

Industry TECHNOLOGY  
Bloomberg ZENT IN  
BSE CODE 504067

## Completion of project impacted 2Q revenues

**RATING** NEUTRAL

**CMP** 213  
**Price Target** 225  
**Potential Upside** 6%

**Rating Change** 

**Estimate Change** 

**Target Change** 

### Stock Info

52wk Range H/L 271/193  
Mkt Capital (Rs Cr) 4390  
Free float (%) 28%  
Avg. Vol 1M (000) 2  
No. of Shares (Crs) 23  
Promoters Pledged (Crs) 0

Fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	3,966	4,368	4,844
EBITDA	479	604	680
EBIT	390	456	548
PAT	319	335	421
EPS (Rs)	14	15	19
EPS	29%	5%	25%
ROE (%)	18%	16%	18%
ROCE (%)	19%	19%	20%
BV	86	98	114
P/B (X)	3	2	2
P/E (x)	16	14	11

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### 2QFY20 Result update

- ❑ ZENSARTECH reported mixed set of numbers in 2QFY20 result . Revenue remained muted to USD152.3mn (missing our estimates by 3%) mainly impacted by project completion in a top-10 client while PAT came Rs82.7crore( in line), a growth of 9.2%QoQ led by higher other income .
- ❑ EBIT margin (at 10.4%) was 50bp above our estimates primarily led by operational efficiency despite wage hike.
- ❑ Company's digital business continued its strong momentum in 2Q by cross the 50% mark for the first time with the growth of 3.5% sequentially in cc terms .Digital now accounts for 50.1% of overall revenue.

### Softness in digital-led next generation and CIS

Service wise, The application and digital services business witnessed a healthy QoQ 3.6% in cc terms rising on the backdrop of digital service revenue which grew by 7%QoQ in cc terms. Core application, traditional services remained muted and grew by 0.1%sequentially while on account of large transformation deal closure in key client has resulted in 15.8% decline in cloud infrastructure services (next-gen CIS declined 17.0% QoQ; core infra-services declined 27.8%). Among verticals,Insurance remained strong by growing 17.1% QoQ, followed by banking and hi-tech which posted a growth of 9.4%/1.1%QoQ .On other hand ,Manufacturing was down by 0.9%, retail down by 7.7% and emerging down by 45.5% QoQ.

### Lower deal wins

The company has always been committed to winning deals .During the quarter the company won deals worth more than \$120 million TCV including both renewal and new deals.2QFY20 deal wins were lower than company's normal range of \$150 to\$ 200 million TCV mainly impacted by delay in decisions making .However Overall pipeline continues to remain healthy at over a \$1 billion dollar including larger renewals.H1 order booking was \$280million which includes multiple large win from existing and new clients .

### Tariff decision may impact the business

As the company exposure to the technology sector is 50% of the business. So if any adverse decision in tariff comes in then the company will see impact in the business.

### View and Valuation

Zensar reported a muted growth revenue growth in its 2QFY20 result. Revenue was impacted due to decline in cloud infrastructure service(-16.8% in USD terms as large project completion in two of its top client and delay in start of new project impacted its growth .Even deal wins(Won TCV USD120 million) during the quarter came lower than its normal range of USD150 to 200 million. However margin showed a better growth in 2QFY20. Going ahead better Digital traction (50% of revenue)and healthy pipe-line (USD 1bn) fgives revenue visibility in medium terms , however delay in the start of new projects and softness in retail vertical will drag the growth in near terms. Also CIS business will post lower growth in near terms as delay on decision making will restrict in deal ramp ups. Thus factoring in lower growth in CIS, , furlough in 3Q and slow deal ramp ups will impact the revenue in near term

Thus we largely maintain our target price of Rs225 and recommend Neutral.

### Key Risks to our rating and target

- ❑ Weakness in digital traction.
- ❑ Slow down in order booking.

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## 2QFY20 Results Mixed performance

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs cr
										YoY %
Net Sales	969	1,036	1,057	1,071	1,072	10.7%	0.1%	3107.7	3966.33	27.6%
Other Income	41	3	25	15	18	-56.2%	23.6%	74	93	24.6%
COGS	35	59	57	62	36	1.3%	-42.6%	140	188	34.0%
Employee Exp	531	566	569	575	611	14.9%	6.2%	1,705	2,153	26.2%
Other Expenses	119	125	140	126	117	-1.3%	-6.6%	849	1,146	34.9%
EBITDA	123	110	130	146	150	22.1%	2.9%	365	479	31.4%
Depreciation	22	24	25	38	39	71.8%	1.5%	65	89	37.4%
EBIT	100	87	105	108	112	11.0%	3.4%	300	390	30.1%
Interest	10	11	11	17	14	46.6%	-16.1%	23	37	64.5%
PBT	132	78	119	106	116	-12.5%	9.2%	352	445	26.7%
Tax	37	22	36	30	33	-11.5%	9.3%	105	127	20.6%
Exceptional	-	-	-	-	-			-	-	#DIV/0!
PAT	95	57	83	76	83	-13.0%	9.2%	246	319	29.3%

### Concall Highlights

- **2QFY20 Performance:** The Company posted soft revenue of 0.7%QoQ decline mainly impacted by large project closure of two top clients. Revenue for core business remains stable with 15.8%QoQ in cc terms growth and now contributes 95.8% of overall business.
- **Margin performance:** Healthy growth was seen in EBITDA margin.2QFY20 EBITDA stood at 14% of revenue while core business EBITDA was also 14%.
- **Traction continued in Digital:** The Company's digital business continued strong momentum and cross the 50% mark for the first time with the growth of 3.5% sequentially in constant currency terms .Digital now accounts for 50.1% of overall revenue. Return on digital next platform and solutions have been integral part of all the deal wins, so far, and more and more clients are benefiting from this platform.
- **Segmental performance:** The application and digital services business witnessed a healthy QoQ 3.6% in cc terms rising on the backdrop of digital service revenue which grew by 7%QoQ in cc terms. Core application, traditional services grew by 0.1% sequentially. While on account of large transformation deal closure in key client has resulted in 15.8% decline in cloud infrastructure services. However the company continues to remain positive on CIS services as it has a strong pipeline and the company expects to convert that in the medium term.
- **Moderate deal wins:** The company continue to remain committed to winning deals .The company maintain its large deal momentum into 2Q by winning deals across regions from existing and new clients .Deals worth more than \$120 million TCV including renewal was won during the quarter. Lower TCV was resulted due to delay in decisions .Overall pipeline continues to remain healthy at over a \$1 billion dollar including larger renewals.H1 order booking was \$280million which includes multiple large win from existing and new clients.
- **Verticals outlook:** Retail has remained soft due to Amazon effect. The company expects it to remain soft for couple of quarters. Also the company sees some impact from financial sector. Technology vertical is expected to remain strong in coming quarters.
- **Macro challenges:** The company is not seeing any challenges in Europe due to Brexit as it of now but it is still hearing something from its client. So remains watchful on the event.
- **Outlook on top account:** Tariff decision by the US government has been pushed out by 90 days. The company exposure to the technology sector 50% of the business. So if the tariff decision comes in then the company will see impact in the business.
- **Guidance of margins:** The Company has always guided for core operating business. The company is working towards getting core business to 15% range which is 14% now.

## Revenue Mix

### Weakness seen in CIS due to completion of project

VERTICAL (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	QoQ% cc
Application Management					126	127	130	3%	3.60%
>>Digital Services					61	63	67	6%	7.00%
>>Core Application					65	63	63	-1%	0.10%
IMS					23	26	22	-17%	-15.80%
>>Core Infrastructure					6	6	6	4%	5.20%
>> Services Third Party					9	10	7	-29%	-27.80%
>> Cloud,Digital Led next					8	11	9	-17%	-17.00%

## Revenue by Business Units

### Softness continued in retail and emerging vertical

Business unit(USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	QoQ% cc
Manufacturing	65	68	73	73	77	80	80	0%	0.60%
Retail and Consumer	34	33	30	30	32	29	26	-9%	-7.70%
Financial	26	32	32	35	33	37	42	13%	15.20%
Emerging	2	2	4	6	7	8	4	-45%	-0.45%

## Revenue by Geography

### Strong growth in Europe while US remained weak

GEOGRAPHY (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	QoQ% cc
US	91	100	103	109	114	117	113	-4%	-3.30%
Europe	18	19	20	21	22	23	23	1%	5.10%
Africa	13	13	13	12	12	13	16	21%	23.40%

## Revenue by Project Type

### Fixed Price project remain muted

Project Type (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Fixed Price	69	71	74	77	82	87	87	0%	18%
Time & Materials	58	64	64	67	68	66	65	-2%	1%

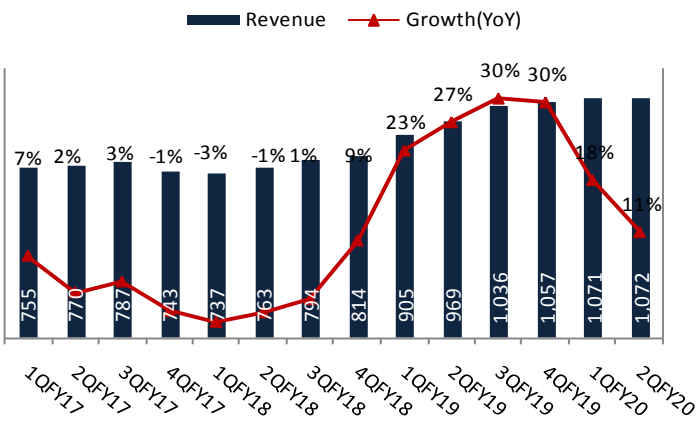
## Revenue by Client

### Project closure impacted top client revenue

Client (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Revenue-top 5 client	49	51	53	56	56	58	57	-2%	8%
Revenue-top 10 client	60	62	64	71	73	75	73	-3%	13%
Revenue-top 20 clients	75	77	80	87	90	94	95	1%	20%

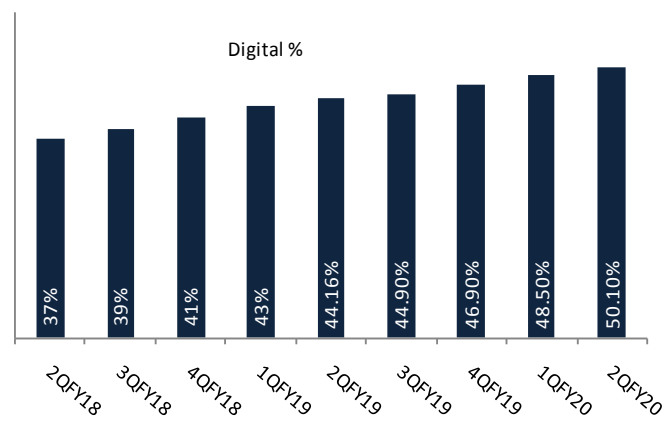
## Exhibit: Revenue trend

Completion of project impacted 2Q revenues



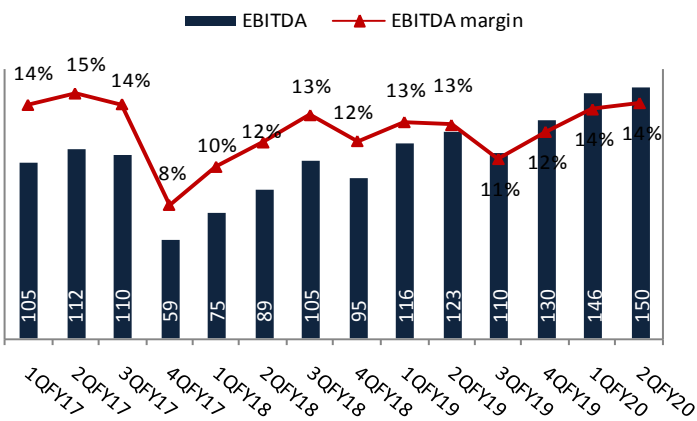
## Exhibit: Digital revenue

Momentum continued in digital, now contributes approx half of the revenue (50%).



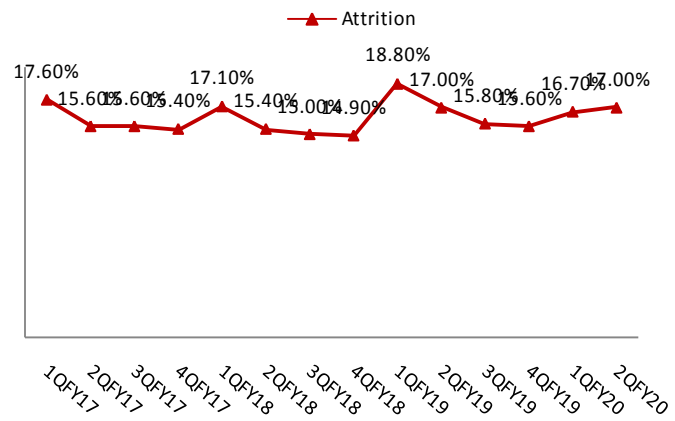
## Exhibit: Margin Trend

Despite wage hike Operational efficiencies improved the overall margins



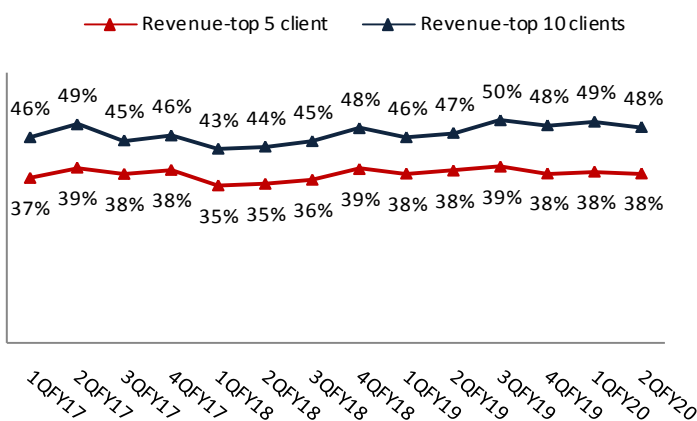
## Exhibit: Attrition trend

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



## Exhibit: Top client revenue

Top client revenue declined due to project completion .



## Operational Details

<b>Geography %</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
US	73.3%	72.2%	74.1%	74.3%	76.0%	76.2%	76.3%	74.0%
Europe	13.5%	14.2%	13.7%	14.3%	14.3%	14.9%	15.0%	15.3%
Africa	9.6%	10.4%	9.8%	9.1%	8.3%	8.0%	8.7%	10.6%
ROW	3.6%	3.2%	2.4%	2.3%	1.3%	0.9%		
<b>Project Type</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
Project Type	53.2%	54.2%	52.7%	53.7%	53.7%	54.6%	57.0%	57.4%
Time & Materials	46.8%	45.8%	47.3%	46.3%	46.3%	45.4%	43.0%	42.6%
<b>Clients</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
1 Million dollar +	81	80	91	98	100	92	91	93
5 Million dollar +	15	17	19	20	20	19	20	23
10 Million dollar +	6	4	5	7	7	9	9	9
20 Million dollar +	2	2	2	2	2	2	2	2
<b>Top clients rev</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
Revenue-top 5 client	36.2%	38.6%	37.6%	38.2%	39.1%	37.6%	38.0%	37.6%
Revenue-top 10 clients	44.8%	47.7%	45.7%	46.7%	49.5%	48.4%	49.2%	48.0%
Revenue-top 20 clients	56.0%	59.3%	57.1%	57.6%	60.2%	59.7%	61.3%	62.6%
Repeat business %	79.8%	87.0%	87.1%	86.6%	82.6%	84.5%	84.7%	86.3%
Number of active clients	260	253	291	325	322	327	289	309
New clients added in the period	12	28	42	38	26	17	7	N/A
<b>Revenue mix</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
Onsite	63.0%	62.7%	64.6%	66.4%	67.4%	67.4%	68.1%	66.7%
Offshore	37.0%	37.3%	35.4%	33.6%	32.6%	32.6%	31.9%	33.3%
<b>Headcount</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
Technical -Onsite	1847	1866	2019	2274	2360	2420	2579	2537
Technical -Offshore	5713	5868	6077	6044	6259	6501	6213	6353
Technical -BPO / Others	243	248	253	284	283	275	213	205
Marketing	70	68	64	80	76	79	80	85
Support (including trainees)	724	855	709	800	835	798	1081	1039
<b>Attrition</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
Attrition	15.0%	14.9%	18.8%	17.0%	15.8%	15.6%	16.7%	17.0%
<b>Revenue By</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
Dollar	74.2%	74.2%	73.5%	72.5%	72.8%	72.0%	70.7%	68.8%
Euro	1.3%	1.3%	1.1%	1.1%	0.8%	0.9%	1.5%	1.2%
GBP	12.3%	12.3%	13.1%	14.6%	15.9%	16.8%	17.1%	17.0%
ZAR	8.9%	8.9%	9.4%	8.9%	7.9%	7.6%	8.3%	10.3%
Others	3.3%	3.3%	2.9%	2.8%	2.6%	2.7%	2.4%	2.7%
<b>Segments</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	<b>1QFY20</b>	<b>2QFY20</b>
Application Management						84.7%	82.8%	85.6%
>>Digital Services						41.1%	41.4%	44.2%
>>Core Application						43.6%	41.4%	41.3%
IMS						15.3%	17.2%	14.4%
>>Core Infrastructure						5.3%	7.1%	5.9%
>> Services Third Party						5.8%	6.2%	4.4%
>> Cloud,Digital Led next						4.2%	3.9%	4.1%

## 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	2,170	2,528
<b>Networth</b>	<b>946</b>	<b>1,157</b>	<b>1,265</b>	<b>1,470</b>	<b>1,669</b>	<b>1,942</b>	<b>2,215</b>	<b>2,573</b>
Debt	75	1	1	1	6	102	102	102
Other Non Current Liab	35	41	49	74	78	78	77	77
<b>Total Capital Employed</b>	<b>1,078</b>	<b>1,298</b>	<b>1,466</b>	<b>1,683</b>	<b>1,766</b>	<b>2,294</b>	<b>2,567</b>	<b>2,925</b>
Net Fixed Assets (incl CWIP)	424	549	119	134	175	359	263	367
Non Current Investments	1	1	26	96	144	70	70	70
Other Non Cur Asst	60	61	337	399	513	723	731	731
<b>Non Current Assets</b>	<b>61</b>	<b>62</b>	<b>364</b>	<b>495</b>	<b>658</b>	<b>793</b>	<b>801</b>	<b>801</b>
Inventory	129	123	126	113	106	98	108	120
Debtors	358	454	540	533	642	876	930	930
Cash & Bank	146	197	275	327	204	317	397	484
Other Curr Assets	139	170	90	79	71	328	361	400
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
other financial asset	-	-	11	18	-	-	-	-
Short-term loans and advances	82	87	-	-	-	-	-	-
<b>Curr Assets</b>	<b>1,001</b>	<b>1,124</b>	<b>1,386</b>	<b>1,473</b>	<b>1,463</b>	<b>1,938</b>	<b>2,344</b>	<b>2,651</b>
Creditors	151	130	166	177	184	301	331	368
other financial liabilities	-	-	101	80	162	254	254	254
Other Curr Liab	252	257	306	136	162	184	241	255
<b>Curr Liabilities</b>	<b>408</b>	<b>437</b>	<b>403</b>	<b>420</b>	<b>530</b>	<b>795</b>	<b>840</b>	<b>894</b>
<b>Net Curr Assets</b>	<b>593</b>	<b>687</b>	<b>983</b>	<b>1,053</b>	<b>933</b>	<b>1,143</b>	<b>1,504</b>	<b>1,757</b>
<b>Total Assets</b>	<b>1,486</b>	<b>1,735</b>	<b>1,869</b>	<b>2,103</b>	<b>2,296</b>	<b>3,089</b>	<b>3,407</b>	<b>3,819</b>

### Income Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>2335.012</b>	<b>2655.782</b>	<b>2997.269</b>	<b>3055.59</b>	<b>3107.7</b>	<b>3966.33</b>	<b>4368.45</b>	<b>4844.246</b>
Change (%)	10%	14%	13%	2%	2%	28%	10%	11%
<b>EBITDA</b>	<b>358</b>	<b>392</b>	<b>484</b>	<b>382</b>	<b>365</b>	<b>479</b>	<b>604</b>	<b>680</b>
Change (%)	19%	9%	24%	-21%	-4%	31%	26%	13%
Margin (%)	15%	15%	16%	12%	12%	12%	14%	14%
Depr & Amor.	38	42	65	49	65	89	148	133
<b>EBIT</b>	<b>320</b>	<b>350</b>	<b>419</b>	<b>333</b>	<b>300</b>	<b>390</b>	<b>456</b>	<b>548</b>
Int. & other fin. Cost	10	11	11	9	23	37	59	56
Other Income	30	27	8	24	74	93	72	97
<b>EBT</b>	<b>340</b>	<b>366</b>	<b>417</b>	<b>349</b>	<b>352</b>	<b>445</b>	<b>469</b>	<b>589</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	102	101	125	110	105	127	134	168
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>238</b>	<b>265</b>	<b>292</b>	<b>238</b>	<b>246</b>	<b>319</b>	<b>335</b>	<b>421</b>
<b>Adjusted PAT</b>	<b>238</b>	<b>265</b>	<b>292</b>	<b>238</b>	<b>246</b>	<b>319</b>	<b>335</b>	<b>421</b>
Change (%)	36%	11%	10%	-18%	3%	29%	5%	25%
Margin(%)	10%	10%	10%	8%	8%	8%	8%	9%

## 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	32%	29%	30%	21%	17%	19%	19%	20%
Asset Turnover	6	5	25	23	18	11	17	13
Current Ratio	2	3	3.4	3.5	2.8	2.4	2.8	3.0
Debtor Days	56	62	94	94	111	105	105	105
Book Value Per Share	43	52	56	65	74	86	98	114
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	469	589
(inc)/Dec in Working Capital	-52	38	-141	-28	-138	-262	0	0
Non Cash Op Exp	388	381	500	438	456	577	0	0
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-105	-99	-105	-102	-104	-139	-134	-168
others	0	0	0	0	0	0	0	0
<b>CF from Op. Activities</b>	<b>231</b>	<b>321</b>	<b>255</b>	<b>307</b>	<b>206</b>	<b>156</b>	<b>424</b>	<b>556</b>
(inc)/Dec in FA & CWIP	-33	-37	-43	-35	-52	-52	-52	-238
Free Cashflow	198	283	212	272	153	104	372	318
(Pur)/Sale of Inv	-105	58	-5	-25	-10	161	-228	-168
others	9	-203	7	-129	-94	-328	0	0
<b>CF from Inv. Activities</b>	<b>-128</b>	<b>-182</b>	<b>-41</b>	<b>-189</b>	<b>-157</b>	<b>-241</b>	<b>-281</b>	<b>-406</b>
inc/(dec) in NW	2	6	4	5	3	0	0	0
inc/(dec) in Debt	-52	-27	-26	-20	44	230	0	0
Int. Paid	-12	-12	-11	-9	-10	-13	0	0
Div Paid (inc tax)	-41	-54	-97	-26	-63	-63	-63	-63
others	4	0	0	0	0	1	0	0
<b>CF from Fin. Activities</b>	<b>-99</b>	<b>-87</b>	<b>-129</b>	<b>-50</b>	<b>-204</b>	<b>201</b>	<b>-63</b>	<b>-63</b>
<b>Inc(Dec) in Cash</b>	<b>4</b>	<b>51</b>	<b>85</b>	<b>68</b>	<b>-155</b>	<b>116</b>	<b>81</b>	<b>87</b>
Add: Opening Balance	141	145	190	259	15	183	317	397
<b>Closing Balance</b>	<b>145</b>	<b>196</b>	<b>275</b>	<b>327</b>	<b>186</b>	<b>314</b>	<b>397</b>	<b>484</b>

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