

Q3-FY23 Result Update

- ❑ Zensar Technologies Limited (ZENSARTECH) has reported consolidated revenue of ₹11,976 million in Q3-FY22 as against ₹11,025 million in Q3-FY22. In US dollar terms the revenue growth was negative 0.8% YoY and negative 5.9% QoQ at \$145.9 million. The softness was due to the deceleration in the demand environment leading to client's deferring discretionary spend and scaling back budgets.
- ❑ On profitability front, the company's consolidated EBITDA margin stood at 11.3% at ₹1,349 million in Q3-FY23 as against 14.4% at ₹1,585 million in same quarter previous year. The consolidated profit after tax (PAT) margin for the company stood 8.9% at ₹1,061 million as against 8.3% at ₹914 million in same quarter previous year. The operating margins during the quarter were lower due to higher operating expenses.
- ❑ On segment basis, Banking reported sequential Q-o-Q growth of 7.4% on constant currency basis while Hi-tech, Manufacturing, Insurance, Consumer and Emerging posted de-growth of 4.9%/7%/10.3%/2.3% and 23.9% respectively on QoQ basis. The decline was mainly attributable to factors like delay in decision making, forward shifting of milestones, furloughs and macro demand uncertainties. The order book for the quarter ended Q3-FY23 stood at \$130.5 million, supported by healthy renewals and multiple wins across verticals.
- ❑ During the quarter, ZENSARTECH has also won significant four deals in Application development services, along with data engineering and data services mandate in US, South Africa, UK etc. During the quarter, the company scaled two clients to the \$10 million-plus bracket.
- ❑ In terms of guidance, the management has not given specific guidance however it is confident of scaling back revenues to normal levels going ahead and a healthy pipeline of orders along with gradually improving margins to augur well in medium term.
- ❑ We have incorporated latest quarterly numbers for ZENSARTECH and have revised our estimates for the company in terms of both revenues and earnings. We continue to remain positive on the company for medium to long term, we maintain our rating to **BUY** with a revised target price **₹290 per share**.



Q3-FY23 results (Consolidated)

(In ₹ mn)	Q3-FY23	Q3-FY22	Chg	9M-FY23	9M-FY22	Chg
Net Sales	11,976	11,025	8.6%	36,356	30,899	17.7%
Operating Expense	10,627	9,440	12.6%	32,592	25,976	25.5%
EBITDA	1,349	1,585	-14.9%	3,764	4,923	-23.5%
Other Income	259	241		756	654	
Depreciation	497	474		1,479	1,368	
EBIT	1,111	1,352	-17.8%	3,041	4,209	-27.8%
Interest	76	89		215	265	
PBT	1,035	1,263	-18.1%	2,826	3,944	-28.3%
Tax	270	339		742	1,036	
Exceptional Items	-	-		-	-	
PAT	765	924	-17.2%	2,084	2,908	-28.3%
Minority /Other Adj.	296	(10)		433	4	
Consolidated PAT	1,061	914	16.1%	2,517	2,912	-13.6%

Margins	Q3-FY23	Q3-FY22	ChgBPS	9M-FY23	9M-FY22	ChgBPS
Operating Margin %	11.3%	14.4%	-311	10.4%	15.9%	-558
Net Margin %	8.9%	8.3%	57	5.7%	9.4%	-368

Financials (Consolidated):

(In ₹ Mn.)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	37,814	42,438	49,959	54,931
Operating Expense	31,892	36,165	44,759	47,676
EBITDA	5,922	6,273	5,200	7,255
Other Income	1,180	1,669	1,249	1,373
Depreciation	1,747	1,848	1,998	2,197
EBIT	5,355	6,094	4,450	6,431
Interest	535	353	295	295
Misc. items	(491)	-	-	-
PBT	4,329	5,741	4,155	6,136
Tax	1,259	1,524	1,103	1,629
Minority Interest	(70)	(54)	-	-
PAT	3,000	4,163	3,052	4,507

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	-9.6%	12.2%	17.7%	10.0%
Operating Margin %	15.7%	14.8%	10.4%	13.2%
Net Margin %	7.9%	9.8%	6.1%	8.2%

(In ₹ Mn.)	FY-21	FY-22	FY-23E	FY-24E
<u>Liabilities</u>				
Equity Share Capital	600	677	677	677
Reserves & Surplus	22,824	26,191	29,243	33,751
Total Shareholder's Funds	23,424	26,868	29,920	34,428
Minority Interest	288	-	-	-
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	3,239	3,544	3,544	3,544
Deferred Tax Liability	(492)	(539)	(539)	(539)
Short-term Liabilities	7,384	8,299	9,770	10,742
Total	33,843	38,172	42,695	48,175
<u>Assets</u>				
Net Fixed Assets	11,330	12,858	12,469	12,261
Long-Term L&A	783	950	950	950
Non Current Investments	1,540	1,605	1,605	1,605
Other Non-Current Assets	261	132	132	132
Current Asset	19,929	22,627	27,539	33,227
Total	33,843	38,172	42,695	48,175

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
EPS (₹)	13.3	18.4	13.5	19.9
P/E (x)	17.8	12.8	17.5	11.8
P/B (x)	2.3	2.0	1.8	1.5
ROE	12.8%	15.5%	10.2%	13.1%

Source: Company, Anand Rathi Research

Key Risks:

- ❑ The company's business is exposed to foreign exchange risks.



Rating and Target Price history:

ZENARTECH rating history & price chart



Source: Bloomberg, Anand Rath Research

NOTE: Prices are as on 3 February 2023 close.

ZENARTECH rating details

Date	Rating	Target Price (₹)	Share Price (₹)
21-Jun-21	BUY	360	294
27-Jul-21	BUY	463	403
08-Nov-21	BUY	562	455
01-Feb-22	BUY	535	424
23-May-22	BUY	427	290
03-Feb-23	BUY	290	235

Source: Bloomberg, Anand Rath Research



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Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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