IDBI capital

# Zensar Technologies HOLD

Driving innovation and growth through AI-powered transformation

## Summary

**Zensar Technologies delivered steady Q2FY26 results, with revenue at USD 162.8mn, up 4.2% YoY, and maintaining mid-teen EBITDA margins despite annual wage hikes and one-time bonuses through operational efficiency gains and favorable forex. The Banking, Financial Services, and Healthcare segments showed growth, while the TMT vertical declined sharply due to reallocation of spending by technology customers. AI momentum accelerated, with 28% of order bookings backed by AI, and the ZenseAI platform gaining traction, particularly in legacy modernization & analytics. Management remains positive on pipeline conversion outside TMT and continues investing in AI skills and domain-specific solutions. Voluntary attrition stayed below 10% for the third consecutive quarter, and the company's focus on offshore delivery and utilization supported margins amidst macroeconomic uncertainties. Overall, Zensar is executing a client-centric, AI-led growth strategy while tactically managing sectoral headwinds. We retain a positive long-term view but maintain a HOLD , with a target price of Rs 894 (25.1x FY27E EPS).**

## Key Highlights and Investment Rationale

- **Demand of AI:** strategy centers on scaling AI talent, launching the ZenseAI platform, and embedding AI into core client solutions to drive productivity and innovation. The ZenseAI platform offers agentic AI capabilities, industry-specific agents for legacy modernization, fraud detection, automation, and real-time analytics.
- **Margins/dealwins:** Margins improved with gross margin at 31.0% and EBITDA at 15.4%, despite wage hikes; deal pipeline remains strong with selective large deals and AI-led order growth.

| TP | Rs894 |
|---|---|
| CMP | Rs798 |
| Potential upside/downside | 12% |
| Previous Rating | HOLD |

**Price Performance (%)**

| | -1m | -3m | -12m |
|---|---|---|---|
| Absolute | 3.8 | 0.8 | 14.4 |
| Rel to Sensex | 0.1 | (3.4) | 9.2 |

**V/s Consensus**

| EPS (Rs) | FY26E | FY27E |
|---|---|---|
| IDBI Capital | 31 | 36 |
| Consensus | 31 | 35 |
| *% difference* | *(1.4)* | *2.7* |

**Key Stock Data**

| | |
|---|---|
| Bloomberg/Reuters | ZENT IN/ZENT.BO |
| Sector | IT Services |
| Shares o/s (mn) | 227 |
| Market cap. (Rs mn) | 181,351 |
| 3-m daily average value (Rs mn) | 41.4 |
| 52-week high / low | Rs985 / 559 |
| Sensex / Nifty | 83,939 / 25,722 |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 49.0 |
| FII | 13.3 |
| DII | 21.1 |
| Public | 16.6 |

**Financial snapshot** (Rs mn)

| Year | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|
| Revenue | 48,483 | 49,019 | 52,075 | 57,175 | 63,397 |
| *Change (yoy, %)* | *14* | *1* | *6.2* | *9.8* | *10.9* |
| EBITDA | 5,523 | 8,718 | 8,286 | 8,576 | 9,858 |
| *Change (yoy, %)* | *(16)* | *58* | *(5)* | *4* | *15* |
| *EBITDA Margin(%)* | *11.4* | *17.8* | *15.9* | *15.0* | *15.6* |
| Adj.PAT | 3,275 | 6,651 | 6,368 | 7,055 | 8,054 |
| EPS (Rs) | 14 | 29 | 28.2 | 31 | 36 |
| *Change (yoy, %)* | *(21)* | *103* | *(4)* | *11* | *14* |
| PE(x) | 62 | 30 | 31.8 | 29 | 25 |
| Dividend Yield (%) | 1 | 1 | 1 | 1 | 1 |
| EV/EBITDA (x) | 35 | 22 | 24 | 22 | 19 |
| RoE (%) | 12 | 21 | 17 | 15 | 16 |
| RoCE (%) | 12 | 21 | 18 | 16 | 16 |

*Source: IDBI Capital Research;*

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## Concall Highlights

- Revenue for the quarter stood at USD 162.8mn, +0.5%/+4.2% USD terms; Healthcare uptick of 3.9% QoQ & BFSI +5.6% QoQ, while, TMT declined by 9.9% QoQ. Manufacturing and consumer services at +0.1% QoQ. Geographically, Growth across US, UK/Europe, South Africa**;** weakness concentrated in TMT-heavy US accounts**.**
- EBITDA 15.4%, +20 bps QoQ despite salary hikes & one-time bonus; driven by higher utilization, better offshore mix, and cost control. Gross margin improved to 31%**,** +50 bps QoQ**.**
- The Service lines: Cloud Infra & Security +14.1% YoY, Data Engineering & Analytics +9.2% YoY, Products & Platforms +4.3% YoY**,** Enterprise Apps –2.6% YoY.
- Utilization improved to 84.8%, +200 bps YoY, +50 bps QoQ. Attrition stable at ~9.8% (third consecutive quarter <10%).Order Book at USD 158.7mn; Book-to-Bill 1.02 for H1; Q2 softness attributed to seasonal renewals and deal-timing delays.
- Management flags no structural weakness outside TMT; pipeline described as “one of the highest qualified in company’s history” with large deals in advanced stages.
- TMT commentary: Clients shifting OpEx to data center / GPU CapEx, leading to vendor rationalization & productivity-led headcount cuts; management sees this as structural, not temporary.
- AI traction strong: 28% of Q2 bookings were AI-influenced (vs 21% in Q1). Launch of ZenseAI (agentic AI platform) showing use-case traction in modernization, fraud analytics, testing automation, computer vision defect detection & API factory operations. 5,000+ employees trained in GenAI / agentic AI; leadership AI capability program ongoing.
- Cash & investments at US 293mn post-dividend; DSO at 75 days (up due to FX).
- H1 non-delivery headcount increased by ~40 roles, spread across sales & support; management does not see cost concern.
- Outlook: Q3 to see seasonal furloughs, though lower impact due to reduced TMT exposure. Mid-teens EBITDA margin commitment reiterated. No specific revenue guidance, but management remains “positive excluding TMT headwind”.

**Exhibit 1: Financial snapshot** **(Rs mn)**

| Year-end: March | Q2FY26 | Q1FY26 | QoQ (%) | Q2FY25 | YoY (%) |
|---|---|---|---|---|---|
| **Revenues (US$ mn)** | **162.8** | **162.0** | ***0.5*** | **156.2** | ***4.2*** |
| **Revenues** | **14,213** | **13,850** | ***2.6*** | **13,080** | ***8.7*** |
| COGS | 9,801 | 9,627 | *1.8* | 9,406 | *4.2* |
| Gross profit | 4,412 | 4,223 | *4.5* | 3,674 | *20.1* |
| SG&A | 2,212 | 2,117 | *4.5* | 1,663 | *33.0* |
| **EBITDA** | **2,200** | **2,106** | ***4.5*** | **2,011** | ***9.4*** |
| Depreciation & amortization | 252 | 231 | *9.1* | 297 | *(15.2)* |
| EBIT | 1,948 | 1,875 | *3.9* | 1,714 | *13.7* |
| Other income | 454 | 531 | *(14.5)* | 366 | *24.0* |
| PBT | 2,402 | 2,406 | *(0.2)* | 2,080 | *15.5* |
| Tax | 580 | 586 | *(1.0)* | 522 | *11.1* |
| Minority interest | 0 | 0 | *n.m.* | 0 | *n.m.* |
| **Adjusted net profit** | **1,822** | **1,820** | ***0.1*** | **1,558** | ***16.9*** |
| Exceptional item | 0 | 0 | *n.m.* | 0 | *n.m.* |
| **Reported net profit** | **1,822** | **1,820** | ***0.1*** | **1,558** | ***16.9*** |
| **Recurring EPS (Rs)** | **8.02** | **8.01** | ***0.1*** | **6.86** | ***16.8*** |
| | | | | | |
| **As % of net revenue** | | | | | |
| Gross profit | 31.0 | 30.5 | | 28.1 | |
| SG&A | 15.6 | 15.3 | | 12.7 | |
| EBITDA | 15.5 | 15.2 | | 15.4 | |
| EBIT | 13.7 | 13.5 | | 13.1 | |
| Reported net profit | 12.8 | 13.1 | | 11.9 | |
| Tax rate | 24.1 | 24.4 | | 25.1 | |

*Source: Company; IDBI Capital Research*

### Exhibit 2: Earnings revision table

| Year to March | FY26E | | | FY27E | | |
|---|---|---|---|---|---|---|
| | New | Old | *Ch (%)* | New | Old | *Ch (%)* |
| Revenue (US$mn) | 657 | 670 | *-1.9%* | 725 | 742 | *-2.4%* |
| Revenue (Rsmn) | 57,175 | 58,264 | *-1.9%* | 63,397 | 64,964 | *-2.4%* |
| EBIT (Rsmn) | 7,490 | 8,280 | *-9.5%* | 8,654 | 9,428 | *-8.2%* |
| *EBIT margin (%)* | *13.1%* | *14.2%* | *-111 bps* | *13.7%* | *14.5%* | *-86 bps* |
| EPS (Rs) | 31.2 | 32.0 | *-2.5%* | 35.6 | 36.0 | *-1.1%* |

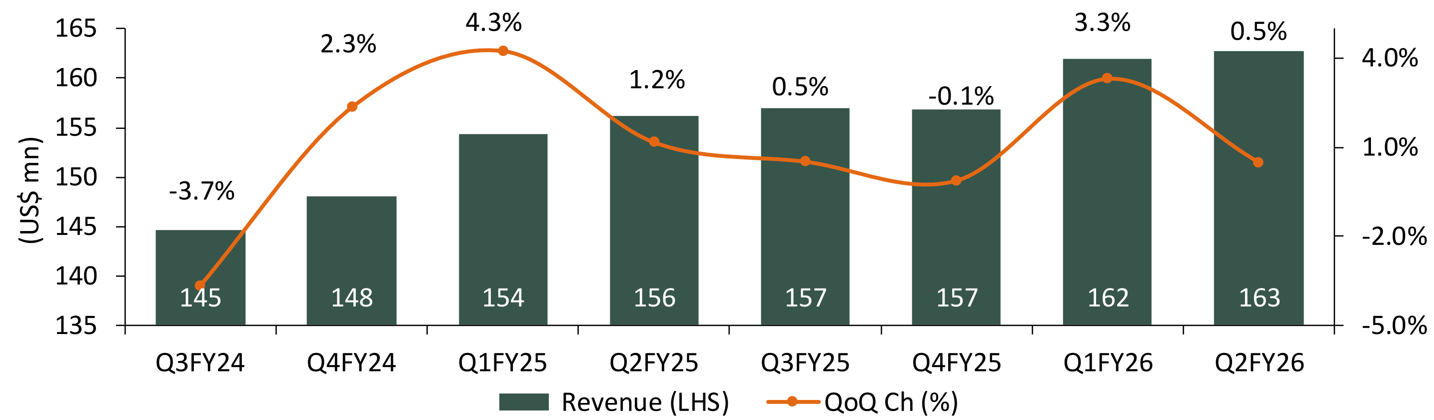
*Source: Company; IDBI Capital Research*

### Exhibit 3: Large clients trend

| Year-end: March | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 | Q1FY26 | Q2FY26 |
|---|---|---|---|---|---|---|---|---|
| US$1 mn+ | 84 | 85 | 86 | 86 | 87 | 84 | 82 | 84 |
| US$5 mn+ | 32 | 31 | 31 | 32 | 34 | 33 | 32 | 32 |
| US$10 mn+ | 14 | 14 | 14 | 15 | 14 | 14 | 16 | 15 |
| US$20 mn+ | 4 | 4 | 4 | 4 | 5 | 6 | 6 | 6 |

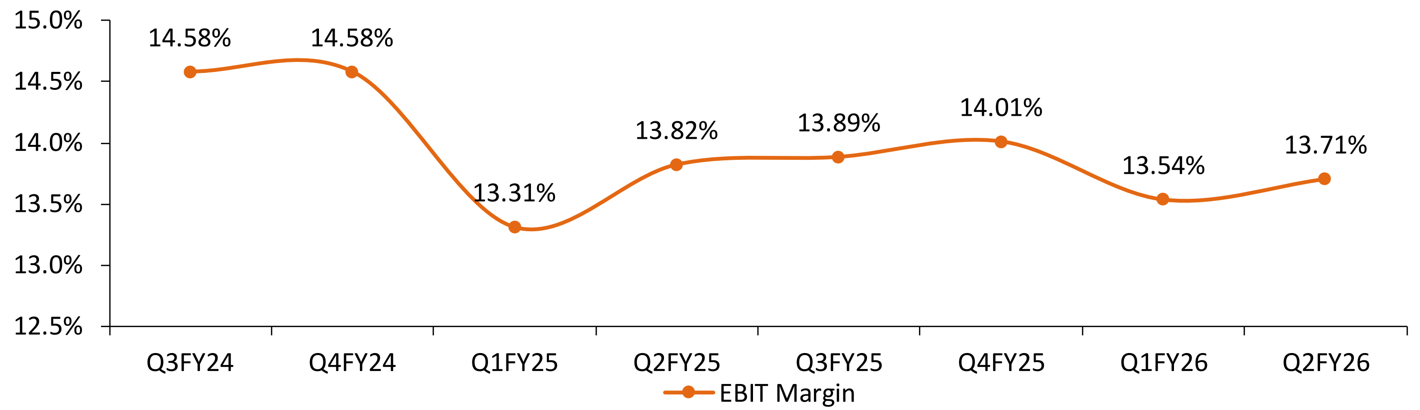
*Source: Company; IDBI Capital Research*

**Exhibit 4: Q2FY26 Revenue growth to be flat at 0.5%**




*Source: Company; IDBI Capital Research*

**Exhibit 5: Q2Y26 EBIT margin up by 17 bps QoQ basis**



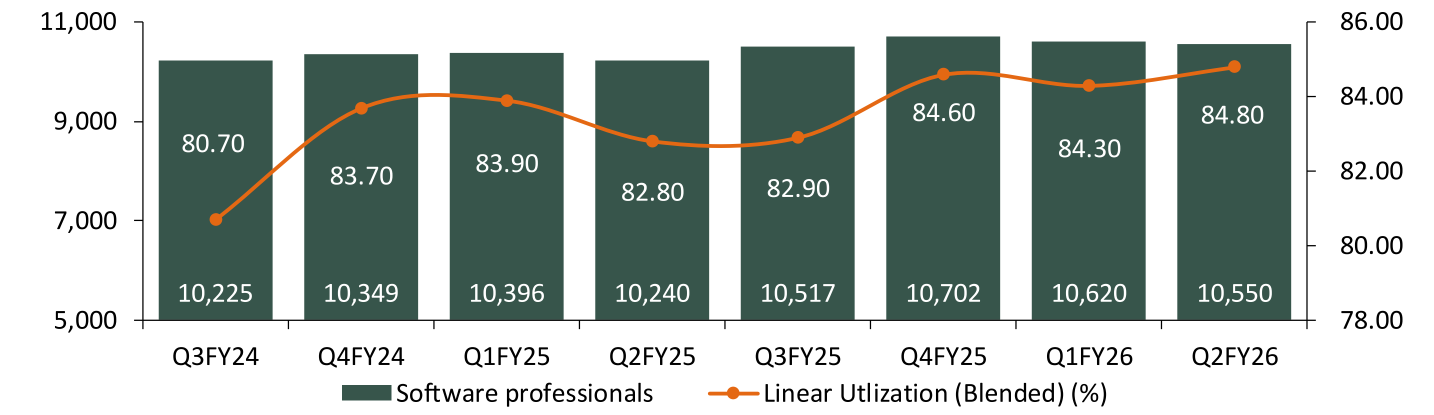

*Source: Company; IDBI Capital Research*

**Exhibit 6: Revenue growth across various segments (%)**

| Parameters | % of revenue | QoQ growth (in USD) | YoY growth (inUSD) |
| --- | --- | --- | --- |
| | | 0.5% | 4.2% |
| **Geography** | | **QoQ growth (in USD)** | **YoY growth (in USD)** |
| US | 66.6% | -2.0% | 2.68% |
| Europe | 21.5% | 5.4% | 6.20% |
| Africa | 11.9% | 6.8% | 9.76% |
| **Service-Line** | | **QoQ growth** | **QoQ growth** |
| AMS | 77.8% | -0.9% | 1.7% |
| IMS | 22.2% | 5.7% | 14.0% |
| **Verticals** | | **QoQ growth** | **QoQ growth** |
| Hi Tech | 20.0% | -9.9% | -6.9% |
| Manufacturing & Consumer services | 25.2% | 0.1% | 0.2% |
| BFSI | 43.6% | 5.6% | 11.1% |
| Healthcare | 11.2% | 3.3% | 11.2% |

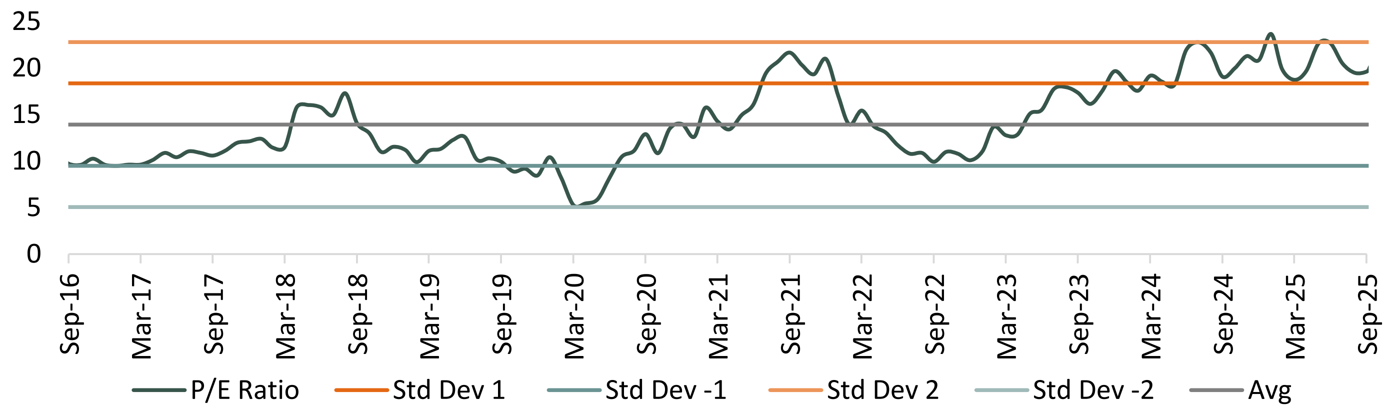
*Source: Company; IDBI Capital Research*

**Exhibit 7: Utilization remained flattish at 84.8%**




*Source: Company; IDBI Capital Research*

**Exhibit 8: One-year forward PER trend**




*Source: Company; IDBI Capital Research*

## Financial Summary

**Profit & Loss Account** (Rs mn)

| Year-end: March | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|---|
| **Net sales** | **42,437** | **48,483** | **49,019** | **52,075** | **57,175** | **63,397** |
| *Change (yoy, %)* | *12.2* | *14* | *1* | *6* | *10* | *11* |
| Operating expenses | (35,872) | (42,960) | (40,301) | (43,789) | (48,599) | (53,539) |
| **EBITDA** | **6,565** | **5,523** | **8,718** | **8,286** | **8,576** | **9,858** |
| *Change (yoy, %)* | *-4.1* | *(16)* | *58* | *(5)* | *4* | *15* |
| *Margin (%)* | *15.5* | *11.4* | *17.8* | *15.9* | *15.0* | *15.6* |
| Depreciation | (1,848) | (1,830) | (1,338) | (989) | (1,086) | (1,205) |
| **EBIT** | **4,717** | **3,693** | **7,380** | **7,297** | **7,490** | **8,654** |
| Interest paid | (353) | (280) | (209) | (167) | (157) | (148) |
| Other income | 1,377 | 1,028 | 1,588 | 1,250 | 1,950 | 2,050 |
| **Pre-tax profit** | **5,741** | **4,441** | **8,759** | **8,380** | **9,283** | **10,556** |
| Tax | (1,525) | (1,166) | (2,108) | (2,011) | (2,228) | (2,502) |
| *Effective tax rate (%)* | *26.6* | *26.3* | *24.1* | *24.0* | *24.0* | *23.7* |
| Minority Interest | (54.0) | - | - | - | - | - |
| **Net profit** | **4,162** | **3,275** | **6,651** | **6,368** | **7,055** | **8,054** |
| Exceptional items | - | - | - | - | - | - |
| **Adjusted net profit** | **4,162** | **3,275** | **6,651** | **6,368** | **7,055** | **8,054** |
| *Change (yoy, %)* | *19.2* | *(21)* | *103* | *(4)* | *11* | *14* |
| EPS | 18.3 | 14.5 | 29.4 | 28.2 | 31.2 | 35.6 |
| Dividend per sh | 5.0 | 5.0 | 5.5 | 9.0 | 9.4 | 10.7 |
| *Dividend Payout %* | *27.3* | *34.6* | *18.7* | *32* | *30* | *30* |

**Balance Sheet** (Rs mn)

| Year-end: March | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|---|
| **Shareholders' funds** | **26,592** | **28,984** | **34,523** | **40,697** | **45,635** | **51,273** |
| Share capital | 452 | 453 | 453 | 454 | 454 | 454 |
| Reserves & surplus | 26,140 | 28,531 | 34,070 | 40,243 | 45,181 | 50,819 |
| **Total Debt** | - | - | - | - | - | - |
| Other liabilities | 3,544 | 2,866 | 2,319 | 2,210 | 2,210 | 2,210 |
| **Curr Liab & prov** | **8,299** | **8,582** | **8,540** | **8,822** | **8,333** | **8,965** |
| Current liabilities | 6,693 | 6,248 | 6,331 | 5,963 | 5,756 | 6,108 |
| Provisions | 1,606 | 2,334 | 2,209 | 2,859 | 2,577 | 2,857 |
| **Total liabilities** | **11,843** | **11,448** | **10,859** | **11,032** | **10,543** | **11,175** |
| **Total equity & liabilities** | **38,712** | **41,210** | **46,481** | **51,729** | **56,178** | **62,448** |
| | | | | | | |
| Net fixed assets | 12,858 | 11,735 | 10,393 | 11,709 | 12,095 | 12,468 |
| Investments | - | - | - | - | - | - |
| Other non-curr assets | 3,226 | 6,291 | 10,144 | 6,874 | 7,127 | 7,316 |
| **Current assets** | **22,628** | **23,184** | **25,944** | **33,146** | **36,957** | **42,664** |
| Inventories | - | - | - | - | - | - |
| Sundry Debtors | 7,967 | 7,298 | 7,320 | 7,901 | 8,538 | 9,467 |
| Cash and Bank | 8,559 | 7,280 | 7,241 | 7,436 | 10,232 | 14,789 |
| Loans and advances | 1,636 | 4,509 | 6,509 | 12,537 | 12,537 | 12,537 |
| **Total assets** | **38,712** | **41,210** | **46,481** | **51,729** | **56,178** | **62,448** |

## Cash Flow Statement

(Rs mn)

| Year-end: March | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|---|
| Pre-tax profit | 5,741 | 4,441 | 8,759 | 8,380 | 9,283 | 10,556 |
| Depreciation | 1,803 | 1,838 | 1,559 | 1,146 | 1,043 | 1,151 |
| Tax paid | (1,572) | (1,585) | (2,249) | (1,991) | (2,431) | (2,641) |
| Chg in working capital | 832 | (1,921) | (2,064) | (6,327) | (1,126) | (297) |
| Other operating activities | (1,031) | - | (4,726) | 39 | (233) | (264) |
| **Cash flow from operations (a)** | **5,772** | **2,773** | **1,279** | **1,247** | **6,536** | **8,505** |
| | | | | | | |
| Capital expenditure | (3,330) | (715) | (217) | (2,462) | (1,428) | (1,525) |
| Chg in investments | - | - | - | - | - | - |
| Other investing activities | 1,121 | (1,920) | - | - | - | - |
| **Cash flow from investing (b)** | **(2,209)** | **(2,635)** | **(217)** | **(2,462)** | **(1,428)** | **(1,525)** |
| | | | | | | |
| Equity raised/(repaid) | 1 | 1 | - | 1 | - | - |
| Debt raised/(repaid) | - | - | - | - | - | - |
| Dividend (incl. tax) | (1,135) | (1,132) | (1,246) | (2,041) | (2,116) | (2,416) |
| Chg in minorities | (64) | 501 | 321 | (1,099) | - | - |
| Other financing activities | (792) | (787) | (176) | (258) | - | - |
| **Cash flow from financing (c)** | **(1,991)** | **(1,417)** | **(1,101)** | **(3,397)** | **(2,116)** | **(2,416)** |
| | | | | | | |
| **Net chg in cash (a+b+c)** | **1,573** | **(1,279)** | **(39)** | **(4,613)** | **2,991** | **4,564** |

### Financial Ratios

| Year-end: March | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|---|
| Book Value (Rs) | 117.1 | 128.0 | 152.6 | 179.9 | 201.8 | 226.7 |
| *Adj EPS (Rs)* | *18.3* | *14.5* | *29.4* | *28.2* | *31.2* | *35.6* |
| *Adj EPS growth (%)* | *19.5* | *-21.1* | *103.4* | *-4.2* | *10.8* | *14.2* |
| *EBITDA margin (%)* | *15.5* | *11.4* | *17.8* | *15.9* | *15.0* | *15.6* |
| *Pre-tax margin (%)* | *13.5* | *9.2* | *17.9* | *16.1* | *16.2* | *16.7* |
| *Net Debt/Equity (x)* | *-0.3* | *-0.3* | *-0.2* | *-0.2* | *-0.2* | *-0.3* |
| *ROCE (%)* | *16.4* | *11.7* | *20.9* | *18.1* | *15.7* | *16.2* |
| *ROE (%)* | *16.6* | *11.8* | *20.9* | *16.9* | *15.5* | *15.7* |
| **DuPont Analysis** | | | | | | |
| Asset turnover (x) | 1.2 | 1.2 | 1.1 | 1.1 | 1.0 | 1.0 |
| Leverage factor (x) | 1.5 | 1.4 | 1.4 | 1.3 | 1.2 | 1.2 |
| *Net margin (%)* | *9.8* | *6.8* | *13.6* | *12.2* | *12.3* | *12.7* |
| **Working Capital & Liquidity ratio** | | | | | | |
| Inventory days | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivable days | 69 | 55 | 55 | 55 | 55 | 55 |
| Payable days | 32 | 24 | 28 | 29 | 24 | 24 |

### Valuations

| Year-end: March | FY22 | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|---|
| PER (x) | 48.8 | 61.8 | 30.4 | 31.8 | 28.7 | 25.1 |
| Price/Book value (x) | 7.6 | 7.0 | 5.9 | 5.0 | 4.4 | 3.9 |
| EV/Net sales (x) | 4.6 | 4.0 | 4.0 | 3.7 | 3.4 | 3.0 |
| EV/EBITDA (x) | 29.6 | 35.3 | 22.4 | 23.5 | 22.4 | 19.0 |
| *Dividend Yield (%)* | *0.6* | *0.6* | *0.6* | *1.0* | *1.0* | *1.2* |

*Source: Company; IDBI Capital Research*

SAPTARSHI MUKHERJEE

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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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