

# ZENSAR TECHNOLOGIES

## PERSISTENT GROWTH



Retail Desk

20 September 2012

Rating	Buy
CMP (₹)	275
Target Price (₹)	330
Upside (%)	20

Key Data	
BSE Code	504067
NSE Code	ZENSARTECH
Reuters code	ZENT.BO
Bloomberg Code	ZENT IN
Sensex	18349
Face Value (₹)	10
Mcap (₹ Cr.)	1196
52 week H/L (₹)	296/113
2 Wk Avg Qty	13713

Share holding, June '12		Holding %	
Promoters		48.3	
Corporates		2.6	
FIIIs		8.5	
DIs		2.2	
Foreign		24.2	
Public		14.2	

Performance (%)	Performance (%)		
	3M	6M	12M
Stock (ZTL)	19.6	54.5	121.7
BSE 200	8.1	4.2	5.8
BSE 500	8.0	3.8	4.9

### Price Chart: (One-Year)



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### Company Description:

Incorporated in 1989, ZTL from the RPG stable is a globally focused software and services company spread across 20 countries across the world. ZTL provides end-to-end services from IT development to BPO, from consulting to implementation. Currently, ZTL has employee strength of 7,286 globally, which would go up by 600-650 in the current year.

RPG Enterprises is one of India's largest industrial conglomerates. With over 16 companies in its fold, the group has a strong presence in 8 business sectors.

Established in 1979, RPG Enterprises is one of India's leading business groups with a turnover of ₹17,000 crore. The group has more than sixteen companies managing diverse business interests in the areas of Power, Tyre, Infrastructure, IT, Retail, Entertainment, Carbon Black and Speciality.

ZTL is CMMI Level 5 company with industry expertise that spans across Utilities. ZTL is now restructured on vertical lines with five global profit centres for 2011-13. The verticals of Manufacturing, Retail, Banking and Financial Services, Insurance, Telecommunications and Connected Services (Healthcare, Government, Utilities and Transportation) bring significant consulting expertise on the domain and present both solutions and services to enable customers to leverage best in class technologies and processes for competitive advantage.

### Subsidiaries:

ZTL has nine 100% subsidiaries in the US, UK, Singapore, Germany, Japan and China (51%).

### Sales Operations:

With 7,286 associates and sales and operations presence across US, UK, Germany, Sweden, Finland, Middle East, South Africa, Hong Kong, Singapore, Australia, Japan, Poland and China, ZTL delivers comprehensive services in mission-critical applications, enterprise applications, e-business, BPO Services. ZTL has over 400 customers. Recently acquired Akibia has some marquee clients like Federal Reserve, JP Morgan etc.

### Key Financial: (Consolidated)

Year-March	Q1FY13A	Q1FY12A	FY12A	FY13E
Sales	544.3	398.8	1782.5	2175.0
PBIDT	93.8	48.8	279.0	346.0
Interest	2.7	2.1	9.3	10.5
PBDT	91.1	46.7	269.7	335.5
Depreciation	7.8	8.1	33.3	32.2
PBT	83.3	38.6	236.4	303.3
Tax	28.7	11.5	77.7	106.1
PAT	54.6	27.1	158.7	197.2
Equity			43.3	43.3
Reserves			532.5	729.7
Book Value (₹)			133.0	178.5
EPS (Rs)	12.6	6.3	36.7	45.5
OP Margin (%)	17.2	12.2	15.7	15.9
NP Margin (%)	10.0	6.8	8.9	9.1
P/E			7.5	6.0



## Q1FY13 & FY12 Results

During FY12, consolidated sales advanced by 50.6% to ₹1782.5 crore and net profit rose by 20.5% to ₹158.7 crore. Consolidated EPS stood at ₹36.7. OP and NP margin stood at 15.7% and 8.9% against 16.1% and 11.6% respectively in the corresponding period last year. A dividend of 70% (interim 30% and final 40%) was paid.

ZTL's FY12 consolidated debts were ₹214 (₹240 crore), which gives DER of 0.37:1. Cash and bank balances were ₹174 crore (₹224 crore in Q1FY13). The consolidated gross block stood at ₹606 crore.

During Q1FY13, consolidated sales rose 36.3% to ₹544.3 crore and net profit by 101.5% to ₹54.6 crore. (YoY). OPM and NPM stood at 17.2% and 10.0% compared to 12.2% and 6.8% respectively in Q1FY12.

On QoQ basis, sales rose 10.2% from ₹493.9 crore in Q4FY12 and net profit by 38.9% from ₹39.3 crore in Q4FY12.

Zensar's robust capabilities in multi-shore Infrastructure Management and Applications services have been strengthened through the company's investments in Cloud, Mobility and Enterprise Social Media Solutions, providing a true consultancy led transformation partnership to clients.

In Q1FY13, ZTL has reported 20 new wins some of which are multimillion dollar contracts across verticals.

In the gone quarter, ZTL added a total of 165 associates taking the total associate count to 7,286.

## Acquisitions

ZTL has made 4 acquisitions in the last 12 years to increase its capabilities in SAP, Oracle implementation, high end technology solutions and infrastructure management. AKIBIA Group is a conglomerate in the IT services space providing Data Center Management and Network Security Solutions.

This acquisition significantly expands ZTL's accessible market and growth potential, broadening solutions it provides to the rapidly growing Infrastructure markets.

The combination will also expand ZTL's offering of mission-critical solutions to the enterprise customer. During FY10-11, ZTL acquired Akibia for ₹305.4 crore (annual revenue of over \$100 million and operating margin of 10%) to build dual shore end-to-end capabilities for Zensar.

## New Facility

ZTL has launched their Bengaluru development hub that is designed to provide solutions around Cloud, Social Media and Mobility (CloSoMo) to enhance customer experience by giving them access to technical expertise and tailored solutions to meet unique requirements.

This new facility has started delivering next generation solutions and services to Zensar's clients across the globe and high-end solution driven business roles as well.

The office currently has a capacity to host 150 associates and is the latest addition to Zensar's network of consulting and software development centres in India, along with other offices in the UK, APAC, USA, and South Africa.

The new center further supplements the organization's expansion into Cloud Computing, Mobility and Social Media Consulting Services in helping customers create optimized levels of business performance, through assessment, advisory services as well as application integration and migration through platforms such as force.com, Google Apps Engine (GAE) and Microsoft Azure.



### ***Inorganic Opportunities***

After a successful acquisition of Akibia, ZTL is pursuing further inorganic opportunities for future growth. Over the next 12-18 months, the company is targeting acquisitions in the range of around \$35-40 million. The company sees infrastructure management as one big area of growth and then in the vertical side, it is looking at manufacturing as the most significant focused area. The management is targeting acquisitions in US in the manufacturing space, particularly SAP area, of revenues ranging from \$20-40 million.

### ***Global Associates***

ZTL enjoys enduring relationships with global leaders like Cisco, Assurant, Danaher Corporation, Electronics Arts and Logitech, among several others. Zensar's customers are spread across various industry segments like Manufacturing, Retail, Banking and Insurance and Connected Services.

Zensar has evolved from an implementation partner of enterprise business solutions to a Platinum Partner in the Oracler Partner Network providing customized solutions to meet industry demands better.

### ***Cloud Service Charter***

The Cloud Services Charter in the organization will enable ZTL's customers redefine the way they deliver value to their customers. The company's expansion in emerging geographies has also been quite rapid and Zensar intends to consolidate its position in Asia Pacific, Middle East and South African markets. The combined effect of all these factors is expected to help ZTL grow faster in enhancing its integral position in the service delivery landscape.

### ***Persistent Growth***

With a new mission firmly in place, ZTL will leverage its long term focus on innovation and non-linear growth while its current operational strengths are expected to ensure that the organization is steadfast in meeting objectives.

ZTL has drawn a charter to invest in identified growth drivers defined under the four verticals of Manufacturing, Retail, Banking and Insurance and Healthcare and service areas of Infrastructure Management, Cloud, Mobility and Social Media. With over 7280+ associates and 400+ customers, Zensar helps transform global corporations.

ZTL rolled out its new and focused verticalised innovative solution strategy and integrated the onsite Data Center and Information Security Services of its acquired company, Akibia with its Remote Infrastructure Management service line. These moves are in line with the Company's long-term strategy of building specific offerings across various lines of business thus embarking on an ambitious plan to be the next generation global industry player.

### ***Outlook***

Geographically North America continues to be ZTL's major source of revenues, which generates over 71% of total revenues. Europe, Africa & Rest of the World (ROW) contribute the balance 10%, 9% & 10% respectively. Insurance, Banking & finance, Alliances & Others contribute 20% & 22% respectively, while Government, Healthcare & Utilities account for 7%.

Among the service offerings, 62% revenue is generated from Application Management Service (AMS) while Infrastructure Management service (IMS) contributes the balance 38%. Location-wise, ZTL's onsite revenues account for 70.7% of the total revenues.

By 2020, new segments (SMBs), new verticals (Public sector and Defense, Healthcare, Utilities, Printing and Publishing) and new geographies (BRIC) is expected to account for 50-55% growth in the addressable market. Suitably exploiting these emerging opportunities both in the global and domestic markets will enable ZTL to meet its target of more than doubling revenue in the next three years.



## Prospects

The India IT sector has estimated to have aggregated revenues of USD 100 billion in FY2012 with the IT software and services sector (excluding hardware) accounting for USD 88 billion.

Indian IT service offerings have evolved from application development and maintenance to emerge as full service players providing testing services, infrastructure services, consulting and system integration. There is also a growing customer acceptance of Cloud-based solutions which offer best in class services at reduced capital expenditure.

The Global IT Services industry holds significant opportunities for industry players due to increasing IT spending in the healthcare, retail, and transportation sectors, among others. The market is forecast to reach an estimated US\$1,147 billion in 2017 with a CAGR of more than 5% during 2012-2017.

## Valuation & Recommendation

ZTL is confident that infrastructure management will do well despite all the talks of the European crisis and the impact it could have on clients' IT budgets. By 2015, Zensar expects infrastructure management business to scale up to US\$400 million by leveraging capabilities of US-based Akibia.

ZTL is well placed to tap potential in the SMB sector and new verticals (Healthcare, Utilities, Transportation), with their experience in emerging markets, mature service capabilities, global footprint and talent pool. Suitably exploiting these emerging opportunities both in the global and domestic markets can help ZTL to enhance its revenue substantially in 3 years.

According to the IT industry, Infrastructure Management Solutions (IMS) is a \$370 billion market, split into Data Centre services (\$231billion), Remote Infrastructure Management (\$108 billion) and Managed Services (\$31billion).

ZTL is undertaking a major business transformation by moving into new areas of IT outsourcing services and rejigging operations with a view to scale its revenue to \$1billion (₹ 5,400 crore) by 2016.

At the CMP of ₹ 275, the share is trading at a P/E of 6.0 on FY13 earnings. We recommend BUY with a target price of ₹ 330 in the medium term.

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