

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR798 TP: INR730 (-8%) Neutral

TMT drags the quarter

Maintains mid-teens margin guidance

- Zensar (ZENT) reported 2QFY26 with flat revenue growth (est. a decline of 0.5% CC). BFS/HLS grew 4.8%/3.9% QoQ CC, while TMT declined 10.2% QoQ CC. **Deal TCV:** Bookings came in at USD159m (down 8% QoQ/21% YoY), and the book-to-bill was 1.0x. EBIT margin was 13.7% (est. 13.4%), up 20bp QoQ. PAT stood at INR1,821m (flat QoQ/up 17% YoY), above our estimate of INR1,739m.
- For 1HFY26, revenue/EBIT/PAT grew 8.1%/11.5%/16.1% YoY. For 2HFY26, we expect revenue/EBIT/PAT to grow 9.3%/8.9%/8.6% YoY. Our TP of INR730 is based on 21x Jun'27E EPS. **Reiterate Neutral.**

Our view: Steady margin execution, but growth momentum yet to turn

- **Weak growth as TMT softness offsets BFSI gains; seasonal moderation ahead:** ZENT reported flat QoQ growth in CC terms during 2QFY26, as continued weakness in the TMT vertical offset steady growth in BFSI. In our view, the macro environment remains largely unchanged, with client caution on discretionary tech spends and deal delays post the 'Liberation Day' tariff. We expect **3Q to see typical furlough-related softness**, though the impact should be relatively limited given the company's reduced TMT exposure.
- **TMT correction likely behind; Manufacturing and BFSI cushion growth:** We believe the worst of TMT could be behind, as ZENT's exposure has now declined to 20% (from 27% in FY24), cushioning its impact on overall growth. Ex-TMT, growth would have been ~4% higher. BFSI and Manufacturing continue to witness healthy traction, aided by vendor consolidation and modernization mandates, which should drive a steadier growth base in the coming quarters. **A sustained recovery in TMT through 2HFY26 will be a key monitorable.**
- **Deal pipeline healthy, but TCV conversion pace remains key:** Deal TCV stood at USD159m (-8% QoQ/-21% YoY), impacted by slower renewals and Europe's summer-related decision deferrals. While the underlying pipeline remains healthy with a strong large-deal funnel, we think the conversion timelines will be critical to monitor. AI-led transformation programs are gaining traction (28% of total bookings vs. ~20% in 1Q), but we believe revenue conversion from these wins will take time to reflect meaningfully.
- **Margins resilient despite wage hikes; mid-teens guidance maintained:** EBIT margin expanded 20bp QoQ to 13.7% despite the impact of wage hikes (~USD3.2m). We think this reflects sound operational control, supported by higher utilization, improved offshore mix (54.2% vs. 50.3% YoY), and FX tailwinds. Management reiterated its **mid-teens margin outlook**, and we expect ongoing cost optimization to help maintain profitability even amid subdued growth. We estimate EBITDA margins at 15.5%/15.6% for FY26E/FY27E.

Bloomberg	ZENT IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	181.3 / 2
52-Week Range (INR)	985 / 536
1, 6, 12 Rel. Per (%)	0/5/7
12M Avg Val (INR M)	992

Financials & Valuations (INR b)

Y/E Mar	FY26E	FY27E	FY28E
Sales	57.4	60.9	64.3
EBIT Margin (%)	13.7	13.8	14.2
PAT	7.3	7.8	8.4
EPS (INR)	31.7	34.1	36.5
EPS Gr. (%)	11.8	7.4	7.2
BV/Sh. (INR)	194.3	210.5	227.8

Ratios

RoE (%)	17.2	17.0	16.9
RoCE (%)	13.4	13.3	13.3
Payout (%)	45.9	45.9	45.9

Valuations

P/E (x)	25.1	23.4	21.8
P/BV (x)	4.1	3.8	3.5
EV/EBITDA (x)	17.9	16.3	14.7
Div Yield (%)	1.8	2.0	2.1

Shareholding pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	49.0	49.1	49.1
DII	22.2	20.5	19.1
FII	13.3	14.6	14.8
Others	15.4	15.9	17.0

FII Includes depository receipts

Valuation and change in estimates

- While we think the worst of the TMT correction could be behind, a sustained recovery is yet to materialize. Deal conversion delays and cautious discretionary spending could continue to cap near-term growth momentum. We await clearer signs of traction in TMT and faster deal-to-revenue conversion before turning more constructive on the stock. We keep our estimates largely unchanged. We expect FY26/FY27 EBITDA margin estimates at 15.5%/15.6%, resulting in a PAT CAGR of 10% over FY25–27E. Our TP of INR730 is based on 21x Jun'27E EPS. **Reiterate Neutral.**

Revenue and margins in line with our estimates

- ZENT's revenue stood at USD163m, flat QoQ in CC terms, in line with our estimates of USD162m. Reported USD revenue was up 0.5% QoQ.
- BFSI and HLS grew 4.8%/3.9% QoQ CC, while TMT declined 10.2% QoQ CC.
- Deal TCV: Bookings came in at USD159m (down 8% QoQ/21% YoY), and the book-to-bill was 1.0x.
- EBIT margin was 13.7% (est. 13.4%), up 20bp QoQ.
- In 2Q, the total headcount reached 10,550 (down 0.6% QoQ). LTM attrition was 9.8%, stable QoQ. Utilization rose 50bp QoQ to 84.8%.
- PAT stood at INR1,821m (flat QoQ/ up 17% YoY), above our estimate of INR1,739m.

Key highlights from the management commentary

- Cost optimization and productivity-led programs are seeing stronger traction, supported by cloud modernization, cybersecurity, and early generative AI initiatives.
- Clients remain cautious in their discretionary technology spending; however, AI-led investments are being prioritized, while non-AI discretionary spend remains subdued.
- Management indicated that 3Q is typically a seasonally weak quarter for the industry due to furloughs, though the impact on ZENT is expected to be relatively lower this year given the reduced exposure to the TMT vertical.
- AI-infused deals contributed 28% to total bookings vs 21% in the prior quarter, reflecting growing client interest in AI-led transformation.
- Deal renewals were lower as renewals typically occur in 4Q and 1Q, while the summer period in Europe also contributed to slower decision-making.
- Margins are expected to remain in the mid-teens range going forward, consistent with recent quarters.
- **TMT:** The sector remains under pressure as client budgets shift from opex to capex (notably into GPUs and data centers). ZENT's TMT exposure has declined from 27% of revenue in FY24 to 20% in the current quarter, which should limit future impact relative to peers.
- H1-B dependency remains very low (less than 3% of the workforce). The company continues to focus on local hiring, with minimal impact expected from visa-related policy changes next year.

Valuation and view

- While we think the worst of the TMT correction is largely behind, a sustained recovery is yet to materialize. Deal conversion delays and cautious discretionary spending could continue to cap near-term growth momentum. We await clearer

signs of traction in TMT and faster deal-to-revenue conversion before turning more constructive on the stock. We keep our estimates largely unchanged. We expect FY26/FY27 EBITDA margin estimates at 15.5%/15.6%, resulting in a PAT CAGR of 10% over FY25-27E. Our TP of INR730 is based on 21x Jun'27E EPS.

Reiterate Neutral.

Quarterly Performance

Y/E March	FY25				FY26E				FY25	FY26E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			Est. 2QFY26	Var. (% / bp)
Revenue (USD m)	154	156	157	157	162	163	164	166	624	656	162	0.3
QoQ (%)	4.3	1.2	0.5	-0.1	3.3	0.5	1.0	1.3	5.4	5.0	0.2	32bp
Revenue (INR m)	12,881	13,080	13,256	13,589	13,850	14,213	14,581	14,771	52,806	57,415	14,163	0.3
YoY (%)	5.0	5.4	10.1	10.5	7.5	8.7	10.0	8.7	7.7	8.7	8.3	38bp
GPM (%)	30.4	28.1	30.1	30.3	30.5	31.0	30.0	30.2	29.7	30.4	28.6	244bp
SGA (%)	15.2	12.7	14.5	14.7	15.3	15.6	14.5	14.5	14.3	15.0	13.5	207bp
EBITDA	1,961	2,011	2,069	2,125	2,106	2,199	2,260	2,319	8,166	8,884	2,139	2.8
EBITDA Margin (%)	15.2	15.4	15.6	15.6	15.2	15.5	15.5	15.7	15.5	15.5	15.1	37bp
EBIT	1,714	1,714	1,832	1,887	1,875	1,947	2,012	2,038	7,147	7,873	1,898	2.6
EBIT Margin (%)	13.3	13.1	13.8	13.9	13.5	13.7	13.8	13.8	13.5	13.7	13.4	30bp
Other income	383	366	270	411	531	454	336	413	1,430	1,733	396	14.7
ETR (%)	24.7	25.1	24.0	23.2	24.4	24.2	24.0	23.9	24.2	24.1	24.2	
Adj. PAT	1,579	1,558	1,597	1,764	1,820	1,821	1,785	1,864	6,498	7,290	1,739	4.7
QoQ (%)	-8.9	-1.3	2.5	10.5	3.2	0.1	-2.0	4.5			-4.5	
YoY (%)	1.1	-10.4	-1.2	1.8	15.3	16.9	11.7	5.7	-2.3	12.2	11.6	
EPS (INR)	6.9	6.8	7.0	7.7	7.9	7.9	7.8	8.1	28.4	31.7	7.6	4.8

Key Performance Indicators

Y/E March	FY25				FY26		FY25
	1Q	2Q	3Q	4Q	1Q	2Q	
Revenue (QoQ CC %)	4.3	0.3	0.7	0.9	1.9	0.0	
Margins							
Gross Margin	30.4	28.1	30.1	30.3	30.5	31.0	29.7
EBIT Margin	13.3	13.1	13.8	13.9	13.5	13.7	13.5
Net Margin	12.3	11.9	12.0	13.0	13.1	12.8	12.3
Operating metrics							
Headcount	10,396	10,240	10,517	10,702	10,620	10,550	10,702
LTM Attrition (%)	10.6	10.1	10.0	9.9	9.8	9.8	10
Offshore Rev	48.6	50.3	50.5	51.0	52.6	54.2	51.0
Key Geographies (YoY USD %)							
North America	2.4	6.4	10.6	8.1	4.3	2.7	6.8
UK	6.6	1.6	7.5	5.9	8.6	6.2	5.3
Africa	4.3	(4.5)	(0.2)	(3.8)	2.2	9.8	(1.2)



Key highlights from the management commentary

Growth and outlook

- The overall macro environment remains largely unchanged, with evolving US policies—particularly around trade tariffs and visa regulations—continuing to pose challenges.
- Cost-optimization and productivity-led programs are seeing stronger traction, supported by cloud modernization, cybersecurity, and early generative AI initiatives.
- Clients continue to remain cautious on discretionary technology spending; however, AI-led investments are being prioritized, while non-AI discretionary spend remains subdued.

- Management indicated that 3Q is typically a seasonally weak quarter for the industry due to furloughs, though the impact on ZENT is expected to be relatively lower this year given reduced exposure to the TMT vertical.
- No preponement of furloughs was observed in 2Q, unlike the previous year.
- Deal TCV for the quarter stood at USD159mn, down 8% QoQ and 21% YoY. The pipeline remains healthy, including a strong large-deal funnel. Management expects some of these deals to convert in the coming quarter.
- AI-infused deals contributed 28% of the total bookings vs 21% in the prior quarter, reflecting growing client interest in AI-led transformation.
- Deal renewals were lower as renewals typically occur in 4Q and 1Q, while the summer period in Europe also contributed to slower decision-making.
- A reasonable portion of the current order book consists of net-new deals, and management does not view quarterly fluctuations in TCV as a concern.
- **BFS:** The segment continued to perform well, supported by steady client demand.
- **Manufacturing & Consumer:** Growth momentum is picking up, and the pipeline in this segment remains healthy.
- **TMT:** The sector remains under pressure as client budgets shift from opex to capex (notably into GPUs and data centers). Zensar's TMT exposure has declined from 27% of revenue in FY24 to 20% in the current quarter, which should limit future impact relative to peers.
- If not for the TMT decline, overall company growth would have been approximately 4% higher.
- H1-B dependency remains very low (less than 3% of workforce). The company continues to focus on local hiring, with minimal impact expected from visa-related policy changes next year.
- The offshore mix improved to 54.2% vs 50.3% YoY, supporting margin expansion. Volume growth was observed during the quarter.
- Management expects traction in AI-led programs to expand further over the coming quarters.

Margin performance and outlook

- EBIT margin stood at 13.7%, up 20bp QoQ, despite the impact of wage hikes (~USD3.2m).
- Margins are expected to remain in the mid-teens range going forward, consistent with recent quarters.
- ESOP expense, effective from mid-September, had a limited impact (18 days in the quarter).
- AI adoption is currently viewed as a competitive differentiator rather than a direct margin productivity lever at this stage.

Exhibit 1: TMT declines as clients shift budgets to capex

Verticals	Revenue contribution (%)	Growth QoQ (CC)
Hi-Tech	20.0	(10.2)
Manufacturing	25.2	(0.6)
Banking	43.6	4.8
Healthcare	11.2	3.9

Source: Company, MOFSL

Exhibit 2: North America sees drag due to TMT client base

Geographies	Revenue contribution (%)	Growth QoQ (CC)
North America	66.6	(1.8)
Europe	21.5	4.0
Africa	11.9	3.3

Source: Company, MOFSL

Valuation and view

- While we think the worst of the TMT correction is largely behind, a sustained recovery is yet to materialize. Deal conversion delays and cautious discretionary spending could continue to cap near-term growth momentum. We await clearer signs of traction in TMT and faster deal-to-revenue conversion before turning more constructive on the stock. We keep our estimates largely unchanged. We expect FY26/FY27 EBITDA margin estimates at 15.5%/15.6%, resulting in a PAT CAGR of 10% over FY25-27E. Our TP of INR730 is based on 21x Jun'27E EPS. **Reiterate Neutral.**

Exhibit 3: Summary of our revised estimates

	Revised			Earlier			Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
INR/USD	87.5	88.7	88.7	87.6	88.7	88.7	0.0%	0.0%	0.0%
USD Revenue - m	656	686	725	656	692	733	-0.1%	-0.8%	-1.1%
Growth (%)	5.0	4.7	5.7	5.1	5.4	5.9	-10bps	-80bps	-30bps
EBIT margin (%)	13.7	13.8	14.2	13.7	13.8	14.2	0bps	0bps	0bps
PAT (INR m)	7,290	7,826	8,393	7,366	7,890	8,482	-1.0%	-0.8%	-1.1%
EPS	31.7	34.1	36.5	32.1	34.3	36.9	-1.0%	-0.7%	-1.0%

Source: Company, MOFSL

Exhibit 4: Operating metrics

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Geographic Mix - %									
USA	66	66	66	69	68	67	67	68	67
Europe	22	21	21	20	21	21	21	21	22
ROW	12	13	13	12	11	12	12	11	12
Revenue by delivery - %									
Onsite	51	50	50	51	50	50	49	47	46
Offshore	49	50	50	49	50	51	51	53	54
Client concentration - %									
Top 5	32	29	28	28	29	28	28	27	27
Top 6-10	11	11	13	14	14	14	13	14	14
Top 10	42	41	41	42	42	41	41	41	41
Top 11-20	16	17	16	17	16	16	15	16	17
Top 20	58	58	57	59	58	57	56	58	57
Number of million dollar clients									
1 Million dollar +	84	84	85	86	86	87	84	82	84
5 Million dollar +	29	32	31	31	32	34	33	32	32
10 Million dollar +	14	14	14	14	15	14	14	16	15
20 Million dollar +	4	4	4	4	4	5	6	6	6
Client metrics									
Number of active clients	148	147	148	148	158	158	166	166	171
Employee metrics									
Total headcount	10,330	10,225	10,349	10,396	10,240	10,517	10,702	10,620	10,550
Gross employees added during the period	643	627	816	855	693	975	873	728	831
Utilization	83.1	80.7	83.7	83.9	82.8	82.9	84.6	84.3	84.8
Attrition	13.1	12.0	10.9	10.6	10.1	10.0	9.9	9.8	9.8

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Sales	36,681	42,437	48,483	49,018	52,806	57,415	60,878	64,326
Change (%)	(8.5)	15.7	14.2	1.1	7.7	8.7	6.0	5.7
Cost of Services	24,417	29,214	35,000	33,434	37,111	39,945	42,476	44,722
Gross Profit	12,264	13,223	13,483	15,584	15,695	17,470	18,403	19,604
SG&A Expenses	5,422	6,659	7,960	6,869	7,529	8,586	8,887	9,327
EBITDA	6,842	6,564	5,523	8,715	8,166	8,884	9,515	10,277
% of Net Sales	18.7	15.5	11.4	17.8	15.5	15.5	15.6	16.0
Depreciation	1,732	1,849	1,830	1,338	1,019	1,012	1,096	1,158
EBIT	5,109	4,715	3,693	7,377	7,147	7,873	8,419	9,119
% of Net Sales	13.9	11.1	7.6	15.0	13.5	13.7	13.8	14.2
Interest	536	354	278	209	173	176	289	322
Other Income	367	907	642	1,583	1,962	1,740	2,131	2,251
Forex	-113	470	386	5	-359	169	43	0
PBT	4,828	5,738	4,443	8,756	8,577	9,606	10,304	11,049
Tax	1,261	1,525	1,166	2,107	2,079	2,316	2,478	2,656
Rate (%)	26.1	26.6	26.2	24.1	24.2	24.1	24.0	24.0
Minority Interest	70	53	0	0	0	0	0	0
Adjusted PAT	3,497	4,160	3,277	6,649	6,498	7,290	7,826	8,393
Change (%)	33.0	19.0	-21.2	102.9	-2.3	12.2	7.4	7.2

Balance Sheet								(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share Capital	451	452	453	453	454	454	454	454
Reserves	23,423	26,417	29,309	35,166	40,243	43,663	47,334	51,271
Net Worth	23,874	26,869	29,762	35,619	40,697	44,117	47,788	51,725
Loans	-	0	0	0	0	0	0	0
Other liabilities	3,526	3,544	2,866	2,319	2,210	2,210	2,210	2,210
Capital Employed	27,401	30,413	32,628	37,938	42,907	46,327	49,998	53,935
Net Block	11,330	12,858	11,735	10,393	11,709	11,497	11,202	10,844
Other LT Assets	3,076	3,226	6,291	10,144	6,874	7,011	7,114	7,216
Curr. Assets	19,928	22,628	23,184	25,941	33,146	37,373	41,825	46,577
Current Investments	7,410	5,141	7,045	9,315	17,265	19,265	21,265	23,265
Inventories	0	0	0	0	0	0	0	0
Debtors	5,888	7,967	7,298	7,320	7,901	9,438	10,007	10,574
Cash & Bank Balance	3,492	5,054	4,744	4,432	2,708	2,938	4,475	6,316
Other Current Assets	3,138	4,466	4,097	4,874	5,272	5,732	6,078	6,422
Current Liab. & Prov	6,933	8,299	8,582	8,540	8,822	9,555	10,142	10,702
Trade payables	2,201	3,164	2,772	3,095	3,437	3,699	3,934	4,142
Other liabilities	4,732	5,135	5,810	5,445	5,385	5,855	6,208	6,560
Net Current Assets	12,994	14,329	14,602	17,401	24,324	27,819	31,683	35,876
Application of Funds	27,400	30,413	32,628	37,938	42,907	46,327	49,999	53,936

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
EPS	15.3	18.3	14.4	29.1	28.4	31.7	34.1	36.5
Cash EPS	22.9	26.5	22.4	35.0	32.8	36.1	38.9	41.6
Book Value	105.7	119.0	131.5	157.3	179.4	194.3	210.5	227.8
DPS	6.4	5.0	5.0	7.0	13.0	14.6	15.6	16.8
Payout %	41.8	27.3	34.8	24.0	45.8	45.9	45.9	45.9
Valuation (x)								
P/E	52.1	43.6	55.5	27.4	28.1	25.1	23.4	21.8
Cash P/E	34.9	30.1	35.6	22.8	24.3	22.1	20.5	19.2
EV/EBITDA	24.7	25.9	30.5	19.1	19.7	17.9	16.3	14.7
EV/Sales	4.6	4.0	3.5	3.4	3.0	2.8	2.6	2.4
Price/Book Value	7.5	6.7	6.1	5.1	4.4	4.1	3.8	3.5
Dividend Yield (%)	0.8	0.6	0.6	0.9	1.6	1.8	2.0	2.1
Profitability Ratios (%)								
RoE	15.5	16.4	11.6	20.3	17.0	17.2	17.0	16.9
RoCE	14.1	12.0	8.6	15.9	13.4	13.4	13.3	13.3
Turnover Ratios								
Debtors (Days)	59	69	55	55	55	60	60	60
Fixed Asset Turnover (x)	3.0	3.5	3.9	4.4	4.8	4.9	5.4	5.8

Cash Flow Statement

(INR m)

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
CF from Operations	5,432	5,774	5,030	6,901	6,201	6,568	7,037	7,621
Cash for Working Capital	3,148	-2,427	2,113	-480	-551	-1,402	-430	-454
Net Operating CF	8,580	3,347	7,143	6,421	5,650	5,166	6,607	7,167
Net Purchase of FA	-393	-373	-334	-151	-353	-800	-800	-800
Free Cash Flow	8,187	2,974	6,809	6,270	5,297	4,366	5,807	6,367
Net Purchase of Invest.	-4,890	400	-4,941	-4,600	-4,445	-91	174	251
Net Cash from Invest.	-5,283	27	-5,275	-4,751	-4,798	-891	-626	-549
Proc. from equity issues	15	32	4	1	2	0	0	0
Proceeds from LTB/STB	-4,505	-1,260	-1,058	-726	-606	-176	-289	-322
Dividend Payments	-271	-881	-1,132	-1,246	-2,041	-3,870	-4,155	-4,455
Cash Flow from Fin.	-4,761	-2,109	-2,186	-1,971	-2,645	-4,046	-4,444	-4,777
Exchange difference	-20	14	8	-11	69	0	0	0
Net Cash Flow	-1,483	1,279	-310	-312	-1,724	230	1,537	1,841
Opening Cash Bal.	5,258	3,775	5,054	4,744	4,432	2,708	2,937	4,474
Add: Net Cash	-1,483	1,279	-310	-312	-1,724	230	1,537	1,841
Closing Cash Bal.	3,775	5,054	4,744	4,432	2,708	2,937	4,474	6,316

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

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