



Industry	TECHNOLOGY
Bloomberg	ZENT IN
BSE CODE	504067

Deal wins to drive growth, margin to hold at current level

RATING	ACCUMULATE
CMP	215
Price Target	238
Potential Upside	11%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	352/196
Mkt Capital (Rs Cr)	4847
Free float (%)	28%
Avg. Vol 1M (,000)	29
No. of Shares (Cr)	23
Promoters Pledged %	0%

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1QFY20 Result update

- ❑ Zensar reported mix set of numbers in 1QFY20 result. Revenue stood at USD153.3million , a growth of 3.1%QoQ (misses our estimates by 2%)while EBIT stood at Rs 108crore, in line with the estimates.
- ❑ Margin for the quarter excluding Row came in at 10.8% which remained flat owing to positive impact by INDAS116 which was completely offset by adverse impact of exchange rate (30bps) and 100bps due to reduction in utilization.
- ❑ PAT for the quarter was at Rs 75.7crore , a de-growth of 8.5%QoQ (absolute term USD1million impact)mainly owing to reduced other income and also marginal INDAS116 impact which was partially offset by increase in exchange gain.
- ❑ Digital continued its growth momentum in 1QFY20 by growing 6.7%QoQ primarily driven by company's Return on digital next offering in application and cloud infrastructure services business .It now contributes 48.5% of total revenue.
- ❑ The company won TCV of 160 mn in 1QFY20, thus taking LTM booking to USD 700mn+ . Overall pipeline continues to remain solid and is now above USD1.1billion as of date.
- ❑ Vertical wise, growth was seen in Financial service which grew 8.2%QoQ in cc terms, followed by Hitech and Manufacturing up by 5.8%QoQ However Retail and Consumer Services declined 10.2%QoQ in cc terms mainly owing to impact in legacy retail business .

View and Valuation

Zensar reported mix set of numbers in its 1QFY20 result .Revenue grew 3.1%QoQ while Pat declined 8.5%QoQ owing to lower other income. The company posted strong growth in IMS business on back solid growth from CIS(grew36.5%QoQ) and Cloud infrastructure business(grew by 15.3%QoQ) while application posted moderate 1.1%QoQ growth due to weakness in core application (de-growth of 1.1%QoQ).

Going ahead, We believe growth will continue in FY20/21E led by better Digital traction, ramp-up in deals win and healthy pipe-line (winning average TCV of USD150-200 million every quarter). Also the growth is expected to be supported by Cloud and Digital led next gen business(grew35.6%QoQ in current quarter) as management has planned to inch up the core CIS share to 20-25% of overall revenue over the next three years. However some concern still persists with continued weakness in retail segment.

Post 1QFY20 result, we have reduced our revenue and PAT estimates by 2%/6% for FY20 which led to revision in our target price from Rs252 to Rs238, while recent correction in prices has resulted in change in our rating from Neutral to Accumulate.

Key Risks to our rating and target

- ❑ Slow growth in large deal wins

Fig in Rs cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3056	3108	3966	4497	5172
EBITDA	382	365	479	598	707
EBIT	333	300	390	458	543
PAT	238	246	319	335	436
EPS (Rs)	11	11	14	15	19
EPS growth (%)	-19%	3%	29%	5%	30%
ROE (%)	17%	16%	18%	16%	18%
ROCE (%)	19%	15%	16%	17%	18%
BV	65	74	86	98	115
P/B (X)	2.8	2.4	2.7	2.2	1.9
P/E (x)	17.4	16.4	16.4	14.5	11.1

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1QFY20 Results

Mixed quarter

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs cr
										YoY %
Net Sales	905	969	1,036	1,057	1,071	18.4%	1.3%	3,108	3,966	27.6%
Other Income	24	41	3	25	15	-38.7%	-41.5%	74	93	533.5%
COGS	37	35	59	57	62	67.1%	9.4%	140	188	203.4%
Employee Exp	486	531	566	569	575	18.4%	1.1%	1,705	2,153	26.2%
Other Expenses	129	119	125	140	126	-2.6%	-10.3%	849	1,146	34.9%
EBITDA	116	123	110	130	146	25.3%	12.3%	365	479	31.4%
Depreciation	18	22	24	25	38	108.6%	51.0%	65	89	37.4%
EBIT	98	100	87	105	108	9.9%	3.0%	300	390	30.1%
Interest	6	10	11	11	17	183.8%	50.9%	23	37	64.5%
PBT	116	132	78	119	106	-8.9%	-10.8%	352	445	26.7%
Tax	32	37	22	36	30	-6.5%	-15.1%	105	127	20.6%
PAT	84	95	57	83	76	-9.8%	-8.5%	246	319	29.3%

1QFY20 performance: Moderate Growth

- 1QFY20 revenue came in USD153.3 million, a growth of 3.1%QoQ mainly led by strong growth in digital and IMS business. In constant currency terms revenue grew 3.6%QoQ, cross currency headwind during the quarter was 50 bps.
- In rupee term, revenue stood at Rs1071 crore, a growth of 1.3%QoQ.
- IMS service business grew faster pace during the quarter while application remained soft. In IMS, Cloud next gen digital business led the strong growth of 36.9%QoQ, followed by core infrastructure which grew 15.3%QoQ in cc terms. Digital service remained moderate by growing 3.4%QoQ while core application business (legacy business) declined 1.1%QoQ in cc terms during the quarter.

Weakness seen in core application

Segmental (USD mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	QoQ cc
Application Management	102	109	115	117	119	127	127	-0.1%	1.1%
Digital Services	43	46	52	54	57	62	63	3.0%	3.4%
Core Application	59	63	63	63	62	65	63	-2.9%	(1.1%)
IMS	21	18	20	21	24	23	26	14.6%	17.3%
Core Infrastructure	4	6	6	7	11	9	10	9.3%	15.3%
Services Third Party	7	6	7	7	6	6	6	-5.1%	-4.5%
Cloud, Digital Led next	10	6	7	7	7	8	11	36.9%	36.5%

Barring Retail, other business remained strong

Business unit(USD mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	QoQ cc
Manufacturing	63	65	68	73	73	78	80	3.1%	5.8%
Retail and Consumer	33	34	33	30	30	32	29	-11.6%	-10.2%
Financial	25	26	32	32	35	33	37	10.0%	8.2%
Emerging	1	2	2	4	6	7	8	18.4%	20.8%

- Vertical wise, growth was seen in Financial service which grew 8.2%QoQ in cc terms on the back of solid wins in Guide wire space, followed by Hi-tech and Manufacturing up by 5.8%QoQ. However Retail and Consumer Services declined 10.2%QoQ in cc terms mainly owing to two large project completion and delay in some start in some key engagements.

Growth seen in both Europe and US geography

Business unit(USD mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	QoQ cc
US	90	91	100	103	109	114	117	2%	2.3%
Europe	17	18	19	20	21	22	23	3%	4.0%
Africa	12	13	13	13	12	12	13	11%	14.7%

Flat margin during the quarter

- ❑ EBIT for the quarter (excluding RoW) stood at Rs 114crore, a 0.6%QoQ. The margin remained flat owing to adverse impact of 30bps from exchange rate realization and 100bps due to reduction in utilization .Also investment in Fresher headcount also impacted the margins.
- ❑ PAT for the quarter stood at Rs75.7crore, de-grew by 8.3%QoQ (absolute term USD1million)mainly led by lower other income and marginal INDAS116 impact which was partially offset by increase in exchange gain.

Concall Highlights

- **Core business:** The company had solid growth in core business of 3.9%QoQ and 19.9%YoY in cc terms respectively during the quarter .The core business now contributes 96.1% of the overall revenue.
- **Margin:** Excluding the INDAS impact which positively impacted 1.4% to margin, the company saw margin remained flat owing to adverse impact of 30bps from exchange rate realization and 100bps due to reduction in utilization .Also investment in Fresher headcount also impacted the margins .2QFY20 will see wage revision however with the levers like automation and more CIS business comes in, the management believes it has levers to offset the wage impact during the course of the year. Management continues to target to hit the level of 15% of EBITDA margin.
- **Accounting standard change:** Due to change in INDAS 116 ,The Company saw interest cost of 600k increase and depreciation increase is roughly around 1.8million dollars.
- **Digital business:** In 1QFY20 company digital revenue accounted for 48.5% of the overall business, a growth of 6.7% sequentially and 28.3%YoY in dollar terms. Zensar rod next and solutions continue to be integral part of all the large deal wins so far.
- **Deal wins:** the company remains optimistic with large deal momentum in FY20 by winning key deals across region from existing and new client .This Quarter Company booked deal worth of USD160mn (60% is net new TCV)majorly coming from key renewals.TTM total booking was at USD700+ million. Overall pipeline continues to remain solid and is above USD1.1billion as of date. The split between application business and cloud Infrastructure business is roughly about 60%/40% of the wins.
- **Segment wise:** In IMS, The Company is seeing strong traction in CIS next gen services. On application side as called out in previous quarter, mostly the company focus has been towards digital enterprise that is where the company is seeing traction in financial services and technology verticals. Retail has been soft sector (legacy application business) for the company, the management still thinks there will some headwinds left and more work has to be done. Thus expect pain to continue for few quarters .
- **Non core business:** The company is focusing on uplifting both the revenue and margin So as it improves, the company will relook for exit process.
- **Patents:** The company sustains focus has helped to double the tag of patents granted from the last quarter. While the company continues to file more patents particularly in the areas like AI and automation .Total patent filing now stands at 91 out of which 10 has been granted.
- **Headcount:** 1QFY20 saw the company adding more associates .At the end of 1QFY20, the global headcount stood at 10166, a net addition of 418 and 1336associates on sequential and YoY basis respectively. Attrition in 1QFY20 was at 16.7%.
- **Demand environment:** Management sees demand environment healthy however there is noticeable trend of reducing deal sizes tenures which company believe will better for the company. The company will continue to remain invested to continue the growth. Trade war if happens possibility will impact tech investment however does not see any impact as of now.

Exhibit: Revenue trend

Continued uptick in revenue growth led by strong growth in core business.

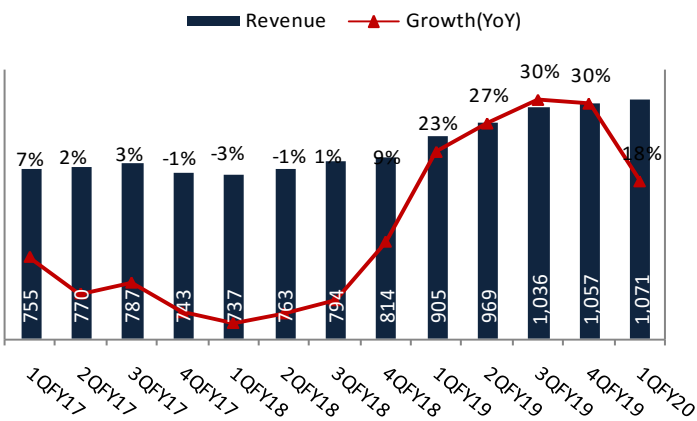


Exhibit: Digital Revenue

Momentum continued in digital, now contributes approx half of the revenue (48.5%).

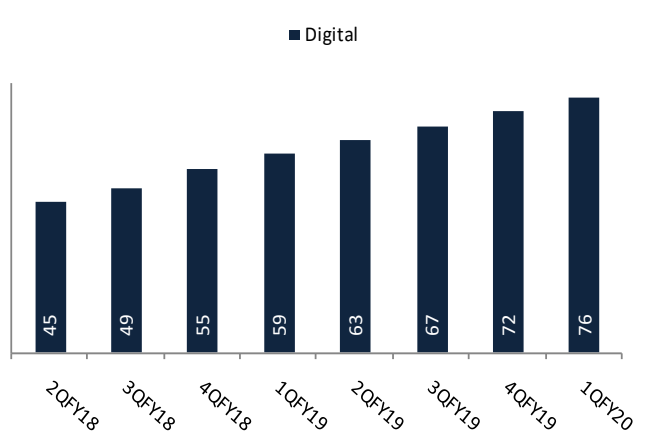


Exhibit: Margin Trend

INDAS116 benefit resulted in Ebitda margin expansion

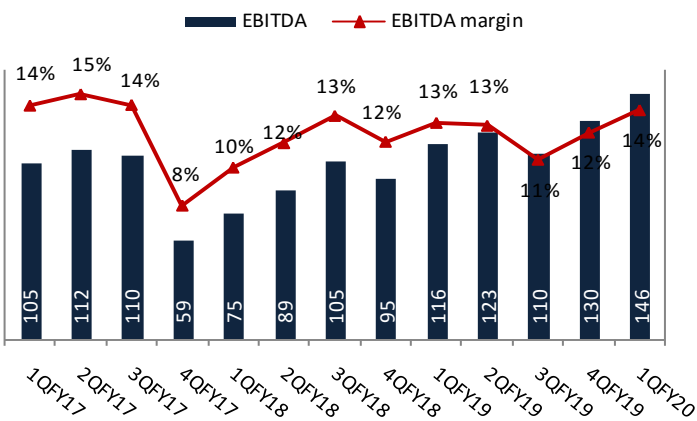


Exhibit: Attrition Trend

Attrition inched up during the quarter however still remain under control.

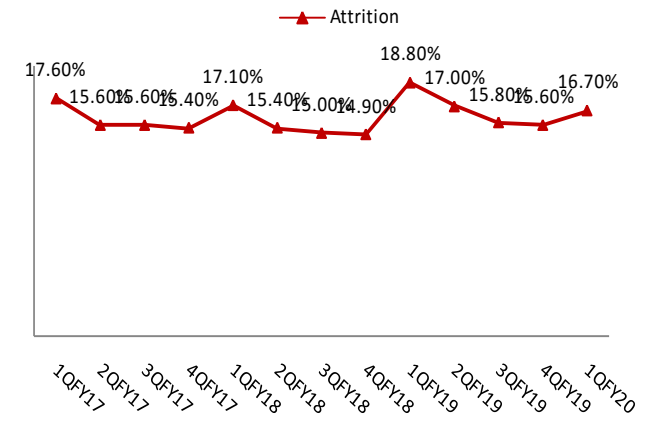
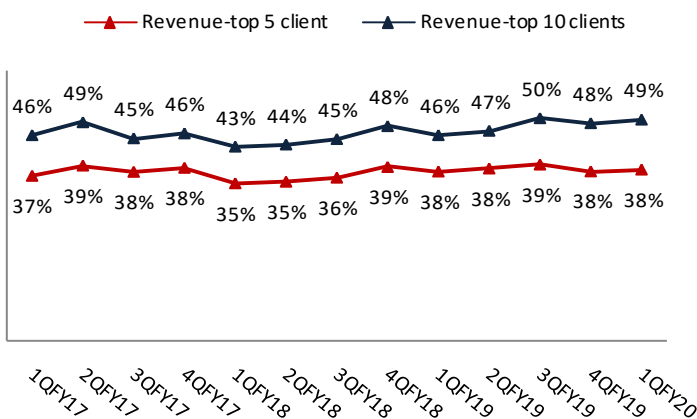


Exhibit: Top client revenue

Top client revenue remained strong .



Operational Details

Industry Revenue (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Manufacturing	52%	52%	51%	50%	53%	51%	52%	52%
Retail & Consumer	27%	27%	27%	25%	22%	21%	22%	19%
Financial Services	20%	21%	20%	23%	23%	24%	22%	24%
Emerging	1%	1%	1%	2%	3%	4%	4%	5%

Geographical Segment	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
US	72%	73%	72%	74%	74%	76%	76%	76%
Europe	14%	14%	14%	14%	14%	14%	15%	15%
Africa	10%	10%	10%	10%	9%	8%	8%	9%
ROW	4%	4%	3%	2%	2%	1%	1%	N/A

Project Type	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Fixed Price	51%	53%	54%	53%	54%	54%	55%	57%
Time & Materials	49%	47%	46%	47%	46%	46%	45%	43%

No. of \$mn Clients	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
1 Million dollar +	84	81	80	91	98	100	92	91
5 Million dollar +	14	15	17	19	20	20	19	20
10 Million dollar +	6	6	4	5	7	7	9	9
20 Million dollar +	2	2	2	2	2	2	2	2

Top clients	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Revenue-top 5 client	35%	36%	39%	38%	38%	39%	38%	38%
Revenue-top 10 client	44%	45%	48%	46%	47%	50%	48%	49%
Revenue-top 20 clients	56%	56%	59%	57%	58%	60%	60%	61%
Repeat business %	82%	80%	87%	87%	87%	83%	85%	85%
Number of active clients	248	260	253	291	325	322	327	289
New clients added	14	12	28	42	38	26	17	7

Revenue mix	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Onsite	63%	63%	63%	65%	66%	67%	67%	68%
Offshore	37%	37%	37%	35%	34%	33%	33%	32%

Utilization	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Utilization (excl Trainees)	86%	85%	84%	86%	83%	82%	83%	82%

Headcount	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Technical -Onsite	1806	1847	1866	2019	2274	2360	2420	2579
Technical -Offshore	5674	5713	5868	6077	6044	6259	6501	6213
Technical -BPO / Others	247	243	248	253	284	283	275	213
Marketing	78	70	68	64	80	76	79	80
Support (including trainees)	609	724	855	709	800	835	798	1081
Total Employees	8414	8597	8905	9122	9482	9813	10073	10166
Gross employees	419	684	900	724	906	1045	1035	1279
% of women	26%	26%	28%	27%	27%	28%	28%	30%

Attrition	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Attrition	15%	15%	15%	19%	17%	16%	16%	17%

Financial Details

Balance Sheet

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	44	44	45	45	45	45	45	45
Reserves	902	1,113	1,203	1,421	1,624	1,897	2,169	2,543
Networth	946	1,157	1,265	1,470	1,669	1,942	2,214	2,588
Debt	75	1	1	1	6	102	102	102
Other Non Current Liab	35	41	49	74	78	78	77	77
Total Capital Employed	1,078	1,298	1,466	1,683	1,766	2,294	2,566	2,940
Net Fixed Assets (incl CWIP)	424	549	119	134	175	359	427	531
Non Current Investments	1	1	26	96	144	70	70	70
Other Non Cur Asst	60	61	337	399	513	723	731	731
Non Current Assets	61	62	364	495	658	793	801	801
Inventory	129	123	126	113	106	98	112	128
Debtors	358	454	540	533	642	876	930	930
Cash & Bank	146	197	275	327	204	317	233	337
Other Curr Assets	139	170	90	79	71	328	372	427
Current investments	148	93	108	147	130	45	274	442
bank balance	-	-	2	2	3	9	9	9
unbilled revenue	-	-	235	255	307	264	264	264
current financial asset	-	-	11	18	-	-	-	-
Short-term loans and advances	82	87	-	-	-	-	-	-
Current Assets	1,001	1,124	1,386	1,473	1,463	1,938	2,193	2,539
Trade payables	151	130	166	177	184	301	341	392
Other financial liability	-	-	101	80	162	254	254	254
Other Curr Liab	252	257	306	136	162	184	241	260
Curr Liabilities	408	437	403	420	530	795	855	930
Net Current Assets	593	687	983	1,053	933	1,143	1,339	1,609
Total Assets	1,486	1,735	1,869	2,103	2,296	3,089	3,421	3,871

Income Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	2,335	2,656	2,997	3,056	3,108	3,966	4,497	5,172
Change (%)	10%	14%	13%	2%	2%	28%	13%	15%
	-	-	45	-	-	-	-	-
EBITDA	358	392	484	382	365	479	598	707
Change (%)	19%	9%	24%	-21%	-4%	31%	25%	18%
Margin (%)	15%	15%	16%	12%	12%	12%	13%	14%
Depr & Amor.	38	42	65	49	65	89	140	164
EBIT	320	350	419	333	300	390	458	543
Int. & other fin. Cost	10	11	11	9	23	37	67	67
Other Income	30	27	8	24	74	93	75	129
EBT	340	366	417	349	352	445	466	606
Exp Item	-	-	-	-	-	-	-	-
Tax	102	101	125	110	105	127	132	170
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	238	265	292	238	246	319	335	436
Adjusted PAT	238	265	292	238	246	319	335	436
Change (%)	36%	11%	10%	-18%	3%	29%	5%	30%
Margin(%)	10%	10%	10%	8%	8%	8%	7%	8%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	28%	25%	24%	17%	16%	18%	16%	18%
ROCE	27%	25%	27%	19%	15%	16%	17%	18%
Asset Turnover	6	5	25	23	18	11	11	10
Current Ratio	2	3	3.4	3.5	2.8	2.4	2.6	2.7
Debtor Days	56	62	94	94	111	105	105	105
Book Value Per Share	216	261	279	327	372	431	492	575
Payable Days	24	18	20	21	22	28	28	28
Earnings Per Share	11	12	13	11	11	14	15	19
P/E	7	11	14	17	16	16	14	11
Price / Book Value	2	2	3	3	2	3	2	2
EV/EBITDA	4	7	8	10	11	11	8	7
EV/Sales	1	1	1	1	1	1	1	1

Cash Flow Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	340	366	417	349	352	445	466	606
(inc)/Dec in Working Capital	(52)	38	(141)	(28)	(138)	(262)	-	-
Non Cash Op Exp	388	381	500	438	456	577	-	-
Int Paid (+)	-	-	-	-	-	-	-	-
Tax Paid	(105)	(99)	(105)	(102)	(104)	(139)	(132)	(170)
others	-	-	-	-	-	-	-	-
CF from Op. Activities	231	321	255	307	206	156	415	603
(inc)/Dec in FA & CWIP	(33)	(37)	(43)	(35)	(52)	(52)	(208)	(268)
Free Cashflow	198	283	212	272	153	104	207	336
(Pur)/Sale of Inv	(105)	58	(5)	(25)	(10)	161	(228)	(168)
others	9	(203)	7	(129)	(94)	(328)	-	-
CF from Inv. Activities	(128)	(182)	(41)	(189)	(157)	(241)	(437)	(436)
inc/(dec) in NW	2	6	4	5	3	-	-	-
inc/(dec) in Debt	(52)	(27)	(26)	(20)	44	230	-	-
Int. Paid	(12)	(12)	(11)	(9)	(10)	(13)	-	-
Div Paid (inc tax)	(41)	(54)	(97)	(26)	(63)	(63)	(63)	(63)
others	4	-	-	-	-	1	-	-
CF from Fin. Activities	(99)	(87)	(129)	(50)	(204)	201	(63)	(63)
Inc(Dec) in Cash	4	51	85	68	(155)	116	(84)	105
Add: Opening Balance	141	145	190	259	15	183	317	233
Closing Balance	145	196	275	327	186	314	233	337

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