

IP led, Services both drive revenues...

Persistent System reported a healthy set of Q3FY21 numbers. Dollar revenues increased 7.4% QoQ to US\$146.1 million, mainly led by 5.0% QoQ increase in services revenues (82% of revenues) and 19.8% QoQ increase in IP led revenues. Rupee revenues increased 6.7% QoQ to ₹ 1075 crore. In terms of verticals, growth was led by technology companies & emerging vertical (up 13.3% QoQ) and Lifescience & Healthcare (up 6.3% QoQ). In terms of geography, growth was led by Americas (up 5% QoQ), and Europe (up 24% QoQ). The EBITDA margin expanded 60 bps QoQ to 17% mainly due to lower provisions and CSR expenses. The company has declared an interim dividend of ₹ 14/share.

Digital, large deals key driver of growth

For the first time the company reported its order book, which is US\$302 million (book to bill of ~2x) of which US\$175 million is net new. We believe this is mainly due to traction in multi-year large deals in services and IP led segment (benefits of which will be reflected in Q1FY22E). The company has also hired 1618 employees of which 70% are laterals representing robust growth opportunity in coming quarters. In addition, Persistent's focus on client mining, scaling up new clients, expanding European geography (from 9% to 15-18% in next three four years) and improving its alliance business bodes well for long term revenue growth. This coupled with partnership with Red Hat, salesforce and other hyperscallers, acceleration in digital revenues and healthy deal pipeline (led by cross sell, higher wallet share & focus on large deals) are other key positives for revenue growth. Hence, we expect dollar revenues to increase at 13.0% CAGR in dollar revenues in FY20-23E.

Margins expected to be on steady rise

Persistent has multiple levers to drive margins like rationalisation of sub-contracting cost, higher offshoring, optimisation of Alliance headcount, lower discounting 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 leading to 263 bps YoY improvement in FY21E margins to 11.8%. Further, we expect margins to improve by 230 bps over FY21E-23E to 14.1%.

Valuation & Outlook

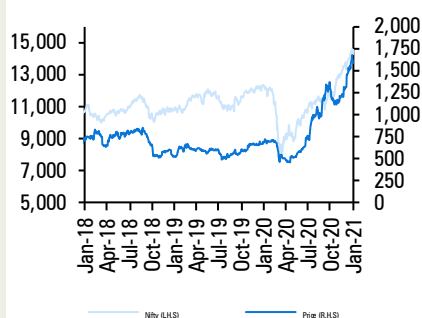
Focus on large annuity-oriented deals, client mining, improving alliance growth, acceleration in European revenues, digital prowess are key long term revenue growth driver for the company. This, coupled with healthy margin trajectory, healthy cash (to drive inorganic growth) prompt us to be positive on the company. Hence, we maintain **BUY** on the company with a revised target price of ₹ 1850 (21x PE on FY23E EPS) (earlier TP of ₹ 1380).



Particulars

Particular	Amount
Market Cap (₹ Crore)	11,700.8
Total Debt (₹ Crore)	4.6
Cash & Invests (₹ Crore)	973.7
EV (₹ Crore)	10,731.7
52 week H/L	1690 / 420
Equity capital	76.4
Face value	10.0

Price Chart



Key Risk

- Deceleration in multi-year deal wins, digital and annuity-oriented deals could impact revenues adversely
- Lower than expected cost optimisation could lead to lower than expected margins

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	3365.9	3565.8	4156.9	4738.9	5427.3	15.0%
EBITDA	580.5	493.0	669.3	805.6	933.5	23.7%
EBITDA Margins (%)	17.2	13.8	16.1	17.0	17.2	
Net Profit	351.7	340.3	437.2	566.3	672.3	25.5%
EPS (₹)	44.0	44.4	57.2	74.1	88.0	
P/E (x)	34.7	34.4	26.7	20.6	17.3	
RoCE (%)	20.5	18.5	21.9	25.4	26.8	
RoE (%)	15.0	14.3	16.6	19.3	20.3	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
Particulars	FY20	FY21E	FY22E	FY23E	
Total Revenues	3,566	4,157	4,739	5,427	
Growth (%)	5.9	16.6	14.0	14.5	
Employee & Subcon costs	2,292	2,731	3,071	3,484	
Total Operating Expenditure	3,073	3,488	3,933	4,494	
EBITDA	493	669	806	933	
Growth (%)	(15.1)	35.8	20.4	15.9	
Depreciation & Amortization	166	179	171	168	
Other Income	125	100	130	143	
Interest	-	-	-	-	
PBT before Excp Items	452	591	765	909	
Growth (%)	(7.0)	30.6	29.5	18.7	
Tax	112	154	199	236	
PAT before Excp Items	340	437	566	672	
Exceptional items	-	-	-	-	
PAT before MI	340	437	566	672	
Minority Int & Pft. frm asso	-	-	-	-	
PAT	340	437	566	672	
Growth (%)	(3.2)	28.5	29.5	18.7	
EPS	44.4	57.2	74.1	88.0	
EPS (Growth %)	1.0	28.9	29.5	18.7	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
	FY20	FY21E	FY22E	FY23E	
PBT	452	591	765	909	
Depreciation & Amortization	166	179	171	168	
WC changes	(137)	70	(26)	(29)	
Other non cash adju.	(26)	(100)	(130)	(143)	
CF from operations	323	586	581	668	
Capital expenditure	(118)	(175)	(156)	(179)	
Δ in investments	52	-	-	-	
Other investing cash flow	52	100	130	143	
CF from investing Activities	(15)	(74)	(26)	(36)	
Issue of equity	(168)	-	-	-	
Δ in debt funds	(0)	-	-	-	
Dividends paid	(130)	(197)	(255)	(303)	
Other financing cash flow	(2)	-	-	-	
CF from Financial Activities	(300)	(197)	(255)	(303)	
Δ in cash and cash bank balance	8	315	300	330	
Effect of exchange rate changes	-	-	-	-	
Opening cash	450	457	772	1,072	
Other deposits					
Cash c/f to balance sheet	457	772	1,072	1,402	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity	76	76	76	76	
Reserves & Surplus	2,309	2,550	2,861	3,231	
Networth	2,386	2,626	2,938	3,307	
Minority Interest	-	-	-	-	
Long term Liabilities & provisions	59	68	77	87	
Source of funds	2,445	2,694	3,015	3,395	
Assets					
Net fixed assets	296	329	347	368	
Net intangible assets	157	120	88	78	
Goodwill	9	9	9	9	
Other non current assets	183	137	137	137	
Investments	462	462	462	462	
Debtors	592	695	792	907	
Current Investments	516	516	516	516	
Cash & Cash equivalents	457	772	1,072	1,402	
Other current assets	420	390	415	442	
Trade payables	225	262	299	342	
Current liabilities	423	474	524	583	
Application of funds	2,445	2,694	3,015	3,395	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	44.4	57.2	74.1	88.0	
Cash Per Share	59.6	101.0	140.3	183.5	
BV	311.1	343.7	384.5	432.9	
DPS	12.6	21.4	27.7	32.9	
Operating Ratios (%)					
EBITDA Margin	13.8	16.1	17.0	17.2	
PBT Margin	12.7	14.2	16.1	16.7	
PAT Margin	9.5	10.5	11.9	12.4	
Turnover Ratios					
Debtor days	61	61	61	61	
Creditor days	23	23	23	23	
Return Ratios (%)					
RoE	14.3	16.6	19.3	20.3	
RoCE	18.5	21.9	25.4	26.8	
RoIC	22.2	34.9	33.8	51.8	
Valuation Ratios (x)					
P/E	34.4	26.7	20.6	17.3	
EV / EBITDA	21.8	15.6	12.6	10.5	
Market Cap / Sales	3.3	2.8	2.5	2.2	
Solvency Ratios					
Current Ratio	1.6	1.5	1.5	1.5	
Quick Ratio	1.6	1.5	1.5	1.5	

Source: Company, ICICI Direct Research

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