

Robust performance despite challenges...

Persistent reported healthy Q1FY21 numbers. The company reported positive QoQ growth (up 3.1% QoQ) in dollar revenues vs. QoQ decline in revenues across other IT companies. Further, the EBITDA margin increased 100 bps to 14.8% (including one-time Covid related donation of ₹ 7.4 crore). Adjusting for the one time, the margins could have been higher by ~74 bps.

Healthy deal pipeline to drive revenues in coming years

Services revenues saw favourable growth in the past few quarters. This quarter also saw strong QoQ growth of 1.8% despite Covid related challenges. The company also has relatively less exposure to Covid-19 impacted verticals, boding well for revenue growth in coming years. Further, ramp up large deal won (of US\$50 million vendor consolidation deals), higher revenues from IP led reseller business and normalisation of pricing in Q3 will further boost revenues in coming quarters. In addition, considering the company's partnership with Red Hat, strong salesforce partnership, acceleration in digital revenues in a post Covid-19 world, focus on large annuity oriented deals and increase in deal size will drive company's revenues leading to a CAGR of 8.1% in FY20-22E in dollar terms.

Margins expected to be on steady rise

We believe the company has seen tighter cost control in the current quarter. We expect this to continue in coming quarters as Persistent has incurred majority of its investment in terms of hiring of sales & branding. This coupled with rationalisation of subcontracting cost, travel cost, admin, facility cost and absence of large deal transition cost will further boost margins in coming quarters. Hence, we expect EBITDA margins to improve 110 bps and 90 bps to 14.9% and 15.8% in FY21E & FY22E, respectively, led by an improved revenue growth trajectory and cost rationalisation.

Valuation & Outlook

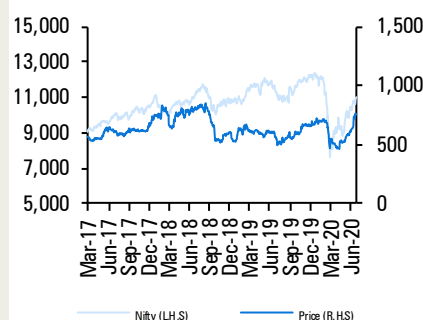
The company has won a large vendor consolidation deal, which is expected to get ramped up in coming quarters. In addition, the focus of the new management on large annuity-oriented deals, increase in deal sizes and less reliance on top client bodes well for services growth in the long term (which is also visible in the near-term quarterly performance). Further, in a post Covid-19 world, we expect digital technologies to gain traction. Persistent is expected to be a key beneficiary of this digital acceleration. The company also has substantial cash on its balance sheet, which can be used for acquisition (to fuel growth). Further, considering multiple levers for cost rationalisation, we expect margins to see an improved trajectory in the long term. This, coupled with reasonable valuation of 14x P/E on FY22 EPS, prompts us to remain optimistic on the stock. Hence, we maintain our **BUY** rating on the stock with a revised target price of ₹ 1005/share.



Particulars

Particular	Amount
Market Capitalization (₹Crore)	6,571.2
Total Debt (₹Crore)	4.6
Cash & Investments (₹Crore)	973.7
EV (₹Crore)	5,602.1
52 week H/L	915 / 420
Equity capital	76.4
Face value	10.0

Price Chart



Key Highlights

- Large deal wins, digital acceleration, focus on annuity-oriented deals keep us optimistic on revenue growth in long term
- Cost rationalisation to drive margins
- Maintain BUY recommendation with revised target price of ₹ 1005

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Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	3033.7	3365.9	3565.8	3997.3	4337.1	10.3%
EBITDA	468.7	580.5	493.0	593.6	685.3	17.9%
EBITDA Margins (%)	15.5	17.2	13.8	14.9	15.8	
Net Profit	323.1	351.7	340.3	395.0	478.3	18.6%
EPS (₹)	40.5	44.0	44.4	51.7	62.6	
P/E (x)	21.2	19.5	19.3	16.6	13.7	
RoCE (%)	19.8	20.5	18.5	19.4	21.1	
RoE (%)	15.2	15.0	14.3	14.9	16.2	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement					₹ crore	
	FY19	FY20	FY21E	FY22E		
Total Revenues	3,366	3,566	3,997	4,337		
Growth (%)	11.0	5.9	12.1	8.5		
Employee & Subcontracting co	2,075	2,292	2,626	2,789		
Total Operating Expenditure	2,785	3,073	3,404	3,652		
EBITDA	581	493	594	685		
Growth (%)	23.9	(15.1)	20.4	15.4		
Depreciation & Amortization	157	166	176	191		
Other Income	63	125	109	143		
Interest	-	-	-	-		
PBT before Exceptional Items	486	452	527	638		
Growth (%)	13.3	(7.0)	16.4	21.1		
Tax	135	112	132	159		
PAT before Exceptional Items	352	340	395	478		
Exceptional items	-	-	-	-		
PAT before MI	352	340	395	478		
Minority Int & Pft. from associat	-	-	-	-		
PAT	352	340	395	478		
Growth (%)	8.8	(3.2)	16.1	21.1		
EPS	44.0	44.4	51.7	62.6		
EPS (Growth %)	8.6	1.0	16.5	21.1		

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore	
	FY19	FY20	FY21E	FY22E		
PBT	486	452	527	638		
Depreciation & Amortization	157	166	176	191		
WC changes	(29)	(137)	(69)	(24)		
Other non cash adju.	(42)	(26)	(109)	(143)		
CF from operations	432	323	393	502		
Capital expenditure	(37)	(118)	(120)	(126)		
Δ in investments	(238)	52	-	-		
Other investing cash flow	49	52	109	143		
CF from investing Activities	(226)	(15)	(11)	18		
Issue of equity	(57)	(168)	-	-		
Δ in debt funds	(0)	(0)	-	-		
Dividends paid	(102)	(130)	(138)	(167)		
Other financing cash flow	(0)	(2)	-	-		
CF from Financial Activities	(160)	(300)	(138)	(167)		
Δ in cash and cash bank balan	47	8	244	352		
Effect of exchange rate change	(7)	-	-	-		
Opening cash	633	450	457	701		
Other deposits						
Cash c/f to balance sheet	672	457	701	1,053		

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					₹ crore	
	FY19	FY20	FY21E	FY22E		
Liabilities						
Equity	79	76	76	76		
Reserves & Surplus	2,266	2,309	2,566	2,877		
Networth	2,345	2,386	2,643	2,953		
Minority Interest	-	-	-	-		
Long term Liabilities & provision	26	59	66	71		
Source of funds	2,371	2,445	2,708	3,024		
Assets						
Net fixed assets	234	296	306	315		
Net intangible assets	190	157	91	17		
Goodwill	8	9	9	9		
Other non current assets	99	183	183	183		
Investments	435	462	462	462		
Debtors	492	592	668	725		
Current Investments	330	516	516	516		
Cash & Cash equivalents	672	457	701	1,053		
Other current assets	396	420	443	462		
Trade payables	152	225	211	229		
Current liabilities	333	423	460	489		
Application of funds	2,371	2,445	2,708	3,024		

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Per share data (₹)						
EPS	44.0	44.4	51.7	62.6		
Cash Per Share	84.0	59.6	91.8	137.9		
BV	293.1	311.1	345.8	386.5		
DPS	11.0	12.6	15.0	18.2		
Operating Ratios (%)						
EBITDA Margin	17.2	13.8	14.9	15.8		
PBT Margin	14.4	12.7	13.2	14.7		
PAT Margin	10.4	9.5	9.9	11.0		
Turnover Ratios						
Debtor days	53	61	61	61		
Creditor days	16	23	19	19		
Return Ratios (%)						
RoE	15.0	14.3	14.9	16.2		
RoCE	20.5	18.5	19.4	21.1		
RoIC	30.9	22.2	28.0	34.0		
Valuation Ratios (x)						
P/E	19.5	19.3	16.6	13.7		
EV / EBITDA	9.6	11.4	9.0	7.3		
Market Cap / Sales	2.0	1.8	1.6	1.5		
Solvency Ratios						
Current Ratio	1.8	1.6	1.7	1.7		
Quick Ratio	1.8	1.6	1.7	1.7		

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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