



Quick Insight

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Zensar Technologies Ltd.

zensar

Industry	IT Services
CMP	₹345.5
M Cap	₹78.2bn
Buy Range	₹330-340
Target	₹410-420
Recommendation	BUY

Highlights

- Additions to senior leadership plugged the gaps with performance improvement from Q1FY22. In Jan'21, Zensar Technologies (ZT) underwent a change in leadership as ex-CEO and MD **Mr. Sandeep Kishore** departed and paved the way for **Mr. Ajay S. Bhutoria**– erstwhile Chief Executive of L&T NxT.
- **Strategy Refresh** was introduced in Q1FY22 with the aim of delivering predictable, sustainable and profitable growth in 4-8 quarters.
- Zensar transformed its operating and reporting structure from a traditional 3*3*3 format into a very sharp structure focused on 5 Strategic Growth Opportunities (SGOs).
- Revenue de-growth stalled in Q4FY21 and trajectory reversed to upwards and onwards
- Onsite: Offshore mix has shifted favourably from 29.3%:70.7% in Q1FY20 to 22.6%:77.4% in Q3FY22.
- Robust client additions indicating “**Strategy Refresh**” is gaining pace
- Order Booking fairly stable.
- Q3FY22 Revenue growth aided by macros recovery, while margins impacted adversely by lower utilization and impact of furloughs.

Zensar Technologies Ltd.

Company Background

Zensar Technologies (ZT) is a Pune based IT Services company, a subsidiary of RPG group, with revenues diversified across various service offerings, such as the Digital Application Services (DAS) comprising core application services and digital services and the Digital Foundation Services (DFS) which consists of cloud, digital led next gen core infrastructure service and core infrastructure services. Further, its clientele is distributed across the manufacturing (industrial and hi-tech), retail, and banking and financial services (BFSI) domains, resulting in sector wise diversification. The company intends to continue its focus on cloud and digital transformation and has been targeting on improving its deal pipeline. With +10,000 employees across 24 locations, Zensar provides engineering and technology solutions to +140 leading companies. Along with this, it also plans to use excess cash to acquire meaningful targets and bag new M&A deals.

Investment Arguments

- **Additions to senior leadership plugged the gaps with performance improvement from Q1FY22** – In Jan'21, Zensar Technologies (ZT) underwent a change in leadership as ex-CEO and MD **Mr. Sandeep Kishore** departed and paved the way for **Mr. Ajay S. Bhutoria** – erstwhile Chief Executive of L&T NxT.

Mr. Ajay Bhutoria boasts of 30 years of work experience. Chief Executive of L&T NxT (10 months) : which is part of L&T Group and leverages the Group's digital assets and capability around new age technologies like IoT, AR/VR, AI/ML and Cyber Security solutions to deliver differentiated and disruptive business outcomes for global customers. Global Head of Retail, Consumer Goods, Travel & Hospitality at Cognizant (17 years) : where Ajay was a part of the enterprise transformation program driving Cognizant's strategy and a member of Cognizant's Executive Leadership Team. Earlier roles included senior positions in the BFS vertical as well as Regional Head, The Netherlands at TCS where he spent 10 years in various roles such as Program Manager, Solution Architect/ Developer and other Lead Roles.

Additionally, several additions to senior leadership have been made in the last 4 to 6 quarters.

- **Mr. Nachiketa Mitra** – BFSI – Head, Executive VP & Global Head, Ex-Cognizant in Q1FY21;
 - **Mr. Harjot Atrii** – Head of Hi-Tech & Manufacturing, Internal;
 - **Mr Samir Gosavi** – Consumer Service Senior VP and Global Head, Ex-Infosys in Q1FY22;
 - **Mr. Abhijeet Vaidya** – Market Head, Data Engineering & Analytics, Ex-Cognizant in Q2FY22;
 - **Mr. RaghvendraNargoli** – Consumer Services –Delhivery Head, Ex-Wipro in Q2FY22;
 - **Mr. Arjun Yadavalli** – Salesforce – VP & Global Head , Ex-Cognizant in Q2FY22;
 - **Mr. Sanjib Talukdar** – Insurance Industry – VP & Head, Ex-Cognizant in Q3FY22.
- **Strategy Refresh was introduced in Q1FY22 with the aim of delivering predictable, sustainable and profitable growth in 4-8 quarters –**

ZT transformed its operating and reporting structure from a traditional 3*3*3 format into a very sharp structure focused on 5 Strategic Growth Opportunities, namely:

Nifty	17,108
Sensex	56,923
Key Stock Data	
CMP	₹345.5
Market Cap (₹)	₹78.2bn
52W High/Low	₹587/255
Shares o/s (mn)	226
Daily Vol. (3M NSE Avg.)	3,177,828
Shareholding Pattern (%) Mar'22	
Promoter	49.1
DII's	14.1
FII's	17.8

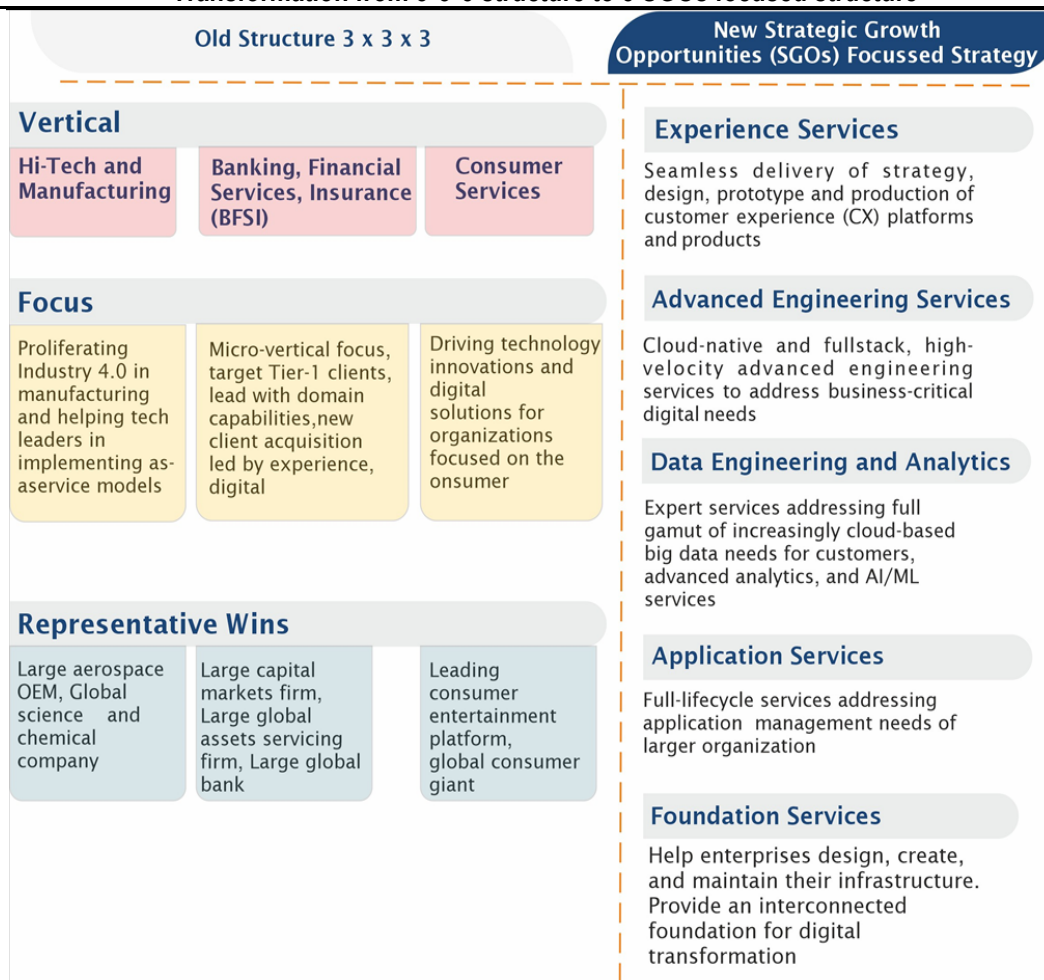
Particulars	FY19	FY20	FY21	9M FY22
Operating Revenue	39,663	41,817	37,814	30,899
Growth YoY (%)	27.6	5.4	(9.6)	6.4
EBIT	3,900	3,479	5,101	3,555
EBIT Margin (%)	9.8	8.3	13.5	11.5
Net Profit	3,136	2,634	3,000	2,864
EPS (₹)	13.9	11.7	13.3	12.7
DPS (₹)	2.8	2.8	6.4	1.5
P/E (x)	24.9	29.6	26.0	
EV/EBIT (x)	19.6	22.5	15.6	
P/BV (x)	4.0	3.7	3.0	

Particulars	FY22E	FY23E	FY24E
Operating Revenue	42,320	49,365	56,176
Growth YoY (%)	11.9	16.6	13.8
EBIT	4,906	5,991	6,749
EBIT Margin (%)	11.6	12.1	12.0
Net Profit	3,951	4,488	5,189
EPS (₹)	17.5	19.9	23.0
DPS (₹)	4.0	5.0	6.0
P/E (x)	19.8	17.4	15.0
EV/EBIT (x)	15.3	13.3	11.1
P/BV (x)	2.9	2.6	2.4

Source: Company, Way2Wealth

- 1. Experience Services** – Refers to the integrated delivery of research, strategy, design, prototyping, and production. Company provides this through Zensar Studios which operates as Foolproof in the UK and Indigo Slate in the US (both acquisitions)
- 2. Advanced Engineering Services (AES)** – Provides cloud native full stack high velocity engineering to address the complex requirements that result from products and platforms built on cloud native architectures. AES gives capability to catch downstream demand coming out of Exp. Services which is significantly higher than the original dollar amount spent. Gives thrust to Cloud Native full stack work in which demand has exploded in the last 18-24 months.
- 3. Data Engineering & Analytics** addresses the fast-growing world of data, advanced analytics, artificial intelligence, and machine learning services. ZT already has foundational skills in this area and this portfolio is in place to scale up.
- 4. Application Services** meets the application lifecycle needs of our clients, including application development, support, and engineering services. It also includes enterprise application services that come through partnerships with Oracle, SAP, and Salesforce.
- 5. Foundation Services** –This is a key area of strength for ZT and the solutions around experience-led infrastructure services driven by an interconnected foundation has found strong market resonance. ZT will continue to drive thrust in this service line. Revamped three years ago – experience led Infrastructure Services.

Transformation from 3*3*3 structure to 5 SGOs focused structure



Source – Company, Way2Wealth

Traditionally, the company operated under a 3*3*3 structure of 3 Geographies (US, South Africa and UK & Europe), 3 Verticals (Hi-Tech and Manufacturing, BFSI, Consumer Services) and 3 Service Lines (Application Management Services and Maintenance & Services under Infrastructure Management Services).

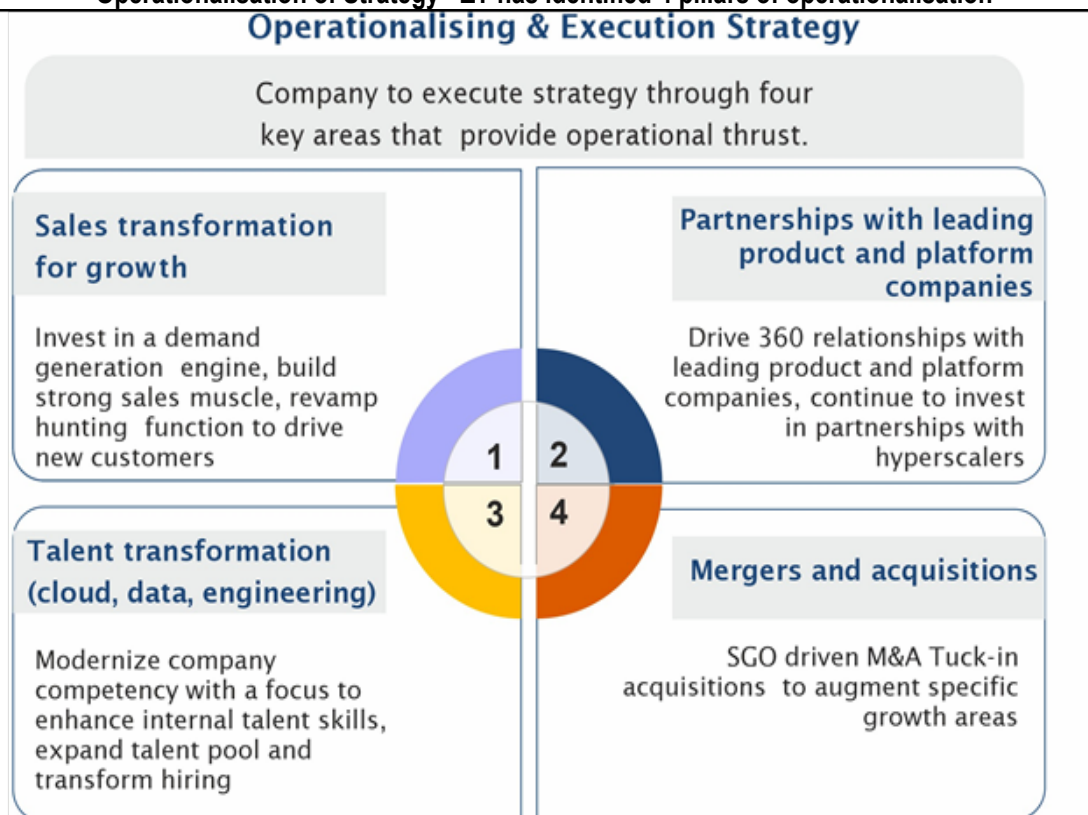
Under the new structure, while the 3 GEOs and Verticals will remain the same, the dynamics will change towards 5 Strategic Growth Opportunities (SGOs). The SGOs themselves will have dedicated sales and delivery units to service the verticals and geographies. ZT will structure to focus on both horizontal and vertical capabilities.

With a renewed focus on 5 SGOs, a better operating structure will be provided and services will be more crystallized which should provide more visibility in the selling process as well.

Aims of Strategy Refresh –

1. Refine and sharpen core capabilities starting with focused SGOs
2. Expand and enable sales organization to accelerate market penetration
3. Invest in strong demand generation engine to drive growth in existing strategic accounts and new accounts
4. Continue to invest in partnerships with hyperscalers and cloud which will help boost growth
5. Integrate current experience competency with software engineering and cloud-native development skills
6. Diversify and reduce dependence on Top Client

Operationalisation of Strategy - ZT has identified 4 pillars of operationalisation



Source – Company, Way2Wealth

- **Revenue de-growth (8 quarter CQGR of -3%) stalled in Q4FY21 and trajectory reversed to upwards and onwards** – Some of the problems that ZT was suffering in the traditional structure was that Application Management Services (AMS) had become a huge mass (85% of revenue) and became undifferentiated- in the sense that high resolution or high end or specialty services were misplaced under it.

Secondly, the traditional structure resulted in an unhealthy focus on top clients rather than the strengths of the organisation. After Strategy Refresh started getting operationalised, visible changes in the performance started flowing in – primarily in the topline performance which hit its inflection point in Q1FY22 (4 quarter CQGR of 7% between Q4FY21 and Q3FY22).

- **Margins expansion to ‘high-teens’ delayed due to industry-wide supply crunch of resources** – Profitability was one of the key targets of Strategy Refresh. ZT has used several levers such as Pyramid substitution through higher fresher intake, favourable onsite - offshore mix and price hikes in selective accounts. However, this expansion was delayed because heightened Tech demand resulted in a supply crunch which led to employee salaries and attrition skyrocketing from 16.3% in FY20 to 26.7% in Q3FY22

Just to manage high attrition, ZT had to roll out 2 salary hikes in CY21 apart from increased retention costs. Barring that, new hires were available at a significant premium to previous average. This took a toll on EBITDA margins as they shrunk from 19% in FY21 to 15% in 9MFY22.

The management estimates the talent crunch to reduce by 2HFY23 – post which one can expect quarterly revenue run-rate to see a meaningful uptick and margins to begin expanding.

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Utilization %	82.4	84.1	81	83.5	82.2	83.3	80.1	81.3	80.4	83.3	79.9
Attrition %	16.7	17	16	16.3	13.5	11.7	12.9	14.8	18.1	23.2	26.7

Employee Headcount-Nos	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Total	10,095	10,147	9,879	9,452	8,955	8,542	8,809	9,111	9,512	10,375	10,641
Gross Additions	1,281	981	611	471	229	394	991	1,332	1,508	1,545	1,416

Source – Company, Way2Wealth

- **Right-sizing the Onsite:Offshore mix** – One of the main levers for margin expansion was right-sizing the onsite offshore mix. Higher offshoring will be achieved by two means by shifting work offshore as project matures and an inclination towards offshore centric delivery in new deal wins.

The pandemic gave major impetus to industry-wide offshoring as travel was suspended. Clients became more comfortable with offshoring not only with “Run” the business part, but also with “Grow” the business part as Work from Home/Anywhere became the new norm.

ZT’s Onsite:Offshore mix has shifted favourably from 29.3%:70.7% in Q1FY20 to 22.6%:77.4% in Q3FY22. The Offshore mix dropped to a low of 21.9% in Q1FY22 but increased to 22.6% in Q3FY22 on account of multi-million-dollar deal from the city of San Diego which requires onsite presence.

The City of San Diego signed a four year, multi-million-dollar contract with Zensar Technologies to modernize the city’s Data Center and End-user services.

The contract has the option to be extended for two additional two-year terms with a total, maximum value of US\$ 122 mn. Through this agreement, Zensar will support over 1,000 city servers and associated storage and software that host over 300 city

application systems. It will also centralize the city's IT support services, new public cloud support and device support for about 6,000 city-owned devices and employee-owned devices that have been critical during the pandemic.

The deal is estimated to add revenue by ₹2000-2200mn annually for the next four years and this deal will be a key achievement towards supporting, modernising, and enhancing its ever-growing portfolio of digitized services

Going ahead, management has indicated that it will focus on increasing its footprint near-shore into its satellite centres (for eg. Kolkata centre opened on 28th March 2022).

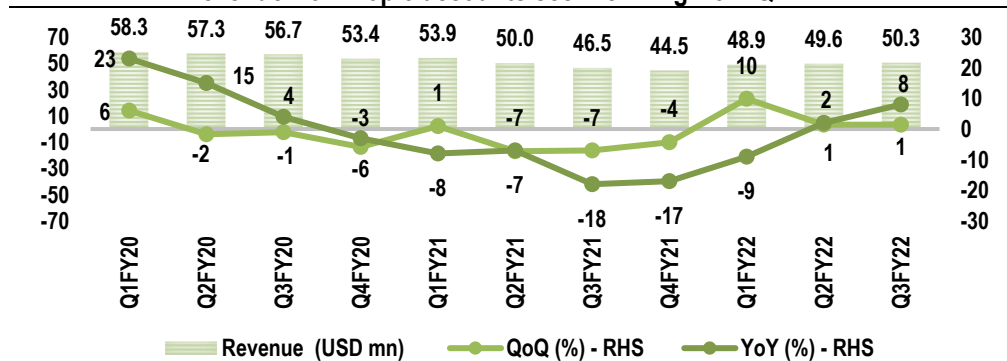
Additionally, **Subcontracting cost is another margin lever that management can utilize. Subcontracting expenses fell from 15-16% in FY20 to low of 12% in Q3FY21 and spiked again to 15% of revenue in Q3FY22.** It is expected that subcontracting costs to show a meaningful decline from FY24 as supply crunch recedes, ZT plugs its talent and capability gap and freshers become billable

Employee Mix	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Onsite (%)	27.0	26.7	24.6	22.3	22.3	21.9	22.6	22.6
Offshore (%)	73.0	73.3	75.4	77.7	77.7	78.1	77.4	77.4

Source – Company, Way2Wealth

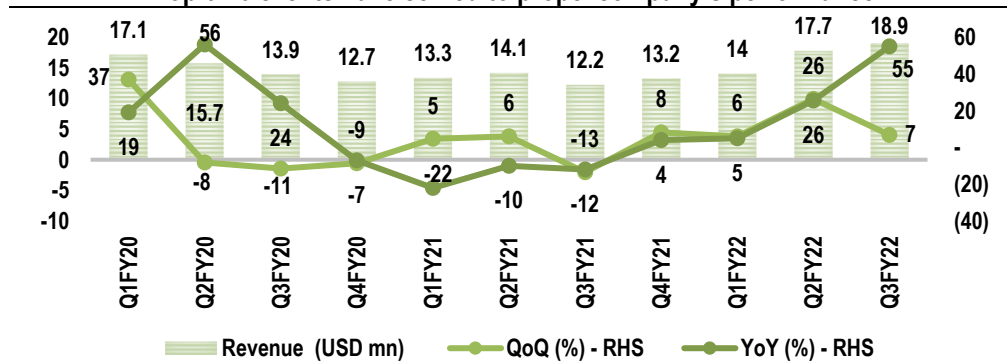
➤ **Pressures at a Top client stabilised with management's active effort to reduce client concentration to propel revenue** – ZT's top account suffered shrinkage between Q4FY20 to Q3FY21 due to their own business pressures during the pandemic. Post Q3FY21, the top account's business has stabilised as per the management. Secondly, as a result of this subdued performance, ZT actively worked on reducing dependence on the Top 5 accounts and focus on improving mind share and wallet share in accounts excluding the Top 5.

Revenue from Top 5 accounts seen reviving from Q4FY21



Source – Company, Way2Wealth

Top 6-10 clients have served to propel company's performance

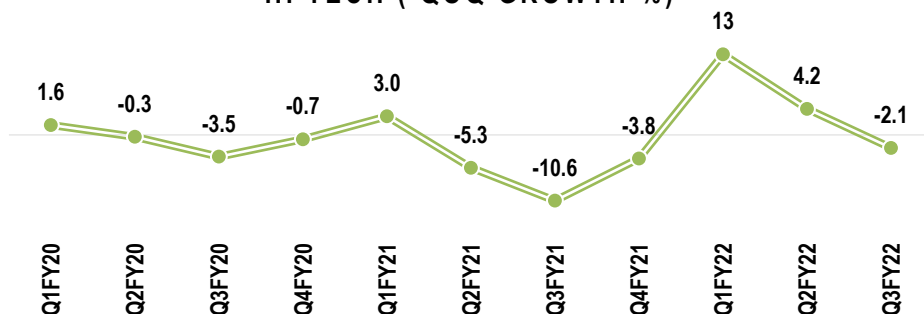


Source – Company, Way2Wealth

➤ **Industry-wise performance –**

- **Hi-Tech vertical (36.7% of revenue) relatively steady as a key Top Account stabilized** – It was subdued between Q1FY20 to Q4FY21 due to business pressures budget cuts on a key top client's end. Moreover, COVID's impact on the top account was even more gruesome which impacted the Hi-Tech vertical's performance. However, from Q1FY22 onwards, performance of said top account started stabilising. Going ahead, management is confident that although the performance of top accounts within the Hi-Tech vertical may be disproportionate, the overall performance will be relatively more stable than before.

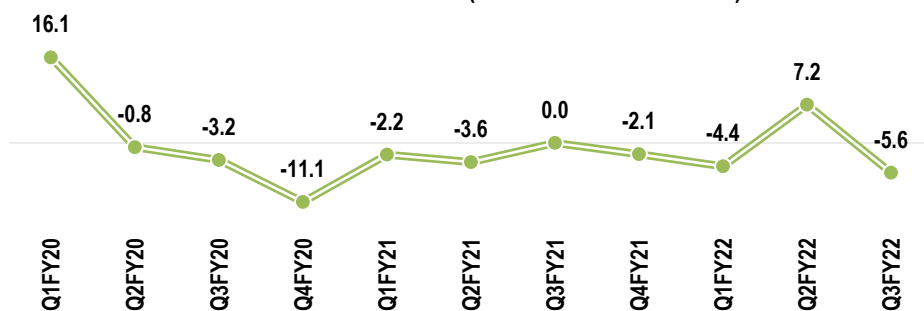
HI TECH (QOQ GROWTH %)



Source – Company, Way2Wealth

- **The worst seems to have been over for Manufacturing vertical (9.7% of revenue)** – It has undergone a revamp with a change in leadership (Mr. Harjott Atrii moved internally) in Q1FY22. ZT redesigned the Mfg vertical with a new set of offerings for clients who want to disrupt themselves to gain success in Industry 4.0. Industry 4.0's key focus areas are Supply Chain 4.0, digital Supply Chain, connected operations, connected experiences and servitisation. Management indicated that new and complete leadership team has been on boarded by Q3FY22 and all the pieces are finally coming together. Several new logo additions have happened in 9MFY22 and management is confident that the worst seems to have passed

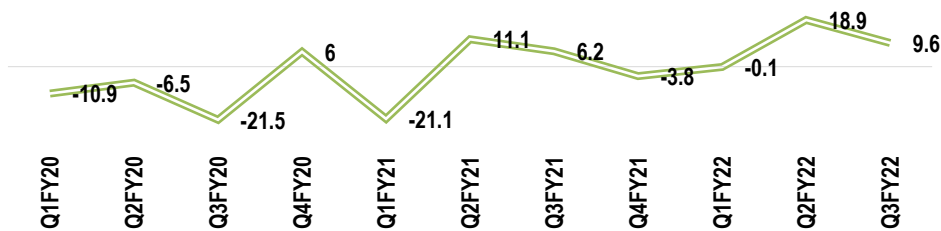
MANUFACTURING (QOQ GROWTH %)



Source – Company, Way2Wealth

- **Consumer services vertical (16.1% of revenue) performance fairly stable** – Barring Q4FY21 (in which ZT saw a significant Consumer Services project completion in the UK and South Africa) Consumer services has performed fairly well for ZT, despite being the most affected industry in the pandemic. ZT further bolstered this performance as it hired a new head of Consumer Services as well as a new delivery head for Consumer Services in Q1FY22. Going ahead, management sees good traction in this vertical.

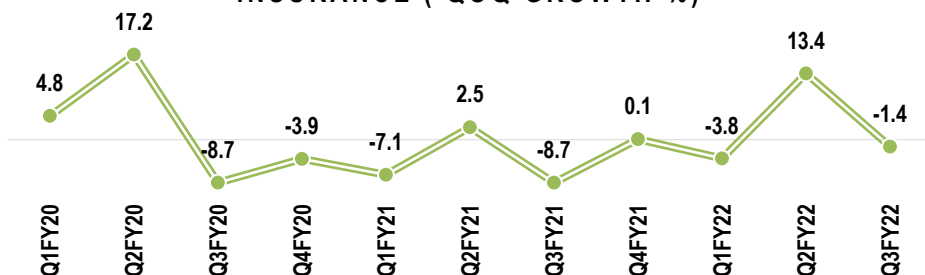
CONSUMER SERVICE (QOQ GROWTH %)



Source – Company, Way2Wealth

- **Insurance vertical (17.6% of revenue) set to revive as ZT explores new sub segments** – Several headwinds such as clients getting acquired (by larger organisations) and project completions have largely ended in Q1FY22 itself. The management expects the Insurance vertical to gain renewed momentum as ZT reduces its concentration on mid-segment Property & Casualty clients in the US and broadens its playfield by focusing on larger clients, going after Life & Benefits and Insurance brokerage firms, building domain capability in solution led consulting, reinforcing partnership with Guidewire and expanding capabilities on other platforms like DuckCreek.

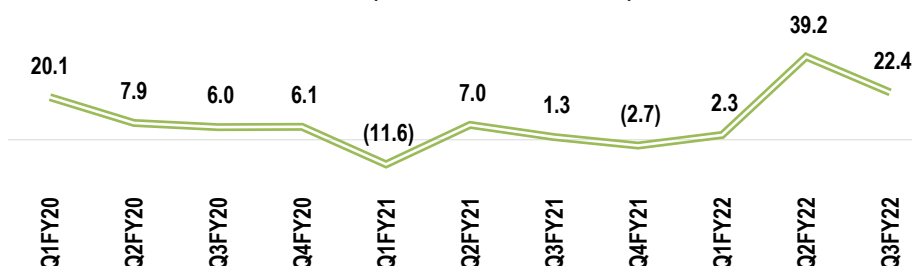
INSURANCE (QOQ GROWTH %)



Source – Company, Way2Wealth

- **Investments in BFS (14.1% of revenue) have begun yielding results** – Vertical-wise BFS has been a fairly consistent performer. Over and above that, ZT has invested considerably in BFS vertical and has seen increased traction between Q3FY21 and Q1FY22 and therefore has seen a turnaround in performance since then. Q1FY22 onwards, BFS has seen healthy growth due to strong performance in existing clients, new logo acquisition and synergies with M3bi.

BFS (QOQ GROWTH %)



Source – Company, Way2Wealth

- **Strategy Refresh to help highlight and accentuate high end services from Application Maintenance Services** – Under the 3*3*3 structure, ZT would operate under an entire block of Digital & Application Services (DAS). The management took the entire block of AMS and put a very sharp structure around these services in the form of five SGOs, which are Experience Services, Advanced Engineering Services, Data Engineering and Analytics, Application Services and Foundation Services and to channelize these five SGOs into specific go-to-market.

ZT has launched 21 services through playbooks which are crystallized. These are well-defined services that ZT is taking to market and under each playbook there are multiple levels of content and material as well as a structure to support these SGOs and playbooks.

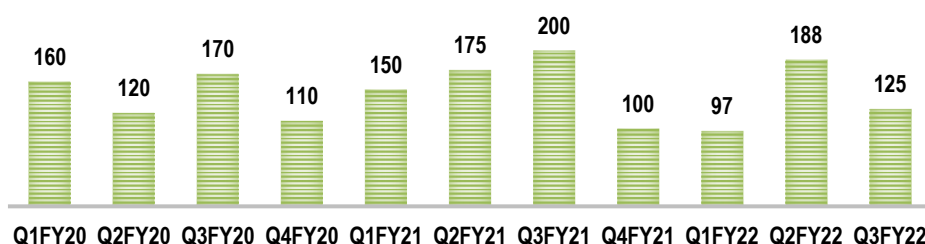
Barring Q3FY21 and Q4FY21, wherein ZT saw certain project completions, DFS has performed consistently over the last 3 quarters. We expect ZT's DFS business to continue reporting healthy performance in the midst of heightened demand in the Infrastructure Mgmt Services (IMS) space.

Services Mix %	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Digital Services	39.7	41.1	43.1	46.1	49.4	52.3	52.8	54.3	55.0	55.9	57.9	61.5	59.9
Core Application Services	43.2	43.6	43.1	43.1	37.9	35.0	32.1	30.8	29.9	29.0	27.5	23.3	22.5
Digital & Application Services (DAS)	82.9	84.7	86.2	89.2	87.3	87.3	84.9	85.1	84.9	84.9	85.4	84.8	82.4
Cloud, Digital Led next gen CIS	5.2	5.3	7.4	6.1	6.9	7.3	9.3	9.5	10.0	10.0	10.1	9.6	11.7
Core Infrastructure Services	7.4	5.8	6.4	4.6	5.8	5.4	5.8	5.4	5.1	5.1	4.5	5.6	6.0
Digital Foundation Services (DFS)	12.6	11.1	13.8	10.7	12.7	12.7	15.1	14.9	15.1	15.1	14.6	15.2	17.7

Source – Company, Way2Wealth

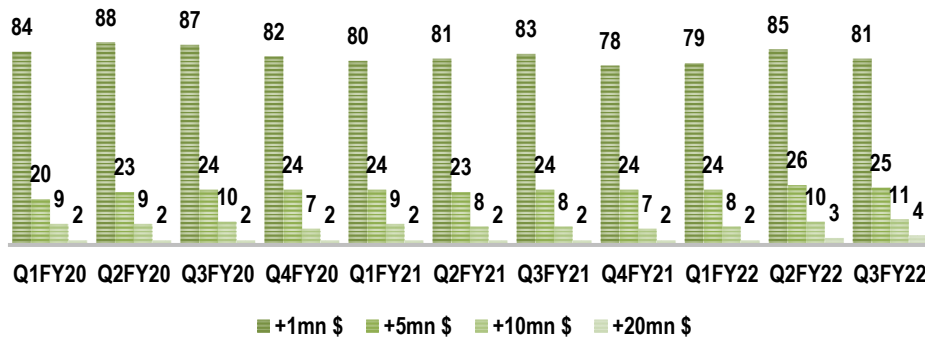
- **Order booking trend fairly stable** – Order book trend has been fairly healthy for ZT over the past several quarters. Only in Q4FY21, run-rate took a dip as ZT was expecting to close certain deals in Digital Foundation Services (DFS) which were deferred to the next quarter. Order booking run-rate, although looks weak from Q1FY22 onwards, it is only optical as management had become conservative in its reporting standards and accounted for only those orders for which is in-hand. The nature of deals are typically multi-stage in nature and clients sign the first stage SOW with the follow-on stages most definitely with the same IT services vendor. Therefore, order booking run-rate is not comparable between 9MFY22 and the previous periods. In Q2FY22, ZT signed a deal worth \$122 Mn with the City of San Diego. However, they have accounted for only \$61Mn in the quarter (based on the conservative approach). Excluding the large deal, ZT won deals worth \$127Mn which is a growth of 31% QoQ and maintained that run-rate in Q3FY22 as well (Q3FY22 order book includes M3bi's numbers).

ORDER BOOK (USD MN)



Source – Company, Way2Wealth

- **Robust client additions indicating “Strategy Refresh” is gaining pace –** ZT’s growth was struggling in the past as it had a long tail of smaller client buckets +80 clients in the \$1 mn client bucket. As a part of strategy refresh, focus shifted to larger clients and larger deals which help scaling revenue growth and in turn margins. It is evident that Strategy Refresh is yielding results as client additions in \$10 mn+ and \$20 mn+ buckets are robust. Clients in the \$20 mn+ have doubled from 2 at the end of FY21 to 4 by Q3FY22. Similarly, clients in the \$10 mn+ bucket have increased from 7 at the end of FY21 to 11 by Q3FY22.



Source – Company, Way2Wealth

- **Q3FY22 Revenue growth aided by macros recovery, while margins impacted adversely by lower utilization and impact of furloughs –** Revenue at ₹11,025mn witnessed 4.7% QoQ CC revenue growth. The company’s growth in the US (+4.4% QoQ) and Europe (+6.2% QoQ) was fairly resilient despite impact of furloughs and project completions in the Hitech and Manufacturing segment. Growth remains strong in the BFS space aided by the recent client wins and M3bi acquisition made earlier. EBIT margins declined by 81 bps sequentially to 10.1%, impacted adversely by lower utilization and impact of furloughs apart from the increase in subcontracting expenses (up by 34 bps QoQ to 15.2% of revenues).

Subcontracting costs are likely to remain high till the supply side constraints continue with the management expecting to see some moderation over the next 3-5 quarters. Profits were at ₹910 mn (-3.7% QoQ, -7.9% YoY).

Management confirmed that the demand environment remains strong. The company reported a new deal TCv of 125 mn (32% new business and 68% renewals). Management commented that the pipeline remains healthy with an increased number of small and mid size deals. The reported TCv now includes deals from M3Bi acquisition which is very well integrated into the company now.

According to the management, margins will remain in the mid teens in the short term until the full impact of strategic initiatives they have taken will come to bear fruit (4-8 quarters). Increased hiring of freshers, expanding delivery locations, selective rate hike talk with clients are some of the initiatives that the company is taking to achieve the long term goal of high teens margins

ZT noted that it was using multiple levers to deal with the supply side constraints. The company has taken two wage hikes in the past 12 months. They also plan to triple their fresher hiring in the next 12 months. Company is also expanding via satellite offices into non metro locations in India. Also they have increased hiring in near shore locations globally.

Particulars (₹ mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY21	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue (USD mn)	147.1	122.8	19.8	141.9	3.7	416.2	373.8	11.3
Revenue	11,025	9,344	18.0	10,506	4.9	30,899	29,051	6.4
Goods Purchased	283	363	(22.0)	218	29.8	849	930	(8.7)
Inventories Changes	-	63	(100.0)	-	#DIV/0!	-	270	(100.0)
Subcontracting Cost	1,681	1,157	45.3	1,566	7.3	4,403	4,094	7.5
Employee Exps	6,738	5,289	27.4	6,398	5.3	18,632	16,618	12.1
Other Exps	738	618	19.4	712	3.7	2,093	2,012	4.0
EBITDA	1,585	1,854	(14.5)	1,612	(1.7)	4,922	5,127	(4.0)
EBITDA Margin (%)	14.4	19.8	(547)	15.3	(97)	15.9	17.6	(172)
Depreciation	474	426	11.3	468	1.3	1,367	1,302	5.0
EBIT	1,111	1,428	(22.2)	1,144	(2.9)	3,555	3,825	(7.1)
EBIT Margin (%)	10.1	15.3	(521)	10.9	(81)	11.5	13.2	(166)
Other Income	241	48	402.1	229	5.2	654	188	247.9
Finance Cost	89	130	(31.5)	87	2.3	265	414	(36.0)
Exceptional item	-	402	(100.0)	-	NA	-	(485)	(100.0)
PBT	1,263	1,748	(27.7)	1,286	(1.8)	3,944	3,114	26.7
Tax	339	356	(4.8)	328	3.4	1,036	951	8.9
Minority Interest (Profit)/Loss	14	13	7.7	14	-	44	46	(4.3)
Net Profit	910	1,379	(34.0)	944	(3.6)	2,864	2,117	35.3
EPS (₹)	4.0	6.1	(34.0)	4.2	(3.6)	12.7	9.4	35.3

Source – Company, Way2Wealth

Segment Revenue (₹ mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY21	QoQ (%)	9MFY22	9MFY21	YoY (%)
Digital and Application Services	9,076	7,698	17.9	8,907	1.9	25,984	23,722	9.5
Digital Foundation Services	1,949	1,646	18.4	1,599	21.9	4,915	5,239	(6.2)
Revenue Mix (%)	Q3FY22	Q3FY21	YoY (bps)	Q2FY21	QoQ (bps)	9MFY22	9MFY21	YoY (bps)
Digital and Application Services	82.3	82.4	(6)	84.8	(246)	84.1	81.7	244
Digital Foundation Services	17.7	17.6	6	15.2	246	15.9	18.3	(244)
EBIT (₹ mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY21	QoQ (%)	9MFY22	9MFY21	YoY (%)
Digital and Application Services	1,296	1,710	(24.2)	1,487	(12.8)	4,309	4,446	(3.1)
Digital Foundation Services	318	232	37.1	239	33.1	729	775	(5.9)
EBIT (%)	Q3FY22	Q3FY21	YoY (bps)	Q2FY21	QoQ (bps)	9MFY22	9MFY21	YoY (bps)
Digital and Application Services	14.3	22.2	(793)	16.7	(242)	16.6	18.7	(216)
Digital Foundation Services	16.3	14.1	222	14.9	137	14.8	14.8	4
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Source – Company, Way2Wealth

As % of Sales	Q3FY22	Q3FY21	YoY (bps)	Q2FY21	QoQ (bps)	9MFY22	9MFY21	YoY (bps)
Cost of Goods	2.6	4.6	(199)	2.1	49	2.7	4.1	(138)
Subcontracting Cost	15.2	12.4	286	14.9	34	14.2	14.1	16
Employee Exps	61.1	56.6	451	60.9	22	60.3	57.2	310
Other Exps	6.7	6.6	8	6.8	(8)	6.8	6.9	(15)

Source – Company, Way2Wealth

Key Risks

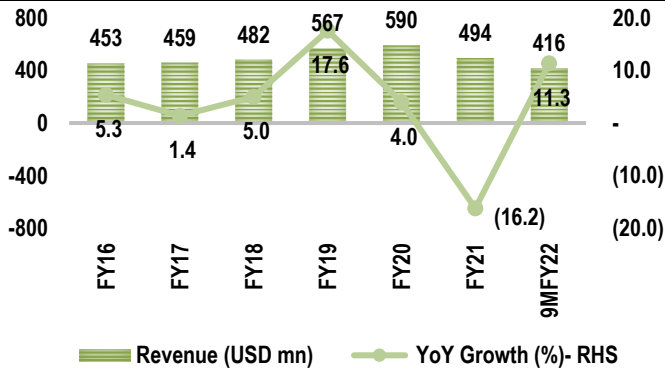
- Loss of revenue and market share due to gaps in strategy identification and implementation
- Business disruption due to natural and manmade disaster
- Impact of growth due to unsuccessful acquisitions
- Loss of business due to violation of data security and privacy
- Impact of productivity and engagement of associates
- Dependency on certain key customers and sectors
- Geopolitical risks and Regulatory noncompliance in absence of defined framework across geographies.

View

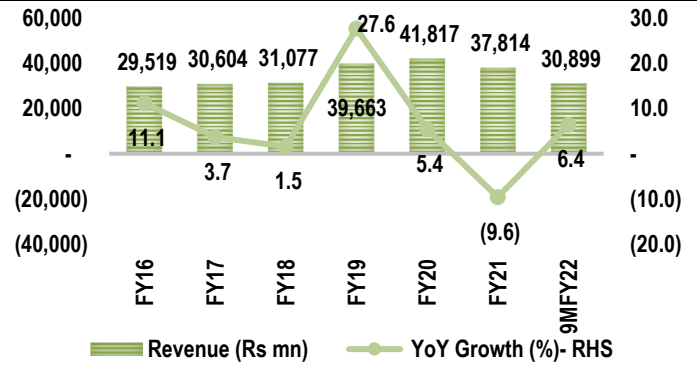
Zensar Technologies has invested in Go to Market (GTM) initiatives. With the roll-out of 5 SGOs and the training of sales teams, GTM process has become smoother and deal win visibility has improved. Its portfolio has witnessed multiple challenges over the past five-six quarters, initially impacted by Retail, then by the pandemic and now by softness in top Hi-tech clients. While there have been continuous challenges, the lead indicators of deal wins and pipeline continue to look strong. The company is now experiencing healthy deal momentum. It is executing well on refreshed strategy given 1) improving revenue growth profile and deal wins, 2) strengthened sales team with improved focus on hunting new logos and client mining, 3) consistent strong growth in digital revenue. The EBITDA margin is expected to be in mid-teens in the near term, because growth will continue to remain the top priority. Margin is expected to improve to high teens as supply side pressures eases for the company with the global talent crunch expected to recede over the next 2-3 quarters Hence, we recommend it as **BUY** with a target range of **₹410-420**.

Past Performance

Revenue CAGR ~2% FY16-21

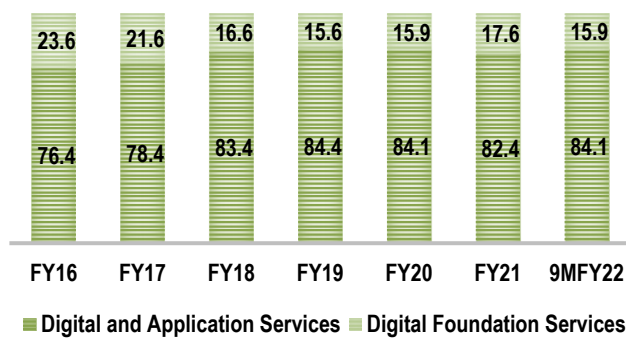


Revenue CAGR 5.1% FY16-21

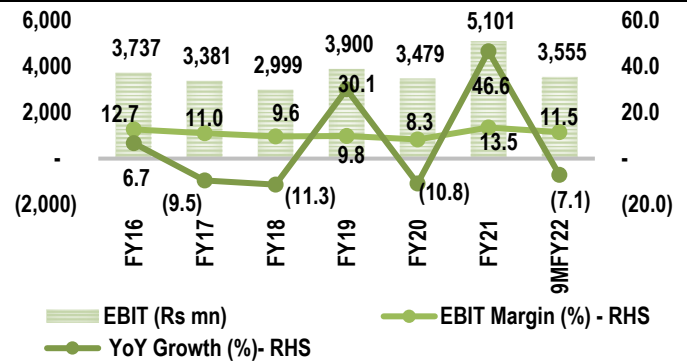


Source: Company, Way2Wealth

Revenue Mix (%)

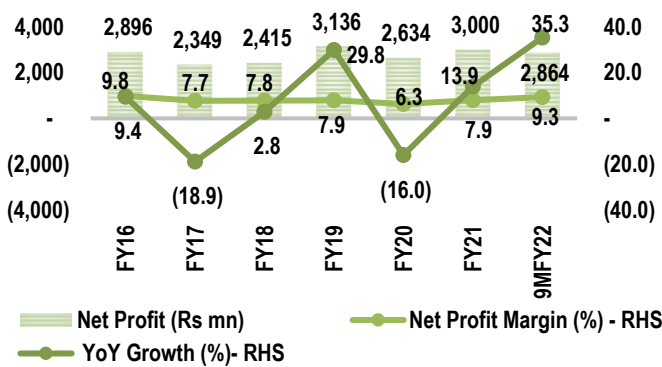


EBIT CAGR 6.4% FY16-21



Source: Company, Way2Wealth

PAT CAGR ~1% FY16-21



Source: Company, Way2Wealth

OPERATING PARAMETERS

Industry Mix (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Manufacturing & Hi-Tech	52.0	52.1	54.2	53.1	57.9	55.0	51.9	51.5	53.2	49.8	46.4
Retail and Consumer Services	18.0	16.5	13.8	15.0	12.4	13.9	15.3	15.3	14.5	15.4	16.1
Financial Services	25.1	28.9	29.3	29.4	27.3	29.0	30.2	30.2	28.6	31.0	31.7
Emerging	4.9	2.5	2.7	2.5	2.4	2.1	2.6	3.0	3.7	3.8	5.8

Geography Mix (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
North Americas	75.3	72.9	73.1	73.2	74.9	73.3	70.3	69.6	70.2	70.4	70.9
Europe	15.6	16.0	16.3	15.6	14.9	16.0	17.4	18.6	17.6	17.6	18.0
Africa	9.1	11.1	10.6	11.2	10.2	10.7	12.3	11.8	12.2	12.0	11.1

Project Type Mix (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Fixed Price	55.3	56.6	56.6	58.8	59.8	60.5	61.4	61.5	64.4	60.8	60.3
T&M	44.7	43.4	43.4	41.2	40.2	39.5	38.6	38.5	35.6	39.2	39.7

Revenue Concentration %	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Top 5	39.6	39.2	41.2	39.6	43.1	39.8	37.8	37.0	38.4	35.0	34.2
Top 10	51.2	50.0	51.2	49.0	53.7	51.0	47.8	48.0	49.4	47.4	47.0
Top 20	63.8	65.3	66.1	62.8	68.1	65.8	61.9	63.0	63.7	61.9	61.3
No of Active Clients	149	145	142	138	132	134	134	134	135	143	144

Revenue Mix (%)	FY16	FY17	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22	Q3FY22
Onsite	64	66.8	62.9	66.5	66.6	59.4	58.3	57.5	57.7
Offshore	36	33.2	37.1	33.5	33.4	40.6	41.7	42.5	42.3

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Utilization %	82.4	84.1	81	83.5	82.2	83.3	80.1	81.3	80.4
Attrition %	16.7	17	16	16.3	13.5	11.7	12.9	14.8	18.1
DSO Days (Billed)	64	56	57	51	44	51	48	51	55
DSO Days (Unbilled)	39	47	36	35	29	25	25	26	25

Employee Headcount-Nos.	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Total	10,095	10,147	9,879	9,452	8,955	8,542	8,809	9,111	9,512	10,375	10,641
Gross Additions	1,281	981	611	471	229	394	991	1,332	1,508	1,545	1,416

Source – Company, Way2Wealth

Peer Comparison

(₹ mn)

Company	CMP (₹)	MCAP (₹ mn)	Revenue (₹ mn)				EBIT (₹ mn)				EBIT Margin (%)				PAT (₹ mn)				EPS (₹)			
			FY19	FY20	FY21	9M FY22	FY19	FY20	FY21	9M FY22	FY19	FY20	FY21	9M FY22	FY19	FY20	FY21	9M FY22	FY19	FY20	FY21	9M FY22
Zensar Tech	345.5	78,152.6	39,663	41,817	37,814	30,899	3,900	3,479	5,101	3,555	9.8	8.3	13.5	11.5	3,136	2,634	3,000	2,864	13.9	11.7	13.3	12.7
Cyient Ltd	837.2	92,352.2	46,175	44,275	41,325	33,532	4,752	4,081	4,163	4,586	10.3	9.2	10.1	13.7	3,307	3,726	3,714	3,678	30.0	33.8	33.8	33.7
Mastek Ltd	2,885.7	86,621.5	10,330	10,710	17,210	16,018	1,160	1,300	3,190	3,107	11.2	12.1	18.5	19.4	1,010	1,130	2,510	2,244	42.6	45.2	84.9	74.5

Source : Company, Way2Wealth

(₹ mn)

Company	CMP (₹)	MCAP (₹ mn)	RoE (%)			RoCE (%)			P/E (x)			EV/EBITDA (x)			P/BV (x)			MCAP/Sales (x)		
			FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
Zensar Tech	345.5	78,152.6	18.0	12.9	15.5	21.4	15.1	18.6	24.9	29.6	26.0	15.9	15.4	11.6	4.0	3.7	3.3	2.0	1.9	2.1
Cyient Ltd	837.2	92,352.2	13.5	14.6	13.5	10.2	10.6	9.9	27.9	24.8	24.8	15.8	17.2	15.7	3.6	3.6	3.1	2.0	2.1	2.2
Mastek Ltd	2,885.7	86,621.5	14.2	13.4	17.9	17.0	12.0	22.2	67.7	63.8	34.0	63.7	51.6	20.6	9.7	9.5	8.6	8.4	8.1	5.0

Source : Company, Way2Wealth

Company	CMP (₹)	MCAP (₹ mn)	DPS (₹)			FCF (₹ mn)			RoIC (%)			DSO Days				Cash Balances (₹ mn)			
			FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	9MFY 22	FY19	FY20	FY21	9MFY 22
Zensar Tech	345.5	78,152.6	2.8	2.8	6.4	1,043	6,081	8,187	17.9	13.1	5.7	82	58	59	78	3,259	5,258	3,775	2,605
Cyient Ltd	837.2	92,352.2	13	27	24.5	2,261	3,686	7,609	25.6	17.6	19.5	64	88	88	77	9,073	8,995	14,408	41,628
Mastek Ltd	2,885.7	86,621.5	8.5	8.0	14.5	430	(2,410)	290	32.8	11.3	39.5	74	108	79	76	2,445	4,147	8,489	9,323

Source : Company, Way2Wealth

FINANCIALS & FORECASTING

(₹ mn)

Particulars	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	453	459	482	567	590	494	569	663	746
YoY Growth (%)	5.3	1.4	5.0	17.6	4.0	(16.2)	15.2	16.5	12.5
Revenue	29,519	30,604	31,077	39,663	41,817	37,814	42,320	49,365	56,176
YoY Growth (%)	11.1	3.7	1.5	27.6	5.4	(9.6)	11.9	16.6	13.8
EBIT	3,737	3,381	2,999	3,900	3,479	5,101	4,906	5,991	6,749
EBIT Margin (%)	12.7	11.0	9.6	9.8	8.3	13.5	11.6	12.1	12.0
Net Profit	2,896	2,349	2,415	3,136	2,634	3,000	3,951	4,488	5,189
YoY Growth (%)	9.4	(18.9)	2.8	29.8	(16.0)	13.9	31.7	13.6	15.6
EPS (₹)	12.8	10.4	10.7	13.9	11.7	13.3	17.5	19.9	23.0
DPS (₹)	12.0	12.0	7.0	2.8	2.8	6.4	4.0	5.0	6.0
RoE (%)	22.9	17.2	14.7	18.0	12.9	15.5	16.5	17.3	18.2
RoCE (%)	30.2	23.2	17.7	21.4	15.1	18.6	20.4	22.4	25.2
RoIC (%)	26.5	19.9	15.6	17.9	13.1	5.7	15.3	16.7	17.9
Debtor Days	95.0	94.0	78.0	82.0	58.0	59.0	60.0	60.0	60.0
FCF	2,164	2,694	1,398	1,043	6,081	8,187	4,266	4,911	6,458
Cash Balances	2,768	5,996	5,137	3,259	5,258	3,775	4,478	5,316	7,219
Dividend Payout (%)	93.5	115.3	65.4	20.1	24.0	48.1	22.9	25.2	26.1
Dividend Yield (%)	3.5	3.5	2.0	0.8	0.8	1.9	1.2	1.4	1.7
P/E (x)	26.9	33.2	32.3	24.9	29.6	26.0	19.8	17.4	15.0
EV/EBIT (x)	21.0	24.2	27.2	19.6	22.5	15.6	15.3	13.3	11.1
P/BV (x)	6.2	5.3	4.7	4.0	3.7	3.3	2.9	2.6	2.4
EV/Sales (x)	2.7	2.7	2.6	1.9	1.9	2.1	1.8	1.6	1.4

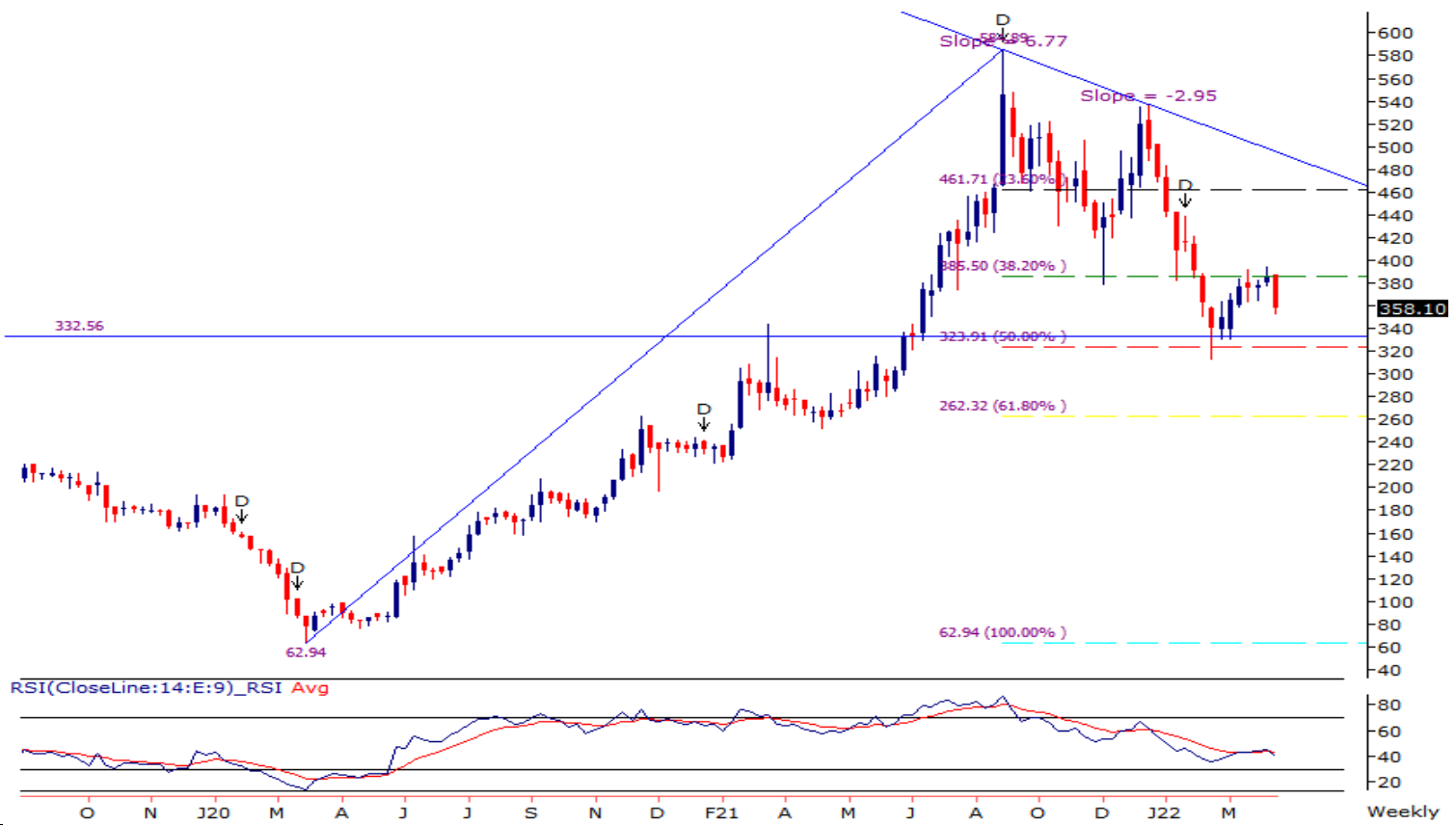
Source : Company, Way2Wealth

Technical View

Zensar Technologies stock price has showed vertical rally from 2020 low of 62 levels and in this optimism stock prices crossed 2018 high of 332 and tested fresh all time high of 584.89 levels in September 2021. Subsequently stock prices witnessed bouts of profit booking and slipped in to broad consolidation range of 420 – 537 levels. In due process of consolidation, stock price formed “Descending triangle” pattern. In January 2022, stock penetrated the neckline of the said triangle pattern and witnessed steep fall. The sell off got exhausted precisely near September 2018 swing high which coincided with 50% Fibonacci retracement of the entire rally from the bottom of 62.94 to 584.89. Stock price has corrected more than 40% from its all time high and in March 2022, it showed a decent recovery from recent lows and currently placed 358 levels. The stock price has undergone healthy correction in past few months and it has currently hovering near the crucial swing high supports. Whereas RSI (14) indicator has cooled off from the overbought territory and presently scaled near 43 levels. Hence, looking at overall chart structure Zensar stock price seems to be concluding its corrective move and we expect stock price may reverse from the said swing high supports of 330 levels and resume its primary uptrend. Therefore, we advocate to use dips as an buying opportunity. Coming to the levels 330 - 315 would be the good levels to accumulate this stock, where reversal in the trend could propel the stock price till 410 then 450 levels which is 50% of the immediate correction. On the lower side 250 will be the crucial support of 61.8% retracement levels of the entire upside rally.

1-Zensar Technologies -depo - 13/04/22

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Source: Falcon 7

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Disclosure of Interest Statement in Zensar Technologies Ltd. as on 18th April 2022

Name of the Security	Zensar Technologies Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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