

Healthy operating performance...

Persistent System reported a healthy set of Q2FY21 numbers. Dollar revenues increased 3.9% QoQ to US\$136 million, mainly led by 5.3% QoQ increase in services revenues (83% of revenues) partially offset by 3.0% QoQ decline in IP led revenues. Rupee revenues increased 1.7% QoQ to ₹ 1007 crore. In terms of verticals growth was led by technology companies & emerging vertical (up 4.5% QoQ) and financial services (up 4.2% QoQ). In terms of geography, growth was led by Americas (up 7.1% QoQ), partially offset by Europe (declined 22.6% QoQ due to absence of large one-time IP deal in the current quarter). The EBITDA margin expanded 160 bps QoQ to 16.4% mainly led by 170 bps increase in gross margins.

Strategy in place to drive revenue growth higher

The company's greater than US\$5 million clients has increased by five over the past two quarters led by its focus on mining existing clients and winning multi-year large deals. In the current quarter, Persistent won four large multi-year deals in technology & emerging companies and financial services. This is expected to lead to healthy annuity revenues in coming years. In addition, the company's focus on improving its alliance business and improving European revenues in services segment will help boost overall revenues. This coupled with Persistent's partnership with Red Hat, strong salesforce partnership, acceleration in digital revenues in a post Covid-19 world and improving deal pipeline is expected to lead to 10.1% CAGR in dollar revenues over FY20-23E.

Margins expected to be on steady rise

The company has multiple levers to drive margins like rationalisation of sub-contracting cost, higher offshoring, optimisation of Alliance headcount, lower Covid related expenses, reducing effect of discounting & project ramp downs and lower amortisation expenses in the near to medium term. Hence, despite the near term headwind of wage hike, we expect Persistent to maintain 12% EBIT margins in the next two quarters leading to 253 bps YoY improvement in FY21E margins to 11.7%. Further, we expect margins to improve by 80 bps over FY21E-23E to 12.5%.

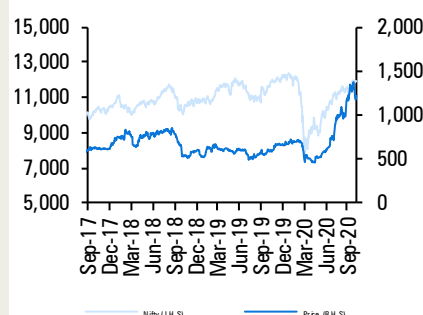
Valuation & Outlook

The company aspires to reach US\$1 billion over the next four years via the organic as well as inorganic route. We believe Persistent's focus on large annuity-oriented deals, increase in deal sizes, improving alliance growth, driving services revenues in Europe and acceleration in digital technologies would help in achieving this long term growth. Further, considering multiple levers for cost rationalisation, margins are expected to see an improved trajectory in the long term. Hence, we maintain our **BUY** rating with a revised target price of ₹ 1,380 (18x FY23E EPS).



Particulars	
Particular	Amount
Market Cap (₹ Crore)	9,101.5
Total Debt (₹ Crore)	4.6
Cash & Invests (₹ Crore)	973.7
EV (₹ Crore)	8,132.4
52 week H/L	1390 / 420
Equity capital	76.4
Face value	10.0

Price Chart



Key Highlights

- Multi-year deal wins, digital acceleration, focus on annuity-oriented deals keep us optimistic on revenue growth in long term
- Multiple levers to drive margins
- Maintain BUY recommendation with revised target price of ₹ 1380 (18x FY23E EPS)

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	3365.9	3565.8	4053.0	4498.8	5015.6	12.0%
EBITDA	580.5	493.0	652.5	715.3	822.6	18.6%
EBITDA Margins (%)	17.2	13.8	16.1	15.9	16.4	
Net Profit	351.7	340.3	417.1	497.2	585.1	19.8%
EPS (₹)	44.0	44.4	54.6	65.1	76.6	
P/E (x)	27.0	26.7	21.7	18.2	15.5	
RoCE (%)	20.5	18.5	20.4	21.7	22.7	
RoE (%)	15.0	14.3	15.7	16.7	17.4	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement					₹ crore
	FY19	FY20	FY21E	FY22E	FY23E
Total Revenues		3,566	4,053	4,499	5,016
Growth (%)		5.9	13.7	11.0	11.5
Employee & Subcon costs		2,292	2,626	2,915	3,250
Total Operating Expenditure		3,073	3,400	3,784	4,193
EBITDA		493	653	715	823
Growth (%)		(15.1)	32.4	9.6	15.0
Depreciation & Amortization		166	178	175	196
Other Income		125	82	123	153
Interest		-	-	-	-
PBT before Excp Items		452	556	663	780
Growth (%)		(7.0)	22.9	19.2	17.7
Tax		112	139	166	195
PAT before Excp Items		340	417	497	585
Exceptional items		-	-	-	-
PAT before MI		340	417	497	585
Minority Int & Pft. frm assc		-	-	-	-
PAT		340	417	497	585
Growth (%)		(3.2)	22.6	19.2	17.7
EPS		44.4	54.6	65.1	76.6
EPS (Growth %)		1.0	23.0	19.2	17.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
	FY20	FY21E	FY22E	FY23E	
PBT	452	556	663	780	
Depreciation & Amortization	166	178	175	196	
WC changes	(137)	(31)	(26)	(29)	
Other non cash adju.	(26)	(82)	(123)	(153)	
CF from operations	323	482	523	598	
Capital expenditure	(118)	(170)	(130)	(145)	
Δ in investments	52	-	-	-	
Other investing cash flow	52	82	123	153	
CF from investing Activities	(15)	(88)	(7)	8	
Issue of equity	(168)	-	-	-	
Δ in debt funds	(0)	-	-	-	
Dividends paid	(130)	(146)	(174)	(205)	
Other financing cash flow	(2)	-	-	-	
CF from Financial Activities	(300)	(146)	(174)	(205)	
Δ in cash and cash bank balance	8	248	342	401	
Effect of exchange rate changes	-	-	-	-	
Opening cash	450	457	705	1,047	
Other deposits					
Cash c/f to balance sheet	457	705	1,047	1,448	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					₹ crore
	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity	76	76	76	76	
Reserves & Surplus	2,309	2,580	2,904	3,284	
Networth	2,386	2,657	2,980	3,360	
Minority Interest	-	-	-	-	
Long term Liabilities & provisions	59	66	73	81	
Source of funds	2,445	2,723	3,053	3,441	
Assets					
Net fixed assets	296	328	337	347	
Net intangible assets	157	117	63	2	
Goodwill	9	9	9	9	
Other non current assets	183	183	183	183	
Investments	462	462	462	462	
Debtors	592	677	752	838	
Current Investments	516	516	516	516	
Cash & Cash equivalents	457	705	1,047	1,448	
Other current assets	420	446	471	499	
Trade payables	225	255	283	316	
Current liabilities	423	465	503	548	
Application of funds	2,445	2,723	3,053	3,441	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	44.4	54.6	65.1	76.6	
Cash Per Share	59.6	92.3	137.0	189.6	
BV	311.1	347.7	390.0	439.8	
DPS	12.6	15.9	18.9	22.2	
Operating Ratios (%)					
EBITDA Margin	13.8	16.1	15.9	16.4	
PBT Margin	12.7	13.7	14.7	15.6	
PAT Margin	9.5	10.3	11.1	11.7	
Turnover Ratios					
Debtor days	61	61	61	61	
Creditor days	23	23	23	23	
Return Ratios (%)					
RoE	14.3	15.7	16.7	17.4	
RoCE	18.5	20.4	21.7	22.7	
RoIC	22.2	31.6	29.2	42.5	
Valuation Ratios (x)					
P/E	26.7	21.7	18.2	15.5	
EV / EBITDA	16.5	12.1	10.5	8.7	
Market Cap / Sales	2.6	2.2	2.0	1.8	
Solvency Ratios					
Current Ratio	1.6	1.6	1.6	1.5	
Quick Ratio	1.6	1.6	1.6	1.5	

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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