

**In-line revenue, Alliance dent offsets TSU growth**
**CMP: Rs 532**
**Rating: HOLD**
**Target Price: Rs 563**
**Stock Info**

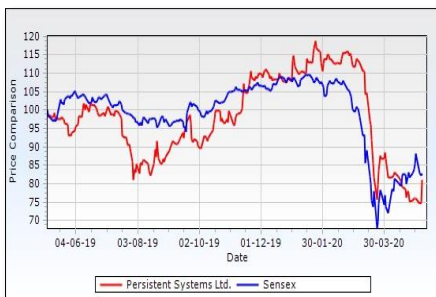
BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	IT
Face Value (Rs)	10
Equity Capital (Rs mn)	764
Mkt Cap (Rs mn)	38560
52w H/L (Rs)	740/ 420
Avg Yearly Vol (in 000')	106.83

**Shareholding Pattern %**
*(As on Dec, 2019)*

Promoters	31.91
FII	19.49
DII	23.5
Public & Others	25.1

**Stock Performance (%)**

	3m	6m	12m
Persistent	-23.1	-12.0	-16.7
Sensex	-23.2	-22.0	-17.8

**Persistent Vs Sensex**


**Persistent Systems Q4FY20 beat our revenue estimates. Consolidated revenue for the quarter stood at Rs 9,264 mn, registering growth of +11.4% YoY/+0.4% QoQ, EBITDA stood at Rs 1,269 mn, up 5.1% YoY/+2.8% QoQ and consolidated PAT for the quarter stood at Rs 838 mn, down -4.7% YoY/ 0.8% QoQ.**

The company saw the imminent threat posed by Covid-19 and started WFH before India started its lockdown as a safeguard measure for its employees. Company anticipate some degree of a U shaped recovery when it comes to COVID19.

**Q4FY20 Highlights**

- Dollar revenue dipped 1.8% during the quarter to \$127 million.
- EBIT% stood at 9.16%, +42bps QoQ on better GM% on INR depreciation, higher offshore mix, improvement in TSU profitability and recovery in Accelerite business
- Alliance revenue continues to decline sequentially from 26.7% Q3FY20 to 22.2% in Q4FY20 as headwinds persist, impacted by lower re-seller/royalty revenue and COVID-19 impact on Mar (high bookings period)
- Revenue trajectory was supported by strong growth in TSU business (+3.8/14.7% QoQ/YoY) supported by 13% QoQ in Salesforce practice
- Sharp decline of 24.3% QoQ in IP business negates the positive impact of TSU business
- The management did not note any dramatic impact to the supply chain in Q4 as it managed to move 99% of employees to work from home solutions. However, going forward, over the next few quarters demand is expected to come down.
- The company had started focusing on sectors such as Banking, Financial Services & Insurance (BFSI) and Healthcare over the past year and expect to reap benefits going forward especially with digital focused deals coming in. The company reported a dip in IP led revenues due to impact on client's Alliance segment. North America continued to contribute 80% of revenues.

**Valuations**

At CMP of Rs 532, Persistent trades at FY21E/22E P/E of 12.4x / 12.3x respectively. Factoring in Q4FY20 results, we slightly lowered our FY21E estimates on account of the COVID 19 impact while Persistent management indicated a U-shaped recovery in growth in FY21. It is expecting pressure on revenue but indicated that it remains 'cautiously optimistic' on its prospects expecting some push back of projects and some pricing pressure. We marginally raised our target P/E multiple from 12.3x to 13.0x for its FY22E earnings and arrive at a target price of 563 per share, and maintain our **HOLD** rating.

Particulars (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	33,660	5,806	3,517	44.0	17.2%	15.0%	13.7
FY20	35,658	4,930	3,403	44.4	13.8%	14.3%	12.0
FY21E	35,796	4,832	3,267	42.7	13.5%	13.7%	12.4
FY22E	38,380	5,258	3,423	43.3	13.7%	14.3%	12.3

Research Associates: Jyoti Singh  
Email: [jyoti.singh@arihantcapital.com](mailto:jyoti.singh@arihantcapital.com)  
Ph- 02267114834

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q4 FY20 - Quarterly Performance (Consolidated)

Rs Mn (consolidated)	Q4FY20	Q3FY20	Q4FY19	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>9,264</b>	<b>9,227</b>	<b>8,319</b>	<b>0.4%</b>	<b>11.4%</b>
Employee Cost	6,839	6,593	5,722	3.7%	19.5%
Other Expenses	1,155	1,399	1,389	-17.4%	-16.8%
<b>EBITDA</b>	<b>1,269</b>	<b>1,235</b>	<b>1,207</b>	<b>2.8%</b>	<b>5.1%</b>
<i>EBITDA Margin %</i>	<i>13.7%</i>	<i>13.4%</i>	<i>14.5%</i>	<i>32bps</i>	<i>-81bps</i>
Depreciation	420	428	377	-1.9%	11.5%
<b>EBIT</b>	<b>849</b>	<b>807</b>	<b>830</b>	<b>5.2%</b>	<b>2.3%</b>
Other Income	293	348	284	-15.7%	3.3%
Finance Cost	12	15	1	NA	NA
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>1,130</b>	<b>1,140</b>	<b>1,113</b>	<b>-0.8%</b>	<b>1.6%</b>
Tax Expense	292	260	268	12.2%	8.9%
Effective Tax Rate %	25.9%	22.9%	24.1%	300bps	174bps
<b>PAT</b>	<b>838</b>	<b>879</b>	<b>845</b>	<b>-4.7%</b>	<b>-0.8%</b>
MI & Associates	-	-	-	-	-
<b>Consolidated PAT</b>	<b>838</b>	<b>879</b>	<b>845</b>	<b>-4.7%</b>	<b>-0.8%</b>
<i>PAT Margin %</i>	<i>9.0%</i>	<i>9.5%</i>	<i>10.2%</i>	<i>-48bps</i>	<i>-111bps</i>
<b>EPS (Rs)</b>	<b>10.97</b>	<b>11.50</b>	<b>10.68</b>	<b>-4.7%</b>	<b>2.7%</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Q4FY20 Key Concall Highlights

- Company had a productive year and crossed the \$500 mn mark for the first time.
- Company had some marquee wins as well as growth in large accounts. It added several hundred new companies to Persistent as customers and clients.
- On the IBM relationship (which has been floundering), the focus is on generating revenue from the RedHat acquisition that IBM did about 12 months back and the hybrid cloud opportunity that it brings to the table.
- While the services business grew QoQ, the company saw a seasonal slowdown in its IP-led business unit. Company's business was also impacted by a slowdown in new orders in March on account of Covid-19. The management stated that Persistent witnessed a drop in royalty revenue, which hits the bottom line directly. Persistent is largely focusing on its margin levers. While FY20 was a transition year, the management stated that Persistent Systems is largely through the change process and the company now has its operations in place and is through with the branding exercise. Indicating that there was significant one-off spending in FY20. The management stated that the large deal pipeline is strong and it expects a U-shaped recovery once the situation is back to normal.
- The management expects the current situation to spur the move towards adoption of digital technologies, something PSL would benefit from in the long run along with the industry. The management stated that the sectors PSL operates in haven't been impacted much at present and deal flows would continue in the medium term.
- Two clients dropped out from the >US 3mn bucket QoQ. One client dropped out from >US 1mn and <US 3mn segment.
- DSO stood at 65 days during the quarter versus 68 days in 3QFY20 and 63 days in 4QFY19. Going forward, DSO may increase further as the management stated that few smaller clients are asking for payment deferrals. The management also indicated that while few clients are asking for price reductions and discounts for existing deals, they have also been asking for more services to be delivered.
- Outlook: Persistent indicated a U-shaped recovery in growth in FY21. It is expecting pressure on revenue but indicated that it remains 'cautiously optimistic' on its prospects and did not see 'large scale degradation'. While it indicated push back of projects and some pricing pressure, it also indicated new opportunities.

## Key Financials

Income Statement (Rs Mn)	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	33,660	35,658	35,796	38,380
Change (%)	11.0%	5.9%	0.4%	7.2%
<b>Total Expenses</b>	27,854	30,728	30,964	33,122
<b>EBITDA</b>	5,806	4,930	4,832	5,258
Other Income	630	1,254	1,134	1,135
Depreciation	1,573	1,660	1,611	1,765
Interest	0	0	0	1
<b>PBT</b>	<b>4,863</b>	<b>4,523</b>	<b>4,356</b>	<b>4,627</b>
Extra-ordinary	0	0	0	0
<b>PBT after ext-ord.</b>	4,863	4,523	4,356	4,627
Tax	1,347	1,121	1,089	1,203
Rate (%)	27.7%	24.8%	25.0%	26.0%
<b>PAT</b>	<b>3,517</b>	<b>3,403</b>	<b>3,267</b>	<b>3,423</b>
MI & Associates	0	0	0	0
<b>Consolidated PAT</b>	<b>3,517</b>	<b>3,403</b>	<b>3,267</b>	<b>3,423</b>
Change (%)	8.8%	-3.2%	-4.0%	4.8%

Cash Flow Statement (Rs Mn)	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>4,863</b>	<b>4,523</b>	<b>4,356</b>	<b>4,628</b>
Depreciation	1,573	1,660	1,611	1,765
Interest & others	-417	-1,254	-1,134	-1,135
Cash flow before WC changes	6,018	4,930	4,832	5,258
(Inc)/dec in working capital	206	329	1,549	-70
Operating CF after WC changes	6,224	5,259	6,382	5,188
Less: Taxes	-1,347	-1,121	-1,089	-1,203
<b>Operating Cash Flow</b>	<b>4,877</b>	<b>4,139</b>	<b>5,293</b>	<b>3,985</b>
(Inc)/dec in F.A + CWIP	440	-1,423	-500	-499
(Pur)/sale of investment	1,156	-2,145	0	0
<b>Cash Flow from Investing</b>	<b>1,596</b>	<b>-3,567</b>	<b>-500</b>	<b>-499</b>
<b>Free Cash Flow (FCF)</b>	<b>4,503</b>	<b>3,393</b>	<b>4,793</b>	<b>3,486</b>
Loan raised/(repaid)	-5	34	0	0
Equity raised	-9	-27	0	0
Interest & others	-1,130	-1,430	-2,531	-2,681
Dividend	-1,019	-1,301	-1,301	-1,301
<b>Cash Flow from Financing Activities</b>	<b>-2,163</b>	<b>-2,724</b>	<b>-3,831</b>	<b>-3,981</b>
<b>Net inc/(dec) in cash</b>	<b>4,311</b>	<b>-2,152</b>	<b>962</b>	<b>-495</b>
Opening balance of cash	2,414	6,724	4,572	5,534
Closing balance of cash	6,724	4,572	5,534	5,039

Balance Sheet (Rs Mn)	FY19	FY20	FY21E	FY22
<b>Sources of Funds</b>				
Share Capital	791	764	764	764
Reserves & Surplus	22,656	23,093	23,060	23,184
<b>Net Worth</b>	<b>23,447</b>	<b>23,858</b>	<b>23,825</b>	<b>23,948</b>
<b>Loan Funds</b>	<b>12</b>	<b>46</b>	<b>46</b>	<b>46</b>
MI, Deferred Tax & other Liabilities	0	0	0	0
<b>Capital Employed</b>	<b>23,459</b>	<b>23,904</b>	<b>23,871</b>	<b>23,994</b>
<b>Application of Funds</b>				
Net Block	2,331	2,225	2,725	3,224
CWIP	316	303	303	303
Other Non-current Assets	2,094	2,214	2,214	2,214
Deferred Tax Assets	403	960	960	960
<b>Net Fixed Assets</b>	<b>5,144</b>	<b>5,702</b>	<b>6,202</b>	<b>6,701</b>
<b>Investments</b>	<b>7,641</b>	<b>9,786</b>	<b>9,786</b>	<b>9,786</b>
Debtors	4,923	5,922	4,904	5,363
Inventories	0	0	0	0
Cash & Bank Balance	6,724	4,572	5,534	5,039
Loans & Advances & other CA	4,122	4,578	4,633	4,683
<b>Total Current Assets</b>	<b>15,769</b>	<b>15,072</b>	<b>15,071</b>	<b>15,085</b>
Current Liabilities	3,156	4,863	5,394	5,783
Provisions	1,939	1,794	1,794	1,794
<b>Net Current Assets</b>	<b>10,673</b>	<b>8,416</b>	<b>7,883</b>	<b>7,507</b>
<b>Total Assets</b>	<b>23,459</b>	<b>23,904</b>	<b>23,871</b>	<b>23,994</b>

Key Ratios (Rs Mn)	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>				
EPS	44.0	44.4	42.7	43.3
CEPS	66.6	66.2	63.8	65.6
BVPS	306.8	312.2	311.7	302.7
DPS	11.0	11.0	11.0	12.0
Div. Payout (%)	23.9%	24.7%	25.7%	27.7%
<b>Valuation (x)</b>				
P/E	13.7	12.0	12.4	12.3
P/CEPS	9.0	8.0	8.3	8.1
P/BV	2.0	1.7	1.7	1.8
EV/EBITDA	6.8	7.3	7.3	7.1
Dividend Yield (%)	1.8%	2.1%	2.1%	2.3%
<b>Return Ratio (%)</b>				
EBITDA Margin	17.2%	13.8%	13.5%	13.7%
PAT Margin	10.4%	9.5%	9.1%	8.9%
ROE	15.0%	14.3%	13.7%	14.3%
ROCE	18.0%	13.7%	13.5%	14.6%
<b>Leverage Ratio (x)</b>				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.2	-0.2	-0.2
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.4	1.5	1.5	1.6
Receivable Days	53	50	50	51
Payable days	55	68	55	55

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880