

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR656 TP: INR750 (+14%) Neutral

Healthy beat despite weakness in TMT vertical

Mid-teens EBITDA margin guidance remains unchanged

Bloomberg	ZENT IN
Equity Shares (m)	227
M.Cap.(INRb)/(USD\$b)	148.8 / 1.8
52-Week Range (INR)	840 / 456
1, 6, 12 Rel. Per (%)	-4/5/3
12M Avg Val (INR M)	893

ZENT reported a decent 2QFY25, with revenue growth of 1.2% QoQ (est. flat growth), driven by Healthcare & Life Sciences (up 8.6% QoQ CC) and BFSI (up 3.0% QoQ CC). Deal TCV came in at USD201.8m (up 31% QoQ/3.5% YoY), the highest order book ever for ZENT. EBIT margin (flat QoQ/down 11.7%) came in at 13.1%, down 30bp QoQ owing to wage hikes but ahead of our estimate of 12.8%. PAT of INR1557m (down 1.3% QoQ/10.4% YoY) beat our estimate of INR1,402m, led by other income. For 1HFY25, revenue grew 5.2%, while EBIT and PAT declined 10.3%/4.9% vs. 1HFY24. For 2HFY25, we expect revenue/EBIT to grow by 12.9%/13.9% YoY and PAT to decline by 1.1%.

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	53.4	59.5	65.4
EBIT Margin (%)	14.0	14.9	15.5
PAT	6.4	7.3	8.2
EPS (INR)	28.2	31.7	36.1
EPS Gr. (%)	-3.1	12.4	13.7
BV/Sh. (INR)	177.7	200.8	227.1

Ratios

RoE (%)	17.0	16.9	17.0
RoCE (%)	14.0	14.8	15.0
Payout (%)	24.0	24.0	24.0

Valuations

P/E (x)	26.4	23.5	20.6
P/BV (x)	4.2	3.7	3.3
EV/EBITDA (x)	17.4	14.2	12.2
Div Yield (%)	0.9	1.0	1.2

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	49.1	49.2	49.2
DII	19.1	19.1	16.5
FII	14.8	15.7	16.7
Others	17.0	16.1	17.6

FII Includes depository receipts

Our view: Robust growth despite telecom weakness

- **Growth robust but telecom continues to struggle:** ZENT reported decent overall growth with significant growth in healthcare and BFSI, but the TMT (Telecom, Media, and Technology) segment faced headwinds, declining by 8.8% QoQ due to client-specific furloughs.
- **Diversifying away from TMT:** We believe ZENT can generate value by diversifying away from TMT. It already operates in high-growth areas such as healthcare, BFSI, and manufacturing (largely consumer in its case), and a nudge toward these verticals could boost growth for the company.
- **Stable margins:** Margins were impacted by wage hikes (-170bp), lower volume/utilization (-110bp), and the absence of a prior R&D credit (-60bp), partially offset by currency gains (+70bp) and operational efficiencies (+40bp), leading to a net decline of 30bp QoQ in gross margin. We believe the new management has proven that it can deliver on margins.

Valuation and change in estimates

- We expect ZENT to deliver EBITDA margin of 16.2%/17.3%/17.6% in FY25/FY26/FY27. This will result in an INR PAT CAGR of 7.0% over FY24-27E (partially on high FY24 base). We kept our estimates largely unchanged. Our TP of INR750 implies 23x Sep'26E EPS. **Retain Neutral. However, we believe that after the recent correction, the stock could turn attractive if growth sustains.**

Beat on revenues and margins; Healthcare and BFSI lead growth, TMT hit by furloughs

- ZENT revenue stood at USD156.2m, up 1.2% QoQ in USD terms, ahead of our estimates of flat QoQ. Reported USD revenue was also up 0.3% QoQ CC.
- Growth was driven by Healthcare & Life Sciences (up 8.6% QoQ CC) and BFSI (up 3.0% QoQ CC). Manufacturing & Consumer services rose 1.6% QoQ CC, while TMT reported a decline of 8.8% QoQ CC. In terms of regions, the US registered a decline of 0.5% QoQ CC, while Europe grew 5.1% QoQ CC.
- Deal TCV: bookings came in at USD201.8m (up 31.0% QoQ/3.5% YoY) and the book-to-bill was 1.3x.

- EBIT margin was 13.1% (est. 12.8%), down 30bp QoQ, owing to wage hikes.
- In 2Q, total headcount reached to 10,240 (down 1.5% QoQ). LTM attrition was 10.1% (down 50bp QoQ). Utilization was down 110bp QoQ at 82.8%.
- PAT of INR1557m (down 1.3% QoQ/10.4% YoY) beat our estimate of INR1,402m, led by other income.

Key highlights from the management commentary

- With accelerated GTM, the company has strengthened its partnerships and built sales rigor. Domain-led solutions, coupled with new-age technologies such as AI, have allowed ZENT to capture mind share of clients and open new spend areas. There is a focus on projects with near-term ROI. A slowdown has been noticed in some pockets.
- The company believes easing interest rates may lead to increased investments.
- Volume growth is expected to improve. Offshoring, being margin-accretive, has been a constant strategy for ZENT. However, the management believes that the offshore mix serves as a lagging indicator, as client centricity and requirements come first.
- The company has catalogued AI offerings in four solutions: Enterprise AI Solutions, Responsible AI Solutions, Enterprise Cognitive Hyper Automation Solutions and Multimodal Micro Vertical Solutions.
- No material changes seen in client spending patterns. No major changes anticipated until the US elections, which are two weeks away.
- Margin outlook for FY25 remains unchanged at mid-teens EBITDA margins.

Valuation and view

- We believe the company's exposure to Hi-tech vertical could continue to weigh on growth in the near term; however, it will be offset by a recovery in BFS. We kept our estimates largely unchanged. Our TP of INR750 implies 23x Sep'26E EPS. Retain Neutral. However, we believe that after the recent correction, the stock could turn attractive if growth sustains.

Quarterly Performance

Y/E March	FY24				FY25E				FY24	FY25E	Est. 2QFY25	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue (USD m)	149	150	145	148	154	156	162	165	592	638	155	0.7
QoQ (%)	1.2	0.6	-3.7	2.3	4.3	1.2	3.6	2.0	-2.0	7.6	0.4	74bp
Revenue (INR m)	12,272	12,408	12,041	12,297	12,881	13,080	13,614	13,869	49,018	53,444	13,047	0.2
YoY (%)	2.0	0.5	0.5	1.4	5.0	5.4	13.1	12.8	1.1	9.0	5.2	26bp
GPM (%)	33.6	31.8	31.1	30.6	30.4	28.1	30.6	31.5	31.8	30.2	30.3	-221bp
SGA (%)	14.9	13.2	13.9	14.1	15.2	12.7	13.8	14.2	14.0	14.0	15.5	-282bp
EBITDA	2,301	2,308	2,076	2,030	1,961	2,011	2,288	2,399	8,715	8,659	1,927	4.4
EBITDA Margin (%)	18.8	18.6	17.2	16.5	15.2	15.4	16.8	17.3	17.8	16.2	14.8	61bp
EBIT	1,878	1,942	1,764	1,793	1,714	1,714	1,975	2,080	7,377	7,482	1,674	2.4
EBIT Margin (%)	15.3	15.7	14.6	14.6	13.3	13.1	14.5	15.0	15.0	14.0	12.8	27bp
Other income	224	306	356	493	383	366	177	180	1,379	1,106	169	116.7
ETR (%)	25.7	22.7	23.8	24.2	24.7	25.1	24.8	25.0	24.1	24.9	24.0	
Adj. PAT	1,562	1,738	1,616	1,733	1,579	1,558	1,618	1,695	6,649	6,450	1,402	11.2
QoQ (%)	30.9	11.3	-7.0	7.2	-8.9	-1.3	3.8	4.8			-11.2	
YoY (%)	108.0	206.0	111.2	45.3	1.1	-10.4	0.1	-2.2	102.9	-3.0	-19.4	
EPS (INR)	6.8	7.6	7.1	7.6	6.9	6.8	7.1	7.4	29.1	28.2	6.1	11.2

Key Performance Indicators

Y/E March	FY24				FY25E		FY24
	1Q	2Q	3Q	4Q	1Q	2Q	
Revenue (QoQ CC %)	1.3	0.2	(3.2)	2.0	4.3	0.3	
Margins							
Gross Margin	33.6	31.8	31.1	30.6	30.4	28.1	31.8
EBIT Margin	15.3	15.7	14.6	14.6	13.3	13.1	15.0
Net Margin	12.7	14.0	13.4	14.1	12.3	11.9	13.6
Operating metrics							
Headcount	10,540	10,330	10,225	10,349	10,396	10,240	10,349
LTM Attrition (%)	15.9	13.1	12.0	10.9	10.6	10.1	11
Offshore Rev	48.0	49.1	49.6	50.0	48.6	50.3	50.0
Key Geographies (YoY USD %)							
North America	(6.3)	(10.5)	(6.5)	(5.7)	2.4	6.4	(7.3)
UK	1.6	20.3	13.5	15.4	6.6	1.6	12.6
Africa	(0.8)	8.4	9.7	14.3	4.3	(4.5)	7.9

**Key highlights from the management commentary****Growth and outlook**

- The market landscape remains dynamic and competitive. With accelerated GTM, the company has strengthened its partnerships and built sales rigor. Domain-led solutions, coupled with new-age technologies such as AI, have allowed ZENT to capture mind share of clients and open new spend areas. It focuses on projects with near-term ROI. A slowdown has been noticed in some pockets.
- Large deal opportunities: Total contract value (TCV) stood at USD201.8m. The company registered its highest-ever order book, The company defines large deals as ranging from \$15 million to \$30 million, with two deals in sight not yet reflected in the 2Q order book. The company added 12 new logos in 2QFY25.
- Offshore revenue grew by 4%, contributing to gross margin expansion. Volume growth is expected to improve. Offshoring, being margin-accretive, has been a constant strategy for ZENT. However, the management believes that the offshore mix serves as a lagging indicator, as client centricity and requirements come first.
- Bridgeview (acquisition in HLS vertical) revenue was not material for 2Q.
- BFSI: This is the strongest vertical for ZENT, with consistent growth in the last seven quarters, driven by insurance and payments. No material changes are seen in client spending patterns. No major changes are anticipated until the US elections, which are two weeks away.
- Manufacturing & Consumer: No slowdown noticed by the company, but sees good growth and traction. Supply chains have become complex due to e-commerce, but the company has strong capabilities in supply chain management.
- Health care & Life Science: No material revenue from Bridgeview acquisition, largely organic revenue for 2Q. The company has signed some good (small ticket) deals for S4HANA. The company sees this as a growth area. Bridgeview is a spinoff, from which ZENT has bought services business. 2Q client base included clients of Bridgeview as well.
- Telecommunications, Media & Technology: TMT declined 8.8% QoQ in constant currency, mostly impacted by 2-3 client issues (legacy tech companies facing

growth challenges) and furloughs. The percentage of revenue mix declined. The company expects a lower impact in 3Q compared to 2Q.

- ZENT has reduced exposure to TMT to 22% in 2Q from 27% in FY24. A further reduction will be achieved by growing non-TMT verticals instead of shrinking the TMT vertical.
- Utilization declined by 110bp QoQ to 82.8% due to unseasonal furloughs in TMT clients. Voluntary attrition reduced to 10.1%.
- Outlook on incremental headcount in 3Q: The efficiently run company will not maintain excessive idle bench strength. The company can afford to wait and add capacity as revenue increases. Revenue will drive headcount in current markets.
- The company has catalogued AI offerings in four solutions: Enterprise AI Solutions, Responsible AI Solutions, Enterprise Cognitive Hyper Automation Solutions and Multimodal Micro Vertical Solutions.
- Partnerships with key technology providers have been instrumental in delivering cutting-edge certifications and collaborative learning experience in AI, GenAI, data engineering, and cloud.

Margin performance and outlook

- Despite wage hikes, EBITDA margins stood at 15.4%, up 20bp QoQ (in line with the guided range of mid-teens), thanks to a disciplined approach in a challenging environment.
- **Margin Walk:** The expansion in margin was attributed to 70bp gain due to favorable forex rates and 240bp gain due to the absence of one-off provisions for doubtful debts from 1Q in SG&A, whereas the contraction was due to the impact of 170bp from wage hikes and 110bp from lower utilization due to furloughs.
- EBITDA margin was in line with the guidance of mid-teens margin.
- The company expects to maintain the guided range of mid-teens, and anything above mid-teens will be recouped in business for building sales and capabilities.

Exhibit 1: Healthcare and banking witnessed strong growth

Verticals	Revenue contribution (%)	Growth QoQ (CC)
Hi-Tech	22.4	(8.8)
Manufacturing	26.2	1.6
Banking	40.9	3.0
Healthcare	10.5	8.6

Source: Company, MOFSL

Exhibit 2: Europe performed well in 2Q

Geographies	Revenue Contribution (%)	Growth QoQ (CC)
North America	67.6	(0.5)
Europe	21.1	5.1
Africa	11.3	(3.4)

Source: Company, MOFSL

Valuation and view

- We believe the company's exposure to Hi-tech vertical could continue to weigh on growth in the near term; however, it will be offset by a recovery in BFS. We kept our estimates largely unchanged. Our TP of INR750 implies 23x Sep'26E EPS. Retain Neutral. However, we believe after the recent corrections, the stock could look attractive if growth sustains.

Exhibit 3: Revisions to our estimates

	Revised			Earlier			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	83.8	84.0	84.0	83.6	83.6	83.6	0.2%	0.5%	0.5%
USD Revenue - m	638	709	779	630	701	779	1.3%	1.1%	-0.1%
Growth (%)	7.6	11.1	9.9	6.3	11.4	11.2	140bps	-20bps	-130bps
EBIT margin (%)	14.0	14.9	15.5	14.0	14.9	15.4	0bps	0bps	10bps
PAT (INR m)	6,450	7,252	8,246	6,231	7,153	8,184	3.5%	1.4%	0.8%
EPS	28.2	31.7	36.1	27.3	31.3	35.8	3.5%	1.4%	0.8%

Source: Company, MOFSL

Exhibit 4: Operating metrics

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Geographic Mix - %									
USA	72	70	70	69	66	66	66	69	68
Europe	17	19	18	19	22	21	21	20	21
ROW	11	11	12	11	12	13	13	12	11
Revenue by delivery - %									
Onsite	57	55	54	52	51	50	50	51	50
Offshore	43	45	46	48	49	50	50	49	50
Client concentration - %									
Top 5	35	32	34	34	32	29	28	28	29
Top 6-10	11	13	12	11	11	11	13	14	14
Top 10	46	45	46	45	42	41	41	42	42
Top 11-20	15	17	15	17	16	17	16	17	16
Top 20	61	61	61	62	58	58	57	59	58
Number of million dollar clients									
1 Million dollar +	87	87	84	87	84	84	85	86	86
5 Million dollar +	28	28	29	29	29	32	31	31	32
10 Million dollar +	13	15	14	14	14	14	14	14	15
20 Million dollar +	3	4	4	4	4	4	4	4	4
Client metrics									
Number of active clients	146	148	148	147	148	147	148	148	158
Employee metrics									
Total headcount	11,250	10,845	10,563	10,540	10,330	10,225	10,349	10,396	10,240
Gross employees added during the period	1,194	593	552	654	643	627	816	855	693
Utilization	80.7	77.6	81.4	82.5	83.1	80.7	83.7	83.9	82.8
Attrition	26.3	22.8	19.8	15.9	13.1	12.0	10.9	10.6	10.1

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	40,102	36,681	42,437	48,483	49,018	53,444	59,520	65,394
Change (%)	2.9	(8.5)	15.7	14.2	1.1	9.0	11.4	9.9
Cost of Services	28,756	24,417	29,214	35,000	33,434	37,324	40,771	44,626
Gross Profit	11,347	12,264	13,223	13,483	15,584	16,120	18,749	20,768
SG&A Expenses	6,310	5,422	6,659	7,960	6,869	7,461	8,481	9,286
EBITDA	5,037	6,842	6,564	5,523	8,715	8,659	10,268	11,482
% of Net Sales	12.6	18.7	15.5	11.4	17.8	16.2	17.3	17.6
Depreciation	1,567	1,732	1,849	1,830	1,338	1,177	1,372	1,337
EBIT	3,470	5,109	4,715	3,693	7,377	7,482	8,896	10,145
% of Net Sales	8.7	13.9	11.1	7.6	15.0	14.0	14.9	15.5
Interest	605	536	354	278	209	224	298	327
Other Income	435	367	907	642	1,583	1,530	1,071	1,177
Forex	449	-113	470	386	5	-200	0	0
PBT	3,749	4,828	5,738	4,443	8,756	8,588	9,670	10,995
Tax	1,038	1,261	1,525	1,166	2,107	2,138	2,417	2,749
Rate (%)	27.7	26.1	26.6	26.2	24.1	24.9	25.0	25.0
Minority Interest	82	70	53	0	0	0	0	0
Adjusted PAT	2,629	3,497	4,160	3,277	6,649	6,450	7,252	8,246
Change (%)	-18.9	33.0	19.0	-21.2	102.9	-3.0	12.4	13.7

Balance Sheet								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	451	451	452	453	453	453	453	453
Reserves	20,900	23,423	26,417	29,309	35,166	39,817	45,047	50,994
Net Worth	21,351	23,874	26,869	29,762	35,619	40,270	45,500	51,447
Loans	2,886	-	0	0	0	0	0	0
Other liabilities	4,008	3,526	3,544	2,866	2,319	2,319	2,319	2,319
Capital Employed	28,244	27,401	30,413	32,628	37,938	42,589	47,819	53,766
Net Block	13,340	11,330	12,858	11,735	10,393	10,016	9,444	8,907
Other LT Assets	2,039	3,076	3,226	6,291	10,144	10,279	10,464	10,642
Curr. Assets	20,576	19,928	22,628	23,184	25,941	31,686	38,297	45,612
Current Investments	2,670	7,410	5,141	7,045	9,315	11,315	13,315	15,315
Inventories	941	0	0	0	0	0	0	0
Debtors	6,656	5,888	7,967	7,298	7,320	8,785	9,784	10,750
Cash & Bank Balance	5,258	3,492	5,054	4,744	4,432	6,272	9,280	13,045
Other Current Assets	5,051	3,138	4,466	4,097	4,874	5,314	5,918	6,502
Current Liab. & Prov	7,711	6,933	8,299	8,582	8,540	9,392	10,386	11,395
Trade payables	2,650	2,201	3,164	2,772	3,095	3,455	3,774	4,131
Other liabilities	5,061	4,732	5,135	5,810	5,445	5,937	6,612	7,264
Net Current Assets	12,865	12,994	14,329	14,602	17,401	22,295	27,912	34,216
Application of Funds	28,245	27,400	30,413	32,628	37,938	42,589	47,819	53,766

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	11.7	15.3	18.3	14.4	29.1	28.2	31.7	36.1
Cash EPS	18.6	22.9	26.5	22.4	35.0	33.4	37.7	41.9
Book Value	96.3	105.7	119.0	131.5	157.3	177.7	200.8	227.1
DPS	2.8	6.4	5.0	5.0	7.0	6.8	7.6	8.7
Payout %	24.0	41.8	27.3	34.8	24.0	24.0	24.0	24.0

Valuation (x)

P/E	63.8	48.7	40.7	51.8	25.6	26.4	23.5	20.6
Cash P/E	39.9	32.5	28.1	33.3	21.3	22.3	19.7	17.7
EV/EBITDA	31.8	23.0	24.0	28.4	17.8	17.4	14.2	12.2
EV/Sales	4.0	4.3	3.7	3.2	3.2	2.8	2.5	2.1
Price/Book Value	7.7	7.0	6.3	5.7	4.7	4.2	3.7	3.3
Dividend Yield (%)	0.4	0.9	0.7	0.7	0.9	0.9	1.0	1.2

Profitability Ratios (%)

RoE	12.9	15.5	16.4	11.6	20.3	17.0	16.9	17.0
RoCE	10.6	14.1	12.0	8.6	15.9	14.0	14.8	15.0

Turnover Ratios

Debtors (Days)	61	59	69	55	55	60	60	60
Fixed Asset Turnover (x)	3.5	3.0	3.5	3.9	4.4	5.2	6.1	7.1

Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	4,508	5,432	5,774	5,030	6,901	6,521	7,850	8,733
Cash for Working Capital	2,354	3,148	-2,427	2,113	-480	-1,188	-794	-719
Net Operating CF	6,862	8,580	3,347	7,143	6,421	5,332	7,056	8,014
Net Purchase of FA	-781	-393	-373	-334	-151	-800	-800	-800
Free Cash Flow	6,081	8,187	2,974	6,809	6,270	4,532	6,256	7,214
Net Purchase of Invest.	-2,372	-4,890	400	-4,941	-4,600	-670	-929	-823
Net Cash from Invest.	-3,153	-5,283	27	-5,275	-4,751	-1,470	-1,729	-1,623
Proc. from equity issues	15	15	32	4	1	0	0	0
Proceeds from LTB/STB	-502	-4,505	-1,260	-1,058	-726	-224	-298	-327
Dividend Payments	-1,228	-271	-881	-1,132	-1,246	-1,799	-2,022	-2,299
Cash Flow from Fin.	-1,714	-4,761	-2,109	-2,186	-1,971	-2,023	-2,320	-2,626
Exchange difference	4	-20	14	8	-11	0	0	0
Net Cash Flow	1,999	-1,483	1,279	-310	-312	1,840	3,008	3,765
Opening Cash Bal.	3,259	5,258	3,775	5,054	4,744	4,432	6,272	9,280
Add: Net Cash	1,999	-1,483	1,279	-310	-312	1,840	3,008	3,765
Closing Cash Bal.	5,258	3,775	5,054	4,744	4,432	6,272	9,280	13,044

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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