

Persistent Systems

Transformation in motion

We upgrade Persistent Systems (PSYS) to BUY (ADD earlier) due to a structural pivot towards growth acceleration, following underperformance in FY16-20 period. PSYS' relative outperformance in FY21 and growth acceleration (20% EPS CAGR over FY20-23E) is driven by (1) recovery in Technology Services (deal sourcing, partnerships, client mining, and improving annuity), and (2) better operational rigour and business synergies improving the operating profile translating into 22% FCF CAGR over FY20-23E. Revival in Alliance business (Red Hat, Dassault) and prospects of better capital allocation (cash ~19% of M-cap) are value-accretive triggers. Our target price is Rs 1,520, based on 21x Sep-22E EPS and supported by 20% EPS CAGR, >35% RoIC.

- **2QFY21 highlights:** Revenue came in at USD 136mn, +3.9/8.4% QoQ/YoY. Within the segments, Technology Services posted +4.1/16.6% QoQ/YoY and Alliance business posted +3.0/-12.4% QoQ/YoY. Growth was broad-based across the verticals led by Technology & Emerging vertical at +4.5% QoQ, BFSI at +4.2% QoQ and Healthcare & Life-sciences vertical at 1.8% QoQ. Revenue from T1 improved, supplemented by higher royalty revenue. EBIT margin stood at 12.1%, +171bps QoQ, aided by gross margin increase (offshoring and utilisation) and characterised by improvement across segments. OCF/EBITDA improved to 76% in 1H FY21 (vs. 65% in FY20) on lower DSO.
- **Outlook:** We have factored in USD revenue growth at 10.0/13.2/12.7% with Technology Services growth at 15.7/15.6/14.7% and Alliance growth at -5.8/+4.7/+4.7% over FY21/22/23E respectively. We estimate EBITDA margin at 15.5% over FY21-23E (2Q at 16.4%), resulting in FY20-23E EPS CAGR at 20% (22% over FY21-23E). At CMP, PSYS trades at 18.0/14.6x FY22/23E.

Quarterly Financial summary

YE March	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	136	126	8.4	131	3.9	471	481	502	552	625	704
Net Sales	10.08	8.85	13.9	9.91	1.7	30.34	33.66	35.66	41.21	47.47	54.54
EBIT	1.22	0.79	53.9	1.03	18.4	3.10	4.23	3.27	4.61	5.48	6.88
APAT	1.02	0.90	13.6	0.90	13.3	3.23	3.66	3.59	4.14	4.99	6.15
Diluted EPS (Rs)	13.3	11.7	13.6	11.8	13.3	42.3	47.8	47.0	54.2	65.3	80.5
P/E (x)						27.7	24.5	25.0	21.6	18.0	14.6
EV / EBITDA (x)						16.7	13.0	15.3	11.4	9.7	8.0
RoE (%)						16.0	15.7	14.4	16.3	17.4	18.8

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	549	552	0.5	625	625	(0.1)	709	704	(0.7)
Revenue	41.04	41.21	0.4	47.50	47.47	(0.1)	54.91	54.54	(0.7)
EBIT	4.29	4.61	7.5	5.02	5.48	9.1	6.41	6.88	7.4
EBIT margin (%)	10.5	11.2	74bps	10.6	11.5	97bps	11.7	12.6	95bps
APAT	3.99	4.14	3.7	4.64	4.99	7.4	5.80	6.15	6.0
EPS (Rs)	52.3	54.2	3.7	60.8	65.3	7.4	75.9	80.5	6.0

Source: Company, HSIE Research

BUY

CMP (as on 23 Oct 2020)	Rs 1,172
Target Price	Rs 1,520
NIFTY	11,930

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	Rs 1,450	Rs 1,520
EPS %	FY21E	FY22E
	+3.7	+7.4

KEY STOCK DATA

Bloomberg code	PSYS IN
No. of Shares (mn)	76
MCap (Rs bn) / (\$ mn)	90/1,217
6m avg traded value (Rs mn)	201
52 Week high / low	Rs 1,391/420

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	60.4	143.9	94.5
Relative (%)	53.7	116.2	90.4

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	31.47	31.29
FIs & Local MFs	27.24	28.86
FPIs	19.17	18.74
Public & Others	22.12	21.11
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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