

Beat on Profit; Improved Outlook

Est. Vs. Actual for Q4FY24: Revenue – **Beat**; EBITDA Margin – **Beat** ; PAT – **Beat** ; Deal Wins – **INLINE**

Change in Estimates post Q4FY24

FY25E/FY26E: Revenue -1%/1%; EBITDA 1%/1%; PAT 1%/1%;

Recommendation Rationale

- **Hi-Tech vertical continues to face challenges:** While the company witnessed robust Total Contract Value (TCV) performance in Q4FY24, driven by significant contract wins predominantly in the Banking, Financial Services, and Insurance (BFSI) and associated sectors, the high-tech segment continued to face challenges, reflecting ongoing struggles in that area.
- **Revenue growth to improve in the long term:** We expect Zensar's revenue growth to improve in the long term, which will be led by restructuring of the organization, incentivisation of sales, and cross-selling. However, near-term challenges still persist.

Sector Outlook: Neutral

Current Valuation: 19x FY26E P/E; Earlier Valuation: 22x FY25E

Current TP: 625/share (Earlier TP: Rs 570/share)

Recommendation: The demand outlook across most verticals remains uncertain, impacting revenue growth momentum in the near future. However, recognizing the company's promising recovery prospects bolstered by favourable business deals and enhanced customer retention, we **maintain our recommendation to HOLD the stock.**

Financial Performance

In Q4FY24, Zensar Technologies Ltd. (Zensar) reported revenue of Rs 1,230 Cr, up 2% QoQ and 3% YoY, which stood slightly above our expectations. The company reported an operating profit of Rs 179 Cr, a healthy growth of 2% on a QoQ basis. The company's operating margins remained above our expectations, and remained flat, mainly due to higher operating costs and an unfavourable currency mix in the quarter. Net profit for Q4FY24 stood at Rs 173 Cr, registering a healthy growth of 7% QoQ.

Outlook

Looking ahead, we anticipate Zensar's recovery, driven by the impact of recent deals secured over previous quarters. Nevertheless, mounting concerns regarding the economic outlook of major economies, coupled with existing supply-side constraints, introduce uncertainties that may impact the company's short-term growth trajectory.

Valuation & Recommendation

We recommend a **HOLD** rating on the stock and assign a 22x P/E multiple to its FY26E earnings of Rs 29.8/share to arrive at a **TP of Rs 625/share, implying an upside of 9% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,230	2%	1%	1225	0%
EBIT	179.3	2%	27%	170	5%
EBIT Margin	15%	0	600	14%	100
Net Profit	173.3	7%	119.2	152	14%
EPS (Rs)	5.2	0%	45%	5.5	-5%

Source: Company, Axis Research

(CMP as of 25 April 2024)

CMP (Rs)	575
Upside /Downside (%)	9%
High/Low (Rs)	646/268
Market cap (Cr)	13,036
Avg. daily vol. (6m)Shrs.	5,94,320
No. of shares (Cr)	22

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	49.2	49.2	49.2
FIIIs	16.7	17.1	16.5
MFs / UTI	15.2	14.3	15.5
Banks / FIIs	0.0	0.0	0.0
Others	19.0	19.4	18.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	4,902	6,160	7,022
EBITDA	872	967	1,103
Net Profit	665	583	670
EPS (Rs)	22.5	25.9	29.8
PER (x)	18.0	15.6	13.6
P/BV (x)	2.8	2.5	2.2
EV/EBITDA (x)	11.1	9.9	8.9
ROE (%)	16%	16%	16%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	(1)%	1%
EBITDA	1%	1%
PAT	1%	1%

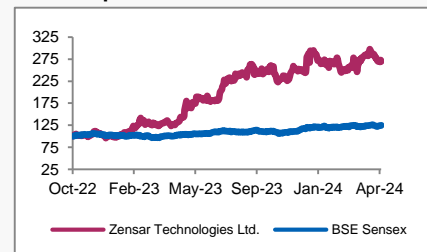
ESG disclosure Score**

Environmental Disclosure	17.6
Social Disclosure Score	16.4
Governance Disclosure Score	78.6
Total ESG Disclosure Score	37.6
Sector Average	46.0

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: ACE Equity, Axis Securities

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Key Highlights

Strength in the long-term demand continues, though near-term challenges still persist:

In terms of demand, the United States has exhibited relative weakness compared to other economies. Conversely, the UK has seen an uptick in cost optimization deals, accompanied by expedited decision-making processes. With the stabilization of the macroeconomic landscape, the company anticipates a quickening in decision-making pace. Notably, several new deal wins with key customers in the BFSI sector have driven revenue growth in this vertical during the quarter. Despite the persistent weakness in overall demand within this industry, Zensar holds a modest wallet share with most customers, positioning it to benefit as companies pursue cost-reduction strategies.

In the high-tech sector, subdued demand persists as customers scale back on discretionary expenditures and reprioritize their spending. While management foresees continued weakness in the near term, there are signs of improvement in the deal pipeline. Similarly, the consumer goods industry continues to grapple with challenging macroeconomic conditions, resulting in tepid demand. However, Zensar has noted the absence of specific customer-related challenges in this sector, expressing optimism that the worst may be behind, with an uptick in the deal pipeline observed.

The manufacturing industry also faces subdued demand conditions. However, in the services realm, segments such as data, engineering, and analytics, as well as advanced engineering and experience services, are showing promising scalability.

Hi-tech struggles for growth

On the vertical front, the Hi-tech vertical degrew by 13% QoQ. The Banking sector grew by 9.3% QoQ, while the MCE grew by 0.2% QoQ. HLS vertical degrew by 6.4%. Most verticals saw subdued growth but are expected to see sustained long-term growth in the near term, supported by a strong deal pipeline. The management sees a strong recovery in most verticals and believes the company will continue to expand margins as volumes increase.

Better geographical performance

On the geographical front, while North America (66% of revenue) de-grew by 4.3% YoY, Europe (21% of revenue) grew by 18.2% YoY. Africa (13% of revenue) business grew by 11.3% YoY (in the CC terms).

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review
(Rs Cr)

In Cr	Q4FY24	Q3FY24	Q4FY23	% change (YoY)	% change (QoQ)
Total Revenue	1,230	1,204	1,213	1%	2%
Total Cost of Sales	852.9	829.6	825.4		
Gross Profit	377	374	387	-3%	1%
Margin(%)	31%	31%	32%	-130	-45
Selling and marketing Expenses	74.6	77.7	98		
G&A expenses	99.2	89.2	113		
Total Operating Expenses	203	208	176	15%	-2%
EBITDA	207	207	135	53%	0%
Margin(%)	17%	17%	11%	570	-36
Depreciation	31.2	31.2	35		
Operating Income	179.3	176	140.7	27%	2%
Margin(%)	11%	11%	5%	600	0
Total Other Income/(Expense)	58	36	21.4		
Income Before Income Taxes	228.6	212	161.6	41%	8%
Total Taxes	55.3	50	42.4		
ETR (%)	23%	23%	26%	-300	0
Net Profit After Taxes	173.3	161.4	119.2	45%	7%
Net Income	173.3	161.4	119.2		11%
Margin(%)	14%	13%	10%	-	69
EPS	6.4	6.4	4.67	37%	0%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Net revenues	4,244	4,740	4,902	6,160	7,022
Other operating Income	-	-	-	-	-
Total Operating income	4,244	4,740	4,902	6,160	7,022
Employee Cost	2,922	3,176	3,343	4,127	4,705
EBITDA	678	744	872	967	1,103
EBITDA Margin (%)	16%	16%	16%	16%	16%
Depreciation	126	137	157	179	204
Other Income	91	32	37	41	47
Interest (Net)	35	45	45	45	45
PBT	574	594	876	785	901
PBT Margin (%)	12%	13%	13%	13%	13%
Tax	153	149	171	196	225
Adjusted PAT	422	446	512	589	676
Extraordinary Items	5	5	5	5	5
Reported PAT	416	440	665	583	670

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Equity capital	45	45	45	45	45
Reserves & Surplus	2,576	2,874	3,204	3,584	4,022
Net worth	2,621	2,919	3,249	3,629	4,067
Total debt	420	420	420	420	420
Total Liabilities & Equity	4,402	4,880	5,416	6,033	6,742
Tangible Assets	452	488	527	569	615
Total fixed assets	1,477	1,708	1,978	2,296	2,670
Investments	75	75	75	75	75
Goodwill	1,025	1,220	1,451	1,727	2,055
Other Fixed Assets	0	0	0	0	0
Total Non-Current Assets	303	349	403	467	541
Debtors	1,333	1,533	1,762	2,027	2,331
Cash & bank	323	217	340	400	450
Loans & advances	0	0	0	0	0
Other Current Assets	1,015	1,168	1,343	1,544	1,776
Total Current Assets	2,851	3,097	3,363	3,662	3,997
Creditors	1,085	1,226	1,386	1,566	1,770
Provisions	195	235	281	338	405
Current Liab. & Prov.	1,281	1,461	1,667	1,904	2,175
Total Assets	4,402	4,880	5,416	6,033	6,742

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
PBT	536	594	683	785	901
Add: Depreciation	126	137	157	179	204
Other Adjustments	-10	-10	-10	-10	-10
Chg. in working capital	-157	-164	-170	-176	-182
Taxes paid	-134	-149	-171	-196	-225
Extra Ordinary Items	0	0	0	0	0
CF from operations	277	310	368	435	511
Change in fixed assets	-38	-38	-38	-38	-38
Purchase of investment	-38	-38	-38	-38	-38
Proceeds from Invest. Sale	10	10	10	10	10
Other Adjustments	4	4	4	4	4
CF from Investing acti.	-7	-7	-7	-7	-7
Chg. in debt	-19	-24	-31	-39	-48
Chg. in Equity capital	0	0	0	0	0
Chg. in Pref. capital	0	0	0	0	0
Dividend & dividend tax	-50	-50	-50	-50	-50
CF from Financing acti.	-7	-7	-8	-9	-10
Chg. in cash	26	30	35	42	49
Opening cash	4	3	2	1	-1
Closing cash	323	217	340	400	450

Source: Company, Axis Securities

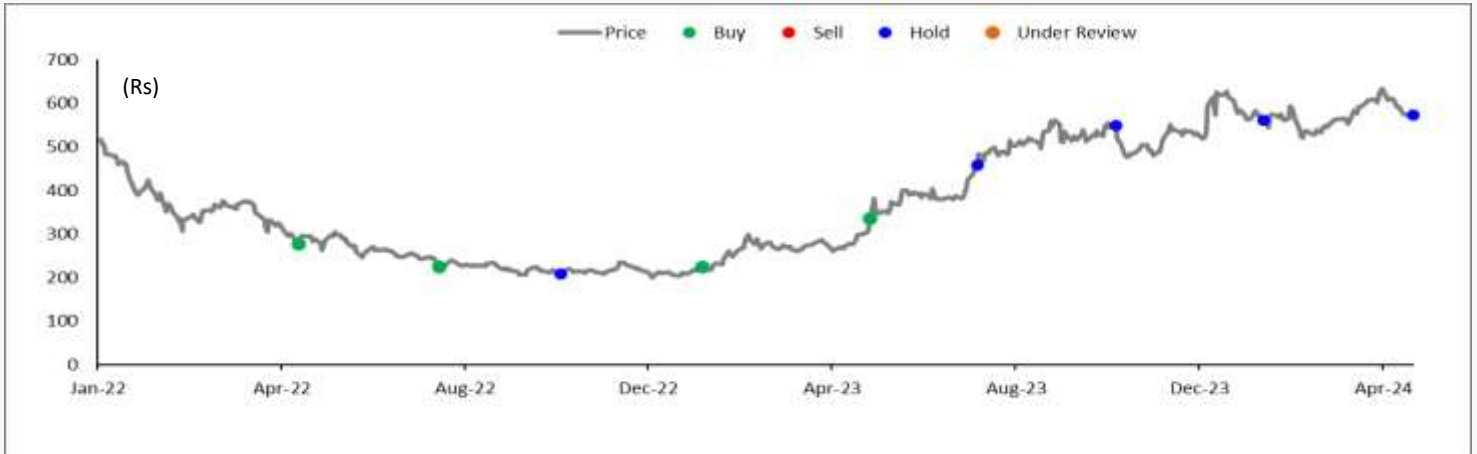
Ratio Analysis

(%)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per Share Ratios					
Fully diluted E P S	17.6	19.6	22.5	25.9	29.8
Book Value	116.5	129.7	144.4	161.3	180.7
Dividend per share	2.9	2.9	2.9	2.9	2.9
Valuation Ratio					
P/E	23.0	20.7	18.0	15.6	13.6
P/BV	3.5	3.1	2.8	2.5	2.2
EV/EBITDA	13.6	12.5	11.1	9.9	8.9
EV/Sales	2.1	2.0	1.7	1.6	1.4
Growth Ratios					
Sales Growth	15%	9%	14%	14%	14%
EBITDA Growth	-44%	10%	14%	14%	14%
Net Profit Growth	31%	11%	15%	15%	15%
EPS Growth	32%	11%	15%	15%	15%
Common Size Ratios					
EBITDA Margin	16%	16%	16%	16%	16%
EBIT margin	13%	13%	13%	13%	13%
PAT margin	9%	9%	9%	10%	10%
Employee cost	67%	67%	67%	67%	67%
Return ratios					
RoNW	15%	15%	16%	16%	16%
RoCE	19%	19%	19%	20%	21%
Solvency Ratios					
Total Debt/Equity	16%	14%	13%	12%	10%

Source: Company, Axis Securities

Zensar Technologies Price Chart and Recommendation History



Date	Reco	TP	Research
11-May-22	BUY	360	Result Update
10-Aug-22	BUY	250	Result Update
25-Oct-22	HOLD	230	Result Update
25-Jan-23	BUY	255	Result Update
15-May-23	BUY	385	Result Update
21-Jul-23	HOLD	485	Result Update
18-Oct-23	HOLD	570	Result Update
23-Jan-24	HOLD	570	Result Update
26-Apr-24	HOLD	625	Result Update

Source: Axis Securities

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