	14.3	14.9	15.6	16.0	16.3	15.6	14.9	16.0	17.4
Africa	9.8	9.1	8.3	8.0	9.1	11.1	10.6	11.3	10.2	10.8	12.3
RoW	2.4	2.3	1.4	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0

## Project Type Mix %

Rs. Cr	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Fixed Price	52.7	53.7	53.7	54.6	55.3	56.6	56.6	58.8	59.8	60.5	61.4
T&M	47.3	46.3	46.3	45.4	44.7	43.4	43.4	41.2	40.2	39.5	38.6

## Services Mix %

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Digital Services	38.2	39.2	39.7	41.1	43.1	46.1	49.4	52.3	52.8	54.3	55.0
Core Application Services	46.8	45.6	43.2	43.6	43.1	43.1	37.9	35.0	32.1	30.8	29.9
<b>Dig- &amp; Application Serv- (DAS)</b>	<b>85.0</b>	<b>84.8</b>	<b>82.9</b>	<b>84.7</b>	<b>86.2</b>	<b>89.3</b>	<b>87.3</b>	<b>87.3</b>	<b>84.9</b>	<b>85.1</b>	<b>84.9</b>
<b>3<sup>rd</sup> Party Maintenance (MVS)</b>	<b>5.3</b>	<b>5.3</b>	<b>4.5</b>	<b>4.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Cloud, Digital Led next gen CIS	4.7	5.0	5.2	5.3	7.4	6.1	6.9	7.3	9.3	9.5	10.0
Core Infrastructure Services	4.9	5.0	7.4	5.8	6.4	4.6	5.8	5.4	5.8	5.4	5.1
<b>Total IMS Services</b>	<b>9.7</b>	<b>9.9</b>	<b>12.6</b>	<b>11.1</b>	<b>13.8</b>	<b>10.7</b>	<b>12.7</b>	<b>12.7</b>	<b>15.1</b>	<b>14.9</b>	<b>15.1</b>

## Client Engagement Size (Nos).

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
1+ mn	72	78	100	92	84	88	87	82	80	81	83
5+ mn	14	13	20	19	20	23	24	24	24	23	24
10+ mn	3	5	7	9	9	9	10	10	9	8	8
20+ mn	2	2	2	2	2	2	2	2	2	2	2

## Revenue Concentration %

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Top 5	37.6	38.2	39.1	37.6	39.6	39.2	41.2	39.6	43.1	39.8	37.8
Top 10	45.7	46.7	49.5	48.4	51.2	50.0	51.2	49.0	53.7	51.0	47.8
Top 20	57.1	57.6	60.2	59.7	63.8	65.3	66.1	62.9	68.1	65.8	61.9
Number of active clients	291	325	322	327	149	145	142	138	132	134	134

## Employee Headcount-Nos

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Onsite	2019	2274	2360	2420	2511	2537	2308	2151	1883	1811
Offshore	6077	6044	6259	6501	6213	6292	6474	5919	5768	6071
BPO/others	253	284	283	275	0	0	0	0	0	0
Marketing	64	80	76	79	0	0	0	0	0	0
Support	709	800	835	798	1081	1039	1097	885	891	927
<b>Total</b>	<b>9122</b>	<b>9482</b>	<b>9813</b>	<b>10073</b>	<b>10095</b>	<b>10147</b>	<b>9879</b>	<b>8955</b>	<b>8542</b>	<b>8809</b>
<b>Gross Addition</b>	<b>724</b>	<b>906</b>	<b>1045</b>	<b>1035</b>	<b>1281</b>	<b>981</b>	<b>611</b>	<b>229</b>	<b>394</b>	<b>991</b>

## Utilization, Attrition and DSO(Days)

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Utilization %	85.8	82.6	81.7	83.4	82.4	84.1	81.0	83.5	82.2	83.3	80.1
Attrition %	18.8	17.0	15.8	15.6	16.7	17.0	16.0	16.3	13.5	11.7	12.9
DSO Days (Billed)	71	67	72	73	64	56	57	51	44	51	48
DSO Days (Unbilled)	35	40	34	32	39	47	36	35	29	25	25

## Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			ROE-%			P/E (x)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Zensar Tech	6265.6	3718.0	4035.1	4474.8	512.7	552.8	632.1	359.4	409.6	464.9	16.5	17.3	17.9	17.4	15.3	13.5
Cyient	7700.0	4112.0	4552.0	5187.0	403.0	493.0	610.0	360.0	413.0	488.0	13.6	14.8	16.4	21.4	18.6	15.8
Mastek	3409.1	1698.0	1976.7	2266.3	314.1	346.6	410.5	215.2	254.2	298.1	24.3	23.2	22.3	18.6	15.7	13.4

# Zensar Technologies Ltd.

## Financials (Consolidated)

### Income Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>3725.2</b>	<b>4010.4</b>	<b>3718.0</b>	<b>4035.1</b>	<b>4474.8</b>
Growth (%)	19.6	7.7	-7.3	8.5	10.9
Operating Expenses	3200.6	3506.7	3034.2	3295.4	3636.1
<b>EBITDA</b>	<b>524.6</b>	<b>503.7</b>	<b>683.7</b>	<b>739.8</b>	<b>838.7</b>
<b>Growth (%)</b>	<b>40.8</b>	<b>-4.0</b>	<b>35.8</b>	<b>8.2</b>	<b>13.4</b>
<b>EBITDA Margin (%)</b>	<b>14.1</b>	<b>12.6</b>	<b>18.4</b>	<b>18.3</b>	<b>18.7</b>
Depreciation	86.3	156.7	171.0	187.0	206.6
<b>EBIT</b>	<b>438.3</b>	<b>347.0</b>	<b>512.7</b>	<b>552.8</b>	<b>632.1</b>
Other Income	79.3	88.4	-12.5	47.7	48.8
Interest expenses	37.3	60.5	53.1	40.0	45.5
<b>PBT</b>	<b>480.3</b>	<b>374.9</b>	<b>447.1</b>	<b>560.5</b>	<b>635.4</b>
Tax	136.7	103.8	130.4	145.7	165.2
<b>Adj PAT</b>	<b>338.6</b>	<b>262.9</b>	<b>359.4</b>	<b>409.6</b>	<b>464.9</b>
Growth (%)	40.4	-22.4	36.7	14.0	13.5
EPS	14.8	11.5	15.7	17.9	20.3

### Balance Sheet

As at March	FY19	FY20	FY21E	FY22E	FY23E
<b>SOURCE OF FUNDS</b>					
Share Capital	45.0	45.1	45.1	45.1	45.1
Reserves	1897.3	2044.9	2210.3	2428.2	2675.5
<b>Shareholders' Funds</b>	<b>1942.4</b>	<b>2090.0</b>	<b>2255.4</b>	<b>2473.3</b>	<b>2720.6</b>
Long Term Debt	102.2	65.4	0.0	0.0	0.0
Net Deferred Taxes	-44.7	-49.7	-49.7	-49.7	-49.7
Long Term Provisions & Others	77.5	377.1	355.8	365.8	405.4
<b>Minority Interest</b>	<b>17.0</b>	<b>23.7</b>	<b>29.6</b>	<b>34.8</b>	<b>40.1</b>
<b>Total Source of Funds</b>	<b>2094.4</b>	<b>2506.5</b>	<b>2591.1</b>	<b>2824.2</b>	<b>3116.4</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	949.9	1322.7	1281.8	1236.0	1186.1
CWIP	11.9	11.4	11.4	11.4	11.4
Other Non-Current Assets	42.7	74.8	40.2	42.4	45.5
<b>Total Non Current Assets</b>	<b>1004.4</b>	<b>1408.9</b>	<b>1333.3</b>	<b>1289.8</b>	<b>1242.9</b>
Current Investments	0.0	0.0	0.0	0.0	0.0
Inventories	98.5	94.1	37.2	20.2	22.4
Trade Receivables	876.2	665.6	611.2	663.3	735.6
Cash & Equivalents	473.7	863.0	823.6	1101.6	1392.0
Other Current Assets	592.3	514.3	520.5	564.9	626.5
<b>Total Current Assets</b>	<b>2040.6</b>	<b>2137.0</b>	<b>1992.5</b>	<b>2350.0</b>	<b>2776.4</b>
Short-Term Borrowings	155.6	223.2	0.0	0.0	0.0
Trade Payables	301.0	265.0	232.8	270.9	298.9
Other Current Liab & Provisions	494.1	551.2	501.9	544.7	604.1
<b>Total Current Liabilities</b>	<b>950.7</b>	<b>1039.4</b>	<b>734.7</b>	<b>815.6</b>	<b>903.0</b>
Net Current Assets	1089.9	1097.6	1257.8	1534.4	1873.4
<b>Total Application of Funds</b>	<b>2094.4</b>	<b>2506.5</b>	<b>2591.1</b>	<b>2824.2</b>	<b>3116.4</b>

## Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	480.3	374.9	447.1	560.5	635.4
Non-operating & EO items	-42.4	-20.2	-33.1	-29.8	-32.6
Interest Expenses	29.5	51.7	53.1	40.0	45.5
Depreciation	89.4	159.2	171.0	187.0	206.6
Working Capital Change	-262.2	235.4	37.0	9.1	-12.2
Tax Paid	-138.6	-114.7	-130.4	-145.7	-165.2
<b>OPERATING CASH FLOW ( a )</b>	<b>156.0</b>	<b>686.2</b>	<b>544.9</b>	<b>621.1</b>	<b>677.5</b>
Capex	-416.8	-137.8	-130.1	-141.2	-156.6
Free Cash Flow	-260.8	548.4	414.8	479.9	520.9
Investments	0.0	0.0	0.0	0.0	0.0
Non-operating income	3.7	5.2	33.1	29.8	32.6
<b>INVESTING CASH FLOW ( b )</b>	<b>-413.1</b>	<b>-132.6</b>	<b>-97.1</b>	<b>-111.5</b>	<b>-124.1</b>
Debt Issuance / (Repaid)	276.2	11.4	-288.6	0.0	0.0
Interest Expenses	-13.4	-11.8	-53.1	-40.0	-45.5
FCFE	2.1	548.0	73.0	439.8	475.4
Share Capital Issuance	1.4	1.5	0.0	0.0	0.0
Dividend	-63.3	-119.7	-145.5	-191.7	-217.6
<b>FINANCING CASH FLOW ( c )</b>	<b>200.9</b>	<b>-118.6</b>	<b>-487.2</b>	<b>-231.7</b>	<b>-263.1</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-56.2</b>	<b>435.0</b>	<b>-39.4</b>	<b>277.9</b>	<b>290.4</b>

## Key Ratios

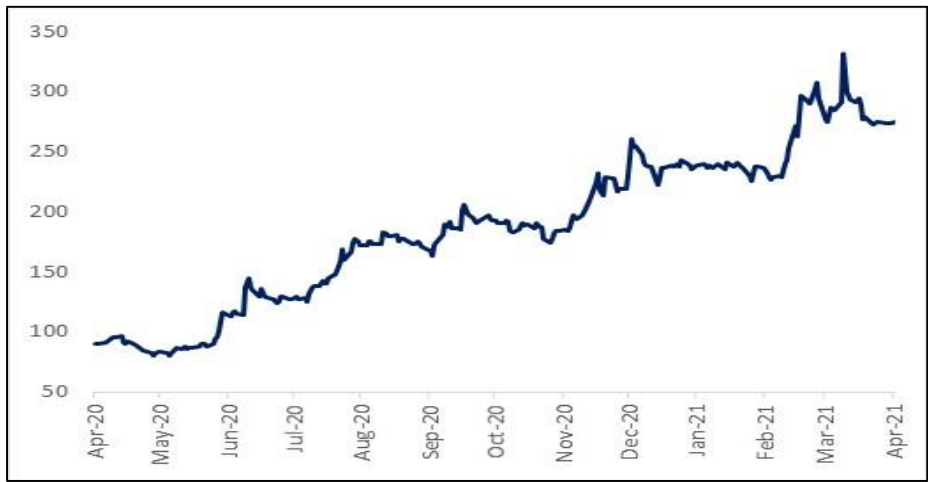
(Rs Cr)	FY19	FY20	FY21E	FY22E	FY23E
<b>Profitability Ratio (%)</b>					
EBITDA Margin	14.1	12.6	18.4	18.3	18.7
EBIT Margin	11.8	8.7	13.8	13.7	14.1
APAT Margin	9.1	6.6	9.7	10.1	10.4
RoE	18.8	13.0	16.5	17.3	17.9
RoCE	16.8	11.0	11.7	15.9	16.4
<b>Solvency Ratio (x)</b>					
Net Debt/EBITDA	0.5	0.6	0.0	0.0	0.0
Net D/E	0.1	0.1	0.0	0.0	0.0
<b>PER SHARE DATA (Rs)</b>					
EPS	14.8	11.5	15.7	17.9	20.3
CEPS	18.6	18.3	23.2	26.1	29.4
Dividend	2.8	5.2	6.4	8.4	9.5
BV	84.9	91.4	98.6	108.2	119.0
<b>Turnover Ratios (days)</b>					
Debtor days	85.9	60.6	60.0	60.0	60.0
Inventory days	9.6	8.6	3.7	1.8	1.8
Creditors days	29.5	24.1	22.9	24.5	24.4
<b>VALUATION (x)</b>					
P/E	18.5	23.8	17.4	15.3	13.5
P/BV	3.2	3.0	2.8	2.5	2.3
EV/EBITDA	11.6	11.3	8.0	7.0	5.9
EV / Revenues	1.6	1.4	1.5	1.3	1.1
Dividend Yield (%)	1.0	1.9	2.3	3.1	3.5
Dividend Payout (%)	18.7	45.5	40.5	46.8	46.8

(Source: Company, HDFC sec)





One Year Stock Price Chart



(Source: Company, HDFC sec)



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