

Steady Performance; Digital Transformation to Lead Growth

Est. Vs. Actual for Q1FY26: Revenue: **INLINE**; EBIT Margin: **INLINE**; PAT - **BEAT**

Recommendation Rationale

- **Macro Headwinds:** The quarter began with considerable macro uncertainty with slowing growth in both the US and Europe. Clients paused net new spending due to uncertainties related to tariffs. However, GenAI continues to remain in demand.
- **Wage Hikes & ESOPs:** The company's wage hikes and ESOPs implementation will impact margins in the next quarter. However, the management is committed to maintaining a mid-teens EBITDA margin range in the long run.
- **AI Implementation:** AI is central to Zensar's strategy, driving 30% of its active pipeline, with over half of its talent upskilled in AI and GenAI. 20% of order bookings are AI-influenced. The company launched "Zen's AI," a GenAI accelerator platform, which has been praised for connected intelligence, multimodal search, and enterprise-grade agentic AI models.

Sector Outlook: Cautiously Optimistic

Company Outlook & Guidance: The management remains cautiously optimistic on performance for the rest of the year due to macro uncertainty, relying on core operational foundations.

Current Valuation: 24x FY27E P/E

Current TP: Rs 875/share

Recommendation: Over the years, the company's focus has been on reskilling and upskilling in next-gen tech, which has resulted in healthy utilisation levels, and this is expected to continue further.

We resume our coverage with a HOLD rating on the stock.

Financial performance

In Q1FY26, Zensar Technologies reported revenue of Rs 1,385 Cr vs Rs 1,288 Cr (Q1FY25), up 7.5% YoY and 1.9% QoQ on account of growing traction in AI-led deals and impactful solution delivery. EBIT stood at Rs 188 Cr vs Rs 172 Cr, reporting growth of 9.3% YoY, but fell 0.6% QoQ. Net income stood at Rs 182 Cr vs Rs 158 Cr, up 15.3% YoY and 3.2% QoQ, supported by higher other income. Moreover, in CC terms, revenue grew by 3.8% YoY and 1.9% QoQ. Attrition rate fell by 80 bps to 9.8% vs 10.6% YoY.

Valuation & Recommendation

The demand outlook across most verticals remains uncertain, impacting revenue growth momentum in the near term. However, given the company's stable performance supported by favourable business deals and enhanced customer retention, **we resume over coverage with a HOLD rating on the stock and assign a 24x P/E multiple to its FY27E earnings to arrive at a TP of Rs 875/share, implying an upside of 8% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,385	1.9	7.5	1,375	0.7
EBIT	188	-0.6	9.3	190	(1.5)
EBIT Margin	13.5	-35 bps	22 bps	13.8	(2.2)
Net Profit	182	3.2	15.3	170	6.9
EPS (Rs)	8.0	3.2	15.2	7.5	6.9

Source: Company, Axis Research

(CMP as of 22nd July, 2025)

CMP (Rs)	819
Upside /Downside (%)	8%
High/Low (Rs)	985/536
Market cap (Cr)	19,158
Avg. daily vol. (6m)Shrs.	18,43,570
No. of shares (Cr)	23

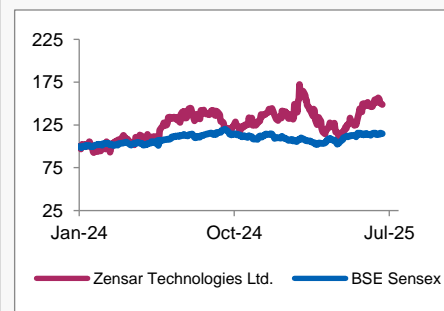
Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	49.1	49.1	49.1
FII's	15.1	15.0	14.6
MFs/UTI	17.7	17.4	17.9
Banks/FIs	0.0	0.0	0.0
Others	18.1	18.6	18.5

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	5,281	5,680	6,120
EBIT	715	748	864
Net Profit	650	719	827
EPS (Rs)	28.6	31.6	36.4
PER (x)	28.4	25.7	22.3
P/BV (x)	4.5	3.9	3.3
EV/EBITDA (x)	21.7	19.4	15.9
ROE (%)	17.0	16.2	15.9

Relative Performance



Source: AceEquity, Axis Securities

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Outlook

- From a long-term perspective, Zensar Technologies seems to be effectively addressing client-specific requirements across various verticals, while maintaining a strong deal pipeline. We believe that the new strategy will facilitate a sequential recovery, thereby boosting confidence in near-term growth.

Key highlights

- In CC terms, US region reported a QoQ and YoY growth of 4.3% each. Europe region saw a sequential QoQ decline of 5.8%, but YoY growth of 3.8%. Africa region saw a sequential QoQ growth of 1.5% and YoY growth of 0.6%.
- On the segmental front, in CC terms, revenue growth in Telecom, Media, and Technology (TMT) stood at 5.5% QoQ, but a decline of 5.6% YoY; BFSI grew by 2.9% QoQ and 8.2% YoY; Healthcare and Life Sciences grew 5.2% QoQ and 16.5% YoY; Manufacturing and Consumer Services saw YoY growth of 1.1% but a decline of 4.1% QoQ due to impact of "Liberation Day". However, the company is expecting growth in Q2FY26.
- Zensar launched "Zen's AI," a GenAI accelerator platform, which has been praised for connected intelligence, multimodal search, and enterprise-grade agentic AI models. It enhances engineering velocity, value realisation in modernisation programs, and optimises AMS and IT operations costs.
- The macro environment remains challenging with slowing growth in both the US and Europe. During the quarter, clients paused net new spending due to uncertainties. Nevertheless, GenAI continues to remain in demand.
- The company took a wage hike across the board for both offshore and onshore employees on 1st July, with the hikes in India being slightly higher than in the US, UK, and South Africa. As per the management, \$3 Mn impact will be seen on margin in Q2FY26.
- Zensar Tech booked orders worth \$172 Mn, up 11.7% YoY, despite uncertainties, and it remains optimistic about further bookings.
- Cash conversion has been good so far, and investment will be done in large deal creation (structure deal), M&A, with initiatives on innovation.
- The company believes in creating large deals through innovation and solutioning rather than bidding on existing deals and extreme pricing pressure.
- The management stated that the onshore and offshore mix is based on clients' demand. Also, the subcontracting cost (higher by 64% QoQ) was due to third-party cost and headcounts increase, while it is expected to be in line in coming quarters.
- New member was appointed in Apr'25 for Africa region, and the company has started witnessing some initial green shoots. However, it will take some quarters to reflect in revenues.
- The shifting of demand and uncertainty is leading clients to focus on essential projects over new capital projects. On AI talent cost, the company focuses on creating AI talent internally rather than spending significantly on attracting external AI talent.

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

Results Review
(Rs Cr)

Y/E March	Q1FY26	Q4FY25	QoQ (%)	Q1FY25	YoY (%)
Net sales	1,385	1,359	1.9	1,288	7.5
Total Expenditure	1,174	1,146	2.4	1,092	7.6
EBITDA	211	213	(0.9)	196	7.3
<i>EBITDA margin (%)</i>	<i>15.2</i>	<i>15.6</i>	<i>-43 bps</i>	<i>15.2</i>	<i>-3 bps</i>
Depreciation	23	24	(2.9)	25	(6.5)
EBIT	188	189	(0.6)	172	9.3
<i>EBIT margin (%)</i>	<i>13.5</i>	<i>13.9</i>	<i>-35 bps</i>	<i>13.3</i>	<i>22 bps</i>
Interest cost	4	5	(26.5)	4	(14.3)
Other income	57	46	23.3	42	33.7
Exceptional item	0	0	NA	0	NA
PBT	241	230	4.7	210	14.7
Tax	59	53	9.7	52	13.1
Profit after tax	182	176	3.2	158	15.3
Reported EPS	8.0	7.8	3.2	7.0	15.2
Adj. PAT	182	176	3.2	158	15.3
Adj. EPS	8.0	7.8	3.2	7.0	15.2

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Net sales	4,848	4,902	5,281	5,680	6,120
Change(yoy,%)	-	1.1	7.7	7.6	7.8
Operating expenses	4,296	4,030	4,464	4,825	5,129
EBITDA	552	872	817	855	992
Change (yoy,%)	(16)	58	(6)	5	16
Margin (%)	11	18	15	15	16
Depreciation	183	134	102	107	127
EBIT	369	738	715	748	864
Interest paid	28	21	17	19	20
Other income	103	159	160	220	245
Pre-tax profit	444	876	858	949	1,089
Tax	117	211	208	230	261
Effective tax rate (%)	26%	24%	24%	24%	24%
Net profit	328	665	650	719	827
Exceptional items	-	-	-	-	-
Adjusted net profit	328	665	650	719	827
Change(yoy,%)	-22.3%	103.0%	-2.3%	10.6%	15.1%
Adj.EPS	14.5	29.3	28.6	31.6	36.4
Dividend per share	5.0	9.0	13.0	13.0	13.0
Dividend Payout (%)	34.6	30.7	45.4	41.1	35.7

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Share capital	45	45	45	45	45
Reserves & surplus	2,931	3,517	4,024	4,743	5,571
Shareholders funds	2,976	3,562	4,070	4,789	5,616
Total Debt	0	0	0	0	0
Other liabilities	287	232	221	221	221
Current Liabilities & prov.	858	854	882	922	1,020
Current liabilities	807	806	846	891	986
Provisions	52	49	36	32	34
Total liabilities	1,145	1,086	1,103	1,143	1,241
Total equity & liabilities	4,121	4,648	5,173	5,932	6,857
Net fixed assets	112	81	91	103	76
Investments	448	758	460	0	0
Other non-current assets	1,243	1,215	1,308	1,307	1,307
Current assets	2,318	2,594	3,315	4,522	5,474
Inventories	0	0	0	0	0
Sundry Debtors	730	732	790	868	935
Cash & Liquid	728	724	744	1,855	2,730
Other Current Assets	861	1,138	1,781	1,799	1,810
Total assets	4,121	4,648	5,173	5,932	6,857

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Pre tax	328	665	650	719	827
Depreciation	183	134	102	107	127
Change in working capital	(153)	(284)	(673)	(55)	20
Other operating activities	(75)	(138)	(143)	(201)	(224)
Cash flow from operations (a)	283	377	(64)	570	750
Capital expenditure	10	11	(112)	(120)	(100)
Change in investments	(265)	(314)	372	460	-
Other investing activities	(743)	191	(7)	221	245
Cash flow from investing (b)	(998)	(112)	254	561	145
Equity raised/(repaid)	0	-	0	-	-
Debt raised/(repaid)	(40)	(55)	(11)	-	-
Dividend (incl. tax)	(113)	(204)	(295)	(295)	(295)
Change in minorities	-	-	-	-	-
Other financing activities	(133)	(10)	136	276	275
Cash flow from financing (c)	(286)	(269)	(170)	(19)	(20)
Net change in cash (a+b+c)	(1,001)	(4)	20	1,112	874
Opening cash balance	856	728	724	744	1,855
Closing cash balance	(145)	724	744	1,855	2,730

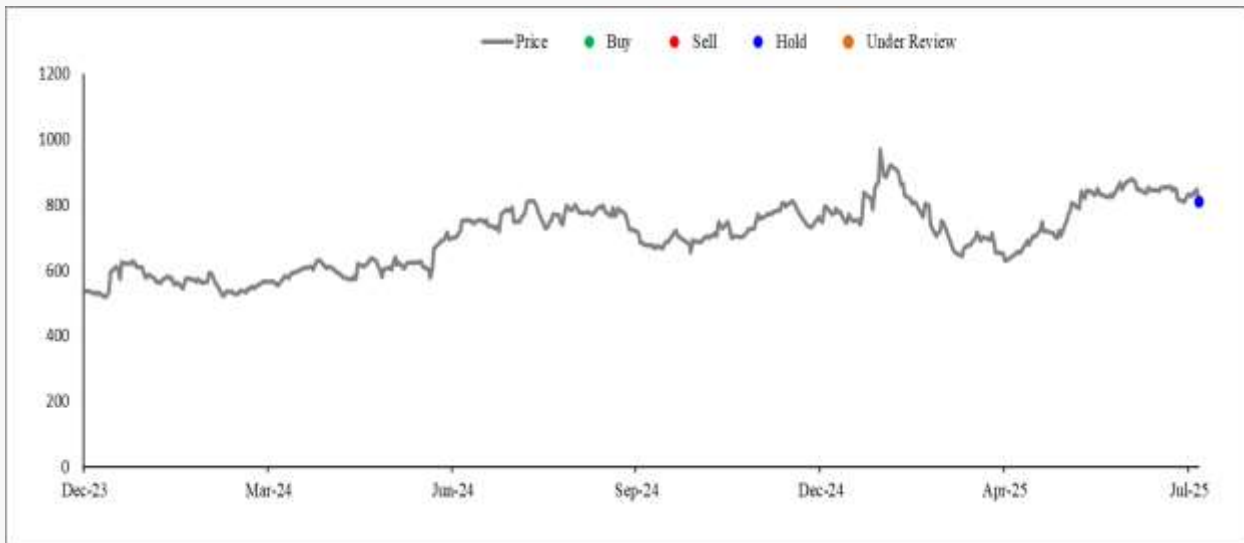
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	131	157	179	211	247
Adj EPS (Rs)	14.5	29.3	28.6	31.6	36.4
Adj EPS growth (%)	-22	103	-3	11	15
EBITDA margin (%)	11.4	17.8	15.5	15.1	16.2
Pre-tax margin (%)	9.2	17.9	16.2	16.7	17.8
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
ROCE (%)	11	19	16	16	16
ROE (%)	12	20	17	16	16
Financial leverage ratios					
Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0
Interest Coverage (x)	13.2	35.3	41.3	39.3	42.4
Interest / Debt (%)	-	-	-	-	-
Working Capital & Liquidity Ratio					
Inventory days	0	0	0	0	0
Receivable days	54	54	54	55	55
Payable days	21	23	23	24	24
Valuation ratio					
PER (x)	56	28	28	26	22
Adjusted PER (x)	56	28	28	26	22
P/BV (x)	6	5	5	4	3
EV/EBITDA (x)	32	20	22	19	16
Market Cap. / Sales (x)	4	4	3	3	3

Source: Company, Axis Securities

Zensar Technologies Price Chart and Recommendation History



Date	Reco	TP	Research
23-Jul-25	HOLD	875	Result Update

Source: Axis Securities Research

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