

Addressing growth, margin challenges...

About the stock: Zensar Technologies (Zensar) offers application & IMS services to hi-tech, manufacturing, retail and BFSI.

- Zensar has grown organically and inorganically over the years
- Net debt free and healthy double digit return ratio (with RoCE of 19%)

Management meet Highlights

- **Growth:** The company maintains that it expects moderation in revenue growth in the next two to four quarters, especially in its key verticals of hi-tech, manufacturing, retail
- **Margin:** It maintains its aspiration to reach mid teen EBITDA margins by Q2FY24. Margin levers are a) improvement of service mix, b) pricing increase, c) utilisation improvement, d) rationalisation of subcontractor cost
- **Acquisition strategy:** The company is actively looking at an acquisition to enhance its capability/addition of few marquee logos. As per the management, four to five deals are on the table

What should investors do? Zensar's share price has grown by ~1.5x over the past five years (from ~₹ 158 in September 2017 to ~₹ 232 levels in September 2022).

- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value Zensar at ₹ 250 i.e. 15x P/E on FY24E.

Key triggers for future price performance:

- Zensar is addressing key shortages of the past. The new CEO has devised a strategy to focus on the experience side and build capabilities in digital engineering, data, artificial intelligence and machine learning
- Driving deal momentum, annuity revenues, increasing investment in sales & talent, leadership and tuck in acquisition to build capability bodes well for long term revenue growth
- Expect dollar revenue CAGR of 6.7% over FY22-24E

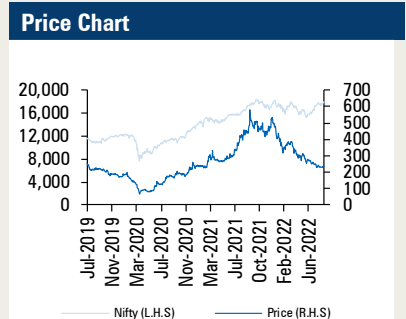
Alternate Stock Idea: Apart from Zensar, in our IT coverage we also like Persistent.

- Key beneficiary of growth in digital technologies and exposure to growth segments like healthcare & BFSI. BUY with a target price of ₹ 4,200



Particulars	
Particular	Amount
Market Cap (₹ Crore)	5,350
Total Debt (₹ Crore)	-
Cash & Invt (₹ Crore)	1,020
EV (₹ Crore)	4,330
52 week H/L	587 / 222
Equity capital (₹ Crore)	45
Face value	₹ 2

Shareholding pattern				
	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	49	49	49	49
FII	16	18	17	16
DII	21	14	13	14
Public	14	19	21	21



Recent event

- It added 43 clients in FY22, its highest ever
- **Key Risk:** (i) Lower than expected growth (ii) Higher than expected margins

Research Analyst

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	4,182	3,781	4,244	6.8%	4,695	4,930	7.8%
EBITDA	507	685	657	11.2%	563	700	3.3%
EBITDA Margin (%)	12.1	18.1	15.5		12.0	14.2	
Reported PAT	263	300	416	12.1%	272	381	-4.3%
EPS (₹)	11.5	13.2	18.3		12.0	16.9	
P/E	20.4	17.8	12.9		19.6	13.9	
ROE (%)	12.6	12.8	15.5		9.4	12.1	
ROCE (%)	12.5	18.9	15.5		11.7	14.6	

Source: Company, ICICI Direct Research

Management Meet Highlights

- The company did a brand refresh a few quarters back (first in 20 years) after the new CEO joined and the results were visible in terms of i) revenue growth revival after few quarters of decline earlier i.e. the company's quarterly revenue is now at US\$155 million (mn) vs. US\$120 mn in Q4FY21, ii) the company added 50+ logos in the last five quarters, out of which 43 were added in FY22, its highest ever, iii) Zensar revamped its fresher programme wherein it added 1600+ freshers in FY22
- However, the company is witnessing revenue growth challenges on two fronts: i) High attrition (of 28%) is impacting its delivery while ii) slowdown in its key verticals such as hi-tech, manufacturing and retail vertical (which forms 59% of revenue mix) on macro concerns impacting its (client's) business performance
- The company is trying to address attrition issues through i) **wage hike**: Zensar has given substantial wage hikes for two consecutive years to retain key talent. As per the management, hike to its own talent is largely cost effective rather than paying 1.5-2x for the same talent on lateral hiring
- The company also mentioned that it also did some course correction in terms of lateral hiring i.e. Level N employee could have been replaced by level N-1 or N-2 but it was being replaced by N+1 resulting in increasing cost of talent by US\$2-3 mn
- **Fresher programme**: Before the new CEO joined, the company did depend heavily on external talent for project delivery as there was no comprehensive fresher programme in the organisation to fall back on freshers in a high attrition scenario. On account of this, its sub-contracting costs have been at elevated levels. The company did some course correction and started a comprehensive fresher programme four to five quarters back wherein it has hired 1600 freshers in FY22. Zensar is expecting most freshers to become billable by Q2FY23 as their progress is being monitored on a weekly basis. The company is also looking to reduce the fresher billable cycle from nine months to six months, out of which three months would be training and the next three months would be on-boarding
- **The company is targeting attrition to come down by 600 bps in the next two quarters to 22%. Total 50% of the same is due to backfilling by freshers**
- **Pricing**: The company mentioned that the pricing scenario is much better compared to a few quarters back. Zensar had earlier targeted a four-quarter price hike programme wherein it continuously engaged with the client on price hikes. The company did mention that as a result of continuous engagement, it has now started getting price hikes
- **Acquisition strategy**: The company did mention that it is looking at a tuck in acquisition, which would be either to enhance capability or addition of few marquee logos. It is of the opinion that valuation of a few companies has seen a correction in the last few quarters. Hence, it would be an appropriate time to look for the opportunity. It is already evaluating four to five opportunities. Zensar is also looking to fund the acquisition through the cash it has on the balance sheet (US\$163.5 mn). The company may also look at paying dividend
- **Margin levers**: The company called out the following levers for margin improvement, going forward i) improving service mix, ii) price increase, iii) improvement in utilisation, iv) pyramid optimisation, v) optimising talent costs. The company maintained that it is expecting EBITDA margins to reach mid teen levels in Q2FY24. It is expected to reach high-teens in the next 18-24 months

Exhibit 1: Strategy Refresh



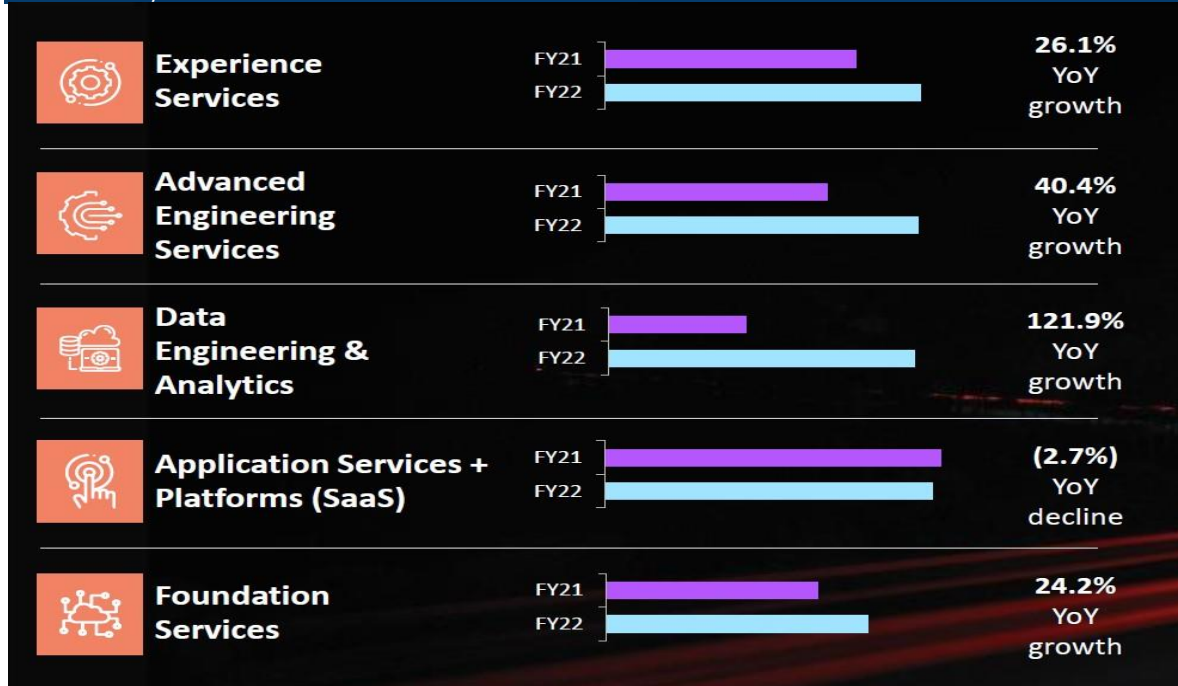
Source: Company, ICICI Direct Research

Exhibit 2: Path Forward



Source: Company, ICICI Direct Research

Exhibit 3: Key Service lines



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					₹ crore
	FY21	FY22	FY23E	FY24E	
Total Revenues	3,781	4,244	4,695	4,930	
Growth (%)	-10	12	11	5	
Employee Benefit Expense	2,515	2,921	3,404	3,476	
Other Expenses	582	666	728	754	
EBITDA	685	657	563	700	
Growth (%)	35.1	-4.1	-14.2	24.3	
Depreciation	175	185	185	185	
Other Income	25	138	42	47	
Interest	54	35	40	40	
PBT before Exceptional Items	482	574	380	523	
Growth (%)	28.3	19.1	-33.7	37.4	
Tax	126	153	103	141	
PAT before Exceptional Items	356	421	278	381	
Minority interest	7	5	6	-	
PAT after exceptional ite	300	416	272	381	
Growth (%)	13.9	38.7	-34.7	40.3	
Diluted EPS	13.2	18.3	12.0	16.9	
EPS (Growth %)	14.3	38.7	-34.3	40.3	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
	FY21	FY22	FY23E	FY24E	
Profit before Tax	482	574	380	523	
Depreciation	175	185	185	185	
Change in working capital	315	(243)	27	(36)	
Income Taxes Paid	(140)	(152)	(103)	(141)	
CF from operations	858	335	482	523	
Other Investments	(547)	214	42	47	
(Purchase)/Sale of Fixed Asse	(39)	(233)	(61)	(64)	
CF from investing Activiti	(528)	(17)	(19)	(17)	
Inc / (Dec) in Equity Capital	1	3	-	-	
Inc / (Dec) in sec.loan Funds	(330)	-	-	-	
Dividend & Dividend tax	(27)	(88)	(73)	(103)	
Interest Paid on Loans	(4)	(1)	(40)	(40)	
CF from Financial Activit	(359)	(86)	(113)	(143)	
Net change in cash	(29)	233	350	363	
Opening cash	517	699	856	1,154	
Closing cash	699	856	1,154	1,468	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					₹ crore
	FY21	FY22	FY23E	FY24E	
Equity	45	45	45	45	
Reserves & Surplus	2,297	2,642	2,840	3,119	
Networth	2,342	2,687	2,885	3,164	
Total debt	-	-	-	-	
Minority Interest	29	-	-	-	
Other liabilities	324	354	354	354	
Source of funds	2,695	3,041	3,240	3,518	
Fixed assets	388	382	435	418	
Intangible assets	168	180	54	(0)	
Goodwill	577	724	724	724	
Non current investments	154	161	161	161	
Other non current assets	154	162	170	177	
Current Investments	363	164	164	164	
Cash Balance	699	856	1,154	1,468	
Inventories	-	-	-	-	
Debtors	589	797	728	764	
Other current assets	342	447	438	451	
Trade payables	220	316	268	281	
Other Current liabilities	518	514	519	528	
Application of funds	2,695	3,041	3,240	3,518	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					₹ crore
	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
Diluted EPS	13.2	18.3	12.0	16.9	
BV	102.9	118.0	127.5	139.8	
DPS	3.6	4.9	3.2	4.6	
Cash Per Share	30.7	37.6	51.0	64.8	
Operating Ratios (%)					
EBITDA Margin	18.1	15.5	12.0	14.2	
PAT Margin	7.9	9.8	5.8	7.7	
Debtor days	57	69	57	57	
Creditor days	21	27	21	21	
Return Ratios (%)					
RoE	12.8	15.5	9.4	12.1	
RoCE	18.9	15.5	11.7	14.6	
RoIC	31.2	23.3	19.7	27.3	
Valuation Ratios (x)					
P/E	17.8	12.9	19.6	13.9	
EV / EBITDA	6.2	6.6	7.2	5.3	
Market Cap / Sales	1.4	1.3	1.1	1.1	
Price to Book Value	2.3	2.0	1.8	1.7	
Solvency Ratios					
Debt/Equity	-	-	-	-	
Debt / EBITDA	-	-	-	-	
Current Ratio	1.3	1.5	1.5	1.5	
Quick Ratio	1.3	1.5	1.5	1.5	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Sameer Pardikar, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient 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 ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed 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 may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not 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.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

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 ICICI Securities and affiliates 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. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.