

Robust results; BFSI & Healthcare both drive revenues

CMP: INR 4,038

Rating: Accumulate

Target Price: INR 4,562

Stock Info

BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	764
Mkt Cap (INR mn)	301420
52w H/L (INR)	4,390/1,103
Avg Yearly Vol (in 000')	188

Shareholding Pattern %

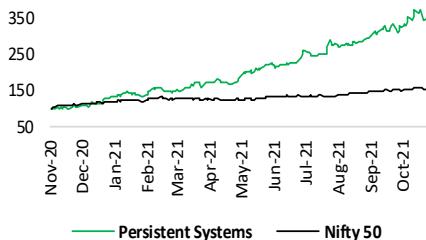
(As on Sep, 2021)

Promoters	31.26
FII	19.30
DII	27.87
Public & Others	21.57

Stock Performance (%)

	1m	3m	12m
Persistent	5.0	21.3	231.5
Nifty	1.6	14.6	54.1

Persistent Vs Nifty



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- Persistent System (PSL) All round beat consistent QOQ Growth (in %) terms of Revenue, EBITDA, and PAT Margins.Q2FY22 PAT margins slightly impacted because of the wage hike.
- Consolidated revenue stood at INR 13,512 Mn, against our estimate of INR 13,302 mn registering +34.1%YoY/+9.9%QoQ backed by higher growth in all the verticals (BFSI grew by ~29% YoY, Healthcare & Life Sciences grew by ~47% and Technology Companies and Emerging Verticals grew by 32.2% YoY).
- Consolidated EBITDA stood at INR 2,244 mn, against our estimate of INR 2128, mn, up by 28%YoY/+6.0% QoQ.
- On the margins front, EBITDA margin improved by 9bps YoY/22bps QoQ to 16.6%.
- Consolidated PAT saw a rise of 58%YoY/+6.9% QoQ to INR 1,618 mn against our estimates of INR 1,567 Mn.
- EPS stood at INR 21.16 in Q2 FY22 against INR 13.34 in Q2 FY21 (INR 19.79 in Q1 FY21).
- Order book stood at \$282.5 mn in TCV and at \$201.1 mn in ACV.

Valuations

We believe Persistent Systems has a resilient business structure from a long-term perspective and multiple long-term contracts with the world's leading brands. However, Persistent Systems continue to see good traction in their services to the market they serve and remain confident for the growth journey going ahead. The company will maintain EBITDA margins in the band of 16-17%. Aspirationally want to improve EBITDA % by 100 bps in 2-3 yrs. The company will continue its aggressive hiring of employees, which will help in overcoming project delivery challenges going ahead. Management's priority will be to focus on growth while sustaining margins.

At a CMP of INR 4,038, Persistent is currently trading at FY24 P/E of 31.9x. We recommend an Accumulate rating and assign 36x P/E multiple to its FY24E earnings of INR 126.7 per share which gives a TP of INR 4,562 per share.

Particulars (INR Mn)	Revenue (US\$ mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY20	502	35,658	4,930	3,403	44.4	13.8%	14.3%	34.9
FY21	566	41,879	6,830	4,507	59.0	16.3%	16.1%	60.8
FY22E	750	55,601	9,063	6,820	86.2	16.3%	22.4%	46.8
FY23E	968	72,093	11,859	8,620	107.7	16.5%	25.2%	37.5
FY24E	1105	82,418	14,011	10,137	126.7	17.0%	25.2%	31.9

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q2 FY22 Conference call Highlights:

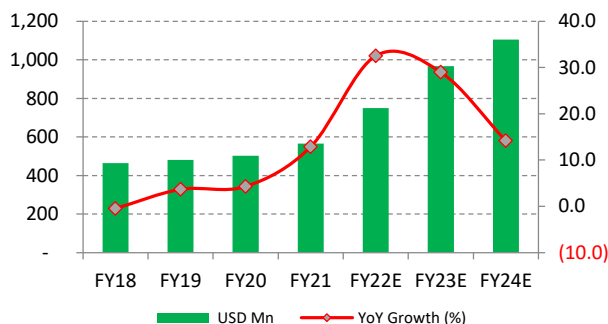
- **Order Booking:** Total Deal TCV of \$282.5, +15.4% QoQ mn, with 53% net new wins. Total ACV stood at \$201.1 mn, +6.5% QoQ, with 54% net new wins. New large deal wins were broad-based with 3 new wins in each of the vertical.
- **America growth:** America grew +9% QoQ USD, growth in Europe was soft at +1.2% QoQ USD. APAC also had a strong quarter with growth of 17.8% QoQ USD.
- **Client:** Top 1 & Top 5 clients grew at healthy rate of 8.6% & 7.2% QoQ USD respectively. 1 new client was added in \$5 mn+ revenue bucket and 8 new clients were added in \$1mn+ bucket. All this growth is the organic growth and the acquisition will contributed from this quarter onward.
- **Utilization:** Came from 80.0% to 82.28% improvement in QoQ backed by deployment of number of hires over the last few quarters. Attrition jumped to 23.6% (+700 bps QoQ). Hiring was strong with net addition of 975 employees, +6.5% QoQ. (against 1224 net addition in 1Q22). Total headcount is up 47% YoY.
- **Initiatives:** Normalize the wage cycle yearly in this July after the 8 month of wage hike.
- **ESOP:** In this covering 80% of the employee base backed by the contribution from the employees.
- **Acquisition** (During late September): During the quarter, company announced the acquisition of Software Corporation International and Shree Partners, forming a new Payments business unit and furthering expertise in Cloud and IT Infrastructure. Shree partners consolidate the partners of the persistent in strategic account and part of the large vendor consolidate deals in Q1&Q2 FY22 with one of exiting customers furthermore SCI helps persistent to expand footprint in charlotte (Banking hub in the US) by Shree partners which is new presence for the persistent and in India. Revenue from this business going to add from the Q3FY22 onward.
- **IP Business:** Continuous working on to optimize the margin as part of the contract, the company has optimized large part of the IP contract conversion in diamond material contract and this will help in margin going forward. it will add from the end of the Q4FY22 and in Q1FY23. It will add from IP bucket to diamond so revenue slightly lesser but better gross margin.
- **ESG:** The company is continue making improvement on the ESG front and working with leading consulting company on refining the ESG strategy and by the end of the FY22 will release comprehensive report.
- DSO days increased to 55 days (against 54 in 1QFY22 and 63 in 2QFY21)
- The company expects to hit \$1bn rev run rate in next 1.5-2 years
- **Margin Outlook:** The company will maintain EBITDA margins in the band of 16-17%. Aspirationally want to improve EBITDA% by 100 bps in 2-3 yrs.
- Europe contribution to rise to 12-15% (from 8.8%).
- Capex: 1431mn new office 915mn for the Pune office 1880 mn of the loan.
- **Healthcare & Life Sciences:** Building a patient engagement platform using leading low code development solution for a US healthcare provider. Aggregating clinical data sources in a Microsoft Azure based data lake for a leading contract research organization.
- **Outlook:** The company continue to see good traction in their services to the market they serve and remain confident for the growth journey going ahead.
- **Billing rate:** Onsite billing rate concentrated on the US, some of the Europe (which is small) and working on the Europe business. Europe and US is more critical in the onsite billing rate. Over the last 2-3 quarter, the company is working on to adding Mexico Canada and few others pocket the company already has Malaysia. This time Europe business contribution slightly lower in Q FY22 because of there were not too much of volatility due to the vacation in Europe and after the Covid-19 bit of opening up globally due to this lost billing. There is no pressure from the US billing rate.

Q2 FY22 - Quarterly Performance (Consolidated)

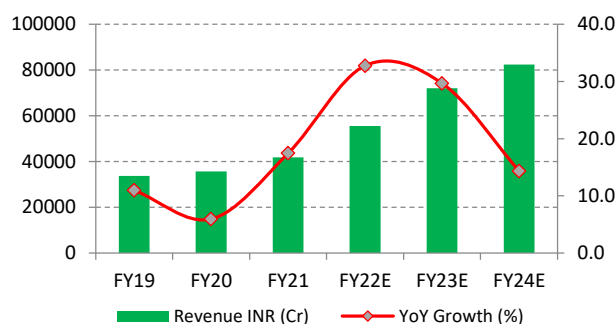
INR Mn (consolidated)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	182.3	166.8	136	9.3%	34.0%
Net Revenue	13,512	12,299	10,077	9.9%	34.1%
Employee Cost	10,092	9,128	7,448	10.6%	35.5%
Other Expenses	1,177	1,156	965	1.8%	21.9%
EBITDA	2,244	2,015	1,664	11.4%	34.8%
<i>EBITDA Margin %</i>	<i>16.6%</i>	<i>17.0%</i>	<i>16.5%</i>	<i>-39bps</i>	<i>9bps</i>
Depreciation	371	350	440	5.9%	-15.7%
EBIT	1,873	1,665	1,224	12.5%	53.0%
Other Income	324	388	165	-16.5%	96.5%
Finance Cost	21	23	14	-7.4%	47.5%
Exceptional Item	-	-	-	-	-
PBT	2,176	2,031	1,375	7.2%	58.3%
Tax Expense	559	518	355	7.9%	57.3%
Effective Tax Rate %	25.7%	25.5%	25.8%	16bps	-16bps
PAT	1,618	1,512	1,020	6.9%	58.6%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,618	1,512	1,020	6.9%	58.6%
<i>PAT Margin %</i>	<i>12.0%</i>	<i>12.3%</i>	<i>10.1%</i>	<i>-33bps</i>	<i>185bps</i>
EPS (INR)	21.16	19.79	13.34	6.9%	58.6%

Source: Arianth Research, Company Filings

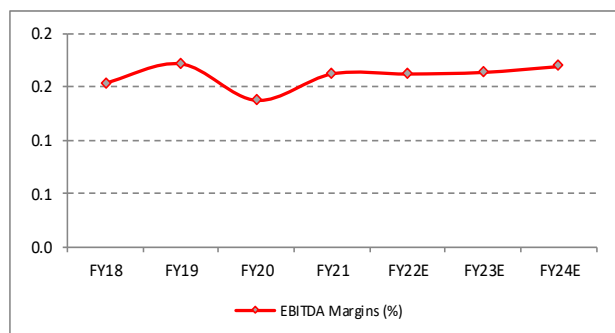
Revenues (US\$ mn) and Growth (%)



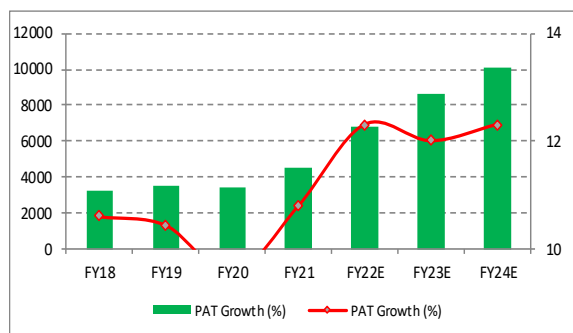
Revenue INR Mn and Growth (%)



EBITDA Margins (%)



PAT and PAT Margin (%)



Source: Arianth Research, Company Filings

- Continuous working on to optimize the margin as part of the contract, the company has optimized large part of the IP contract conversion in diamond material contract and this will help in margin going forward.it will add from the end of the Q4FY22 and in Q1FY23. It will add from IP bucket to diamond so revenue slightly lesser but better gross margin.

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Revenue	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Revenue from Operations, USD M	136	146.1	152.8	166.8	182.3
% Q - o -Q growth	3.90%	7.40%	4.60%	9.20%	9.30%
% Y - o -Y growth	8.40%	12.90%	20.30%	27.30%	34.00%
Revenue from Operations, INR M	10077	10754	11134	12299	13512
% Q - o -Q growth	1.70%	6.70%	3.50%	10.50%	9.90%
% Y - o -Y growth	13.90%	16.50%	20.20%	24.10%	34.10%
Business Offerings Revenue Mix	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Services	83.80%	81.90%	85.10%	86.90%	87.50%
IP Led	16.20%	18.10%	14.90%	13.10%	12.50%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Segment Revenue Mix	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
BFSI	31.9%	29.5%	30.1%	30.8%	30.70%
Healthcare & Life Sciences	19.3%	19.1%	19.3%	20.5%	21.20%
Software, Hi -Tech & Emerging Industries	48.8%	51.4%	50.6%	48.7%	48.10%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Geography Revenue Mix	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
North America	82.9%	81.1%	79.2%	78.9%	78.7%
Europe	7.6%	8.8%	10.0%	9.5%	8.8%
India	8.1%	8.6%	8.9%	9.8%	10.5%
ROW	1.4%	1.5%	1.9%	1.8%	2.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue Concentration	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Top 1	19.4%	18.5%	17.9%	17.0%	16.9%
Top 5	41.6%	37.8%	36.4%	36.5%	35.8%
Top 10	50.5%	47.0%	46.3%	46.7%	45.4%
Revenue by Delivery Centers	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Global Development Centers	33.1%	30.5%	30.4%	31.4%	30.4%
India	50.7%	51.4%	54.7%	55.5%	57.1%
IP Led	16.2%	18.1%	14.9%	13.1%	12.5%
Client Billed	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Services	487	530	558	568	596
IP Led	135	142	140	132	130
Client Engagement Size	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Large > USD 5M	16	17	17	21	22
Medium > USD 1M, < USD 5M	63	65	66	76	84
People Numbers	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Technical	10001	11533	12706	13833	14657
Sales and Business Development	268	277	273	308	296
Others	551	628	701	763	926
Total	10820	12438	13680	14904	15879
Linear Revenue Per Billed PM*	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Global Delivery Centers	16993	16790	16603	17004	16544
India	4304	4204	4203	4286	4307
Attrition Rate	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
TTM Basis	10.6%	10.3%	11.7%	16.6%	23.6%
IP Led	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
IP Led Person Months	3893	3606	3546	3918	4000
DSO	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Days	63	57	55	54	55
Efforts and Utilization Mix — Linear	Q2-FY 21	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22
Billable Person Months	23006	25342	28670	30807	33212
Global Delivery Centers	3086	3104	3345	3480	3840
India	19920	22238	25325	27327	29372
Billed Person Months	18680	20530	22686	24676	27503
Global Delivery Centers	2647	2651	2794	3080	3840
India	16033	17879	19892	21596	29370
Linear Utilization					
Blended	81.2%	81.0%	79.1%	80.1%	82.8%
Global Delivery Centers	85.8%	85.4%	83.5%	88.5%	87.3%
India	80.5%	80.4%	78.5%	79.0%	82.2%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement					
Income Statement (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	502	566	750	968	1105
Change (%)	4.3%	12.9%	32.5%	29.0%	14.2%
Revenues	35,658	41,879	55,601	72,093	82,418
Change (%)	5.9%	17.4%	32.8%	29.7%	14.3%
Total Expenses	30,728	35,049	46,538	60,234	68,407
EBITDA	4,930	6,830	9,063	11,859	14,011
Other Income	1,254	1,020	1,414	1,483	1,556
Depreciation	1,660	1,756	1,334	1,788	1,978
Interest	0	0	0	0	0
PBT	4,523	6,094	9,143	11,555	13,589
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	4,523	6,094	9,143	11,555	13,589
Tax	1,121	1,588	2,322	2,935	3,452
Rate (%)	24.8%	26.1%	25.4%	25.4%	25.4%
PAT	3,403	4,507	6,820	8,620	10,137
MI & Associates	0	0	0	0	0
Consolidated PAT	3,403	4,507	6,820	8,620	10,137
Change (%)	-3.2%	32.4%	51.3%	26.4%	17.6%

Balance Sheet					
Balance Sheet (INR Mn)	FY20	FY21	FY22E	FY23	FY24
Sources of Funds					
Share Capital	764	764	764	764	764
Reserves & Surplus	23,093	27,192	29,678	33,421	39,400
Net Worth	23,858	27,957	30,442	34,185	40,165
Loan Funds	46	44	44	44	44
MI, Deferred Tax & other Liabilities	0	0	0	0	0
Capital Employed	23,904	28,001	30,487	34,229	40,209
Application of Funds					
Net Block	2,225	3,476	4,676	5,876	7,076
CWIP	303	122	122	122	122
Other Non-current Assets	2,214	1,783	1,783	1,783	1,783
Deferred Tax Assets	960	1,038	1,038	1,038	1,038
Net Fixed Assets	5,702	6,418	7,618	8,818	10,018
Investments	9,786	9,996	9,996	9,996	9,996
Debtors	5,922	5,709	7,617	9,876	11,290
Inventories	-	-	-	-	-
Cash & Bank Balance	4,572	9,809	13,388	16,744	22,033
Loans & Advances & other CA	4,578	4,945	4,945	4,945	4,945
Total Current Assets	15,072	20,463	25,950	31,565	38,268
Current Liabilities	4,863	6,157	10,359	13,431	15,355
Provisions	1,794	2,719	2,719	2,719	2,719
Net Current Assets	8,416	11,587	12,873	15,415	20,195
Total Assets	23,904	28,001	30,487	34,229	40,209

Cash Flow Statement					
Cash Flow Statement (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	4,523	6,094	9,143	11,555	13,589
Depreciation	1,660	1,756	1,334	1,788	1,978
Interest & others	-1,254	-1,020	-1,414	-1,483	-1,556
Cash flow before WC changes	4,930	6,830	9,063	11,859	14,011
(Inc)/dec in working capital	329	1,876	2,294	813	509
Operating CF after WC changes	5,259	8,707	11,357	12,673	14,520
Less: Taxes	-1,121	-1,588	-2,322	-2,935	-3,452
Operating Cash Flow	4,139	7,119	9,034	9,738	11,069
(Inc)/dec in F.A + CWIP	-1,423	-897	-1,200	-1,200	-1,200
(Pur)/sale of investment	-2,145	-210	0	0	0
Cash Flow from Investing	-3,567	-1,108	-1,200	-1,200	-1,200
Free Cash Flow (FCF)	3,393	5,868	7,834	8,538	9,869
Loan raised/(repaid)	34	-2	0	0	0
Equity raised	-27	0	0	0	0
Interest & others	-1,430	297	-3,185	-4,112	-3,510
Dividend	-1,301	-1,070	-1,070	-1,070	-1,070
Cash Flow from Financing Activities	-2,724	-774	-4,255	-5,182	-4,580
Net inc/(dec) in cash	-2,152	5,237	3,579	3,356	5,289
Opening balance of cash	6,724	4,572	9,809	13,388	16,744
Closing balance of cash	4,572	9,809	13,388	16,744	22,033

Key Ratios					
Key Ratios (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Per share (Rs)					
EPS	44.4	59.0	86.2	107.7	126.7
CEPS	66.2	81.9	103.1	130.1	151.4
BVPS	312.2	365.8	384.8	427.3	502.1
DPS	12.0	10.0	11.0	12.0	13.0
Div. Payout (%)	27.0%	17.0%	12.8%	11.1%	10.3%
Valuation (x)					
P/E	34.9	60.8	46.8	37.5	31.9
P/CEPS	23.3	43.8	39.2	31.0	26.7
P/BV	5.0	9.8	10.5	9.4	8.0
EV/EBITDA	23.1	38.7	33.8	25.8	21.5
Dividend Yield (%)	0.8%	0.3%	0.3%	0.3%	0.3%
Return Ratio (%)					
EBIDTA Margin	13.8%	16.3%	16.3%	16.5%	17.0%
PAT Margin	9.5%	10.8%	12.3%	12.0%	12.3%
ROE	14.3%	16.1%	22.4%	25.2%	25.2%
ROCE	13.7%	18.1%	25.4%	29.4%	29.9%
Leverage Ratio (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.3	-0.4	-0.5	-0.5
Turnover Ratios					
Asset Turnover (x)	1.5	1.5	1.8	2.1	0.0
Receivable Days	61	50	50	50	50
Payable days	68	77	68	68	68

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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