

Strong Recovery, Improved Outlook

Zensar Q1FY22 results were reported much above our expectations with revenue for the quarter at Rs 936 Cr, growing by 6.8% QoQ and 4.8% QoQ in CC terms. However, the operating margin reported a de-growth of 142 bps and stood at 18.4%. Net income registered a strong acceleration as it grew by 11.4% QoQ and stood at Rs 101 Cr. The company reported a strong recovery in its existing well as new clients addition which helped it gain traction during the quarter. Momentum in deal wins continued as the company booked orders worth \$96 Mn while book-to-bill stood low at 0.8x. ~50% of the pipeline is in large deals and the company is seeing momentum in Hi-Tech, BFSI, and DFS.

The management expects a strong recovery from supply-side constraints with the ramp-up in the new deal wins. It also expects Zensar to report strong revenue growth momentum in the next 3-7 quarters owing to a better deal pipeline and its executional prowess. Zensar completed its M3Bi acquisition in Q1FY22 which helped it to strengthen competencies in Data Engineering, Advanced Engineering, Product and Platform Engineering, and Artificial Intelligence Capabilities.

Supported by strong revenue growth momentum and better recovery, we recommend a BUY on Zensar and assign 22x P/E multiple to its FY23E earnings of Rs 20.8 per share to arrive at a TP of Rs 455 per share, implying an upside of 13% from CMP.

Verticals deliver a broad-based performance

On the vertical front, while the HI-Tech and Banking verticals grew by 13% and 5.2% QoQ owing to strong demand across geographies, Insurance declined by 3.8% QoQ. Consumer Services remained flat at 0.1% QoQ. Though Manufacturing declined by 4.4% QoQ, we expect a recovery in the vertical going ahead. The Emerging Services reported encouraging recovery as it delivered 23.8% growth QoQ.

On a geographical front, North America (70% of revenue) reported a robust recovery at a 6.7% QoQ growth, and the Africa region (12% of the revenue), too, witnessed a strong growth of 9.5% QoQ. The management is expecting robust demand backed by better deal wins across geographies.

Our Take

We believe Zensar Technology has been witnessing strong demand across key verticals such as Hi-tech and Banking backed by healthy deal-wins. Although higher onsite expenses and rising employee expenses may impact operating margins temporarily, margins are likely to expand with strong volume growth. In the backdrop of strong revenue growth momentum ahead and better recovery expectations, **we recommend a BUY rating on the stock. We assign a 22x P/E multiple to its FY23E earnings of Rs 20.8 per share to arrive at a TP of Rs 455 per share, implying an upside of 13% from CMP.**

Key Financials (Consolidated)

(Rs Cr)	FY20	FY21	FY22E	FY23E
Net Sales	4,174	3,781	4,349	5,044
EBIDTA	513	1,208	678	792
Net Profit	268	303	397	469
EPS (Rs)	12	13	18	21
PER (x)	14.9	30.4	23.0	19.4
EV/EBIDTA (x)	7.6	7.5	13.6	11.8
P/BV (x)	1.8	3.8	3.5	3.1
ROE (%)	12%	13%	15%	16%

Source: Company, Axis Research

(CMP as of July 27, 2021)

CMP (Rs)	401
Upside /(Downside (%))	13%
High/Low (Rs)	396/139
Market cap (Cr)	Rs 9,057
Avg. daily vol. (6m) Shrs.	6,11,883
No. of shares (Cr)	22.54

Shareholding (%)

	Dec -20	Mar -21	Jun-21
Promoter	49.2	49.2	49.2
FIIs	16.2	16.0	17.1
MFs / UTI	1.6	1.6	9.2
Banks / FIIs	0.0	0.0	0.0
Others	33.0	33.2	24.6

Financial & Valuations

Y/E Mar (Rs. Cr)	2021E	2022E	2023E
Net Sales	3,781	4,349	5,044
EBITDA	1,208	678	792
Net Profit	303	397	469
EPS (Rs)	13	18	21
PER (x)	30.4	23.0	19.4
EV/EBITDA (x)	7.5	13.6	11.8
P/BV (x)	3.8	3.5	3.1
RoE (%)	13%	15%	16%

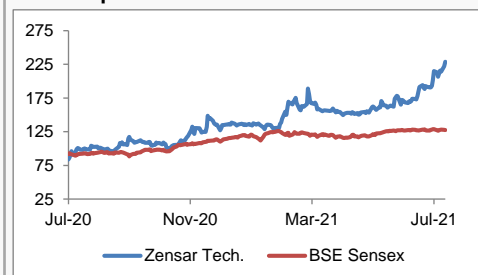
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Concall Takeaways

- 1) **Additional investments to strengthening its service lines:** The management plans to make additional investments through both organic and inorganic (tuck-in acquisitions) routes for strengthening its service lines. It expects strategy execution to aid growth acceleration and expects its strategy will bear fruits in four quarters.
- 2) **Improved cash position:** Zensar's strategic focus on improving its cash management position has shown significant results in this quarter. It is now in a strong cash position - its highest ever. The company reported net cash of \$183.2 Mn in Q1FY22 vs. \$166.3 Mn as of March 31, 2021.
- 3) **Robust demand for digital services anticipated:** The management is optimistic about the demand for digital services. Zensar continues to strengthen its go-to-market strategy along with stated focus areas. In line with this, it completed the acquisition of M3bi, which augments and strengthens advanced engineering and data analytics capabilities. The management has indicated strong revenue growth momentum going ahead.
- 4) Zensar continued with employee addition in the quarter. Net employee additions for Q1FY22 stood at 401 with the total employee headcount tallying to 9,512. However, attritions levels remained elevated at 18.1% due to higher demand and supply-side constraints across the industry.

Client data

	Q1 FY 21	Q2 FY 21	Q3FY 21	Q4 FY 21	Q1FY 22
1 Million dollar +	85	86	83	78	79
5 Million dollar +	24	24	24	24	24
10 Million dollar +	9	8	8	7	8
20 Million dollar +	2	2	2	2	3

Source: Company, Axis Research

Client

	Q1 FY 21	Q2 FY 21	Q3FY 21	Q4 FY 21	Q1FY 22
Revenue- top 5 clients (%)	41.2%	38.0%	37.8%	37.0%	38.4%
Revenue- top 10 clients (%)	51.4%	48.7%	47.8%	48.0%	49.4%
Revenue- top 20 clients (%)	65.2%	62.4%	61.9%	63.0%	63.7%
Repeat business (%)	80.4%	80.4%	81.0%	81.5%	81.5%

Source: Company, Axis Research

Revenue by Vertical

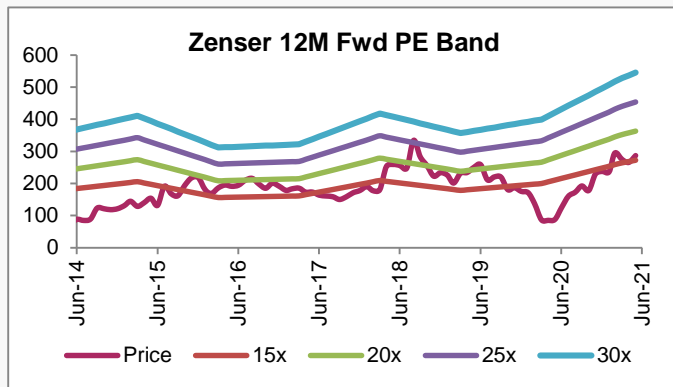
	Q1 FY 21	Q2 FY 21	Q3 FY 21	Q4 FY21	Q1 FY 22
Hi Tech	45.6%	43.1%	39.6%	39.1%	41.9%
Mfg	12.3%	11.9%	12.3%	12.4%	11.3%
Consumer Services	12.4%	13.9%	15.3%	15.3%	14.5%
Insurance	19.4%	20.2%	19.3%	20.2%	18.7%
Banking	7.9%	8.9%	9.6%	10.0%	9.9%
Emerging	2.4%	2.1%	3.9%	3.0%	3.7%

Source: Company, Axis Research

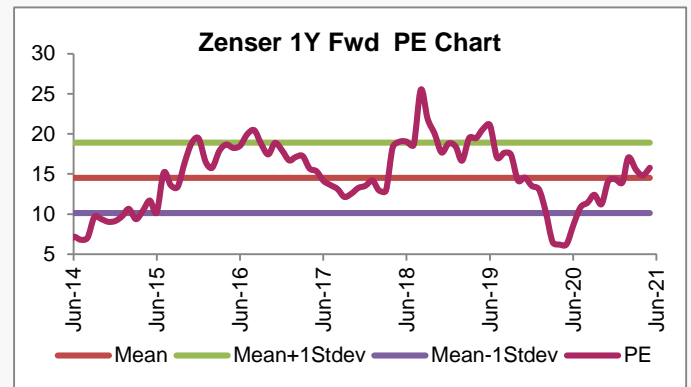
Valuation and Outlook

We believe in Zensar Tech will deliver long-term sustainable growth aided by a healthy deal pipeline and strong execution. **We recommend BUY on Zensar aided by strong revenue growth momentum ahead and better recovery and assign 22x P/E multiple to its FY23E earnings of Rs 20.8 per share to arrive at a TP of Rs 455 per share, implying an upside of 13% from CMP.**

Zensar Tech 12M Fwd PE Band



Zensar Tech 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update

(Rs Cr)

Y/E March	Q1 FY22	Q4 FY21	Q1 FY21	% change (YoY)	% change (QoQ)
Total Revenue	937	877	991	-5%	7%
Total Cost of Sales	611	571	706		
Gross Profit	326	306	285	14%	7%
Margin(%)	35%	35%	29%	600	-10
Selling and marketing Expenses	60	43	53		
G&A expenses	94	89	90		
Total Operating Expenses	153	132	142		
EBITDA	173	174	143		
Margin(%)	18%	20%	14%		
Depreciation	43	45	44		
Operating Income	130	130	99	32%	0%
Margin(%)	14%	15%	10%	393	-93
Total Other Income/(Expense)	13	10	9		
Income Before Income Taxes	140	124	101		
Total Taxes	37	31	27		
ETR (%)	26%	25%	26%	32	117
Net Profit After Taxes	103	92	73	40%	12%
Non Controlling Interest	2	2	0		
Net Income After Extraordinary Items	101	91	73	38%	12%
Margin(%)	7%	7%	7%	-	-
EPS	4.48	3.92	3.25	38%	14%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss
(Rs mn)

Y/E March	FY20	FY21	FY22E	FY23E
Net revenues	4,174	3,781	4,349	5,044
Other operating Income	0	0	0	0
Total Operating income	4,174	3,781	4,349	5,044
Employee Cost	2,859	2,153	2,914	3,380
EBITDA	513	1,208	678	792
EBITDA Margin (%)	12%	32%	16%	16%
Depreciation	159	175	126	146
Other Income	44	25	29	32
Interest (Net)	61	175	45	45
PBT	337	433	536	633
PBT Margin (%)	8%	11%	12%	13%
Tax	106	123	134	158
Adjusted PAT	231	307	402	475
Extraordinary Items	5	7	5	5
Reported PAT	268	303	397	469

Source: Company, Axis Securities

Balance Sheet
(Rs mn)

Y/E March	FY20	FY21	FY22E	FY23E
Equity capital	45	45	45	45
Reserves & Surplus	2148	2349	2576	2874
Net worth	2,193	2,394	2,621	2,919
Total debt	350	420	420	420
Total Liabilities & Equity	3,589	4,017	4,402	4,880
Tangible Assets	387	418	452	488
Total fixed assets	1,111	1,280	1,477	1,708
Investments	70	75	75	75
Goodwill	724	861	1,025	1,220
Other Fixed Assets	-	-	-	-
Total Non-Current Assets	229	263	303	349
Debtors	1,008	1,159	1,333	1,533
Cash & bank	463	441	323	217
Loans & advances	-	-	-	-
Other Current Assets	768	883	1,015	1,168
Total Current Assets	2,408	2,663	2,851	3,097
Creditors	850	961	1,085	1,226
Provisions	136	163	195	235
Current Liab. & Prov.	986	1,123	1,281	1,461
Total Assets	3,589	4,017	4,402	4,880

Source: Company, Axis Securities

Cash Flow

(Rs mn)

Y/E March	FY20	FY21	FY22E	FY23E
PBT	337	433	536	633
Add: Depreciation	159	175	126	146
Other Adjustments	(10)	(10)	(10)	(10)
Chg. in working capital	(142)	(154)	(157)	(164)
Taxes paid	(106)	(123)	(134)	(158)
Extra Ordinary Items	-	-	-	-
CF from operations	239	375	277	339
Change in fixed assets	(38)	(38)	(38)	(38)
Purchase of investment	(38)	(38)	(38)	(38)
Proceeds from Invest. Sale	10	10	10	10
Other Adjustments	4	4	4	4
CF from Investing acti.	(7)	(7)	(7)	(7)
Chg. in debt	(14)	(28)	(19)	(26)
Chg. in Equity capital	-	-	-	-
Chg. in Pref. capital	-	-	-	-
Dividend & dividend tax	(50)	(50)	(50)	(50)
CF from Financing acti.	(6)	(8)	(7)	(8)
Chg. in cash	23	36	26	32
Opening cash	3	5	4	3
Closing cash	46	44	32	22

Source: Company, Axis Securities

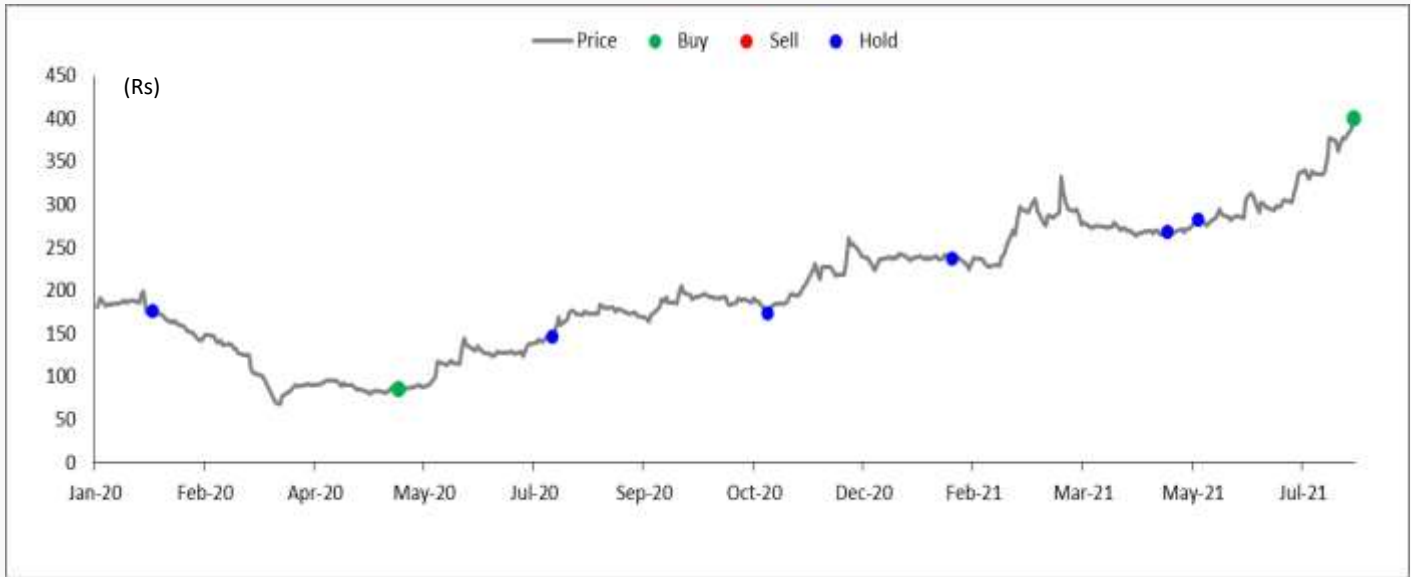
Ratio Analysis

(%)

Y/E March	FY20	FY21	FY22E	FY23E
Per Share Ratios				
Fully diluted E P S	11.89	13.31	17.63	20.86
Book Value	97.48	106.40	116.51	129.73
Dividend per share	2.90	2.90	2.90	2.90
Valuation Ratio				
P/E	14.95	30.43	22.98	19.41
P/BV	1.82	3.81	3.48	3.12
EV/EBITDA	7.58	7.53	13.58	11.76
EV/Sales	0.93	2.40	2.12	1.85
Growth Ratios				
Sales Growth	5%	-9%	15%	16%
EBITDA Growth	7%	136%	-44%	17%
Net Profit Growth	-15%	13%	31%	18%
EPS Growth	-15%	12%	32%	18%
Common size Ratios				
EBITDA Margin	12%	32%	16%	16%
EBIT margin	8%	13%	13%	13%
PAT margin	6%	8%	9%	9%
Employee cost	69%	69%	67%	67%
Return ratios				
RoNW	12%	13%	15%	16%
RoCE	15%	18%	19%	20%
Solvency Ratios				
Total Debt/Equity	16%	18%	16%	14%

Source: Company, Axis Securities

Zensar Price Chart and Recommendation History



Date	Reco	TP	Research
27-Jan-20	HOLD	185	Result Update
18-May-20	BUY	106	Result Update
27-Jul-20	HOLD	155	Result Update
02-Nov-20	HOLD	192	Result Update
25-Jan-21	HOLD	263	Result Update
03-May-21	HOLD	285	Result Update
17-May-21	HOLD	285	Event Update
27-Jul-21	BUY	455	Result Update

Source: Axis Securities

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