

Zensar Technologies Ltd

Bloomberg Code: ZENT IN

India Research - Stock Broking

HOLD

Digital to Drive Growth

Strong set of numbers: At \$150.1 Mn, Zensar (ZENT) reported a strong growth in revenue – 4.5% QoQ and 18.5% YoY. In constant currency terms (CC), it reported a sequential growth of 4.1% and 21.5% over previous year. Core business at \$142.4 Mn registered a growth of 5.4% QoQ and 22.3% YoY. Digital continued with its strong momentum which grew at 8.1% QoQ and 35.6% YoY. Digital for Q4FY19 contributed 46.4% to total revenue vs. 44.9% in Q3FY19, second highest in the industry. For FY19, Digital contributed 44.7%. For FY19, ZENT reported a revenue growth of 17.9% in \$ terms at \$567 Mn. Growth was broad-based and aided by all verticals and geographies. BFSI de-grew, as a large project was completed and there was a delay in its renewal. We believe BFSI vertical (grew -4.3% in Q4FY19 QoQ) to revive in the coming quarter, aided by strong deal flow in the GuideWire (an insurance platform that has capabilities to digitize insurance companies' operations) space in the insurance vertical.

Sustained deal momentum: ZENT's deal momentum continued with a reported Total Contract Value (TCV) of \$250 Mn during Q4FY19 up 25% QoQ. For FY19, outstanding TCV stood at \$750 Mn vs \$600 Mn in FY18. Deal pipeline is strong at \$1Bn which provides revenue visibility. Of this, around 60% of the deals (up from 55% last year) are large deals (\$10 Mn+ deals). Of the outstanding deal book, \$100 Mn+ bookings are in Cloud and Infra Services (CIS) business on a TTM basis. Management's strategy of focusing on large deals seems to be working.

Strong client metrics: ZENT's client metrics looked encouraging which saw addition of 2 new clients in the \$10 Mn bucket in Q4FY19 and a total of 5 clients in FY19. We believe that ZENT's go-to-market strategy and its RoD and RoD Next suite of offerings are gaining traction among the clients as the top 20 accounts grew by 19.3% and top 10 accounts grew 10.1% YoY.

Valuation & Risks

We remain positive on ZENT given a) strong digital capabilities aided by its Return on Digital (RoD) and RoD Next offerings. b) good revenue visibility with robust growth in TCV and strong deal pipeline and c) stable margin outlook with upside risks owing to increasing contribution of digital deals. We recommend **"HOLD"** on the stock with a target price of Rs. 270, and an upside potential of 13%. We value Zensar at PE of 18x on FY21E EPS of Rs. 15.6.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	30556	31077	39663	45307	49774
EBITDA	3866	3729	4928	5448	5971
EBITDA Margin (%)	12.7	12.0	12.4	12.0	12.0
Adj. Net Profit	2348	2416	3136	3349	3513
EPS (Rs.)	10.4	10.6	13.9	14.9	15.6
RoE (%)	17.2	15.4	17.4	16.2	15.1
PE (x)*	17.9	16.9	16.8	15.8	15.0

Source: Company, Karvy Research, *Represents multiples for FY17 - FY19 are based on historic market price

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Recommendation (Rs.)

CMP (as on May 06, 2019)	239
Target Price	270
Previous Target Price	264
Upside (%)	13

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	53830 / 776
52-wk High/Low (Rs.)	352 / 196
3M Avg. daily value (Rs.)	35.3
Beta (x)	1.1
Sensex/Nifty	38600 / 11598
O/S Shares(mn)	225.2
Face Value (Rs.)	2.0

Shareholding Pattern (%)

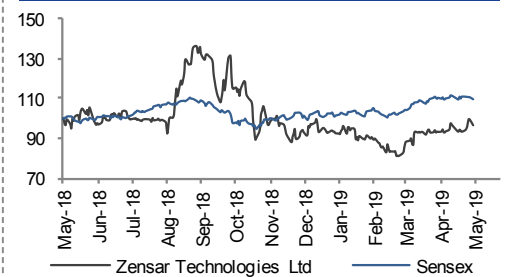
Promoter	48.9
FII	16.8
DII	2.6
Others	31.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	4	7	(0)	(8)
Relative to Sensex	4	3	(10)	(16)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

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Profitability aided by utilization and low base: ZENT reported revenue of Rs. 10574 Mn up 2.1% QoQ and 29.8% YoY aided by ramping up of large deals won in the past and strong growth in Manufacturing, Hi-tech and Retail. EBITDA at Rs. 1321 Mn is up 17.5% QoQ and 32.2% YoY. EBIT at Rs. 1070 Mn up 20.5% QoQ and 24.3% YoY. PAT at Rs. 827 Mn is up 49.7% QoQ and 13.9% YoY. EBITDA margin for the quarter came in at 12.5%, an expansion of 159 bps aided by gross margin expansion of 189 bps, which was led by higher utilization rate and lower sub-contracting costs. Sequential margins were also aided by favorable base effect due to absence of seasonal factors like furloughs and low working days, etc.

Inorganic strategy is working: We believe that ZENT's focused inorganic strategy with emphasis on small tuck-in acquisitions which give ZENT access to new technologies and key logos is working. ZENT acquired 4 companies in the past 2 years – Foolproof, Keystone Logic, Cynossure and Indigo Slate (Exhibit 2). All the 4 companies have become an integral part of new deals and have reported a robust sequential growth during the quarter. Foolproof reported a growth of 10.2% QoQ and contributed significantly to the growth in UK region as a result of good cross-selling. Keystone Logic grew 16.1% QoQ. Cynossure grew 18.3% QoQ, providing good visibility for the insurance vertical with multiple deal wins during the quarter. Indigo Slate reported a growth of 6.5% sequentially.

Exhibit 2: Zensar acquisition

Acquisition	Capabilities
Foolproof	UI/UX design capabilities
Keystone Logic	Retail and Supply Chain automation
Cynossure	Guidewire Insurance Platform, one of the leading players in property and casualty insurance
Indigo Slate	Digital marketing capabilities

Source: Company, Karvy Research

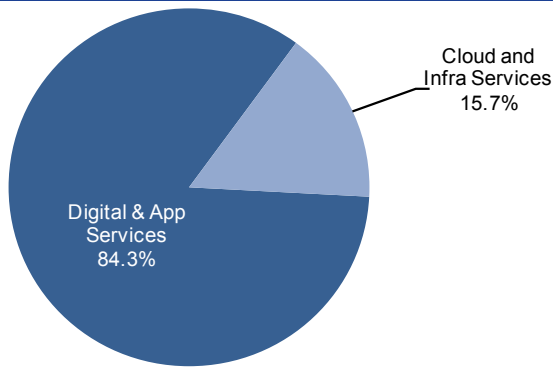
Exhibit 3: Q4FY19 Performance Comparison

YE Mar (Rs. Mn)	Q4FY19	Q3FY19	QoQ %	Q4FY18	YoY %
Turnover	10574	10355	2.1	8147	29.8
Expenditure	9305	9251	0.6	7186	29.5
EBITDA	1320	1124	17.4	999	32.1
Depreciation	251	237	5.9	139	80.6
Interest	110	109	1.1	50	120.5
Other Income	246	174	41.4	42	485.7
PBT	1187	783	51.6	1040	14.1
Tax	355	218	62.8	300	18.3
PAT	832	565	47.2	740	12.4
EBITDA Margin (%)	12.5	10.9	163 bps	12.3	22 bps
EBIT Margin (%)	10.1	8.6	150 bps	10.6	(45) bps
Net Profit Margin (%)	7.9	5.5	241 bps	9.1	(122) bps

Source: Company, Karvy Research

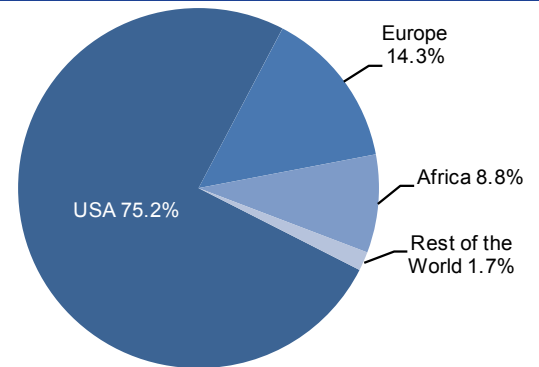
Performance Highlights

Exhibit 4: Revenue By Service Offering for Q4FY19



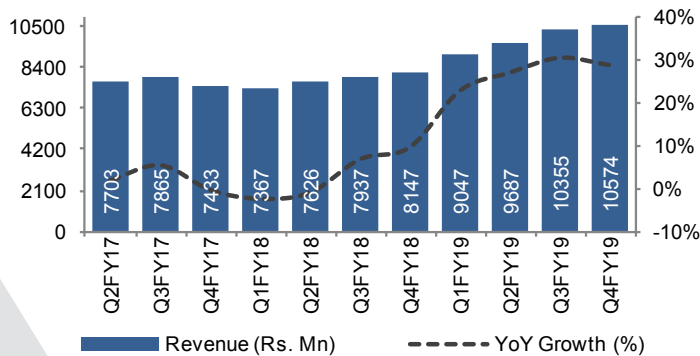
Source: Company, Karvy Research

Exhibit 5: Revenue By Geography for Q4FY19



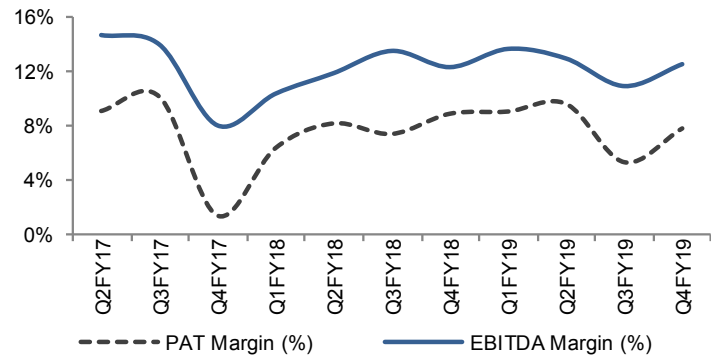
Source: Company, Karvy Research

Exhibit 6: Quarterly Revenue & Revenue Growth



Source: Company, Karvy Research

Exhibit 7: Quarterly Margins Trend



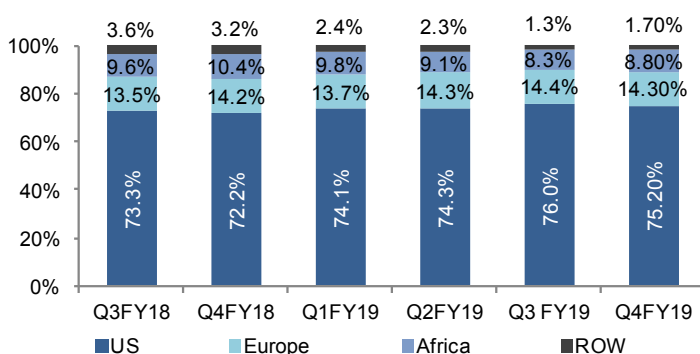
Source: Company, Karvy Research

Exhibit 8: Constant Currency Growth By Geography (QoQ)

Particulars (%)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
US	0.5	5.3	1.5	9.3	2.8	6.6	4.6
Europe	3.3	(2.3)	3.2	5.3	10.9	5.7	7.5
Africa	8.7	3.0	(0.9)	5.7	5.6	(3.6)	(2.0)
Rest of the World	67.7	(4.5)	(8.1)	(17.0)	0.4	(39.6)	(27.0)

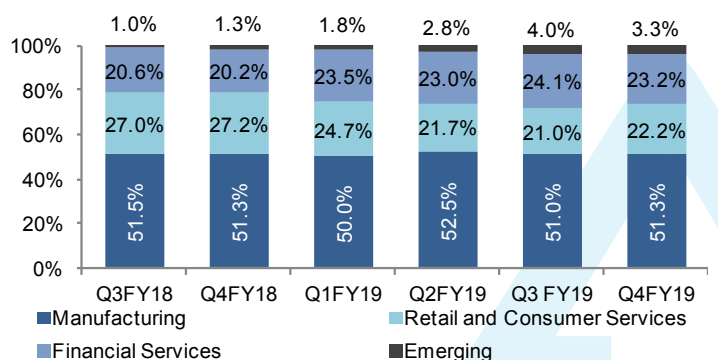
Source: Company, Karvy Research

Exhibit 9: Revenue mix - by Geography



Source: Company, Karvy Research

Exhibit 10: Revenue mix - by Industry



Source: Company, Karvy Research

Exhibit 11: Segmental Financials

YE Mar (Rs. Mn)	Q4FY19	Q3FY19	QoQ %	Q4FY18	YoY %
Segment-wise revenues					
Application Management Services	8952	8689	3.0	7002	27.9
Infrastructure Management Services	1622	1746	(7.1)	1145	41.6
Segment-wise EBITDA					
Application Management Services	1241	1089	14.0	985	26.1
Infrastructure Management Services	52	121	(57.6)	(7)	(815.3)
Segment-wise EBITDA Margin (%)					
Application Management Services	13.9	12.5	133 bps	14.1	(20) bps
Infrastructure Management Services	3.2	7.0	(378) bps	(0.6)	380 bps

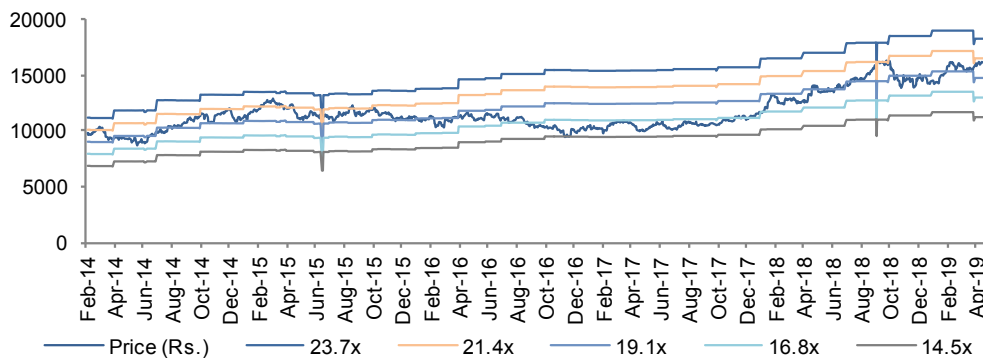
Source: Company, Karvy Research, NM: Not Meaningful

Exhibit 12: 5 year PE Band for Zensar Technologies



Source: Bloomberg, Karvy Research

Exhibit 13: 5 year PE Band for NSE IT



Source: Bloomberg, Karvy Research

Financials

Exhibit 14: Income Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	30556	31077	39663	45307	49774
Growth (%)	3.1	1.7	27.6	14.2	9.9
Operating Expenses	26690	27348	34735	39858	43803
EBITDA	3866	3729	4928	5448	5971
Growth (%)	(12.2)	(3.5)	32.1	10.6	9.6
Depreciation & Amortization	486	651	894	1089	1388
Other Income	48	79	162	142	142
EBIT	3380	3078	4034	4359	4583
Interest Expenses	88	223	93	146	146
PBT	3486	3516	4454	4650	4874
Tax	1103	1051	1267	1256	1316
PAT	2383	2465	3187	3395	3558
Minority Interest	35	50	51	45	45
Adjusted PAT	2348	2416	3136	3349	3513
Growth (%)	(21.0)	2.9	29.8	6.8	4.9

Source: Company, Karvy Research

Exhibit 15: Balance Sheet

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & Cash Equivalents	3271	2042	2888	3842	5200
Sundry Debtors	5332	6423	7389	8441	9273
Inventory	1127	1060	1166	1283	1411
Investments	2427	2746	3164	3727	4373
Gross Block	2490	3639	4612	5927	2617
Net Block	1293	1693	2327	2221	2027
CWIP	10	23	17	17	17
Miscellaneous	6766	9001	9467	9987	10033
Total Assets	21057	22964	26401	29500	32317
Current Liabilities & Provisions	5796	5301	5768	6193	6415
Debt	3	60	71	86	86
Other Liabilities	543	915	1138	1180	1225
Total Liabilities	6341	6275	6978	7458	7726
Shareholders Equity	449	450	450	450	450
Reserves & Surplus	14267	16239	18973	21592	24141
Total Networth	14716	16689	19423	22042	24591
Total Networth & Liabilities	21057	22964	26401	29500	32317

Source: Company, Karvy Research

Exhibit 16: Cash Flow Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	3486	3516	4454	4650	4874
Depreciation	486	651	894	1089	1388
Tax Paid	(1024)	(1035)	(1267)	(1256)	(1316)
Inc/dec in Net WC	(138)	(1244)	(564)	(979)	(644)
Other Income	(31)	(62)	(49)	(49)	(49)
Other non cash items	266	234	253	253	253
Cash flow from operating activities	3044	2059	3721	3708	4506
Inc/dec in capital expenditure	(353)	(525)	(1531)	(1315)	(1481)
Others	(1548)	(1041)	(487)	(531)	(576)
Cash flow from investing activities	(1901)	(1565)	(2018)	(1846)	(2057)
Dividend paid	(261)	(626)	(81)	(81)	(81)
Cash flow from financing activities	(499)	(2040)	(1495)	(1495)	(1495)
Net change in cash	643	(1546)	207	366	954

Source: Company, Karvy Research

Exhibit 17: Key Ratios

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EBITDA Margin (%)	12.7	12.0	12.4	12.0	12.0
EBIT Margin (%)	11.1	9.9	10.2	9.6	9.2
Net Profit Margin (%)	7.8	7.9	8.0	7.5	7.1
Dividend Payout Ratio (%)	23.2	22.6	12.9	12.1	11.5
Net Debt/Equity (x)	(0.3)	(0.2)	(0.2)	(0.2)	(0.3)
RoE (%)	17.2	15.4	17.4	16.2	15.1
RoCE (%)	22.4	20.6	22.3	20.9	19.6

Source: Company, Karvy Research

Exhibit 18: Valuation Parameters

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs.)	10.4	10.6	13.9	14.9	15.6
DPS (Rs.)	2.4	2.4	1.8	1.8	1.8
BVPS (Rs.)	65.6	74.2	86.3	98.0	109.2
PE (x)	17.9	16.9	16.8	15.8	15.0
P/BV (x)	2.8	2.4	3.8	3.3	3.0
EV/EBITDA (x)	10.8	10.6	8.6	15.8	15.4
EV/Sales (x)	1.3	1.2	1.8	1.5	1.4

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19 are based on historic market price

Stock Ratings	Absolute Returns
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Hold	: 5-15%
Sell	: < 5%

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