22 July 2025

1QFY26 Result Update | Sector: Technology

Zensar

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	ZENT IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	184.3 / 2.1
52-Week Range (INR)	985 / 536
1, 6, 12 Rel. Per (%)	-4/0/6
12M Avg Val (INR M)	1073

Financials & Valuations (INR b)

Y/E Mar	FY25	FY26E	FY27E
Sales	52.8	57.8	61.6
EBIT Margin (%)	13.5	13.7	13.8
PAT	6.5	7.4	7.9
EPS (INR)	28.4	32.3	34.6
EPS Gr. (%)	-2.5	13.8	7.2
BV/Sh. (INR)	179.4	194.7	211.1
Ratios			
RoE (%)	17.0	17.4	17.2
RoCE (%)	13.4	13.4	13.4
Payout (%)	45.8	45.8	45.8
Valuations			
P/E (x)	28.6	25.1	23.4
P/BV (x)	4.5	4.2	3.8
EV/EBITDA (x)	20.1	18.1	16.4
Div Yield (%)	1.6	1.8	2.0

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	49.1	49.1	49.2
DII	20.5	19.9	19.1
FII	14.6	15.0	15.7
Others	15.9	16.1	16.1

FII includes depository receipts

CMP: INR811 | TP: INR750 (-8%) | Neutral

In-line quarter

Mid-teens margins guidance maintained

- ZENT) reported a good 1QFY26, with revenue growth of 1.9% QoQ CC (est. growth 1.0% CC). TMT/HLS grew 5.5%/5.2% QoQ CC, while MCS declined 4.1% QoQ CC. Deal TCV: bookings came in at USD172m (down 19.4% QoQ/up 11% YoY), and the book-to-bill stood at 1.1x. EBIT margin was 13.5% (est. 13.3%), down 40bp QoQ. The company's PAT of INR1,820m (3.2% QoQ/15.3% YoY) was above our estimate of INR1,689m.
- For 1QFY26, ZENT's revenue/EBIT/PAT grew 7.5%/9.4%/15.3% YoY. For 2QFY26, we expect its revenue/EBIT/PAT to grow 10.1%/11.8%/12.8% YoY. Our TP of INR750 is based on 21x FY27E EPS. **Reiterate Neutral.**

Our view: TMT recovery and deal TCV growth remain key monitorables

- **Macro uncertainty weighs on budgets, but the TMT vertical shows signs of stabilization:** Management flagged continued macro uncertainty, with the MCS vertical still under pressure. However, it indicated that the worst appears to be over for the TMT vertical (~22% of revenue). The company has added new logos and is also unlocking fresh areas of spending with a large TMT client. A sustained recovery in TMT through 2HFY26 will be a key monitorable. While near-term caution persists, management remains optimistic that FY26 overall growth will be better than FY25. We forecast a 6.0%/6.3% YoY growth in CC terms for FY26E/FY27E.
- **Deal win trend softens sequentially:** ZENT's deal TCV declined 19% QoQ, reflecting macro challenges and falling below the USD200m run-rate seen over the past three quarters. The company noted a growing share of managed services in net new wins, with longer deal durations. We believe this might hamper the ACV trajectory in the upcoming quarters.
- **Mid-teens margin guidance maintained; 2QFY26 to witness headwinds:** ZENT retained its guidance for mid-teen margins for FY26; however, roll-out of wage hikes and ESOPs will weigh on 2Q. While cost optimization initiatives are underway, the realization will have a lead-lag effect. In our view, a rising offshore mix should offer some margin support. We estimate EBITDA margins at 15.5%/15.6% for FY26E/FY27E.

Valuation and revisions to our estimates

- We believe macro headwinds and deal softness may weigh on ZENT's near-term growth. While the TMT vertical is showing early signs of recovery, we await sustained traction before turning constructive. We broadly maintain our estimates. 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 INR750 is based on 21x FY27E EPS. **Reiterate Neutral.**

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In-line revenue and margins; growth driven by TMT and HLS

- ZENT's revenue stood at USD162m, up 1.9% QoQ in CC terms, in line with our estimates of USD160m. Reported USD revenue was up 3.3% QoQ.
- Growth was driven by TMT and HLS (up 5.5%/5.2% QoQ CC), and BFSI grew 2.9% QoQ CC, while Manufacturing and Consumer declined 4.1% QoQ CC.
- Deal TCV: bookings came in at USD173m (down 19.4% QoQ/up 11% YoY), and the book-to-bill was 1.1x.
- EBIT margin stood at 13.5% (est. 13.3%), down 40bp QoQ.
- In 1Q, total headcount reached 10,620 (down 0.8% QoQ). LTM attrition was 9.8% (down 10bp QoQ). Utilization was down 30bp QoQ to 84.3%.
- ZENT's PAT of INR1,820m (up 3.2% QoQ/15.3% YoY) was above our estimate of INR1,689m for the quarter.

Key highlights from the management commentary

- The company anticipates some macro-driven variability in planned budgets.
- Despite ongoing political unrest and macroeconomic uncertainties, it remains cautiously optimistic about performance for the rest of the year.
- The right-shifting of demand highlighted in 4Q continues. Deal TCV was impacted sequentially due to this. Clients are focusing on cost-takeout projects.
- Large deals won earlier have started contributing to revenue.
- The company is committed to showing growth every quarter, although double-digit growth for the full year remains uncertain.
- AI-driven deals account for ~20% of the pipeline. The average order book value is increasing.
- Large deals are increasingly driven by innovation and solutioning, rather than cost competitiveness.
- Vendor consolidation deals are won by a low-cost provider. The company has an adequate client share and is not proactively pursuing such deals.
- The onshore-offshore mix is driven more by client requirements than internal strategies. While offshoring supports margins, it can weigh on revenues.
- 2QFY26 will reflect the impact of wage hikes and ESOP-related expenses. The company maintains mid-teens margin guidance for FY26.

Valuation and view

- We believe macro headwinds and deal softness may weigh on ZENT's near-term growth. While the TMT vertical is showing early signs of recovery, we await sustained traction before turning constructive. We broadly maintain our estimates. 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 INR750 is based on 21x FY27E EPS. **Reiterate Neutral.**

Quarterly Performance (INR Million)

Y/E March	FY25				FY26E				FY25	FY26E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY26	(% / bp)
Revenue (USD m)	154	156	157	157	162	166	169	172	624	669	160	1.3
QoQ (%)	4.3	1.2	0.5	-0.1	3.3	2.5	1.5	2.0	5.4	7.1	2.0	136bp
Revenue (INR m)	12,881	13,080	13,256	13,589	13,850	14,403	14,619	14,911	52,806	57,783	13,678	1.3
YoY (%)	5.0	5.4	10.1	10.5	7.5	10.1	10.3	9.7	7.7	9.4	6.2	134bp
GPM (%)	30.4	28.1	30.1	30.3	30.5	28.6	29.8	30.8	29.7	29.9	30.1	39bp
SGA (%)	15.2	12.7	14.5	14.7	15.3	13.5	14.5	14.5	14.3	14.4	15.0	29bp
EBITDA	1,961	2,011	2,069	2,125	2,106	2,175	2,237	2,431	8,166	8,948	2,065	2.0
EBITDA Margin (%)	15.2	15.4	15.6	15.6	15.2	15.1	15.3	16.3	15.5	15.5	15.1	11bp
EBIT	1,714	1,714	1,832	1,887	1,875	1,916	1,959	2,147	7,147	7,897	1,821	3.0
EBIT Margin (%)	13.3	13.1	13.8	13.9	13.5	13.3	13.4	14.4	13.5	13.7	13.3	22bp
Other income	383	366	270	411	531	403	410	506	1,430	1,847	410	29.4
ETR (%)	24.7	25.1	24.0	23.2	24.4	24.2	24.0	23.9	24.2	24.1	24.3	
Adj. PAT	1,579	1,558	1,597	1,764	1,820	1,758	1,800	2,018	6,498	7,393	1,689	7.8
QoQ (%)	-8.9	-1.3	2.5	10.5	3.2	-3.4	2.4	12.1			-4.3	
YoY (%)	1.1	-10.4	-1.2	1.8	15.3	12.8	12.7	14.4	-2.3	13.8	6.9	
EPS (INR)	6.9	6.8	7.0	7.7	7.9	7.6	7.8	8.8	28.4	32.3	7.4	7.7

Key Performance Indicators

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

CONFERENCE CALL

Key highlights from the management commentary

Growth and outlook

- The company anticipates some macro-driven variability in planned budgets.
- Despite ongoing political unrest and macroeconomic uncertainties, it remains cautiously optimistic about performance for the rest of the year.
- CIOs are pausing on net new demand due to uncertainty. The overall macro environment remains challenging, with growth slowing in both the US and Europe, and business capital expenditure showing only marginal improvement.
- The right-shifting of demand highlighted in 4Q continues. Deal TCV was impacted sequentially due to this. Clients are focusing on cost-takeout projects.
- Large deals won earlier have started contributing to revenue.
- The company is committed to showing growth every quarter, although double-digit growth for the full year remains uncertain.
- Management is hopeful that FY26 growth will be better than FY25. Growth across client metrics is broad-based.

- **Indigo Slate business:** There are concerns around the experience services business as AI disrupts the marketing space. While there is downward pressure on budgets, this segment is not critical to the overall business.
- AI-driven deals account for ~20% of the pipeline. The average order book value is increasing.
- Management expects continued YoY growth in bookings, although uncertainty is having some impact.
- The share of managed services in the pipeline is growing, with larger deal durations. This trend has persisted over the past few quarters.
- Large deals are increasingly driven by innovation and solutioning, rather than cost competitiveness.
- Vendor consolidation deals are won on low-cost provider. The company has an adequate client share and is not proactively pursuing such deals.
- **Manufacturing & Consumer:** Coming off a strong 3QFY25, the vertical saw muted performance. Liberation Day had a more pronounced impact here than in other verticals. Growth is expected to resume in 2QFY26.
- **TMT:** The worst appears to be behind for this vertical, although consistent growth is not yet assured. Most growth has come from new wins rather than renewals. The company is exploring new opportunities with a large client.
- **Europe:** Execution challenges persist, with some one-offs from the signing of a large deal. However, the company remains positive on Europe for the year.
- **South Africa:** Growth lags the company average. New leadership took charge on 1st Apr'25. Green shoots are visible, and improvement is expected over the next couple of quarters.

Margin performance and outlook

- EBIT margin was 13.5%, down 40bp QoQ. Margins declined due to increased SG&A and travel spend.
- Wage hikes were rolled out from 1st Jul'25. Hikes in India were higher than in other geographies, with a USD3m impact.
- 2QFY26 will reflect the impact of wage hikes and ESOP-related expenses. The company maintains mid-teens margin guidance for FY26.
- Cost actions are being taken, though there may be some lead-lag impact.
- The onshore-offshore mix is driven more by client requirements than internal strategies. While offshoring supports margins, it can weigh on revenues.
- The current ESOP plan is under consideration, but the company remains focused on maintaining mid-teens margin guidance.

Exhibit 1: Growth led by TMT and HLS, while MCS was weak due to the tariff impact

Verticals	Revenue contribution (%)	Growth QoQ (CC)
Hi-Tech	22.3	5.5
Manufacturing	25.3	(4.1)
Banking	41.5	2.9
Healthcare	10.8	5.2

Source: Company, MOFSL

Exhibit 2: Europe was a drag in 1Q due to one-offs in a large deal signing

Geographies	Revenue contribution (%)	Growth QoQ (CC)
North America	68.3	4.3
Europe	20.5	(5.8)
Africa	11.2	1.5

Source: Company, MOFSL

Valuation and view

- We believe macro headwinds and deal softness may weigh on ZENT's near-term growth. While the TMT vertical is showing early signs of recovery, we await sustained traction before turning constructive. We broadly maintain our estimates. 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 INR750 is based on 21x FY27E EPS. **Reiterate Neutral**.

Exhibit 3: Summary of our revised estimates

	Revised		Earlier		Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
INR/USD	86.4	86.7	86.4	86.7	0.0%	0.0%
USD Revenue - m	669	711	664	710	0.7%	0.1%
Growth (%)	7.1	6.3	6.3	6.9	80bps	-60bps
EBIT margin (%)	13.7	13.8	13.4	14.1	30bps	-30bps
PAT (INR m)	7,393	7,922	7,140	7,992	3.5%	-0.9%
EPS	32.3	34.6	31.2	34.9	3.5%	-0.9%

Source: Company, MOFSL

Exhibit 4: Operating metrics

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Geographic Mix - %									
USA	69	66	66	66	69	68	67	67	68
Europe	19	22	21	21	20	21	21	21	21
ROW	11	12	13	13	12	11	12	12	11
Revenue by delivery - %									
Onsite	52	51	50	50	51	50	50	49	47
Offshore	48	49	50	50	49	50	51	51	53
Client concentration - %									
Top 5	34	32	29	28	28	29	28	28	27
Top 6-10	11	11	11	13	14	14	14	13	14
Top 10	45	42	41	41	42	42	41	41	41
Top 11-20	17	16	17	16	17	16	16	15	16
Top 20	62	58	58	57	59	58	57	56	58
Number of million dollar clients									
1 Million dollar +	87	84	84	85	86	86	87	84	82
5 Million dollar +	29	29	32	31	31	32	34	33	32
10 Million dollar +	14	14	14	14	14	15	14	14	16
20 Million dollar +	4	4	4	4	4	4	5	6	6
Client metrics									
Number of active clients	147	148	147	148	148	158	158	166	166
Employee metrics									
Total headcount	10,540	10,330	10,225	10,349	10,396	10,240	10,517	10,702	10,620
Gross employees added during the period	654	643	627	816	855	693	975	873	728
Utilization	82.5	83.1	80.7	83.7	83.9	82.8	82.9	84.6	84.3
Attrition	15.9	13.1	12.0	10.9	10.6	10.1	10.0	9.9	9.8

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Sales	**36,681**	**42,437**	**48,483**	**49,018**	**52,806**	**57,783**	**61,626**
Change (%)	(8.5)	15.7	14.2	1.1	7.7	9.4	6.6
Cost of Services	24,417	29,214	35,000	33,434	37,111	40,492	42,997
Gross Profit	**12,264**	**13,223**	**13,483**	**15,584**	**15,695**	**17,291**	**18,629**
SG&A Expenses	5,422	6,659	7,960	6,869	7,529	8,343	8,996
EBITDA	**6,842**	**6,564**	**5,523**	**8,715**	**8,166**	**8,948**	**9,632**
% of Net Sales	18.7	15.5	11.4	17.8	15.5	15.5	15.6
Depreciation	1,732	1,849	1,830	1,338	1,019	1,051	1,109
EBIT	**5,109**	**4,715**	**3,693**	**7,377**	**7,147**	**7,897**	**8,523**
% of Net Sales	13.9	11.1	7.6	15.0	13.5	13.7	13.8
Interest	536	354	278	209	173	212	293
Other Income	367	907	642	1,583	1,962	2,016	2,157
Forex	-113	470	386	5	-359	43	43
PBT	**4,828**	**5,738**	**4,443**	**8,756**	**8,577**	**9,744**	**10,430**
Tax	1,261	1,525	1,166	2,107	2,079	2,351	2,508
Rate (%)	26.1	26.6	26.2	24.1	24.2	24.1	24.0
Minority Interest	70	53	0	0	0	0	0
Adjusted PAT	**3,497**	**4,160**	**3,277**	**6,649**	**6,498**	**7,393**	**7,922**
Change (%)	33.0	19.0	-21.2	102.9	-2.3	13.8	7.2

Balance Sheet							(INR m)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Share Capital	451	452	453	453	454	454	454
Reserves	23,423	26,417	29,309	35,166	40,243	43,711	47,428
Net Worth	**23,874**	**26,869**	**29,762**	**35,619**	**40,697**	**44,165**	**47,882**
Loans	-	0	0	0	0	0	0
Other liabilities	3,526	3,544	2,866	2,319	2,210	2,210	2,210
Capital Employed	**27,401**	**30,413**	**32,628**	**37,938**	**42,907**	**46,375**	**50,092**
Net Block	**11,330**	**12,858**	**11,735**	**10,393**	**11,709**	**11,458**	**11,148**
Other LT Assets	3,076	3,226	6,291	10,144	6,874	7,022	7,136
Curr. Assets	**19,928**	**22,628**	**23,184**	**25,941**	**33,146**	**37,539**	**42,074**
Current Investments	7,410	5,141	7,045	9,315	17,265	19,265	21,265
Inventories	0	0	0	0	0	0	0
Debtors	5,888	7,967	7,298	7,320	7,901	9,499	10,130
Cash & Bank Balance	3,492	5,054	4,744	4,432	2,708	3,006	4,526
Other Current Assets	3,138	4,466	4,097	4,874	5,272	5,769	6,153
Current Liab. & Prov	**6,933**	**8,299**	**8,582**	**8,540**	**8,822**	**9,643**	**10,266**
Trade payables	2,201	3,164	2,772	3,095	3,437	3,750	3,982
Other liabilities	4,732	5,135	5,810	5,445	5,385	5,893	6,284
Net Current Assets	**12,994**	**14,329**	**14,602**	**17,401**	**24,324**	**27,896**	**31,808**
Application of Funds	**27,400**	**30,413**	**32,628**	**37,938**	**42,907**	**46,376**	**50,092**

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
EPS	**15.3**	**18.3**	**14.4**	**29.1**	**28.4**	**32.3**	**34.6**
Cash EPS	22.9	26.5	22.4	35.0	32.8	36.9	39.5
Book Value	105.7	119.0	131.5	157.3	179.4	194.7	211.1
DPS	6.4	5.0	5.0	7.0	13.0	14.8	15.8
Payout %	41.8	27.3	34.8	24.0	45.8	45.8	45.8
Valuation (x)							
P/E	53.0	44.3	56.5	27.9	28.6	25.1	23.4
Cash P/E	35.4	30.7	36.2	23.2	24.7	22.0	20.6
EV/EBITDA	25.2	26.3	31.1	19.5	20.1	18.1	16.4
EV/Sales	4.7	4.1	3.5	3.5	3.1	2.8	2.6
Price/Book Value	7.7	6.8	6.2	5.2	4.5	4.2	3.8
Dividend Yield (%)	0.8	0.6	0.6	0.9	1.6	1.8	2.0
Profitability Ratios (%)							
RoE	15.5	16.4	11.6	20.3	17.0	17.4	17.2
RoCE	14.1	12.0	8.6	15.9	13.4	13.4	13.4
Turnover Ratios							
Debtors (Days)	59	69	55	55	55	60	60
Fixed Asset Turnover (x)	3.0	3.5	3.9	4.4	4.8	5.0	5.5

Cash Flow Statement **(INR m)**

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
CF from Operations	5,432	5,774	5,030	6,901	6,201	6,597	7,124
Cash for Working Capital	3,148	-2,427	2,113	-480	-551	-1,422	-506
Net Operating CF	**8,580**	**3,347**	**7,143**	**6,421**	**5,650**	**5,176**	**6,619**
Net Purchase of FA	-393	-373	-334	-151	-353	-800	-800
Free Cash Flow	**8,187**	**2,974**	**6,809**	**6,270**	**5,297**	**4,376**	**5,819**
Net Purchase of Invest.	-4,890	400	-4,941	-4,600	-4,445	59	200
Net Cash from Invest.	**-5,283**	**27**	**-5,275**	**-4,751**	**-4,798**	**-741**	**-600**
Proc. from equity issues	15	32	4	1	2	0	0
Proceeds from LTB/STB	-4,505	-1,260	-1,058	-726	-606	-212	-293
Dividend Payments	-271	-881	-1,132	-1,246	-2,041	-3,925	-4,206
Cash Flow from Fin.	**-4,761**	**-2,109**	**-2,186**	**-1,971**	**-2,645**	**-4,137**	**-4,499**
Exchange difference	-20	14	8	-11	69	0	0
Net Cash Flow	**-1,483**	**1,279**	**-310**	**-312**	**-1,724**	**298**	**1,520**
Opening Cash Bal.	**5,258**	**3,775**	**5,054**	**4,744**	**4,432**	**2,708**	**3,006**
Add: Net Cash	-1,483	1,279	-310	-312	-1,724	298	1,520
Closing Cash Bal.	**3,775**	**5,054**	**4,744**	**4,432**	**2,708**	**3,006**	**4,526**

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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