

Services revenues continue its strong performance...

Persistent System reported a healthy set of Q4FY21 numbers. Dollar revenues increased 4.6% QoQ to US\$152.8 million, mainly led by 8.6% QoQ increase in services revenues (85% of revenues) partially offset by 13.8% QoQ decline in IP led revenues (due to seasonality). In terms of verticals, growth was led by financial services (up 6.7% QoQ) and lifescience & healthcare (up 5.7% QoQ). In terms of geography, growth was led by Americas (up 2.1% QoQ) and Europe (up 18.8% QoQ). The EBIT margin expanded 50 bps QoQ to 13.2% due to lower amortisation charges. The company has recommended a dividend of ₹ 6 per share.

Multi-year deal wins, strong order book to drive growth

The company has won a total contractual value of US\$246.5 million of which annual contractual value is US\$200 million (implying a book to bill ratio of 1.3x) and net new of US\$96.9 million. This, coupled with multi-year deal won by the company, will help improve its revenues growth (the company aspires to achieve 3.5-4% QoQ growth). The company has hired 1618 and 1173 in the past two quarters, respectively, with increasing large deal size 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 (led by growth in cloud, data & security) bodes well for long term revenue growth. This, coupled with partnership with Red Hat, Salesforce & other hyperscalers, hiring of leadership (in Europe, Salesforce & BFSI) and acceleration in digital technologies make Persistent a key beneficiary of multi-year growth in technology. Hence, we expect dollar revenues to increase at 15.6% CAGR in FY21-23E.

Margins to improve in coming years

The company plans to give a wage hike in FY22E and invest in leadership & capabilities that could act as a headwind to margins. However, we believe Persistent has many levers like utilisation, lower amortisation cost, higher utilisation and improving revenue growth to not only offset the margin pressure but improve margins. Hence, we expect the company to register margin expansion of ~120 bps to 17.5% in FY21-23E.

Valuation & Outlook

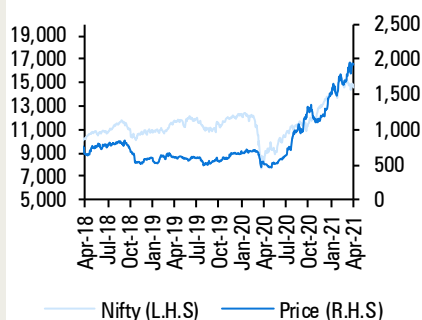
We believe Persistent will be a key beneficiary of secular growth in technology mainly led by its digital prowess and partnership with Red Hat, Salesforce & other hyperscalers. This coupled with increasing large deal size, focus on client mining, new client addition and acceleration in European revenues bode well for long term revenue growth. Hence, we maintain **BUY** on the company with a revised target price of ₹ 2,385 (25x PE on FY23E EPS) (earlier TP ₹ 1850).



Particulars

Particular	Amount
Market Cap (₹ Crore)	15,630.8
Total Debt (₹ Crore)	4.4
Cash & Invests (₹ Crore)	1,618.4
EV (₹ Crore)	14,016.9
52 week H/L	2185 / 460
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 may lead to lower-than-expected margins

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	3365.9	3565.8	4187.9	4937.6	5754.0	17.2%
EBITDA	580.5	493.0	683.0	844.1	1006.7	21.4%
EBITDA Margins (%)	17.2	13.8	16.3	17.1	17.5	
Net Profit	351.7	340.3	450.7	598.3	717.5	26.2%
EPS (₹)	44.0	44.4	59.0	78.3	93.9	
P/E (x)	46.4	45.9	34.6	26.0	21.7	
RoCE (%)	20.5	18.5	21.6	25.4	26.9	
RoE (%)	15.0	14.3	16.1	19.0	20.1	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
Particulars	FY20	FY21	FY22E	FY23E	
Total Revenues	3,566	4,188	4,938	5,754	
Growth (%)	5.9	17.4	17.9	16.5	
Employee & Subcon costs	2,292	2,748	3,239	3,775	
Total Operating Expenditure	3,073	3,505	4,094	4,747	
EBITDA	493	683	844	1,007	
Growth (%)	(15.1)	38.6	23.6	19.3	
Depreciation & Amortization	166	176	158	178	
Other Income	125	102	122	141	
Interest	-	-	-	-	
PBT before Excp Items	452	609	809	970	
Growth (%)	(7.0)	34.7	32.7	19.9	
Tax	112	159	210	252	
PAT before Excp Items	340	451	598	718	
Exceptional items	-	-	-	-	
PAT before MI	340	451	598	718	
Minority Int & Pft. frm asso	-	-	-	-	
PAT	340	451	598	718	
Growth (%)	(3.2)	32.4	32.8	19.9	
EPS	44.4	59.0	78.3	93.9	
EPS (Growth %)	1.0	32.9	32.8	19.9	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
	FY20	FY21	FY22E	FY23E	
PBT	452	609	809	970	
Depreciation & Amortization	166	176	158	178	
WC changes	(108)	158	(1)	(9)	
Other non cash adju.	(26)	(49)	(122)	(141)	
CF from operations	352	736	632	745	
Capital expenditure	(118)	(170)	(163)	(190)	
Δ in investments	52	(408)	-	-	
Other investing cash flow	52	37	122	141	
CF from investing Activities	(15)	(542)	(41)	(49)	
Issue of equity	(168)	-	-	-	
Δ in debt funds	(0)	(0)	-	-	
Dividends paid	(130)	(107)	(245)	(294)	
Other financing cash flow	(31)	(37)	(30)	(30)	
CF from Financial Activities	(329)	(144)	(275)	(324)	
Δ in cash and cash bank balance	8	50	317	373	
Effect of exchange rate changes	-	-	-	-	
Opening cash	450	931	981	1,298	
Other deposits	-	-	-	-	
Cash c/f to balance sheet	457	981	1,298	1,670	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity	76	76	76	76	
Reserves & Surplus	2,309	2,719	3,072	3,496	
Networth	2,386	2,796	3,149	3,572	
Minority Interest	-	-	-	-	
Long term Liabilities & provisions	59	29	33	38	
Source of funds	2,445	2,824	3,181	3,610	
Assets					
Net fixed assets	296	338	387	439	
Net intangible assets	157	123	109	98	
Goodwill	9	9	9	9	
Other non current assets	183	164	164	164	
Investments	462	362	362	362	
Debtors	592	571	676	788	
Current Investments	516	637	637	637	
Cash & Cash equivalents	457	981	1,298	1,670	
Other current assets	420	481	422	448	
Trade payables	225	273	325	378	
Current liabilities	423	568	557	628	
Application of funds	2,445	2,824	3,181	3,610	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Per share data (₹)					
EPS	44.4	59.0	78.3	93.9	
Cash Per Share	59.6	128.3	169.8	218.5	
BV	311.1	365.8	412.0	467.4	
DPS	12.6	20.0	26.6	31.9	
Operating Ratios (%)					
EBITDA Margin	13.8	16.3	17.1	17.5	
PBT Margin	12.7	14.6	16.4	16.9	
PAT Margin	9.5	10.8	12.1	12.5	
Turnover Ratios					
Debtor days	61	50	50	50	
Creditor days	23	24	24	24	
Return Ratios (%)					
RoE	14.3	16.1	19.0	20.1	
RoCE	18.5	21.6	25.4	26.9	
RoIC	22.2	42.1	38.3	63.6	
Valuation Ratios (x)					
P/E	45.9	34.6	26.0	21.7	
EV / EBITDA	29.7	20.5	16.2	13.2	
Market Cap / Sales	4.4	3.7	3.2	2.7	
Solvency Ratios					
Current Ratio	1.6	1.3	1.2	1.2	
Quick Ratio	1.6	1.3	1.2	1.2	

Source: Company, ICICI Direct Research

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Sell: <-15%



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