



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's	16.7	17.1	16.5
MFs / UTI	15.2	14.3	15.5
Banks / FIIs	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%

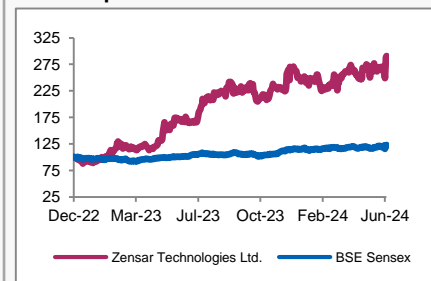
ESG disclosure Score**

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

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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

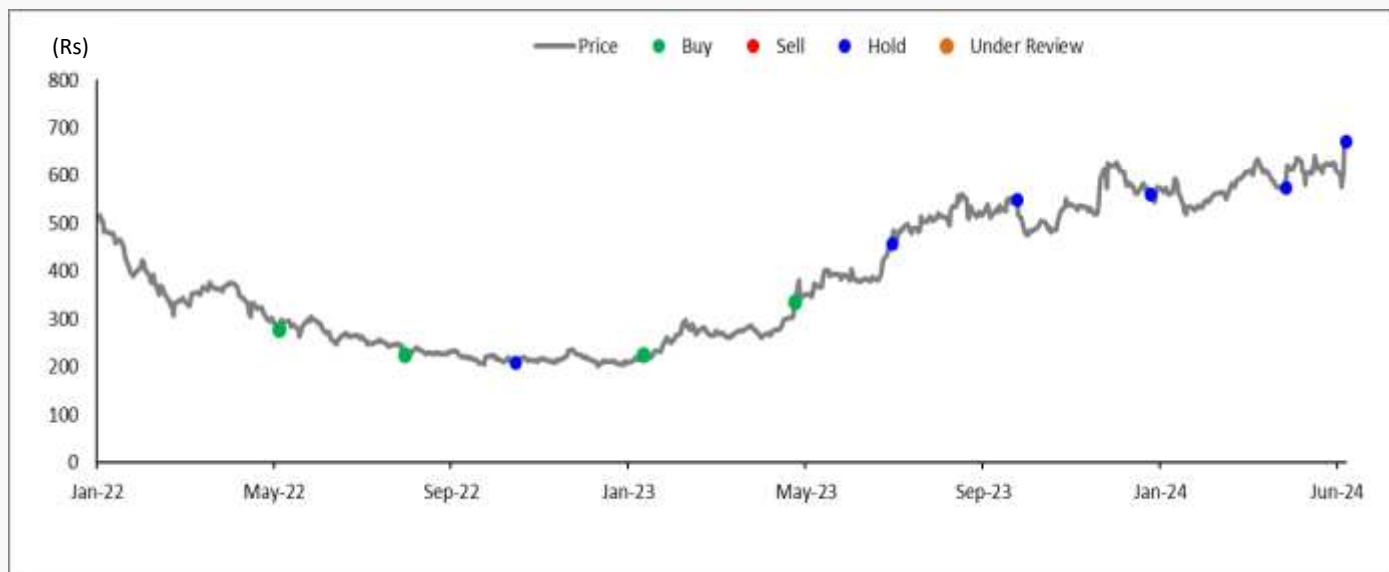
Ratio Analysis

(%)

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



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HOLD	Between 10% and -10%
SELL	Less than -10%
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