

June 30, 2023

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	177.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Long-term – Non-fund based	14.00	14.00	[ICRA]AA+(Stable); reaffirmed
Total	191.00	191.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in Zensar Technologies Limited's (Zensar) established business position in the IT services industry and its healthy financial profile characterised by steady free cash flow generation, strong capital structure and comfortable liquidity position in FY2023. It had sizeable cash and investments of \$201.5 million (Rs. 1,626.6 crore) in addition to the healthy unutilised working capital limits as on March 31, 2023. Zensar posted top-line growth of 14.2% in INR terms and 10.3% in constant currency terms in FY2023, primarily supported by uptick in revenue contribution from its banking, financial services and insurance verticals. In FY2023, the company reported a sizeable order booking of ~\$573 million, maintaining a healthy mix of large and mid-sized deals supported by multiple wins across verticals, which provides future revenue visibility. However, moderation in growth momentum is expected in the near term on account of the prevailing global headwinds and softening of demand in key geographies.

Nevertheless, growth prospects of digital and cloud infrastructure services, and a focused effort to scale up contribution from top-tier clients is expected to support the growth for Zensar over the medium term. In line with the industry trend, continued high attrition levels and wage cost inflation exerted considerable pressure on Zensar's operating margins to 11.4% in FY2023 from 15.5% in FY2022. Nonetheless, stabilisation in wage costs and attrition levels in H2 FY2023 supported the improvement in margin to 14.5% in Q4 FY2023; and Zensar is likely to sustain its margins at similar levels in FY2024. Additionally, the ratings continue to factor in strong financial flexibility enjoyed by the company as part of the RPG Group, a diversified business conglomerate in India.

The ratings, however, remain constrained by Zensar's relatively moderate scale of operations as compared to large domestic IT players. While increasing the scale and the size of its operations, a leveraged funding structure for future acquisitions could materially impact the company's financial risk profile. Moreover, the company's operations largely remain concentrated in the US market (70.7% of revenue in FY2023) followed by Europe and South Africa, which exposes the company to macro-economic uncertainties in these key markets. Additionally, industry participants, including Zensar, continue to face challenges in the form of foreign currency fluctuations, talent acquisition and retention. The company also faces stiff competition from other prominent players in the global IT services industry, leading to relatively limited pricing flexibility.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite the expected moderation in growth momentum in the near term, Zensar's credit profile will continue to be supported by its established business profile, healthy order book position, debt free status (excluding lease liabilities) and strong liquidity position.

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 the manufacturing, hitech, consumer services, and banking and financial services (BFSI) domains, resulting in sectoral diversification. Its banking, financial services and insurance vertical reported healthy growth in FY2023, driving the overall top-line growth.

Part of a large, established, and diversified Group imparts financial flexibility — Zensar is part of the ~Rs. 354-billion (FY2023 revenues) RPG Group, 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 and favourable industry demand outlook provides revenue visibility — In FY2023, the company secured sizeable new orders, translating into TCV (Total Contract Value) worth \$573 million. The order inflow was supported by healthy renewables and multiple wins across verticals. While the healthy order book position provides revenue visibility, its revenue growth is likely to moderate in FY2024 on account of the prevailing global headwinds and softening of demand in key geographies.

Strong financial profile characterised by healthy cash flow generation, robust capital structure and comfortable liquidity profile — While Zensar's top line grew by 10.3% in constant currency terms, its margins contracted to 11.4% in FY2023 (15.5% in FY2022) on back of considerable wage cost inflation. Nonetheless, with reduction in attrition level and stabilisation of its wage costs, its OPM improved to 14.5% in Q4 FY2023, and is likely to be largely sustained at similar levels in FY2024. The company's financial profile continues to remain strong as reflected by its steady top-line growth, healthy internal accrual generation and robust liquidity position in the form of cash and investment balance of \$201.5 million (Rs. 1,626.6 crore) as on March 31, 2023. Moreover, its capital structure continues to remain strong because of its debt-free (excluding lease liabilities) status. Despite some moderation in growth momentum, 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 services companies — Despite a healthy top-line growth of 14.2% to Rs. 4,848.2 crore in FY2023, Zensar's scale of operations continue to remain more moderate than 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 (70.7%) of its revenues from the US region followed by Europe (18.1%) and Africa (11.2%). This 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, high employee attrition and exposure to policies in key operating markets — Zensar's profit margins remain susceptible to the pricing pressures and wage inflation 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 remain a key challenge. As witnessed in FY2023, Zensar's margins were impacted on account of increased cost of delivery because of considerable wage cost inflation. Nonetheless, the softening of attrition levels in the later part of FY2023 has supported the sequential improvement in margins. Zensar also remains exposed to macro-economic uncertainties and any adverse regulatory/ legislative changes in its key operating markets of USA, Europe and South Africa.

Liquidity position: Strong

Zensar's liquidity profile continues to be strong, supported by healthy internal accrual generation, sizeable cash and investment balance of \$201.5 million (Rs. 1,626.6 crore) along with significant buffer in its working capital limits as on March 31, 2023. Moreover, the company continues to remain 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 profile will depend on the ticket size of these investments/ acquisitions and their operational and financial synergies; and will remain a monitorable.

Environment and Social Risk

Environmental concern — 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 concern — Like other Indian IT service companies, Zensar faces the risk of data breaches and cyber-attacks 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, leading to 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.

Rating sensitivities

Positive factors – A rating upgrade for Zensar is unlikely 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. Specific credit metrics 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (IT) Services Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Zensar. As on March 31, 2023, the company had 15 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 (hitech and industrial), consumer services, 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. Zensar is a part of the diversified RPG Group with a presence in infrastructure, tyres, technology, and pharmaceuticals. Its comprehensive range of software services and solutions enable its more than 140 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 and maintenance to package implementation and BPO operations.

Key financial indicators (audited)

Zensar – Consolidated	FY2022	FY2023
Operating income	4,243.8	4,848.2
PAT	421.7	327.6
OPBDIT/OI	15.5%	11.4%
PAT/OI	9.9%	6.8%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.5	0.5
Interest coverage (times)	18.6	19.8

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 (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jun 30, 2023	May 30, 2022	-	Mar 25, 2021
1 Fund based/Non-fund based	Long term and short term	177.0	-	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	-	[ICRA]AA+ (Stable) / [ICRA]A1+
2 Non-fund based	Long term	14.0	--	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/Non-fund based	Simple
Non-fund based	Very 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	177.0	[ICRA]AA+(Stable)/ [ICRA]A1+
NA	Long term-Non fund based	NA	NA	NA	14.0	[ICRA]AA+(Stable)

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 data

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About ICRA Limited:

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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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