

Strategic Focus Areas for Long-Term Growth

On the annual investor day, Zensar Tech management indicated that it will continue to see strong revenue and bottom-line growth along with margin expansion. The new CEO Mr Manish Tandon laid a strong foundation of higher client engagement and focus on large deal accounts to witness a sustainable revenue stream.

Recommendation Rationale

- Focus on mining:** Zensar management has indicated that it will focus on increasing client engagement and try to farm more business from existing accounts. This will help it increase the top client account and grow in the long term.
- Focus on verticalization:** The management also indicated that it will do verticalization of accounts so that its annuity revenue will increase. It has incorporated domain consulting groups for the same.
- Margins to remain stable:** The management foresees stability in the company's margins going forward and will expand with the growing volumes.
- Increasing the Services Mix:** The management has also highlighted that it is increasing the number of services which will help it cross-sell the services mix and subsequently increase the client engagement. Higher dependency will generate a sustainable revenue stream and help the company grow on a broad base with increased expertise. Higher dependency will generate a sustainable revenue stream and help the company grow on a broad base with increased expertise.

Current TP: 710/share ; Previous TP: 625/share

Recommendation: Global uncertainties leading to delayed spending decisions pose a challenging environment for Zensar Tech and will impact its performance in the near term. Moreover, supply-side constraints will take some more time to ease off. Hence, we recommend a **HOLD** rating on the stock.

Current Valuation: 24x FY26E P/E; Previous Valuation: 19x FY26E

Alternate Investment Ideas: We prefer **KPIT** (TP: 1,750) and **Persistent Systems** (TP: 4,350) in IT Services spaces aided by strong revenue growth and better execution.

Outlook

We believe Zensar Tech is well-placed for encouraging growth from a long-term perspective, given its multiple long-term contracts with the world's leading brands. Richer revenue visibility gives us confidence in its business growth moving forward. However, rising concerns over business uncertainties in large economies and continuing supply-side constraints are creating challenges for the company's growth prospects moving ahead.

Valuation & Recommendation

We recommend a **HOLD** rating on the stock and assign a 24x P/E multiple to its FY26E earnings of Rs 29.8/share to arrive at a TP of Rs 710/share. The TP implies an upside of 6% from the CMP.

Key Financials (Consolidated)

Y/E March	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
FY24	4,902	665	22.5	12%	23.0	19%	25%	14
FY25E	6,160	583	25.9	15%	20.0	22%	29%	12
FY26E	7,022	670	29.8	15%	18.0	25%	32%	11

Source: Company, Axis Research

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 operating margins negatively.

(CMP as of 07 June 2024)

CMP (Rs)	673
Upside /Downside (%)	6%
High/Low (Rs)	696/376
Market cap (Cr)	15,257
Avg. daily vol. (6m) Shrs.	1,72
No. of shares (Cr)	22.77

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	49.2	49.2	49.2
FII	16.7	17.1	16.5
MFs / UTI	15.2	14.3	15.5
Banks / FIs	0.1	0.1	0.1
Others	19	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%

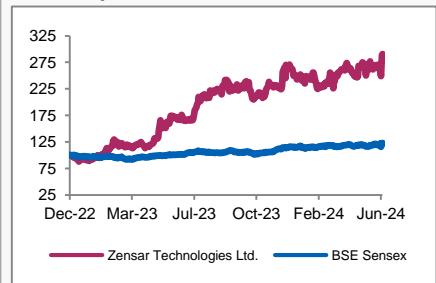
ESG disclosure Score**

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 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

Omkar Tanksale

Research Analyst

Email:omkar.tanksale@axissecurities.in

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

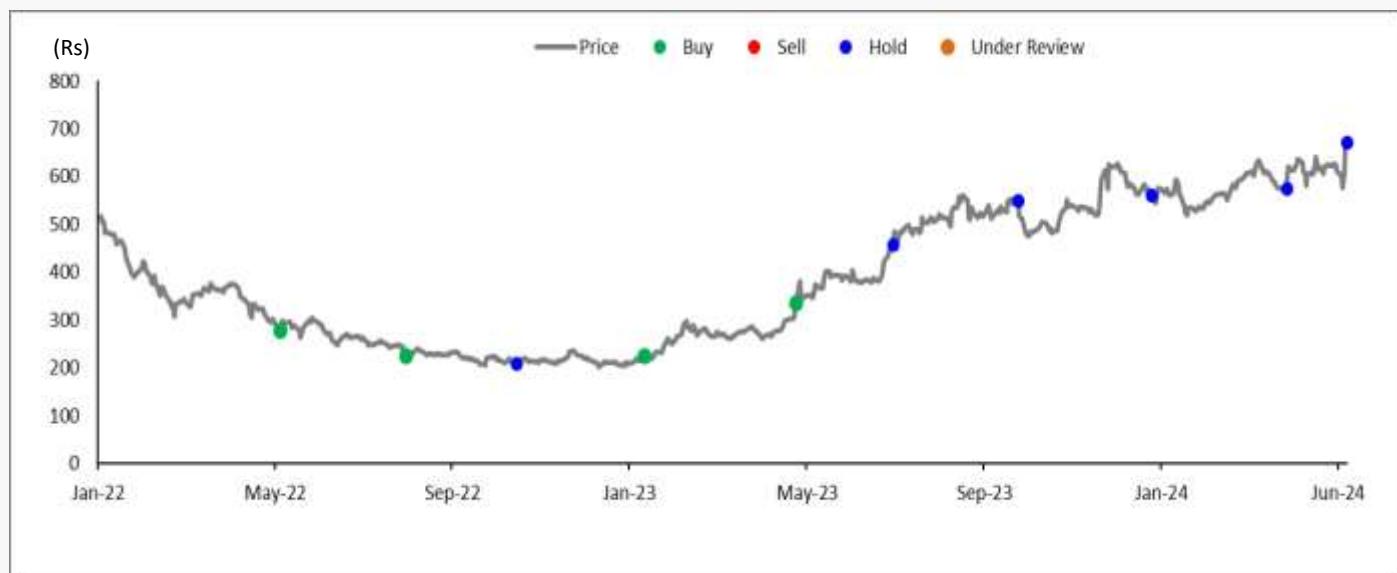
Cash Flow		(Rs Cr)				
Y/E March		FY22	FY23	FY24	FY25E	FY26E
PBT		536	594	683	785	901
Add: Depreciation		126	137	157	179	204
Other Adjustments		-10	-10	-10	-10	-10
Chg. in working capital		-157	-164	-170	-176	-182
Taxes paid		-134	-149	-171	-196	-225
Extra Ordinary Items		0	0	0	0	0
CF from operations		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%	15%	15%	16%
RoCE		19%	19%	19%	19%	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
10-Jun-24	HOLD	710	Company Update

Source: Axis Securities

About the analyst**Omkar Tanksale****Research Analyst****omkar.tanksale@axissecurities.in****Call: (022) 4267 1737****Disclosures:**

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Omkar Tanksale, MBA-Finance, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, it might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, employee etc. in the subject company in the last 12-month period. Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United States (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alterations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- 1st Floor, I-Rise Building, Q Parc, Loma Park, Thane, Ghansoli, Navi Mumbai-400701, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer Jatin Sanghani, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706