NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

Zensar Tech

"Geared to take off"

"BUY"
28th Apr' 14

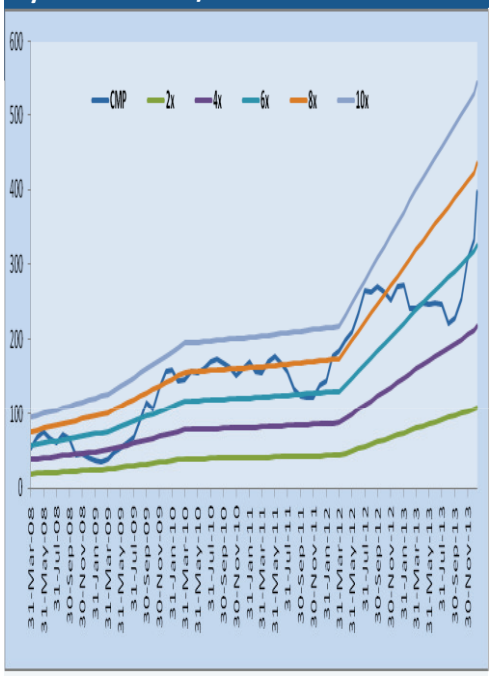
Result update	Buy
CMP	376
Target Price	440
Previous Target Price	400
Upside	17%
Change from Previous	10%

Market Data	
BSE Code	504067
NSE Symbol	ZENSARTECH
52wk Range H/L	430/181
Mkt Capital (Rs Crores)	1646
Average Daily Volume	20884
Nifty	6783

Stock Performance	1M	1yr	YTD
Absolute	-2.5	50.7	12
Rel. to Nifty	-4.5	34.5	0.1

Share Holding Pattern-%	Current	3QFY14	2QFY14
Promoters	48.28	48.26	48.27
FII	12.31	12.01	11.99
DII	0.54	0.65	0.96
Others	38.87	39.08	38.78

1 year forward P/E



Witnessed healthy show, management confident for robust growth:

Zensar Tech reported better than street expectations with 2.3% (QoQ) Sales growth led by better growth performance from US and Europe regions in 4QFY14. During the quarter, company's US revenue grew by 2.3% (QoQ) and Europe revenue grew by 12.5%(QoQ) on account of better projects execution, US and Europe contributes 75% and 11% of revenue . PAT grew by 8.7% because of cost optimization on product related business expenses and Tax planning efforts.

For FY14, company reported 10% sales growth and 36% Pat growth in INR term.

Management expects good growth has started with its Infrastructure Management (IM) business gaining momentum. The deal booking and pipeline looking good and expects to perform well going forward. It expects double-digit growth in the Enterprise Services business for the FY15E on the back of healthy pipeline. Overall FY15E would be stronger year than FY14E led IM business growth, expected to report more than 20% growth in FY15E

Steady Margin: During the quarter, its EBITDA margin ramped up by 80 bps(QoQ) to 15.5% and PAT margin up by 50bps to 9.1%. Post earning, management has expressed its margin at a range of 16-17% and PAT margin could be seen at a double figure for only organic business. Management stated that the deal margins are going up.

On segmental growth; The Application Management Services (contributes 68% of Sales) grew by 6.3%(QoQ). While, Infrastructure Mgt -Services was down by 3% and Products and License business down by 14%, sequentially. The Company looks forward to satisfying progress in all businesses on all parameters in FY 15E.

Aggressive footing across geographies: During the quarter, all the geographies reported growth though Asia and India are laggards. There is uptick in applications business in the US which showed a sequential growth of 9.0% and a YoY growth of 14.4% and in Europe which showed a sequential growth of 16.3% and a YoY of 31.0%, in constant currency terms. The Company has seen a decline in its emerging markets business and steps are being taken to revive growth.

Healthy order Pipeline: The Quarter has been good with several new client additions. The Company has been focusing on new client acquisition and strategic deals in core markets. Recently, the Company announced 100 cr of new business in core markets.

View and Valuation: The deal booking and pipeline is good and expects to perform well going forward. Order pipeline continues to be stable at $ 200 mn mainly on the back of good demand seen in Mobility, Cloud Computing and social networking side. Considering healthy order pipeline and its earning visibility in near future, we maintain "BUY" view on the stock with a target price of Rs 440. At a CMP of Rs 376, stock trades at 6x FY15E EPS.

Financials — **Rs, Crore**

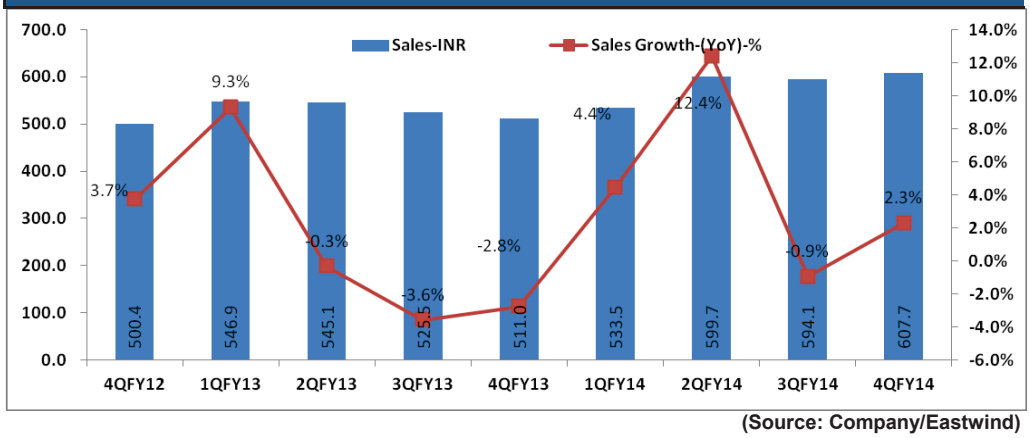
	4QFY14	3QFY14	(QoQ)-%	4QFY13	(YoY)-%
Revenue	607.7	594.1	**2.3**	510.95	**18.9**
EBITDA	94.07	87.26	**7.8**	66.9	**40.6**
PAT	55.2	50.8	**8.7**	39.1	**41.2**
EBITDA Margin	15.5%	14.7%	**80bps**	13.1%	**240bps**
PAT Margin	9.1%	8.6%	**50bps**	7.7%	**140bps**

(Source: Company/Eastwind)

Please refer to the Disclaimers at the end of this Report.

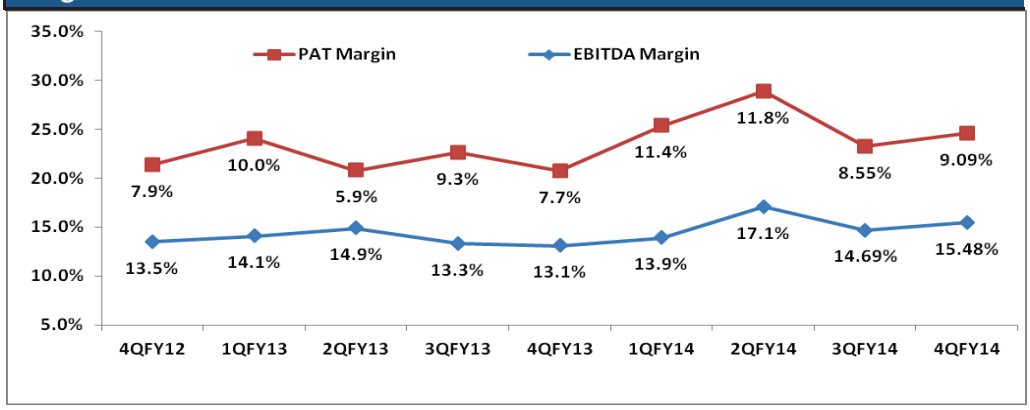
Zensar Tech

Sales and Sales Growth-%



(Source: Company/Eastwind)

Margin-%



(Source: Company/Eastwind)

The IM outlook seems to be good and will have fewer challenges. Overall it expects FY'15 will be good year.

Sales and Sales Growth-%

Revenue Mix-Geographies	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
USA	72%	71%	72%	74%	76%	75%	75%	75%
Europe	9%	9%	9%	9%	8%	9%	10%	11%
Africa	8%	9%	9%	9%	9%	10%	9%	8%
Row	11%	11%	10%	8%	7%	6%	6%	6%
Revenue Mix-Service Type								
Application Management Services	64%	66%	68%	64%	65%	68%	65%	68%
Infrastructure Magt Services	21%	22%	21%	24%	23%	23%	23%	22%
Products and License	15%	12%	11%	12%	12%	9%	12%	10%
Revenue Mix-Project Type								
Fixed Price	33%	30%	31%	34%	37%	37%	35%	36%
Time & Materials	35%	40%	40%	36%	33%	36%	36%	37%
Support Services	17%	18%	17%	18%	18%	18%	17%	17%
Product Sales	15%	12%	12%	12%	12%	9%	12%	10%
Revenue Mix-Vertical								
Manufacturing , Retail & Distribution	52%	53%	54%	54%	61%	63%	61%	64%
Insurance, Banking & Finance	20%	21%	20%	19%	20%	20%	21%	19%
Govt , healthcare & Utilities *	7%	11%	11%	10%	2%	2%	2%	2%
Alliance & Others	21%	15%	15%	17%	15%	17%	16%	15%

(Source: Company/Eastwind)

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Zensar Tech

Clients/Headcounts Metrics;

Revenue Mix-Geographies	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
Number of million dollar								
$1mn+	47	43	41	40	49	47	49	52
$5mn+	6	7	7	8	6	6	6	6
$10mn+	1	2	2	2	1	1	2	2
$20mn+	1	1	1	1	1	1	1	1
Client Contribution to Business								
top 5 clients	35%	35%	35%	35%	37%	39%	36%	39%
top 10 clients	40%	42%	42%	43%	43%	46%	43%	45%
DSO	69	59	56	55	66	61	59	58
Effort & Utilization								
Onsite	69%	72%	70%	69%	68%	67%	69%	67%
Offshore	31%	28%	30%	31%	32%	33%	31%	33%
Utilization (Including Trainees)	81%	82%	83%	82%	81%	80%	79%	79%
Headcount	7286	6825	6504	6508	6519	6657	6741	6791

Financials;

Rs, Cr	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Net Sales	497.08	562.56	700.15	2114.52	2315.60	2675.51	3074.28
Other Operating Income	0.00	15.03	12.57	13.95	19.41	22.43	27.67
Total income from operations (net)	497.08	577.59	712.72	2128.47	2335.01	2697.94	3101.95
Purchases of stock-in-trade	0.00	0.00	0.00	236.86	206.50	242.81	294.69
Employee Cost	393.17	343.12	411.36	1177.83	1326.90	1510.85	1752.60
Other expenses	0.00	135.71	165.98	418.73	443.46	539.99	604.88
Total Expenses	393.17	478.83	577.34	1833.42	1976.86	2293.65	2652.17
EBITDA	103.91	98.76	135.38	295.05	358.15	404.29	449.78
Depreciation	24.92	25.88	25.05	33.16	38.35	41.51	48.13
Other Income	8.15	14.20	27.91	8.66	30.28	40.47	46.53
Extra Ordinery Items	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	78.99	72.88	110.33	261.89	319.80	362.78	401.65
Interest Cost	0.55	0.85	1.03	9.95	10.28	8.22	7.40
PBT	86.59	86.23	137.21	260.60	339.80	395.03	440.78
Tax	2.43	-2.24	42.67	86.07	102.33	120.48	136.64
PAT	84.16	88.47	94.54	174.53	237.47	274.54	304.14
Growth-%							
Sales	17.8%	13.2%	24.5%	202.0%	9.5%	15.5%	14.9%
EBITDA	28.7%	-5.0%	37.1%	117.9%	21.4%	12.9%	11.3%
PAT	38.9%	5.1%	6.9%	84.6%	36.1%	15.6%	10.8%
Margin -%							
EBITDA	20.9%	17.6%	19.3%	14.0%	15.5%	15.1%	14.6%
EBIT	15.9%	13.0%	15.8%	12.4%	13.8%	13.6%	13.1%
PAT	16.9%	15.7%	13.5%	8.3%	10.3%	10.3%	9.9%
Expenses on Sales-%							
Employee Cost	79.1%	59.4%	57.7%	55.3%	57.3%	56.5%	57.0%
Other expenses	0.0%	23.5%	23.3%	19.7%	8.9%	9.1%	9.6%
Tax rate	2.8%	-2.6%	31.1%	33.0%	30.1%	30.5%	31.0%
Valuation							
CMP	272.1	157.9	180.0	248.6	374	376	376
No of Share	2.2	4.3	4.3	4.4	4.4	4.4	4.4
NW	293.9	367.0	417.4	751.7	938.0	1161.5	1414.5
EPS	39.0	20.4	21.8	40.0	54.3	62.8	69.6
BVPS	136.1	84.6	96.2	172.4	214.7	265.8	323.7
RoE-%	28.6%	24.1%	22.6%	23.2%	25.3%	23.6%	21.5%
Dividen Payout ratio	16.4%	19.9%	37.3%	21.9%	21.5%	18.6%	16.8%
P/BV	2.0	1.9	1.9	1.4	1.7	1.4	1.2
P/E	7.0	7.7	8.3	6.2	6.9	6.0	5.4

(Source: Company/Eastwind)

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