



# Between the Lines

Daily Corporate News Analysis

April 30th, 2007

## Zensar Technologies Ltd

### Result Update: Q4 FY07

#### Key Data

CMP	Rs 292
Date	April 30 <sup>th</sup> , 2007
Sector	IT Software
Face Value	Rs. 10
BSE Code	504067
52 Week H/L	Rs 303 / 166.25
Market Cap	Rs 698.46 Cr

#### Investment Rationale

Zensar Technologies provides software solutions and services by operating under four SBU's namely Application Portfolio Management (APM), Enterprise Application Services (EAS), Innovative Technology Services (ITS) and BPO. The company witnessed excellent operational performance in Q4 FY07, with the topline growth of 16% q-o-q and 37% y-o-y to Rs 171.36 crore, while the net profit jumped by 30% q-o-q and was flat y-o-y to Rs 17.21 crore. The EBIDTA margin witnessed excellent expansion of 170 bps q-o-q at 14%. The new initiative of a global collaborative model and increased level of offshoring would further improve the company's overall EBIDTA margins going forward. The EAS SBU would be the key growth driver of ZTL in near future, while the ITS and BPO SBU's are expected to post better profitability going forward. Zensar has witnessed organic growth of 39% y-o-y for FY07, while CAGR of 27% in sales, 69% in EBIDTA and 48% in net profits from FY02-FY07. We believe Zensar would sustain the performance going forward, based on overall trends in terms of order book and developments across the businesses, which look very robust.

#### Key Developments

##### **Zensar's Joint Venture with EZA to expand operations in Japanese market**

Zensar has entered a strategic Joint Venture with privately owned Japan based company EZA, which has revenues of \$4mn and base of 30 employees. EZA has presence in the niche areas of Media & Entertainment providing Zensar the opportunity of Technology and Knowledge transfer. This alliance will help Zensar to be amongst the top 5 Indian vendors in the emerging Japanese market with good customer base like NEC, Japan Railways, Unisys etc. and provide ample opportunity for offshore scalability. The J.V. is expected to grow to USD 20 mn by FY09.



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## Financials

### Net Profits increased by 30% q-o-q in Q4 FY07

Strong operational efficiency in Q4 FY07 has percolated to the bottomline efficiency thereby witnessing an increase of 30% q-o-q in net profits to Rs 17.21 crore in Q4 FY07, while the net margins improved by 105 bps q-o-q despite of an increased interest cost to Rs 0.92 crore on account of additional debt of Rs 66 crore taken for funding TD acquisition. For FY07 the net profit was up by 69% y-o-y to Rs 57.20 crore backed by strong operational efficiency and also due to 126% y-o-y growth on Other Income to Rs 10.48 crore. We believe Zensar to sustain the improved performance at the net margin level going forward even after taking into consideration marginal impact of MAT of 11.33% imposed under section 10A/10B in Budget 2007-08

## Valuations

At current market price of Rs 292, Zensar is quoting at a PER of 12.21x. On EV/Sales and on EV/EBIDTA basis it is quoting at 1.20x and 8.93x respectively of its ttm consolidated earnings as on Mar'07.

**Note :- This is just a Synopsis to view the full report Subscribe to KRC Decision Divers.**



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