

CMP: ₹ 4300

Target: ₹ 4985 (16%)

Target Period: 12 months

January 24, 2022

BUY

## Growth momentum continues...

**About the stock:** Persistent System (Persistent) offers cloud, data, product & design led services to BFSI, Healthcare & Hi Tech verticals

- Persistent has shown a healthy turnaround in dollar revenue growth of 13% YoY in FY21 and margin expansion of 248 bps
- Net debt free and healthy double digit return ratio (with RoCE of 20%)

**Q3FY22 Results:** Persistent reported robust Q3FY22 results.

- Dollar revenues increased 9.2% QoQ to US\$199 million
- EBITDA margins increased 23 bps QoQ to 16.8%
- PAT increased 9.1% QoQ to ₹ 176.4 crore

**What should investors do?** Persistent's share price has grown by ~7.5x over the past five years (from ~₹ 570 in January 2017 to ~₹ 4,300 levels in January 2022).

- We now assign BUY rating (from HOLD earlier) on continued strong growth

**Target Price and Valuation:** We value Persistent at ₹ 4,985 i.e. 42x P/E on FY24E

**Key triggers for future price performance:**

- The company is looking to reach US\$1 bn annual revenue in six to eight quarters from now and looking at EBITDA margin expansion of 16-17%, while a further 100-150 bps margin improvement is expected
- Strong deal win momentum will help improve its revenue growth. We expect dollar revenue to grow at 19.7% CAGR in FY21-24E
- Margin expansion of ~170 bps to 18.0% in FY21-24E

**Alternate Stock Idea:** Apart from Persistent, in our IT coverage we also like LTI.

- Industry leading growth and healthy margins prompt us to be positive on the stock
- BUY with target price of ₹ 8,050



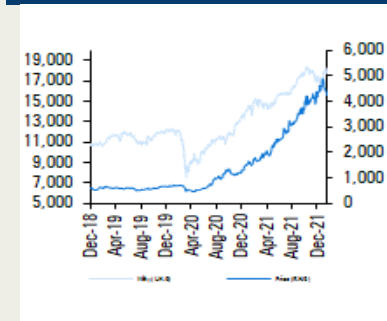
### Particulars

Particular	Amount
Market Cap (₹ Crore)	32,971
Total Debt (₹ Crore)	4
Cash & Invests (₹ Crore)	1,618
EV (₹ Crore)	31,357
52 week H/L	4986 / 1482
Equity capital	76.4
Face value	10.0

### Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	31	31	31	31
FII	19	19	19	20
DII	30	29	28	27
Public	20	20	22	22

### Price Chart



### Recent event & key risks

- QoQ 9.2% growth in revenues
- Key Risk:** (i) Muted digital demand prospects, (ii) Lower than expected margins

### Research Analyst

Sameer Pardikar  
sameer.pardikar@icicisecurities.com

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
Net Sales	3,366	3,566	4,188	12.6%	5,377	6,333	7,283	20.3%
EBITDA	581	493	683	10.5%	930	1,121	1,311	24.3%
EBITDA Margins (%)	17.2	13.8	16.3		17.3	17.7	18.0	
Net Profit	352	340	451	8.9%	673	782	907	26.3%
EPS (₹)	44.0	44.4	59.0		88.1	102.3	118.7	
P/E (x)	97.8	96.9	72.9		48.8	42.0	36.2	
RoCE (%)	20.5	18.5	21.6		28.2	28.6	28.9	
RoE (%)	15.0	14.3	16.1		21.1	21.4	21.6	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- Revenue grew 9.2% to US\$199.1 mn, out of which organic growth was 6.7% QoQ while the rest has come in from full quarter consolidation (90 days) of SCI and half quarter (~45 days) consolidation of Shree Partners. In rupee terms, revenue grew 10.4% QoQ to ₹ 1,491.7 crore
- This is the third consecutive quarter of ~10% QoQ growth. In terms of geographies, growth was aided by North America market (79% mix), which reported 9.9% QoQ while India market (11% mix) reported 13.4% QoQ growth. In terms of verticals, growth was aided by BFSI (32% mix), which grew by 14.6% QoQ while Technology (47% mix) grew 7% QoQ
- However, 9.7% QoQ increase in employee cost restricted EBITDA, EBIT margin expansion, which expanded ~23 bps and 10 bps sequentially to 16.8%, 14.0%, respectively. The company indicated an impact of 75 bps during the quarter on account of employee engagement initiatives
- The management continues to maintain that it is aspiring to reach US\$1 bn annual organic revenue in six to eight quarters from now. The company also maintained 16-17% EBITDA margin guidance for FY22E and expects further margin improvement by 100-150 bps in six to eight quarters
- The management expects the growth momentum in the services business to continue and the IP business to witness marginal growth in the near-term, followed by a gradual decline over the longer term
- The company indicated that due to SCI acquisition, Persistent was able to increase their share as their engagement with large US banks has increased and they are looking to make these accounts bigger, going forward
- The management mentioned that attrition has increased in the quarter by 300 bps on an LTM basis. The quarterly annualised attrition has come down. They mentioned that attrition will be at an elevated level for two quarters from there. However, it is expected to come down from there
- Persistent is targeting 3,000 fresher hiring over the next 12 months. The company indicated that they have a good brand image in engineering institutions across the country, which should help get the required resources quickly
- Persistent mentioned that there was a slight drop in pricing for the quarter, especially in onshore. The company mentioned that it is on account of mix change as some elevated activity took place in countries like Malaysia, Mexico which commands lower pricing
- Persistent is scouting for few more acquisitions to strengthen the capabilities and more update would be provided in the subsequent quarter
- The company welcomed Avni Davda to its board of directors, who brings in diverse set of experiences in operating and leadership roles across the consumer goods, retail, and hospitality industries at organisations like Tata Starbucks, Godrej Group, Mahindra Logistics and Bain
- Persistent also welcomed Kuljesh Puri, Ajai Kumar, Vijay Iyer who joined as a SVP, IBM Alliance and Emerging Verticals, SVP, Partner Ecosystem, SVP, Digital Transformation, respectively. It also welcomed Werner Boeing, former CIO of Roche Diagnostics, to the Persistent Advisor Network
- There was a 40 bps impact on depreciation due to acquisitions. The company has a cash of ₹ 1894 crore as on Q3FY22. DSO has increased for the quarter due to higher IP invoicing in the last week of the quarter

## Financial summary

Exhibit 1: Profit and loss statement					₹ crore
Particulars	FY21	FY22E	FY23E	FY24E	
<b>Total Revenues</b>	<b>4,188</b>	<b>5,377</b>	<b>6,333</b>	<b>7,283</b>	
Growth (%)	17.4	28.4	17.8	15.0	
Employee & Subcon costs	2,748	3,517	4,142	4,727	
Total Operating Expenditure	3,505	4,447	5,213	5,973	
<b>EBITDA</b>	<b>683</b>	<b>930</b>	<b>1,121</b>	<b>1,311</b>	
Growth (%)	38.6	36.2	20.5	16.9	
Depreciation & Amortization	176	156	234	269	
Other Income	102	136	171	185	
Interest	-	-	-	-	
PBT before Excp Items	609	910	1,057	1,226	
Growth (%)	34.7	49.3	16.1	16.0	
Tax	159	237	275	319	
PAT before Excp Items	451	673	782	907	
Exceptional items	-	-	-	-	
PAT before MI	451	673	782	907	
Minority Int & Pft. frm asso	-	-	-	-	
<b>PAT</b>	<b>451</b>	<b>673</b>	<b>782</b>	<b>907</b>	
Growth (%)	32.4	49.4	16.1	16.0	
EPS	59.0	88	102	119	
EPS (Growth %)	32.9	49.4	16.1	16.0	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
	FY21	FY22E	FY23E	FY24E	
PBT	609	910	1,057	1,226	
Depreciation & Amortization	176	156	234	269	
WC changes	158	(6)	(11)	(11)	
Other non cash adju.	(49)	(136)	(171)	(185)	
<b>CF from operations</b>	<b>736</b>	<b>687</b>	<b>835</b>	<b>981</b>	
Capital expenditure	(170)	(177)	(209)	(240)	
Δ in investments	(408)	-	-	-	
Other investing cash flow	37	136	171	185	
<b>CF from investing Activities</b>	<b>(542)</b>	<b>(41)</b>	<b>(39)</b>	<b>(56)</b>	
Issue of equity	-	-	-	-	
Δ in debt funds	(0)	-	-	-	
Dividends paid	(107)	(276)	(321)	(372)	
Other financing cash flow	(37)	(30)	(30)	(30)	
<b>CF from Financial Activities</b>	<b>(144)</b>	<b>(306)</b>	<b>(351)</b>	<b>(402)</b>	
Δ in cash and cash bank balance	50	339	446	524	
Effect of exchange rate changes	-	-	-	-	
Opening cash	931	981	1,320	1,766	
<b>Cash c/f to balance sheet</b>	<b>981</b>	<b>1,320</b>	<b>1,766</b>	<b>2,290</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					₹ crore
	FY21	FY22E	FY23E	FY24E	
<b>Liabilities</b>					
Equity	76	76	76	76	
Reserves & Surplus	2,719	3,117	3,578	4,113	
Networth	2,796	3,193	3,654	4,190	
Minority Interest	-	-	-	-	
Long term Liabilities & provisions	29	35	41	46	
<b>Source of funds</b>	<b>2,824</b>	<b>3,228</b>	<b>3,695</b>	<b>4,236</b>	
<b>Assets</b>					
Net fixed assets	338	388	386	378	
Net intangible assets	123	124	131	139	
Goodwill	9	9	9	9	
Other non current assets	164	164	164	164	
Investments	362	362	362	362	
Debtors	571	737	868	998	
Current Investments	637	637	637	637	
Cash & Cash equivalents	981	1,320	1,766	2,290	
Other current assets	481	436	466	496	
Trade payables	273	354	416	479	
Current liabilities	568	595	678	759	
<b>Application of funds</b>	<b>2,824</b>	<b>3,228</b>	<b>3,695</b>	<b>4,236</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	59.0	88.1	102.3	118.7	
Cash Per Share	128.3	172.8	231.1	299.7	
BV	365.8	417.8	478.2	548.2	
DPS	20.0	30.0	34.8	40.4	
<b>Operating Ratios (%)</b>					
EBITDA Margin	16.3	17.3	17.7	18.0	
PBT Margin	14.6	16.9	16.7	16.8	
PAT Margin	10.8	12.5	12.3	12.5	
<b>Turnover Ratios</b>					
Debtor days	50	50	50	50	
Creditor days	24	24	24	24	
<b>Return Ratios (%)</b>					
RoE	16.1	21.1	21.4	21.6	
RoCE	21.6	28.2	28.6	28.9	
RoIC	42.1	33.3	48.8	75.7	
<b>Valuation Ratios (x)</b>					
P/E	72.9	48.8	42.0	36.2	
EV / EBITDA	45.9	33.4	27.3	22.9	
Market Cap / Sales	7.9	6.1	5.2	4.5	
<b>Solvency Ratios</b>					
Current Ratio	1.3	1.2	1.2	1.2	
Quick Ratio	1.3	1.2	1.2	1.2	

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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