SATHEESH NAIR

Acquiring Variety

Inorganic expansion gives Zensar the ammunition for broad-based growth

by P.B. Jayakumar

FUTURE POSTURE: Ganesh Natarajan, vice-chairman and CEO, Zensar Technologies

BY next year, nearly a third of Zensar Technologies' employees may stop coming to its offices. And the company is quite happy about it. "Our plan is to encourage about 30 per cent of our employees to work from home by next year. It will help us bring down our operational expenses," says Ganesh Natarajan, vice-chairman and CEO of the Pune-based company.

The move demonstrates the tight cost-control that the RPG Group company is undertaking to power its growth. And it is only one of the several strategies the information technology services firm is adopting to climb up the ladder of mid-cap IT companies in just 10 years of its existence. Can it walk the talk?

Success Infrastructure

From a traditional IT, business process outsourcing (BPO) firm, Zensar became an Oracle specialist by 2005 and now among India's top 20 IT services firms operating in different verticals and businesses. As large domestic IT firms face growth challenges, many mid-cap Indian IT firms have been growing aggressively in the past few years in terms of revenues, but with large liabilities on their books. Among them, Zensar is a better performer with steady growth in revenues and profits through acquisitions, and with minimum liabilities. During 2008-11, Zensar's revenues grew 12 per cent, compared to a peer average of 7.4 per cent. Profit after tax grew at 25 per cent, against 17 per cent for peers (see 'Peer Pleasure' on page 46).

Having reached a size of more than Rs 1,100 crore in revenues, Zensar now wants to catapult its growth. It targets to become a $1 billion company (about Rs 4,600 crore) by 2016. To meet the goal, Zensar is undertaking a major business transformation by moving into new areas in IT outsourcing services and rejigging operations.

In December 2010, Zensar acquired Akibia, a US-based infrastructure management specialist with $100 million revenues and operations in the US and Europe. The acquisition is expected to help Zensar — which now generates close to $20 million from infrastructure management — to become one of the top 10 end-to-end players in the space. "It will help our infrastructure management business grow to $140 million and account for 42 per cent of the revenues in 2011-12," says Krishna Ramaswami, head of strategic services at Zensar.

Infrastructure management, which holds a $370-billion market globally, is a key part of any organisation's IT needs. It involves effective management of day-to-day operations such as policies and processes, equipment, data, human resources and external contacts. Currently, Indian firms — led by TCS, Wipro and HCL Technologies — and the Indian business of global players such as IBM and Accenture account for over $2 billion of the pie.

This year, Zensar restructured its businesses into five focus verticals — banking and financial services, manufacturing, retail, insurance and connected services — to create expertise and focused services in each field. Its banking vertical sports names such as Credit Suisse, UBS and Keefe, Bruyette & Wood, while retail has Marks & Spencer and Carrefour. The manufacturing and media segment has Cisco, Activision, Fujitsu; insurance has clients such as Assurant, Investsec, AXA, Prudential; and connected services has clients such as National Grid and Morrison. Now, three of the top five insurers in South Africa are clients of Zensar. Going forward, the share of insurance, retail, healthcare and infrastructure management will grow even further, says Natarajan. Currently, the manufacturing sector accounts for close to 45 per cent of the revenues of Zensar.

30% The share of Zensar workforce, which is expected to work from by next year

GOING STEADY

Zensar's profits have grown in the past three years

	2008-09	2009-10	2010-11	2011-12E	2012-13E
Sales	922.2	961	1,138.3	1,560.7	1,782.0
Ebitda	125.9	170.0	155.0	188.9	1,782.0
PAT	86.6	127.3	131.7	136.3	259.2
Ebitda margin (%)	14	18	14	12	15
RoE (%)	32	43	34	27	28
RoCE (%)	30	41	24	20	25

Sales, Ebitda, PAT in Rs crore. Ebitda: earnings before interests, taxes, deductions and amortisation. RoE: return on equity; RoCE: return on capital employed; E: estimated Source: Four-S

A late entrant into the IT field in 2001 with about 400 people, Zensar soon realised that it would be difficult to survive, unless the company was able to change the rules of the game and come up with innovative technology solutions. "It was a bad time to build a software business and already the leaders such as TCS, Infosys and Wipro were big, while others were getting established," recalls Natarajan.

Zensar started off with a few enterprise resource planning solution projects for clients in the US. Within a few years, it got a major contract from the UK's National Grid. The company's decision to focus on innovation helped it gain another major contract from Cisco a few months later. It created niche expertise in Oracle solutions and bought Hyderabad's Thought Digital (a specialist in Oracle) in 2007. Now Zensar's Oracle practice employs about 1,300 people, and it has executed more than 500 Oracle based projects so far.

Cisco, the largest client for Zensar, contributes 31 per cent of the revenues. The Operations Portal, developed for Cisco's centralised support operations to reduce cost and to improve overall process efficiency were completely built by the Zensar team. "Spark, a complete Web 2.0 platform used by the offshore deliver centre to retain knowledge is one of the key differentiators for Cisco," says Ajit Pethkar, senior executive at Cisco's offshore delivery centre.

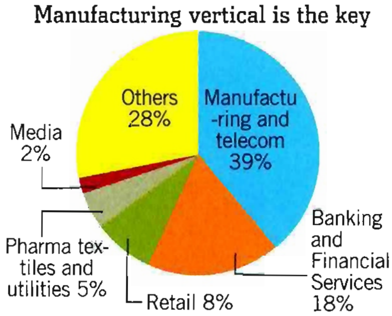
Zensar also floated a technology innovative group (TIG) to spearhead its foray into non-traditional areas such as energy, utilities, insurance and healthcare. Its innovation strategy paid off and within a few years Zensar became the world's first enterprise- wide SEI CMM Level 5 (a global standard of capability) firm capable of doing complex programmes and with industry expertise in retail, manufacturing, banking, finance, insurance, telecommunications, utilities and healthcare.

Zensar made four acquisitions in 10 years to increase its capabilities in SAP, Oracle implementation, high-end technology solutions and infrastructure management. Besides, the company has seven 100 per cent subsidiaries in the US, UK, Singapore and China. "These arms act like branch offices and are for regulatory and operational efficiencies and to tap the business potential in those regions," says Natarajan. Zensar employs close to 6,500 people around the world. Its global corporate headquarters and offshore facility in Pune employ over 3,000 associates. Besides, it has two more delivery centres in Pune — a BPO facility and a recently established innovation centre with a capacity for 400 people. Its three delivery centres in Hyderabad employs about 600 and Akibia employs over 300 associates in the US.

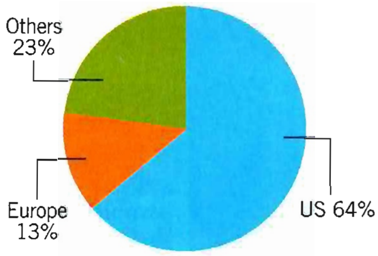
Going forward, the company is expected to maintain an organic growth of 18-20 per cent and the immediate target is to reach Rs 2,000 crore revenue by 2013, says Natarajan. "Our focus was to expand by generating more cash and utilise it for inorganic growth with minimum debt on our books," says S. Balasubramaniam, its chief financial officer. Zensar will continue to generate cash and since major capex programmes have been implemented, the annual spend on capital expenditure will be less than Rs 20 crore in the coming years, he adds. The company bought Akibia utilising a debt syndication of $60 million. "While it currently does not have a cash hoard due to the recent acquisition, its debt situation is still far more manageable compared to many of its better-fancied mid-cap IT peers at a debt-to-equity multiple of 0.5," observes analysts Alok Somwanshi and Ajay Jindal of Four-S Services.

THE KITTY

Manufacturing vertical is the key



Geographies



Not That Rosy Though

In spite of the ambitious plans, Zensar's business is fraught with challenges. Its overdependence on Cisco for its revenues — about 31 per cent now — is a concern. Even with Cisco undergoing structural changes and facing budget cuts, Zensar may not witness major growth in this account in near future, warn the analysts. "That is why we focus on different verticals and multiple major clients," says Natarajan. The risk of large IT companies gobbling up business of small and mid-cap IT companies and currency fluctuations are also an issue. The unfolding new episode of the global financial crisis, centred in the EU this time, can also cause dents in Zensar's ambitions given that both the US and the EU together form 77 per cent of its revenues.

Further, the market is still to take Zensar seriously, in spite of its reasonable performance among peers. Its market capitalisation is only Rs 532 crore, compared to the Rs 1,000-crore plus market cap of peers such as Infotech, Mind Tree, NIIT, Polaris and Rolta. The stocks are also trading near the lowest in 52 weeks, at Rs 118 per share on 21 November. But for the time being, the focus for Zensar is to grow with minimum risks to reach its ambitious target of $1 billion revenues by 2016.

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PEER PLEASURE

Zensar has manageable debt in comparison to many of its peers

	SALES	EBITDA	PAT	3-YEAR CAGR IN PAT (%)
3i Infotech	25,87.5	5041	253.6	-2
Geometric	622.9	923.5	57.5	N
Infinite	8,89.4	1,478.7	107.2	53
Infotech Enterprise	1,217.5	1,803.4	139.7	28
KPIT	319.2	1,522.1	94.6	15
Mastek	713.8	872.2	67.7	-31
MindtTee	1,533.2	1785	101.6	32
NIIT	1,232.3	2048	182.2	30
Polaris	1620	2139	211.9	31
Rolta	1741.1	3740.2	382.1	12
Sonata	1411.1	1400	85.6	6
Subex	492.6	1312.8	78.8	N
Average	1,198.8	2,005.6	146.9	17
Zensar	1,148.3	2,071.5	136.3	25

N: negative growth; Ebitda: earnings before interests, taxes, deductions and amoritsation; CAGR: compounded annual growth rate

Source: Four-S