

February 1, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,727		1,526	
Sales (Rs. m)	47,388	54,175	46,761	53,441
% Chng.	1.3	1.4		
EBITDA (Rs. m)	8,164	9,344	7,710	8,536
% Chng.	5.9	9.5		
EPS (Rs.)	70.6	82.2	65.7	72.6
% Chng.	7.5	13.2		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	35,658	41,643	47,388	54,175
EBITDA (Rs. m)	4,929	6,799	8,164	9,344
Margin (%)	13.8	16.3	17.2	17.2
PAT (Rs. m)	3,403	4,450	5,646	6,576
EPS (Rs.)	42.5	55.6	70.6	82.2
Gr. (%)	(4.3)	30.8	26.9	16.5
DPS (Rs.)	11.1	14.6	18.5	21.5
Yield (%)	0.7	1.0	1.2	1.4
RoE (%)	14.4	17.5	19.5	19.8
RoCE (%)	13.8	19.6	21.0	21.6
EV/Sales (x)	3.0	2.5	2.1	1.8
EV/EBITDA (x)	21.7	15.3	12.3	10.2
PE (x)	35.8	27.4	21.6	18.5
P/BV (x)	4.9	4.3	3.8	3.3

Key Data

PERS.BO | PSYS IN

52-W High / Low	Rs.1,700 / Rs.420
Sensex / Nifty	46,286 / 13,635
Market Cap	Rs.116bn/ \$ 1,597m
Shares Outstanding	76m
3M Avg. Daily Value	Rs.452.77m

Shareholding Pattern (%)

Promoter's	34.05
Foreign	18.71
Domestic Institution	29.52
Public & Others	17.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.3	71.7	117.5
Relative	5.2	41.2	93.6

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Margin expansion on cards...

Quick Pointers:

- Persistent's reported one of the healthiest TCV of 302mn and out of this the net new TCV is 175.5 mn. Total ACV of 256 mn and net new ACV of 140.1 mn indicates strong growth momentum for FY22.
- EBIT Margin of 12.7%, improvement of +60 bps QoQ & +394 bps YoY despite of wage hike rollout in Nov 2020. There is further scope for expansion in margins led by automation and revenue acceleration

Persistent reported strong beat of 290bps in revenue growth with revenue at \$146.15 mn, +7.4% QoQ USD. Growth was led by sustained strong performances in Services revenues (+5% QoQ USD) and strong recovery in IP led revenues (+20.0% QoQ USD) supported by seasonally strong quarter for IP business. Revenue growth momentum will continue supported by one of the healthiest TCV of 302\$ mn and ACV of 256\$mn. EBIT margin came at 12.7%, +60 bps QoQ and management guided that there are cost optimization levers and revenue growth will provide scope for margins to increase further. We expect stable margin performance in FY22/23E EBIT margin at 12%.

Large deal pipeline is healthy and we expect deal win traction to continue. Persistent is doubling down its efforts to expand in Europe, deepen its presence in alliance led business, and winning large deals across Healthcare and BFSI verticals apart from traditional strong foothold in Tech Cos & emerging vertical business. We believe acceleration of revenue momentum, sustainability of margins along with strong deal wins will lead to further re-rating. We continue to value Persistent on 21X FY23 earnings to arrive at changed TP of INR 1727 (earlier: 1526). Persistent is currently trading at 21.6x/18.5x on FY22/23 earnings of INR 70/82. Maintain Buy.

- Strong beat in revenue growth:** Persistent reported strong beat of 290bps in revenue growth. Reported revenues were \$146.15 mn, +7.4% QoQ USD (Ple & Cons: 4.5% QoQ USD). Growth was led by sustained strong performances in Services revenues (+5% QoQ USD) and strong recovery in IP led revenues (+20.0% QoQ USD). (3Q is seasonally strong quarter for this IP business). Growth in Services was volume led (offshore: +11.5% QoQ) with further decline in pricing (Onsite: -1.2% QoQ, Offshore: -2.3% QoQ). Capiot business contributed \$1mn to Services revenue.
- Strong growth from non-top 10 clients:** Revenue growth was led by strong growth from non-top 10 clients 15% QoQ USD whereas top 10 client revenues remained muted (-0.1% QoQ USD). Top client grew at +2.4% QoQ USD on top of high growth of +13.8% QoQ USD in 2Q while there was fall in top 2-5 client revenues -6.6% QoQ USD.
- Tech cos & emerging verticals (51% of revs)** grew at strong rate of 13.2% QoQ, followed by **Healthcare & Life Sciences** +6.3% QoQ USD. In Healthcare vertical they see strong traction in CX on provider side and product development, AI/ML related work on medical device side. Tec cos vertical has

Persistent has won a large multi-year deal with one of the top 5 banks globally. They are seeing strong traction in compliance, core modernization led by cloud & digital banking space in this sector

Persistent's reported one of the healthiest TCV (including small to large, new to existing deals) of 302mn and out of this the net new TCV is 175.5 mn. Total ACV of 256 mn and net new ACV of 140.1 mn indicates strong growth momentum for FY22

Recognised by Zinnov as top 3 in consumer software, enterprise software and platform engineering in ER&D space

been traditionally strong hold of Persistent and continued this journey by large deals wins

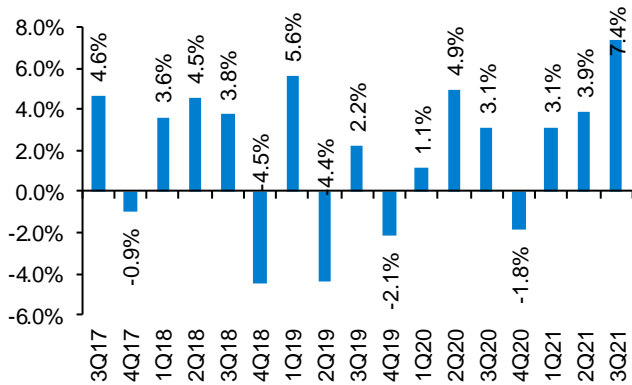
- **BFSI** declined by 0.7% QoQ USD. This decline can be attributed to cost control by couple of large customer in terms of furloughs and some intermittent ramp downs. However, this will normalize and growth will return to traditional levels in BFSI. They have also won a large multi-year deal with one of the top 5 banks globally. They are seeing strong traction in compliance, core modernization led by cloud & digital banking space in this sector.
- **Strong Deal pipeline:** Persistent's reported one of the healthiest TCV (including small to large, new to existing deals) of 302mn and out of this the net new TCV is 175.5 mn. The tenure of the deals ranges from shorter term deals of 1-1.5 years to larger ones of 5-7 years. Total ACV of 256 mn and net new ACV of 140.1 mn indicates strong growth momentum for FY22. Large deal wins were spread across verticals - 4 in Tech Cos & Emerging Verticals, 4 in BFSI and 3 in Healthcare & Life Sciences vertical.
- **Double down on Europe (8.8% of revs):** Persistent has 80% of revenues coming from US and now they are expanding their reach in Europe with aim to get 15-18% of revenues from this region over next few years. They have done couple of acquisitions in Europe in last few year and are adding to the leadership team over there. They are also on lookout for acquisitions at the intersection of European presence and capabilities - cloud, security, data analytics.
- **Good traction in alliance business:** Management is confident that alliance business will return to strong growth in coming few quarters. Persistent expanded their relationship with largest customer IBM into IBM cloud Telco, & Cloud pack and also across verticals such as healthcare. Persistent has also become advanced tier partner with RedHat. They have also won large deals in alliance business which are expected to ramp up in 1QFY22. We believe that alliance business will have healthy growth trajectory ahead.
- **Strong sustainable EBIT Margin:** Persistent posted strong EBIT Margin of 12.7% (Ple: 12.8%) up 60 bps QoQ & +394 bps YoY despite of wage hike rollout in Nov 2020 because of i) high utilization - blended utilization remained at elevated levels of 81% in Q3 vs 81.2% in Q2 ii) higher offshoring - increased by 117 bps to 87.8% in 3Q and iii) benefit of operating leverage led by strong revenue growth. Other operating expenses reduced by 100bps led by cost optimization initiatives. In Q2, impact of pay hike was only in two months whereas in Q3 full impact of pay hike will be seen. However, management indicated that they have sufficient levers in terms of automation and revenue acceleration to sustain and improve margins.
- **Strong lateral headcount addition:** Persistent added 1618 FTEs in 3Q, highest ever in a quarter. Major proportion (70%) of them are lateral hires, hired to meet the demand for orders booked in the past 2-3 quarters. They have implemented hybrid work model with employees coming partially to office. LTM attrition rate further decreased by 30 bps QoQ to 10.3%. PAT was at 1209 Mn INR up 18.5% QoQ.

- Strong cash collections:** Collections have been strong in this quarter at 150.4\$ mn leading to further reduction in DSO by 6 days QoQ to 57 days (vs 63 in 2Q21 and 68 in 3Q20). Board has declared an interim dividend of INR 14/share. They have completed the acquisition of Capiot and onboarding of 200 Capiot employees skilled in MuleSoft, TIBCO and RedHat platforms. Persistent is actively looking for capability led acquisitions in cloud, security and data analytics space.

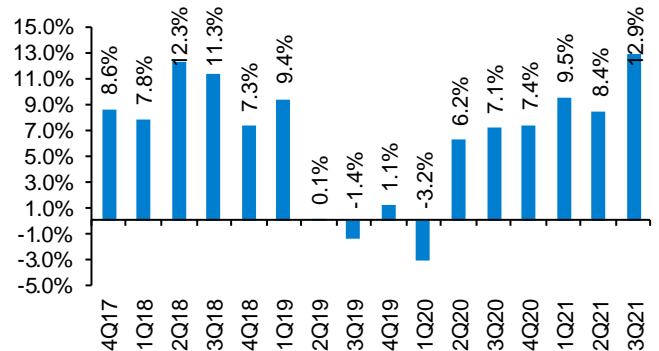
Exhibit 1: Q3FY21 Result Summary

Particulars (Rs mn)	3QFY21	2QFY21	QoQ gr.	3QFY20	YoY gr.	Ple	Var (ACT. Vs. Est)
Sales (USD mn)	146	136	7.4%	129	12.9%	142	2.8%
Sales	10,754	10,077	6.7%	9,227	16.5%	10,492	2.5%
EBITDA	1,825	1,658	10.1%	1,234	47.8%	1,805	1.1%
EBITDA Margins	17.0%	16.4%	52bp	13.4%	359bp	17.2%	-23.2
EBIT	1,364	1,218	12.0%	806	69.2%	1,343	1.5%
EBIT Margins	12.7%	12.1%	60bp	8.7%	395bp	12.8%	-11.9
PAT	1,209	1,020	18.6%	879	37.5%	1,298	-6.9%
EPS (diluted)	15.1	13.3	13.3%	11.0	37.5%	17.0	-11.0%

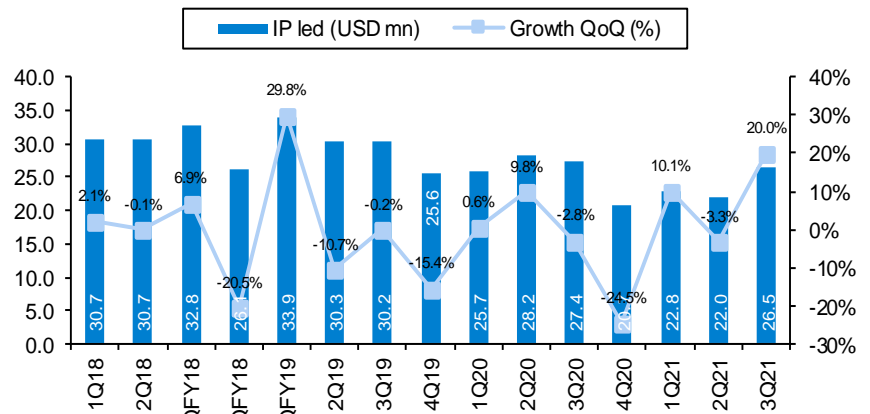
Source: Company, PL

Exhibit 2: USD revenue growth QoQ (%)


Source: Company, PL

Exhibit 3: USD revenue growth YoY (%)


Source: Company, PL

Exhibit 4: IP revenues leading growth


Source: Company, PL

Exhibit 5: Geography-wise revenues

USD in Mn	3QFY21	2QFY21	QoQ gr.	3QFY20	YoY gr.
America	118.5	112.8	5.1%	103.7	14.3%
Europe	12.9	10.3	24.3%	13.7	-6.3%
APAC	14.8	12.9	14.2%	12.0	22.6%
Total	146.2	136.1	7%	129.4	12.9%
-as a % of sales					
America	81.1%	82.9%	-180bp	80.1%	100bp
Europe	8.8%	7.6%	120bp	10.6%	-180bp
APAC	10.1%	9.5%	60bp	9.3%	80bp

Source: Company, PL

Exhibit 6: Revenue by Industry classification

USD in Mn	3QFY21	2QFY21	QoQ gr.	3QFY20	YoY gr.
ISV	119.7	114.0	5%	50.5	137.1%
IP led	26.5	22.0	20%	27.4	-3.6%
Total	146.2	136.1	7%	77.9	87.6%
-as a % of sales					
ISV	81.9%	83.8%	-190bp	39.0%	4290bp
IP led	18.1%	16.2%	190bp	21.2%	-310bp

Source: Company, PL

Exhibit 7: Revenue contribution by Geography (%)

Revenue by geography (%)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
America	84.4%	80.9%	79.7%	82.6%	83.7%	80.9%	82.5%	81.4%	80.1%	80.2%	80.4%	82.9%	81.1%
Europe	7.3%	8.2%	12.0%	7.5%	7.6%	7.9%	8.5%	9.9%	10.6%	8.8%	10.2%	7.6%	8.8%
APAC	8.3%	10.9%	8.3%	9.9%	8.7%	11.2%	9.0%	8.7%	9.3%	11.0%	9.4%	9.5%	10.1%

Source: Company, PL

Exhibit 8: Client Metrics

Revenue by clients (%)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Top Client	28.0%	21.7%	23.8%	25.7%	26.3%	20.2%	23.6%	23.7%	21.5%	19.2%	17.7%	19.4%	18.5%
Top 5 Clients	46.3%	40.9%	43.8%	43.3%	45.0%	40.0%	44.6%	44.3%	42.3%	41.5%	40.8%	41.6%	37.8%
Top 10 Clients	55.3%	49.9%	53.7%	52.4%	54.6%	50.2%	52.6%	53.4%	51.1%	49.9%	49.0%	50.5%	47.0%
Non Top 10 Clients	44.7%	50.1%	46.3%	47.6%	45.4%	49.8%	47.4%	46.6%	48.9%	50.1%	51.0%	49.5%	53.0%

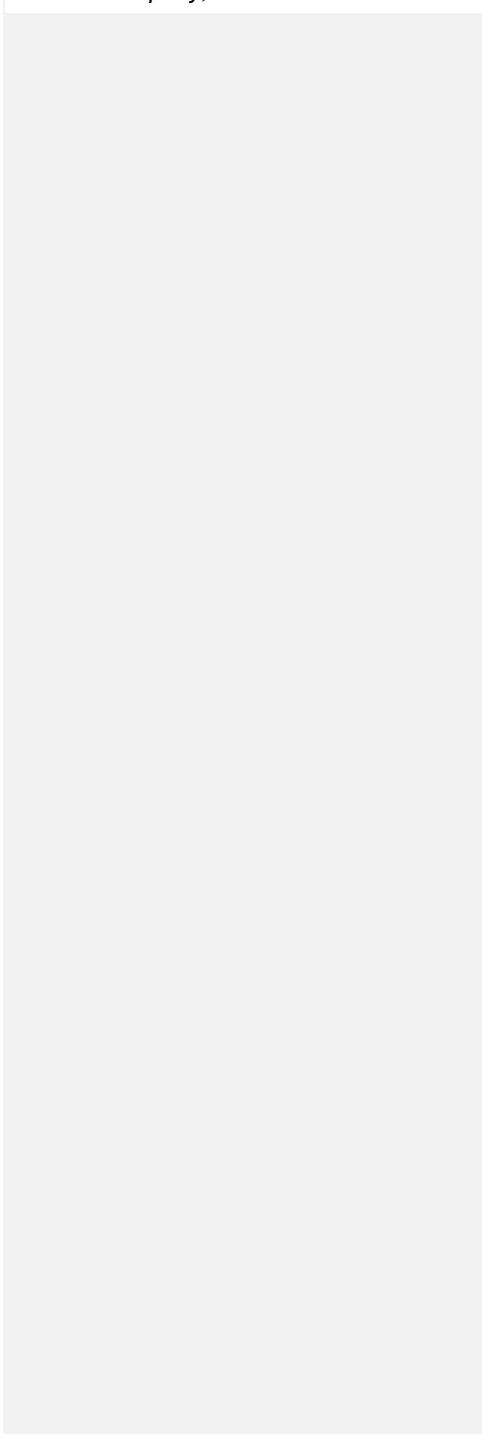
Source: Company, PL



Exhibit 9: Other Operating Metrics

Billing rates (USD/p.p.m)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Rest of the world	16314	16662	16360	15787	16204	16846	16742	17155	16761	17276	17036	16993	16790
India	4220	4349	4333	4372	4392	4385	4427	4437	4420	4427	4308	4304	4204
Billed person months													
Rest of the World	2,413	2,391	2,348	2,221	2,232	2,206	2,179	2,271	2,430	2,425	2,595	2,647	2,651
India	11,922	11,728	11,857	12,097	12,402	12,674	12,962	13,138	13,865	14,550	14,866	16,033	17,879
TOTAL	14,335	14,119	14,205	14,318	14,634	14,880	15,141	15,409	16,295	16,975	17,461	18,680	20,530
Others													
DSO Days	66	66	68	63	61	63	65	64	68	65	69	63	57

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	35,658	41,643	47,388	54,175
YoY gr. (%)	5.9	16.8	13.8	14.3
Employee Cost	23,495	27,262	30,451	34,802
Gross Profit	12,164	14,381	16,937	19,374
Margin (%)	34.1	34.5	35.7	35.8
SG&A Expenses	-	-	-	-
Other Expenses	7,234	7,582	8,773	10,030
EBITDA	4,929	6,799	8,164	9,344
YoY gr. (%)	(15.1)	37.9	20.1	14.4
Margin (%)	13.8	16.3	17.2	17.2
Depreciation and Amortization	1,660	1,816	2,085	2,167
EBIT	3,270	4,984	6,079	7,177
Margin (%)	9.2	12.0	12.8	13.2
Net Interest	-	-	-	-
Other Income	1,254	1,035	1,500	1,650
Profit Before Tax	4,523	6,019	7,579	8,827
Margin (%)	12.7	14.5	16.0	16.3
Total Tax	1,121	1,569	1,933	2,251
Effective tax rate (%)	24.8	26.1	25.5	25.5
Profit after tax	3,403	4,450	5,646	6,576
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,403	4,450	5,646	6,576
YoY gr. (%)	(3.3)	30.8	26.9	16.5
Margin (%)	9.5	10.7	11.9	12.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,403	4,450	5,646	6,576
YoY gr. (%)	(3.3)	30.8	26.9	16.5
Margin (%)	9.5	10.7	11.9	12.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,403	4,450	5,646	6,576
Equity Shares O/s (m)	76	76	76	76
EPS (Rs)	42.5	55.6	70.6	82.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	15,364	16,164	16,964	17,764
Tangibles	7,370	7,770	8,170	8,570
Intangibles	7,994	8,394	8,794	9,194
Acc: Dep / Amortization	11,705	13,520	15,606	17,773
Tangibles	5,145	5,781	6,511	7,269
Intangibles	6,559	7,739	9,095	10,503
Net fixed assets	3,660	2,644	1,359	(9)
Tangibles	2,225	1,989	1,659	1,301
Intangibles	1,435	655	(301)	(1,309)
Capital Work In Progress	870	870	870	870
Goodwill	89	89	89	89
Non-Current Investments	5,156	5,256	5,356	5,456
Net Deferred tax assets	960	960	960	960
Other Non-Current Assets	331	331	331	331
Current Assets				
Investments	5,164	5,164	5,164	5,164
Inventories	-	-	-	-
Trade receivables	5,922	6,845	7,790	8,906
Cash & Bank Balance	4,572	7,262	11,331	15,957
Other Current Assets	2,116	2,166	2,216	2,266
Total Assets	30,923	34,117	38,429	43,447
Equity				
Equity Share Capital	764	764	764	764
Other Equity	23,093	26,204	30,151	34,747
Total Network	23,858	26,968	30,915	35,511
Non-Current Liabilities				
Long Term borrowings	46	46	46	46
Provisions	183	183	183	183
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,248	2,282	2,597	2,969
Other current liabilities	4,227	4,277	4,327	4,377
Total Equity & Liabilities	30,923	34,117	38,429	43,447

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	4,523	6,019	7,579	8,827
Add. Depreciation	1,660	1,816	2,085	2,167
Add. Interest	(545)	(645)	(660)	(750)
Less Financial Other Income	1,254	1,035	1,500	1,650
Add. Other	287	-	-	-
Op. profit before WC changes	5,925	7,190	9,004	10,244
Net Changes-WC	(1,369)	(1,437)	(1,163)	(1,338)
Direct tax	(1,328)	(1,569)	(1,933)	(2,251)
Net cash from Op. activities	3,228	4,184	5,909	6,655
Capital expenditures	(1,144)	(800)	(800)	(800)
Interest / Dividend Income	518	645	660	750
Others	515	-	-	-
Net Cash from Inv. activities	(111)	(155)	(140)	(50)
Issue of share cap. / premium	-	-	-	-
Debt changes	35	-	-	-
Dividend paid	(2,823)	(1,113)	(1,412)	(1,644)
Interest paid	(63)	-	-	-
Others	(154)	(227)	(288)	(335)
Net cash from Fin. activities	(3,006)	(1,339)	(1,700)	(1,979)
Net change in cash	111	2,690	4,069	4,626
Free Cash Flow	2,034	3,384	5,109	5,855

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	42.5	55.6	70.6	82.2
CEPS	66.2	82.0	101.2	114.4
BVPS	312.2	352.9	404.5	464.7
FCF	26.6	44.3	66.8	76.6
DPS	11.1	14.6	18.5	21.5
Return Ratio(%)				
RoCE	13.8	19.6	21.0	21.6
ROIC	17.4	25.3	31.3	37.0
RoE	14.4	17.5	19.5	19.8
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.6)
Debtor (Days)	61	60	60	60
Valuation(x)				
PER	35.8	27.4	21.6	18.5
P/B	4.9	4.3	3.8	3.3
P/CEPS	66.2	82.0	101.2	114.4
EV/EBITDA	21.7	15.3	12.3	10.2
EV/Sales	3.0	2.5	2.1	1.8
Dividend Yield (%)	0.7	1.0	1.2	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	9,264	9,914	10,077	10,754
YoY gr. (%)	11.4	19.1	13.9	16.5
Raw Material Expenses	6,130	6,646	6,577	7,064
Gross Profit	3,134	3,267	3,501	3,690
Margin (%)	33.8	33.0	34.7	34.3
EBITDA	1,277	1,464	1,658	1,825
YoY gr. (%)	0.9	21.8	36.3	47.8
Margin (%)	13.8	14.8	16.4	17.0
Depreciation / Depletion	420	436	440	461
EBIT	857	1,029	1,218	1,364
Margin (%)	9.2	10.4	12.1	12.7
Net Interest	-	-	-	-
Other Income	274	192	157	286
Profit before Tax	1,130	1,220	1,375	1,650
Margin (%)	12.2	12.3	13.6	15.3
Total Tax	292	320	355	441
Effective tax rate (%)	25.9	26.2	25.8	26.7
Profit after Tax	838	900	1,020	1,209
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	838	900	1,020	1,209
YoY gr. (%)	(0.8)	9.1	18.5	37.5
Margin (%)	9.0	9.1	10.1	11.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	838	900	1,020	1,209
YoY gr. (%)	(0.8)	9.1	18.5	37.5
Margin (%)	9.0	9.1	10.1	11.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	838	900	1,020	1,209
Avg. Shares O/s (m)	80	80	76	80
EPS (Rs)	10.5	11.3	13.3	15.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jan-21	BUY	1,526	1,498
2	27-Oct-20	BUY	1,368	1,189
3	05-Oct-20	BUY	1,304	1,304
4	01-Oct-20	BUY	1,304	1,341
5	02-Sep-20	BUY	1,068	962
6	12-Apr-20	Reduce	447	514

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	3,051	2,420
2	Cyient	BUY	681	508
3	HCL Technologies	BUY	1,160	990
4	Infosys	BUY	1,611	1,387
5	L&T Technology Services	BUY	3,057	2,658
6	Larsen & Toubro Infotech	BUY	4,364	4,091
7	Mindtree	BUY	1,940	1,664
8	Mphasis	BUY	1,719	1,599
9	Persistent Systems	BUY	1,526	1,498
10	Redington (India)	BUY	138	133
11	Sonata Software	BUY	437	393
12	Tata Consultancy Services	BUY	3,358	2,928
13	TeamLease Services	BUY	2,931	2,666
14	Tech Mahindra	BUY	1,099	978
15	Wipro	BUY	493	459
16	Zensar Technologies	BUY	257	243

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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