

CMP: Rs 887

Rating: Accumulate

Target Price: Rs 1,002

Stock Info

BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Computers-Software
Face Value (Rs)	10
Equity Capital (Rs mn)	764
Mkt Cap (Rs mn)	66707
52w H/L (Rs)	919/ 420
Avg Yearly Vol (in 000')	110

Shareholding Pattern %

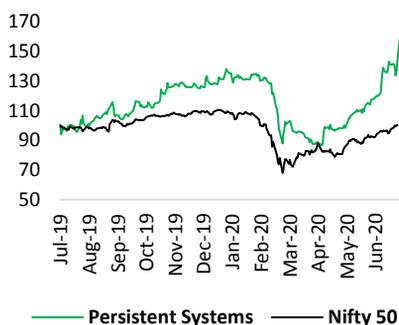
(As on June, 2020)

Promoters	31.47
FII	19.17
DII	30.01
Public & Others	19.35

Stock Performance (%)

	3m	6m	12m
Persistent	83.9	24.5	63.1
Nifty	14.1	-5.9	0.56

Persistent Vs Nifty



Persistent System's Profit for the quarter grew by 9.1%YoY/7.4% QoQ to Rs 900 Mn during Q1FY21. Consolidated revenue stood at Rs 9,914 Mn for Q1FY21 vs 8,321 for the Q1FY20 registering growth of 19.1%YoY/7.0%QoQ. Strong YoY and QoQ growth in Q1 was led by BFSI as it continues to be a standout. Reported EBITDA was up by 21.3%YoY/14.9% QoQ to Rs 1,458 Mn, as compared to Rs 1,202 Mn, while EBITDA margin expanded by 26bps YoY/101bps QoQ.

Q1FY21 Highlights

- Persistent is seeing a good traction in the digital segment. The linear revenue (services) and IP revenue grew by 1.8% and 10.1% respectively QoQ. The IP growth was mainly driven by reseller business, while the royalty income was steady.
- Among its business verticals, BFSI segment saw good performance with a rise of 9.2%QoQ/37%YoY, which contributed 51.5% to the revenue . Growth, led by the ramp up of deals.
- Healthcare & Life Sciences also surged by 10.2% QoQ/ 24.2% YoY.
- Technology companies and Emerging Verticals grew by 4.5%QoQ/8.1% YoY.
- Geography-wise, Persistent has increased its presence in Europe and it now contributes 10.2% of total revenue as compared to 8.8% in the previous quarter.
- Persistent reported lower employee attrition during the June quarter. It fell to 12.7% from 14.3% a quarter ago.
- Apart from winning new deals, the company has also been focusing on improving revenue per client. Unlike in the previous few quarters, company has now started to improve deal size and expand existing client accounts.

Valuations

We see the persistence as lucrative for investment due to lower than expected impact of the pandemic on the first quarter numbers. A sustained deal momentum and no exposure to travel and hospitality sectors which are stressed due to the COVID-19 outbreak and to the energy sector which is under pressure due to lower crude oil prices helped the company. With a good traction in the major verticals of BFSI and healthcare, the momentum is likely to continue. Apart from the zero exposure to the stressed sectors, the company was also benefitted by focus on the digital solutions including cloud computing and mobility. These services, which are otherwise considered as discretionary in nature, became essential with clients adopting WFH mode of operations.

At CMP of Rs 887, Persistent currently trades at FY20 P/E of 20x. Factoring in Q1FY21 results, we upgrade our revenue estimates for FY21-22. We value Persistent at P/E of 20x to its FY22E EPS 50, which yields target price of Rs 1,002 per share. **We upgrade rating to Accumulate from Hold earlier.**

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%	20.0
FY21E	39,926	5,470	3,714	48.6	13.7%	14.0%	18.2
FY22E	43,245	5,925	3,962	50.1	13.7%	13.7%	17.7

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

Q1 FY21 - Quarterly Performance (Consolidated)

Rs Mn (consolidated)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Net Revenue	9,914	9,264	8,321	7.0%	19.1%
Employee Cost	7,136	6,839	5,776	4.3%	23.5%
Other Expenses	1,320	1,155	1,343	14.3%	-1.7%
EBITDA	1,458	1,269	1,202	14.9%	21.3%
<i>EBITDA Margin %</i>	<i>14.7%</i>	<i>13.7%</i>	<i>14.4%</i>	<i>101bps</i>	<i>26bps</i>
Depreciation	436	420	386	3.7%	12.8%
EBIT	1,022	849	816	20.4%	25.3%
Other Income	212	293	300	-27.6%	-29.3%
Finance Cost	14	12	19	NA	NA
Exceptional Item	-	-	-	-	-
PBT	1,220	1,130	1,098	8.0%	11.2%
Tax Expense	320	292	273	9.6%	17.4%
Effective Tax Rate %	26.2%	25.9%	24.9%	40bps	139bps
PAT	900	838	825	7.4%	9.1%
MI & Associates	-	-	-	-	-
Consolidated PAT	900	838	825	7.4%	9.1%
<i>PAT Margin %</i>	<i>9.1%</i>	<i>9.0%</i>	<i>9.9%</i>	<i>3bps</i>	<i>-83bps</i>
EPS (Rs)	11.78	10.97	10.42	7.4%	13.0%

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

Q1FY21 Concall Highlights

- The management stated that deal wins remained strong during the quarter and Persistent System won a number of multi-million multiyear deals across existing and new customers. Persistent won a large deal in the BFSI segment where a customer selected it for its vendor consolidation and the management expects this account to grow further going forward. However we understand that the vendor consolidation has been at the expense of the long tail of vendors rather than a large or mid-sized vendor.
- The Alliance business (23% of revenue) did well and grew 6.4% QoQ. Persistent has been focused on mining its top clients and providing more services to them over the past year, particularly in Cloud and Red Hat domains, and this resulted in a 9.2% sequential growth in its top 20 clients. Persistent is very optimistic on its IBM relationship. It has over 100 contracts with them and all have held in place.
- The share of Top 5 customers to revenue reduced substantially to 40.8% in 1QFY21 from 44.6% in Q1FY20. Interestingly the growth in revenue has been achieved despite a sharp decline in QoQ and YoY terms of the IBM revenues by 5% and 18% respectively.
- The management stated that some software partners like Salesforce, AWS and IBM started investing marketing dollars in Persistent system. While it did not quantify the investment, it indicated towards a 6-digit number (in USD terms) and stated that it had the potential to be a 7-digit investment going forward. This will ease up pressure on margins going forward.
- Forex loss was Rs88mn in 1Q against a gain of Rs45mn in 4QFY20 primarily on account of loss on realization against hedges booked last year.
- The management stated that Persistent has rolled back salary cuts for the senior management, and will reconsider annual salary hikes. Persistent had fully provided for IL&FS deposits by 4QFY20 and has provided for an expected credit loss of US\$650,000 on customer receivables where there may be some stress, as this is required as per Covid reporting guidelines. The management stated that it has been incurring higher subcontracting expenses in some of the new engagements, which is expected to decrease going forward.
- Outlook: Persistent indicated that Q2FY21 looks to be a growth quarter from a technology services unit (which now also has accelerate as part of its mix) perspective.

Key Financials

Income Statement (Rs Mn)	FY19	FY20	FY21E	FY22E
Revenues	33,660	35,658	39,926	43,245
Change (%)	11.0%	5.9%	12.0%	8.3%
Total Expenses	27,854	30,728	34,456	37,321
EBITDA	5,806	4,930	5,470	5,925
Other Income	630	1,254	1,279	1,305
Depreciation	1,573	1,660	1,797	1,946
Interest	0	0	0	0
PBT	4,863	4,523	4,952	5,283
Extra-ordinary	0	0	0	0
PBT after ext-ord.	4,863	4,523	4,952	5,283
Tax	1,347	1,121	1,238	1,321
Rate (%)	27.7%	24.8%	25.0%	25.0%
PAT	3,517	3,403	3,714	3,962
MI & Associates	0	0	0	0
Consolidated PAT	3,517	3,403	3,714	3,962
Change (%)	8.8%	-3.2%	9.2%	6.7%

Balance Sheet (Rs Mn)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	791	764	764	764
Reserves & Surplus	22,656	23,093	25,769	28,255
Net Worth	23,447	23,858	26,533	29,019
Loan Funds	12	46	46	46
MI, Deferred Tax & other Liabilities	0	0	0	0
Capital Employed	23,459	23,904	26,580	29,065
Application of Funds				
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
Net Fixed Assets	5,144	5,702	6,202	6,701
Investments	7,641	9,786	9,786	9,786
Debtors	4,923	5,922	5,469	6,042
Inventories	0	0	0	0
Cash & Bank Balance	6,724	4,572	8,350	10,263
Loans & Advances & other CA	4,122	4,578	4,583	4,583
Total Current Assets	15,769	15,072	18,402	20,889
Current Liabilities	3,156	4,863	6,016	6,516
Provisions	1,939	1,794	1,794	1,794
Net Current Assets	10,673	8,416	10,592	12,578
Total Assets	23,459	23,904	26,580	29,065

Cash Flow Statement (Rs Mn)	FY19	FY20	FY21E	FY22E
PBT	4,863	4,523	4,952	5,283
Depreciation	1,573	1,660	1,797	1,946
Interest & others	-417	-1,254	-1,279	-1,305
Cash flow before WC changes	6,018	4,930	5,470	5,925
(Inc)/dec in working capital	206	329	1,606	-73
Operating CF after WC changes	6,224	5,259	7,076	5,852
Less: Taxes	-1,347	-1,121	-1,238	-1,321
Operating Cash Flow	4,877	4,139	5,838	4,531
(Inc)/dec in F.A + CWIP	440	-1,423	-500	-499
(Pur)/sale of investment	1,156	-2,145	0	0
Cash Flow from Investing	1,596	-3,567	-500	-499
Free Cash Flow (FCF)	4,503	3,393	5,338	4,032
Loan raised/(repaid)	-5	34	0	0
Equity raised	-9	-27	0	0
Interest & others	-1,130	-1,430	-260	-818
Dividend	-1,019	-1,301	-1,301	-1,301
Cash Flow from Financing Activities	-2,163	-2,724	-1,560	-2,118
Net inc /(dec) in cash	4,311	-2,152	3,778	1,914
Opening balance of cash	2,414	6,724	4,572	8,350
Closing balance of cash	6,724	4,572	8,350	10,263

Key Ratios (Rs Mn)	FY19	FY20	FY21E	FY22E
Per share (Rs)				
EPS	44.0	44.4	48.6	50.1
CEPS	66.6	66.2	72.1	74.7
BVPS	306.8	312.2	347.2	366.8
DPS	11.0	12.0	12.0	12.0
Div. Payout (%)	23.9%	27.0%	24.7%	24.0%
Valuation (x)				
P/E	13.7	20.0	18.2	17.7
P/CEPS	9.0	13.4	12.3	11.9
P/BV	2.0	2.8	2.6	2.4
EV/EBITDA	6.8	12.8	10.9	10.1
Dividend Yield (%)	1.8%	1.4%	1.4%	1.4%
Return Ratio (%)				
EBIDTA Margin	17.2%	13.8%	13.7%	13.7%
PAT Margin	10.4%	9.5%	9.3%	9.2%
ROE	15.0%	14.3%	14.0%	13.7%
ROCE	18.0%	13.7%	13.8%	13.7%
Leverage Ratio (x)				
Net D/E	-0.3	-0.2	-0.3	-0.4
Turnover Ratios				
Asset Turnover (x)	1.4	1.5	1.5	1.5
Receivable Days	53	50	50	51
Payable days	55	68	55	55

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

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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%

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