

August 20, 2024

Zensar Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund-based/Non-fund based	177.00	191.00	[ICRA]AA+ (Stable)/ [ICRA]A1+; reaffirmed
Long-term – Non-fund based	14.00	-	-
Total	191.00	191.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for Zensar Technologies Limited (Zensar) factors in its established business position in the IT services industry and sustenance of a healthy financial profile, marked by its robust capital structure, healthy cash accrual generation and strong liquidity position. Zensar posted modest revenue growth of 1.1% in INR terms in FY2024, on account of prevalent demand softening and muted growth sentiments across the industry, which improved marginally to 3.4% YoY in Q1 FY2025. Its operating profit margin (OPM) improved to 17.8% in FY2024 from 11.4% in FY2023 because of increase in employee utilisation levels (83.7% in FY2024 from 81.4% in FY2023) and significant reduction in last twelve months (LTM) attrition to 10.6% in Q1 FY2025 from 19.8% in Q4 FY2023, in line with the industry trend. The operating profitability moderated slightly in Q1 FY2025 due to wage hikes, some provisioning against doubtful receivable and slightly higher operational expenses. However, ICRA expects OPM to stabilise to 16.5-17.0% in FY2025, supported by improving operational efficiencies and steady wage costs, despite muted revenue growth amid global industry headwinds.

Zensar booked healthy order wins, which grew by 22% YoY to \$698 million for FY2024, consisting of a diversified mix of large and mid-sized deals, majorly in the banking & financial services segment. This, coupled with the company's focus on changing its business strategy and active adoption of newer technologies such as GenAI is expected to provide revenue visibility for the near to medium term. ICRA also notes Zensar's recent acquisition of BridgeView Life Sciences LLC (BridgeView) in July 2024, a US-based healthcare technology consulting and system integrator. This is expected to support increased penetration in the healthcare & life sciences vertical mainly in the US and its overall growth. Additionally, the ratings continue to factor in the company's strong financial flexibility as part of the RPG Group, a diversified business conglomerate in India.

The ratings, however, remain constrained by the relatively moderate scale of operations compared to large domestic IT players and concentration on the US market (67.2% of revenue in FY2024) followed by Europe and Africa, which exposes the company to macroeconomic uncertainties in such key geographies. The company also faces stiff competition from other prominent players in the global IT services industry, which limits pricing flexibility. Additionally, industry participants, including Zensar, continue to face challenges like foreign currency fluctuations, talent acquisition and retention. The demand for IT services remains exposed to macroeconomic uncertainties in Zensar's key operating markets of the US, Europe and South Africa.

The Stable outlook on the rating reflects ICRA's opinion that despite the prevailing softness in demand and global headwinds, Zensar will continue to benefit from its established business profile, healthy order book position and strong financial profile.

Key rating drivers and their description

Credit strengths

Diversified presence across various service lines and verticals - The company's revenues are diversified across various service offerings, such as the digital application services (DAS) and digital foundation services (DFS). Further, its clientele is distributed across telecommunication, media & technology (erstwhile Hi-tech), manufacturing & consumer services, banking & financial

services and healthcare & life sciences domains leading to sectoral diversification. While growth across some key verticals was subdued for most of FY2024, there has been some sequential recovery in telecommunication, media & technology, manufacturing & consumer services and healthcare and life sciences verticals in the recent quarter.

Part of a large, established, and diversified Group imparts financial flexibility - Zensar is part of the RPG Group (FY2024 revenue ~Rs. 400 billion), which has a diversified presence in infrastructure, tyres, technology and pharmaceuticals. The company derives financial flexibility and benefits from the strong management lineage of the Group.

Healthy order book position provides revenue visibility - In FY2024, the company secured sizeable new orders, translating into TCV¹ worth \$698 million. The order inflow was supported by healthy renewables and multiple wins across verticals, especially in the banking and financial services segment. Moreover, the acquisition of BridgeView in the current fiscal to achieve synergies in its healthcare and life sciences vertical is expected to aid further penetration in this vertical going forward, providing revenue visibility for the next few years.

Strong financial profile characterised by healthy cash flow, robust capital structure and comfortable liquidity profile – The company's financial profile continues to be strong as reflected in its healthy internal accrual generation and robust liquidity position. Although Zensar's revenue growth moderated in FY2024 amid global industry headwinds, its OPM expanded by 640 bps to 17.8% in FY2024, supported by cost-rationalisation initiatives, improving employee utilisation levels and reduction in attrition levels. Moreover, its capital structure remains strong because of its debt-free (excluding lease liabilities) status. Despite subdued revenue growth expectations over the near term, Zensar is expected to maintain its strong financial profile, supported by steady internal accrual generation, comfortable capital structure and liquidity position.

Credit challenges

Relatively moderate scale of operations and geographical concentration risk compared to large IT companies – With an operating income of Rs. 4901.9 crore in FY2024, Zensar's scale of operations remain more moderate compared to some large domestic IT players, thereby restricting its pricing flexibility and margins. Moreover, in line with trends in the global IT services industry, Zensar derives a significant portion (67.2% in FY2024) of its revenues from the US followed by Europe (20.8%) and Africa (12.0%). This further exposes the company's revenues and earnings to the structural and region-specific challenges in the US.

Industry-specific challenges like intense competition, forex risk, employee attrition and exposure to policies in key operating markets - Zensar's revenue and profit margin remain susceptible to demand softening and decline in discretionary spending by virtue of operating in the intensely competitive IT services industry. Moreover, its revenues and margins are also exposed to forex risks as revenues are derived from the international market. Nonetheless, the hedging mechanisms of the company mitigate this risk to some extent. Being in a highly labour-intensive business, the availability and retention of a skilled workforce continues to be a key challenge. However, in line with the industry trend, the company has witnessed significant reduction in attrition levels in recent quarters, supporting its business profile. Zensar also remains exposed to macroeconomic uncertainties and any adverse regulatory/ legislative changes in its key operating markets of the US, Europe and South Africa.

¹ Total Contract Value

Liquidity position: Strong

Zensar's liquidity profile continues to be strong, supported by healthy internal accrual generation, significant cash and liquid investments of Rs. 1500-1600 crore along with unutilised working capital limits of Rs. 191 crore as on June 30, 2024. Moreover, the company remains debt-free (excluding lease liabilities). ICRA expects the company to continue to scout for investment/acquisition opportunities to support its inorganic growth initiatives. The impact, if any, of the same on Zensar's credit and liquidity profiles will depend on the ticket size of these investments/acquisitions and their operational and financial synergies.

Rating sensitivities

Positive factors – A rating upgrade for Zensar is less likely in the medium term given the moderate scale of operations. However, the ratings could be upgraded if the company demonstrates significant improvement in its scale of business, supported by growth across verticals.

Negative factors – Negative pressure on Zensar's ratings could arise in case of sizeable debt-funded acquisitions, which could significantly impact the financial profile and liquidity position. A specific credit metric that could lead to a downgrade of Zensar's ratings include Total Debt/OPBITDA (debt including lease liability) exceeding 1.25 times, on a sustained basis.

ESG Risks

Environmental considerations — Given the service-oriented business, Zensar's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social considerations — Like other Indian IT service companies, Zensar faces the risk of data breaches and cyberattacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, Zensar remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. While such changes would be motivated by those economies' own social and political considerations, they could have the effect of heightening the competition among IT players for skilled workforce, resulting in higher attrition rates and may have an adverse impact on profitability. Managing various facets of human capital, including skills, compensation, and training, is in any case a key differentiating factor among IT companies.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for IT – Software & Services
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Zensar. As on March 31, 2024, the company had 14 subsidiaries, which are listed in Annexure-II.

About the company

Zensar is a mid-size IT software and infrastructure services and solutions provider with industry expertise across manufacturing (hi-tech and industrial), retail, insurance, banking and financial services. The company delivers comprehensive services for mission-critical applications, enterprise applications, business intelligence and analytics, business process management and digital services. Zensar has operations across the US, the UK, Europe, and South Africa.

The company has demonstrated a consistent track record of growth, backed by its ~10,349 associates (as on March 31, 2024) and a footprint in 16 countries. Zensar's comprehensive range of software services and solutions enable its 145+ customers to

cross new thresholds of business performance. The company is present across the whole value chain of IT and IT enabled services from IT consulting, application development & maintenance and package implementation to BPO operations.

Key financial indicators (audited)

Zensar – Consolidated	FY2023	FY2024
Operating income	4,848.2	4,901.9
PAT	327.6	665.0
OPBDIT/OI	11.4%	17.8%
PAT/OI	6.8%	13.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.5	0.2
Interest coverage (times)	19.8	41.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Note: PAT is after exceptional losses and debt includes lease liability; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount Rated (Rs. Crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Aug 20, 2024	Jun 30, 2023	May 30, 2022	-
1 Fund-based/ Non-fund based	Long-term/ Short-term	191.00	[ICRA]AA+ (Stable) /[ICRA]A1+	[ICRA]AA+ (Stable) /[ICRA]A1+	[ICRA]AA+ (Stable) /[ICRA]A1+	-
2 Non-fund based	Long-term	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term – Fund Based/ Non-Fund Based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term Fund based/ Non-fund based	NA	NA	NA	191.00	[ICRA]AA+(Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Zensar's Ownership	Consolidation Approach
Zensar Technologies Inc	100.00%	Full Consolidation
Zensar Technologies (UK) Ltd.	100.00%	Full consolidation
Zensar (Africa) Holdings (Pty) Ltd.	100.00%	Full consolidation
Zensar (South Africa) (Pty) Ltd	75.00%	Full consolidation
Zensar Technologies (Singapore) Pte. Ltd	100.00%	Full consolidation
Foolproof Ltd., UK	100.00%	Full consolidation
Foolproof (SG) Pte. Ltd.	100.00%	Full consolidation
Keystone Logic Mexico S. DE R.L. DE C.V	100.00%	Full consolidation
Zensar Technologies GMBH	100.00%	Full consolidation
Zensar Technologies (Canada) Inc	100.00%	Full consolidation
Zensar information technology B.V	100.00%	Full consolidation
M3Bi India Private Limited	100.00%	Full consolidation
M3Bi LLC	100.00%	Full consolidation
Zensar Colombia S.A.S	100.00%	Full consolidation

Source: Company Annual Report

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Deepak Jotwani

+91 124 4545870

deepak.jotwani@icraindia.com

Shubham Gupta

+91 124 4545 399

shubham.gupta2@icraindia.com

Kinjal Shah

+91 022 61143400

kinjal.shah@icraindia.com

Charvi Sagar

+91 124 4545 373

Charvi.sagar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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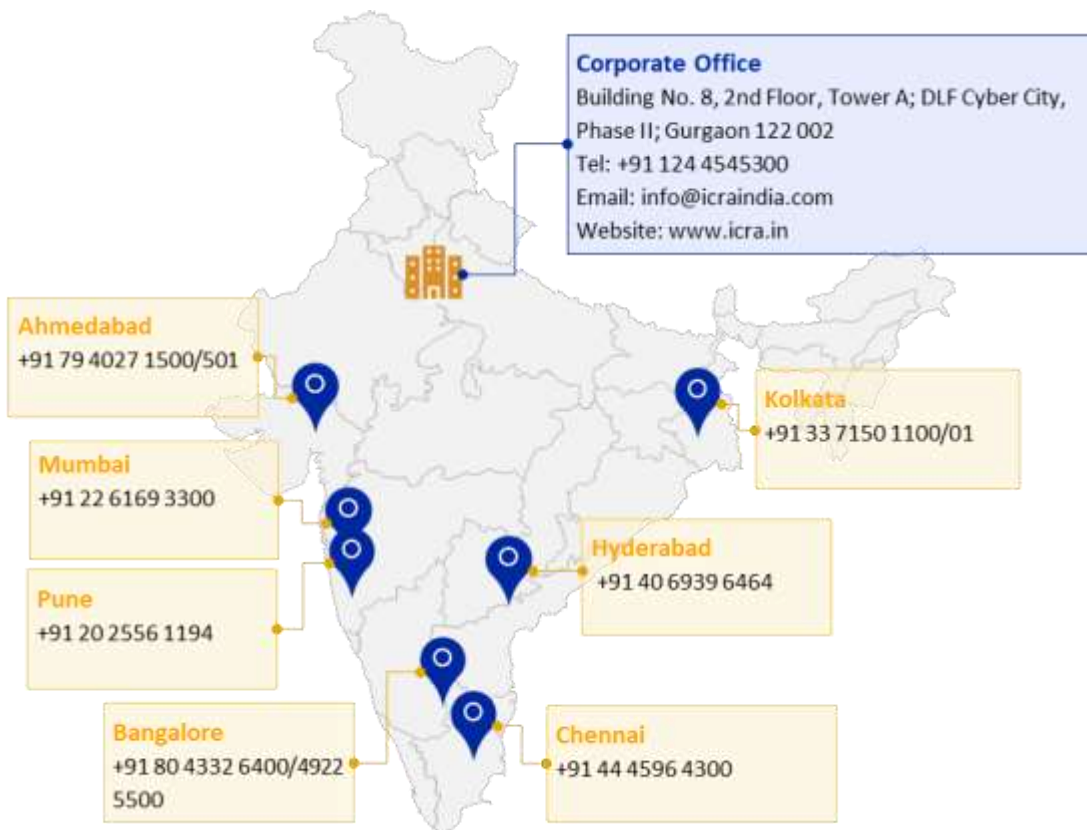
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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