Zensar Technologies Ltd.

AUGUST 03, 2011	BUY	MEDIUM RISK	PRICE Rs.140	TARGET Rs.240

TECHNOLOGY

EARLIER RECO

Buy	
Price	Rs.183
Target	Rs.240
Date	May 16, 2011

SHARE HOLDING (%)

Promoters	47.8
FII	8.0
FI / MF	2.5
Body Corporate	26.2
Public & Others	15.5

STOCK DATA

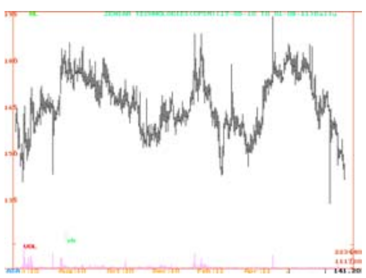
Reuters Code	**ZENT.BO**
Bloomberg Code	**ZENT.IN**
BSE Code	**504067**
NSE Symbol	**ZENSARTECH**
Market Capitalization*	**Rs. 6,074.6 mn US$ 137.4 mn**
Shares Outstanding*	**43.39 mn**
52 Weeks (H/L)	**Rs. 193/133**
Avg. Daily Volume (6m)	**5,793 Shares**

Price Performance (%)

1M	3M	6M
(16)	(21)	(12)

200 Days EMA: Rs.163

Part of Sushil Bonanza



Decent Revenue Growth on increase in Business Volume

Zensar delivered a decent Revenue growth of 6.6% QoQ during Q1FY12. However, its net profits fell on higher tax provision and lower other income. Its Revenues grew by 6.6% QoQ & 65.1% YoY to Rs. 3,987.8 mn, mainly due to 6.2% QoQ growth in volume. The Revenues from application management services grew by 7.6% YoY to Rs. 2,414.8 mn, while its infrastructure management services (IMS) business grew by 818.3% YoY to Rs. 1,573 mn (including Rs. 1,314.9 mn from Akibia). The company is currently chasing about 8 key deals in both the segments and is expected to close some deals in coming quarters.

Growth in EBITDA Margins, While Fall in Net Profits on Higher Tax Outgo

During Q1FY12, its EBITDA margins grew by 90 bps QoQ to 10.8%, and its EBITDA increased by 16.5% QoQ & 12.3% YoY to Rs. 430.7 mn. Its PBT (excluding of other income of Rs. 57.1) grew by 28.1% QoQ & 5% YoY to Rs. 328.1 mn. However, with sharp decline of 40.3% QoQ & 32.9% YoY in its other income and higher tax provisioning at 29.7% of PBT (against 21% in Q4FY11 & 18.3% in Q1FY11), its APAT declined by 28.4% QoQ and 16.7% YoY to Rs. 270.7 mn. Q4FY11 Profits included deferred tax asset amounting to Rs. 100.2 mn pursuant to the expiry of tax holiday under section 10A of Income Tax Act. Going forward, Zensar expects margins to expand further with closing of some low margins accounts and aims for Rs. 15.5 bn of Revenues & Rs. 1.5 bn of APAT for FY12.

Decent Revenues Growth in Akibia's Business

During Q1FY12, Akibia, which is a key player in the Infrastructure Management (IM) space with service offerings of Data center and Network & security solutions, contributed Rs. 1,314.9 mn to Zensar's consolidated Revenues against Rs. 1191.8 mn in Q4FY11. Zensar is on-track with respect to its plan to sell integrated IM solutions to the customers of both Akibia & Zensar and cross-selling of non-IM solutions to Akibia's customers to accelerate growth in FY12. It also plans to close some of its non profitable projects both in Zensar & Akibia. Overall, Zensar expects to achieve Revenues of about Rs. 15,500 mn during FY12 (including Rs. 4,000 mn contribution from Akibia), which in our view, is achievable, given its decent Revenues growth in Q1FY12 and strong deals pipeline in both of its Application management & IMS business.

Lower Contribution from Cisco in Q1FY12, But to improve going forward

The Revenues contribution from Cisco declined during Q1FY12, mainly due to restructuring in Cisco's operation in month of April, however, its Revenues picked up again in month of June to $ 6 mn level and Zensar expects $ 12-13 mn new business from Cisco in next 4-5 months. Currently, Cisco is in the process of vendor's consolidation and is expected to eliminate one of its large Indian IT vendors. Zensar, being its strategic partner for centralized support & testing operations, along with a consolidated presence across all of Cisco's IT organizations, is expected to be benefited from Cisco's consolidation move along with the remaining other Cisco vendors in India. Though, Zensar is optimistic about growth in Cisco's account, it has provided guidance of flat growth during FY12.

OUTLOOK & VALUATION

Zensar has restructured its businesses on vertical lines with six global profit centers for the verticals of Manufacturing, Media, Retail, Banking and Financial Services, Insurance and Connected Services (Healthcare, Government, Utilities and Transportation) to bring significant consulting expertise on the domain and focus on integrated offering to enable customers leverage best in class technologies and processes for their competitive advantage. This strategy should augur well for Zensar in long run.

Considering its Q1FY12 performance, business strategy and its vertical focused approach, we have slightly reduced our FY12E & FY13E Revenues estimates, while have largely maintained our FY12E & FY13E APAT estimates. Going forward, we expect its consolidated revenues (including Akibia's Financials) to grow by 33.8% & 15% in FY12E & FY13E respectively and its APAT to decline by 4.4% in FY12E, but to grow by 18.4% in FY13E. At CMP of Rs.140, the stock is trading at attractive valuation of 4.8x & 4.1x its FY12E & FY13E EPS of Rs.29 & Rs.34.3 respectively. We maintain our "Buy" rating on the stock with a target price of Rs.240.

KEY FINANCIALS

Y/E Mar. (Consol.)	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY11	11382.9	1317.3	30.4	2.9	4.6	25.2	33.2	1.3
FY12E	**15235.6**	**1258.8**	**29.0**	**(4.7)**	**4.8**	**17.6**	**24.4**	**1.1**
FY13E	**17525.5**	**1490.6**	**34.3**	**18.1**	**4.1**	**18.0**	**23.6**	**0.9**

ANALYST
Dhananjay Mishra | +91 22 4093 5084
dhananjay.mishra@sushilfinance.com

SALES:
Devang Shah | +91 22 4093 6060/61
devang.shah@sushilfinance.com

QUARTERLY RESULTS (Consolidated)

(Rs.mn)

Y/E March	Q1FY11	Q4FY11	Q1FY12
Total Revenue	**2,416.1**	**3,742.6**	**3,987.8**
% Ch. QoQ	3.9	44.5	6.6
Soft. Dev. Exp.	1,670.8	2,585.9	2,760.9
% Ch. QoQ	8.2	42.9	6.8
Other Expenditure	361.7	786.9	796.2
% Ch. QoQ	(18.3)	100.4	1.2
EBITDA	**383.6**	**369.8**	**430.7**
% Ch. QoQ	12.9	(4.8)	16.5
% of STO	15.9	9.9	10.8
Interest Cost	3.6	23.3	21.4
% Ch. QoQ	0.0	206.6	(8.2)
Depreciation	67.4	90.3	81.2
% Ch. QoQ	2.6	32.2	(10.1)
Other Income	85.1	95.6	57.1
% Ch. QoQ	142.5	(12.5)	(40.3)
EBTA incl. OI	**397.7**	**351.8**	**385.2**
% Ch. QoQ	30.1	(16.6)	9.5
Tax	72.8	(26.4)	114.5
% of PBT	18.3	(7.5)	29.7
APAT	**324.9**	**378.2**	**270.7**
% Ch. QoQ	19.4	11.5	(28.4)
Minority Interest	0.0	0.0	0.0
APAT after MI	**324.9**	**378.2**	**270.7**
% Ch. QoQ	18.5	11.5	(28.4)
% of STO	13.4	10.1	6.8

PROFIT & LOSS (Consolidated)

(Rs.mn)

Y/E March	FY10	FY11	FY12E	FY13E
Total Revenue	**9,527.6**	**11,382.9**	**15,235.6**	**17,525.5**
Soft. Dev. Exp.	6,319.4	7,905.6	10,455.6	12,023.9
% Ch. YoY	(0.6)	25.1	32.3	15.0
Other Exp.	1,508.7	1,925.5	2,841.8	3,197.0
% Ch. YoY	3.1	27.6	47.6	12.5
% of STO	15.8	16.9	18.7	18.2
EBITDA	**1,699.5**	**1,551.8**	**1,938.3**	**2,304.6**
% Ch. YoY	35.0	(8.7)	24.9	18.9
% of STO	17.8	13.6	12.7	13.2
Interest Cost	27.3	38.6	88.2	97.0
% of STO	0.3	0.3	0.6	0.6
Depreciation	263.5	294.2	324.8	370.3
% of STO	2.8	2.6	2.1	2.1
Other Income	82.8	282.3	207.1	233.0
% Ch. YoY	(41.2)	241.1	(26.6)	12.5
% of STO	0.9	2.5	1.4	1.3
EBTA incl. OI	**1,491.5**	**1,501.3**	**1,732.4**	**2,070.3**
% Ch. YoY	33.4	0.7	15.4	19.5
% of STO	15.7	13.2	11.4	11.8
Tax	218.9	184.0	473.6	579.7
% of PBT	14.7	12.3	27.3	28.0
APAT	**1,272.5**	**1,317.3**	**1,258.8**	**1,490.6**
% Ch. YoY	47.5	3.5	(4.4)	18.4
Minority Interest	(3.0)	0.0	0.0	0.0
RPAT	**1,275.5**	**1,317.3**	**1,258.8**	**1,490.6**
% of STO	13.4	11.6	8.3	8.5

BALANCE SHEET (Consolidated)

(Rs.mn)

As on 31st March	FY10	FY11	FY12E	FY13E
Equity Share Capital	215.8	433.0	434.0	435.0
Reserves & Surplus	3,081.3	4,203.2	5,258.9	6,520.5
Net worth	**3,297.0**	**4,636.2**	**5,692.9**	**6,955.5**
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	446.8	2,363.3	2,363.3	2,363.3
Capital Employed	**3,743.8**	**6,999.5**	**8,056.2**	**9,318.8**
Fixed Assets	**1,035.6**	**3,524.8**	**3,538.0**	**3,543.6**
Investments	151.3	256.1	256.1	256.1
Sundry Debtors	1,426.1	2,295.1	3,130.6	3,601.1
Cash & Bank Bal	1,299.7	1,099.9	1,266.3	2,145.9
Loans & Advances	726.4	1,445.0	1,589.5	1,669.0
Other Current Assets	438.9	535.7	669.6	803.6
Current Liab. & Prov.	**1,372.8**	**3,204.1**	**3,524.5**	**3,877.0**
Net Current Assets	**2,518.3**	**3,007.1**	**4,050.6**	**5,307.6**
Deferred Tax Asset	38.6	211.5	211.5	211.5
Total Assets	**3,743.8**	**6,999.5**	**8,056.2**	**9,318.8**

Source: Company, Sushil Finance Research Estimates

FINANCIAL RATIOS (Consolidated)

Y/E March	FY10	FY11	FY12E	FY13E
Growth (%)				
Net Sales	4.8	20.5	33.8	15.0
APAT	47.4	3.3	(4.4)	18.4
EBITDA	35.0	(8.7)	24.9	18.9
Profitability (%)				
EBITDA Margin	17.8	13.6	12.7	13.2
Adj. PAT Margin	13.4	11.6	8.3	8.5
ROCE	36.6	25.2	17.6	18.0
ROE	43.4	33.2	24.4	23.6
Per Share Data (Rs.)				
Adj. EPS	29.6	30.4	29.0	34.3
Adj. CEPS	36.0	34.9	36.5	42.8
BVPS	76.4	107.1	131.2	159.9
Valuations (X)				
PER	4.7	4.6	4.8	4.1
PEG	0.1	1.6	(1.0)	0.2
P/BV	1.8	1.3	1.1	0.9
EV / EBITDA	4.1	4.3	4.6	3.3
EV / Net sales	0.5	0.6	0.5	0.4
Dividend Yield (%)	2.0	2.5	2.9	3.2
Turnover Days				
Debtors days	55	74	75	75
Creditors days	39	90	74	71

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	**High predictability / Low volatility**
Medium Risk	**Moderate predictability / volatility**
High Risk	**Low predictability / High volatility**

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	**Over 15 %**	**Over 20%**	**Over 25%**
Accumulate	**10 % to 15 %**	**15% to 20%**	**20% to 25%**
Hold	**0% to 10 %**	**0% to 15%**	**0% to 20%**
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
- **Stock Review Reports:** These are Soft coverage’s on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage’s with an occasional Update, wherever possible.