

ZENSARTECH LTD.

HOLD
5-Oct-15

Result Update

| | |
|-----------------------|-----|
| CMP | 837 |
| Target Price | 930 |
| Previous Target Price | 930 |
| Upside | 11% |
| Change from Previous | 0% |

Market Data

| | |
|---------------------|------------|
| BSE Code | 504067 |
| NSE Symbol | ZENSARTECH |
| 52wk Range H/L | 1010/437 |
| Mkt Capital (Rs Cr) | 3598 |
| Av. Volume(,000) | 16 |
| Nifty | 7981 |

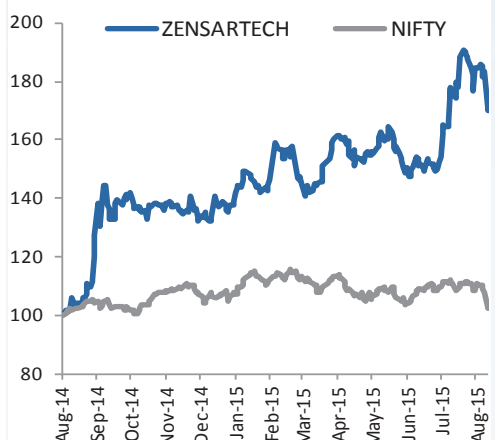
Stock Performance

| | 1Month | 3 Month | 1Year |
|--------------|--------|---------|-------|
| Absolute | -8.4 | 10.8 | 81.0 |
| Rel.to Nifty | -2.5 | 15.1 | 80.9 |

Share Holding Pattern-%

| | 1QFY16 | 4QFY15 | 3QFY15 |
|-----------|--------|--------|--------|
| Promoters | 48.2 | 47.7 | 48.1 |
| FII | 13.1 | 13.0 | 12.7 |
| DII | 1.3 | 0.5 | 0.0 |
| Others | 37.5 | 38.8 | 39.2 |

Company Vs NIFTY



Q1FY16_Result Update

Zensar Technologies reported YoY revenue growth of 16.5% from INR 604.78 crore to INR 704.64 crore in Q1FY16.(YoY of 7.8% revenue growth in Dollar term). The rupee has depreciated against the dollar significantly over the past one year. The PAT increased by 36.2% from INR 55.98 crore in Q1 FY 15 to INR 76.27 crore in Q1 FY 16.

This has been a quarter of robust growth for Zensar on all fronts. The company has been focusing on new client acquisition and strategic deals in Digital and eCommerce, which has resulted in good wins and a substantial order pipeline. We are happy to see the market adoption of Zensartech's digital solutions, which forms a strong foundation for growth in the financial year.

Company generated healthy revenue of 83 million \$ from AMS busines,against our expectation of 78 million \$. The revenue from Subsidiary business (Professional Access) was flat at 12 million \$, while the organic revenue jump to 71 million \$ (Expectation 66 million \$).

With this company is focusing at some inorganic opportunity in Germany to add SAP capabilities. Further inorganic growth will remain a key sensitive scenario for the stock. We see Dollar or US to remain healthy, so geographically US will continue to add 70%-75% of revenue for the near year. On the cross currency front , Management do not see any larger impact for the near term, currently 55% of its Dollar receivables are hedged @65. On the front growth, management remain intact at 15%-20% in each segment.

Eyes 20% digital growth this year :

The company's acquisition of Professional Access Inc has helped the books manifold. The acquired company's business has grown sequentially 3.5 percent and focuses on the e-commerce space. Management mentioned, the digital and ecommerce certainly should be tracking at 20 % growth this year, maybe more. If one look at the enterprise business, it all depends on the market and to a certain extent currency. US is main market for enterprise, that has grown over 12 percent sequential quarter. Company is still watchful on what will happen in Europe because company focus in Europe has been UK and some of the UN agencies and that continues to grow. Overall deal pipeline is just over USD 350 million at this point of time which is very good because company have already covered close to 96-97 percent of our current year's revenue requirement through the very visible deal pipeline or order book.

| | Rs,Cr | | | | |
|------------|-------|------|------|------|-------|
| Financials | 2012 | 2013 | 2014 | 2015 | 2016E |
| Sales | 1824 | 2132 | 2361 | 2683 | 2774 |
| EBITDA | 249 | 300 | 364 | 392 | 429 |
| Net Profit | 159 | 175 | 238 | 265 | 266 |
| EPS | 37 | 40 | 54 | 61 | 65 |
| P/E | 4.9 | 6.1 | 6.9 | 10.6 | 9.9 |

(Source: Company/Eastwind)

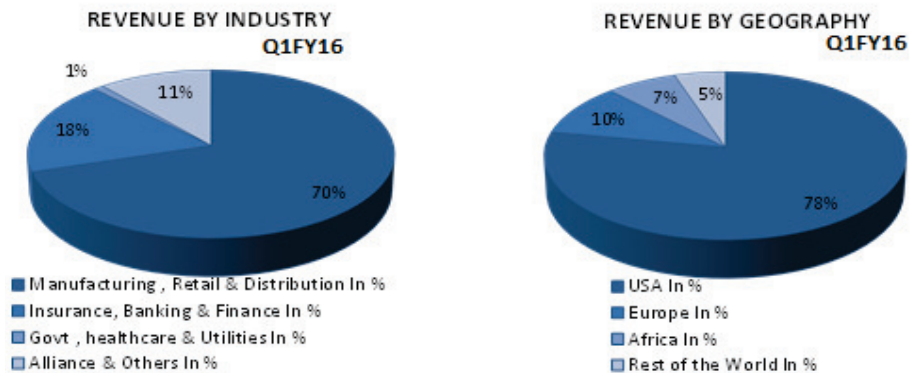
Investment Arguments :

- PA will face little low competition as there are only ~10 companies in ATG implementation space globally. PA is the only Oracle Platinum partner in Advanced Oracle ATG implementation and will increase Zensar's penetration in Oracle.
- We believe this acquisition will further strengthen revenue by cross selling through Oracle EBS, Oracle Retail and Fusion Middleware solutions for global clients.
- With this company is focusing at some inorganic opportunity in Germany to add SAP capabilities. Further inorganic growth will remain a key sensitive scenario for the stock.
- We don't see any drastical organic growth in its business , so the only key revenue driver will be any acquisition in SAP or enhanced business performance in PA.
- We see Dollar or US to remain healthy, so geographically US will continue to add 70%-75% of revenue for the near year.
- On the cross currency front , Management do not see any larger impact for the near term, currently 55% of its Dollar receivables are hedged @65.
- On the front growth, management remain intact at 15%-20% in each segment.

View & Valuation

The deal booking and pipeline is looking good and expects to perform well going forward. Order pipeline continues to be stable at \$ 350 mn+ mainly on the back of good demand seen in digital, Mobility, and Cloud Computing side. Considering healthy order pipeline and its earning visibility in near future. Overall, we see a strong momentum in growth from across sectors and geographies. We Recommend "HOLD" on the stock to our target price at Rs 930. At a CMP of Rs 809 stock is trading at 12.28x of FY16E EPS.

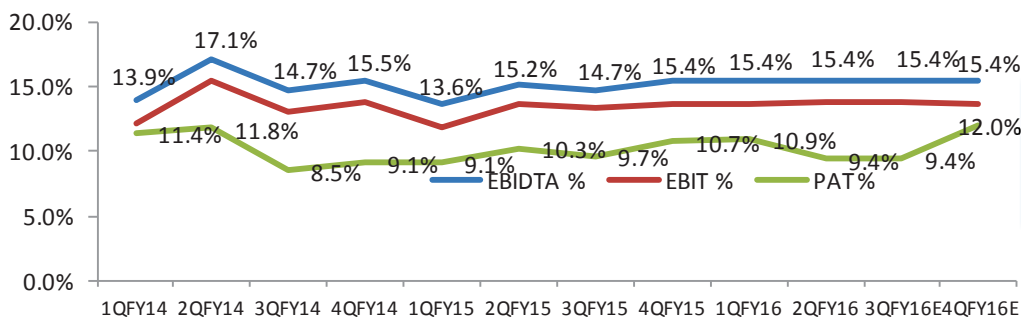
Business Performance :-



-Facing weakness in Banking segment which is comparatively small for the company.

-Over a period of time Digital and e-com will touch 20% of revenue.

-In FY16 company is going



We dont see any spike in margins as company already increased its margins from 13% to 15.5%.

Financials Snap Shot

| INCOME STATEMENT | | | | |
|-------------------|------|------|------|-------|
| | FY13 | FY14 | FY15 | FY16E |
| Revenue | 2129 | 2336 | 2656 | 2774 |
| Other Income | 3 | 25 | 27 | 33 |
| Total Revenue | 2132 | 2361 | 2683 | 2807 |
| COGS | 194 | 173 | 202 | 212 |
| GPM | 91% | 93% | 92% | 100% |
| Other Expenses | 610 | 667 | 436 | 0 |
| EBITDA | 300 | 364 | 392 | 429 |
| EBITDA Margin (%) | 14% | 16% | 15% | 15% |
| Depreciation | 33 | 38 | 42 | 44 |
| EBIT | 267 | 325 | 350 | 385 |
| Interest | 10 | 10 | 11 | 13 |
| PBT | 261 | 340 | 366 | 405 |
| Tax | 86 | 102 | 101 | 139 |
| Tax Rate (%) | 33% | 30% | 28% | 34% |
| Reported PAT | 175 | 238 | 265 | 266 |
| Dividend Paid | 41 | 49 | 57 | 58 |
| No. of Shares | 4 | 4 | 4 | 4 |

Source: Eastwind/Company

| RATIOS | | | | |
|-----------------------------|-------|-------|-------|-------|
| | FY13 | FY14 | FY15 | FY16E |
| EPS | 40.1 | 54.3 | 59.7 | 60.9 |
| Book Value | 167.3 | 216.3 | 261.0 | 312.4 |
| DPS | 9.3 | 11.2 | 12.9 | 13.6 |
| Payout | 23% | 21% | 22% | 22% |
| Valuation(x) | | | | |
| P/E | 6.1 | 6.9 | 10.8 | 13.1 |
| Price / Book Value | 1.5 | 1.7 | 2.5 | 2.1 |
| Dividend Yield (%) | 4% | 3% | 2% | 2% |
| Profitability Ratios | | | | |
| RoE | 24% | 25% | 23% | 20% |
| RoCE | 39% | 40% | 39% | 33% |
| Turnover Ratios | | | | |
| Asset Turnover (x) | 1.7 | 1.6 | 1.5 | 1.4 |
| Debtors (No. of Days) | 57.5 | 55.9 | 62.4 | 62.0 |
| Inventory (No. of Days) | 18.0 | 20.1 | 16.9 | 20.0 |
| Creditors (No. of Days) | 18.2 | 23.5 | 17.9 | 20.0 |
| Net Debt/Equity (x) | 0.2 | 0.1 | 0.0 | 0.0 |

Source: Eastwind/Company

| BALANCE SHEET | | | | |
|------------------------|------|------|------|-------|
| | FY13 | FY14 | FY15 | FY16E |
| Share Capital | 44 | 44 | 44 | 44 |
| Reserves | 685 | 902 | 1113 | 1321 |
| Net Worth | 729 | 946 | 1157 | 1365 |
| Long term Debt | 133 | 75 | 1 | 1 |
| Short term Debt | 0 | 21 | 97 | 111 |
| Deferred Tax | 0 | 0 | 0 | 0 |
| Total Capital Employed | 862 | 1020 | 1158 | 1367 |
| Net Fixed Assets | 399 | 424 | 117 | 140 |
| Capital WIP | 1 | 0 | 0 | 0 |
| Debtors | 335 | 358 | 454 | 471 |
| Cash & Bank Balances | 142 | 146 | 196 | 300 |
| Trade payables | 106 | 151 | 130 | 152 |
| Total Provisions | 55 | 76 | 101 | 106 |
| Net Current Assets | 803 | 1001 | 1124 | 1287 |
| Total Assets | 1257 | 1486 | 1735 | 1967 |

Source: Eastwind/Company

| CASH FLOW STATEMENT | | | | |
|---------------------------|------|------|------|-------|
| | FY13 | FY14 | FY15 | FY16E |
| OP/(Loss) before Tax | 261 | 340 | 366 | 389 |
| Depreciation | 33 | 38 | 42 | 46 |
| Direct Taxes Paid | -75 | -105 | -101 | -113 |
| Operating profit before v | 296 | 388 | 419 | 447 |
| CF from Op. Activity | 106 | 231 | 283 | 326 |
| Purchase of Current inve | -276 | -374 | 55 | -19 |
| Capital expenditure on fi | -34 | -33 | 265 | -69 |
| CF from Inv. Activity | -25 | -128 | -96 | -133 |
| Repayment of Long Terr | -65 | -52 | -73 | 0 |
| Interest Paid | -12 | -12 | -11 | -12 |
| Divd Paid (incl Tax) | -38 | -41 | -57 | -60 |
| CF from Fin. Activity | -114 | -99 | -141 | -72 |
| Inc/(Dec) in Cash | -33 | 4 | 46 | 122 |
| Add: Opening Balance | 174 | 141 | 150 | 178 |
| Closing Balance | 141 | 145 | 196 | 300 |

Source: Eastwind/Company