

CMP: INR 3,039

Rating: Accumulate

Target Price: INR 3,428

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)	2,32,260
52w H/L (INR)	3130/708
Avg Yearly Vol (in 000')	188

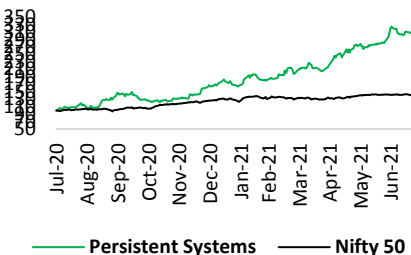
Shareholding Pattern %

(As on June, 2021)

Promoters	31.26
FII	19.44
DII	29.17
Public & Others	20.13

Stock Performance (%)	3m	6m	12m
Persistent	27.7	66.2	311.1
Nifty	8.92	27.3	55.5

Persistent Vs Nifty



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Persistence System (PSL) overall has reported a robust set of numbers in Q1 FY22. Consolidated revenue stood at INR 12,299 Mn, against our estimate of INR 11,913 mn registering +27.3%YoY/+9.1%QoQ highest revenue in this quarter. Consolidated EBITDA stood at INR 2,015 mn, against our estimate of INR 2,052 mn, up by 38.2%YoY/+7.0% QoQ. On the margins front, EBITDA margin improved by 168bps YoY/contracted 53bps QoQ to 16.4%. Consolidated PAT saw a rise of 68%YoY/+9.8% QoQ to INR 1,512 mn against our estimates of INR 1,536 Mn. EPS stood at INR 19.79 in Q1 FY22 against INR 11.78 in Q1 FY21 (INR 18.03 in Q4 FY21).

Q1 FY22 Conference call Highlights:

- **Order Booking:** The order booking for the Q1 FY22 was at \$244.8 million in Total Contract Value (TCV) and at \$188.83 million in Annual Contract Value (ACV). The new addition toward the order booking in TCV are \$147.7 mn and the ACV is \$93.5 mn.
- **Head Counts:** It was another good quarter in term of employee addition, 1256 net hire. Attrition Rate on a TTM basis is 16.6% against 11.7% in Q4FY21. The recruitment expenses were higher. The management is expecting that the hiring of the people will be more in coming quarters which will help in the growth for the company.
- **Revenue from top customer:** The revenue contribution from the top 1 client is 3.4%, top 2-5 clients are 15.6%, top 6-11 clients are 12% and the top 11-20 are 10.9%.
- **Business segment:** The segment mix revenue consists of 30.8% from BFSI, 20.5% from healthcare & life science and 48.7% from software industries.
- **Margin Outlook:** Persistent has initiated wage hike from July 2021. Management stated that the impact of wage hike (200-275 bps) will be partially offset by margin levers of utilization, pyramid optimization, and revenue growth leverage with a net impact of around 75-100 bps in 2Q22. Travel expenses are also expected to come back slowly with an impact of 30-40 bps in the next 2-3 quarters but they are expected to be below pre-covid levels.

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, In the past, Persistent has not faced any project-related delivery challenges. 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 3,039, Persistent is currently trading at FY23 P/E of 29.3x. **We recommend an Accumulate rating and assign 33x P/E multiple to its FY23E earnings of INR 103.9 per share which gives a TP of INR 3,428 per share.**

Particulars (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	33,660	5,806	3,517	44.0	17.2%	15.0%	13.7
FY20	35,658	4,930	3,403	44.4	13.8%	14.3%	34.9
FY21	41,879	6,830	4,507	59.0	16.3%	16.1%	51.5
FY22E	54,545	8,891	6,467	81.7	16.3%	21.2%	37.2
FY23E	68,716	11,304	8,309	103.9	16.5%	24.3%	29.3

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

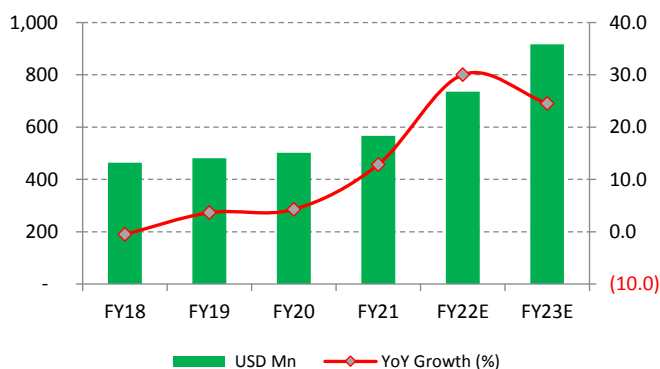
Q1 FY22 - Quarterly Performance (Consolidated)

Q1 FY22 margins were impacted by higher visa cost (50 bps impact) and impairment of start-up (impact of ~60 bps)

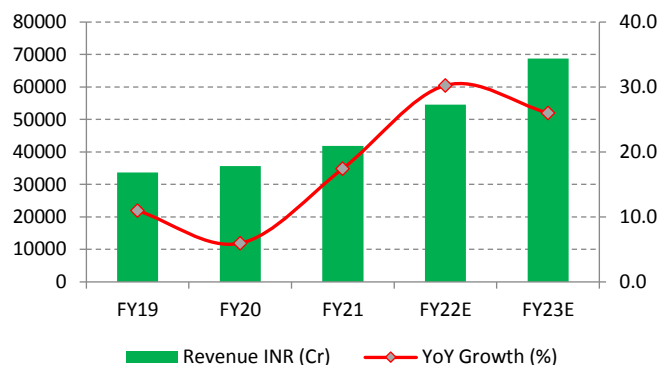
INR Mn (consolidated)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	166.8	152.8	131	9.1%	27.3%
Net Revenue	12,299	11,134	9,914	10.5%	24.1%
Employee Cost	9,128	8,397	7,136	8.7%	27.9%
Other Expenses	1,156	853	1,320	35.5%	-12.4%
EBITDA	2,015	1,883	1,458	7.0%	38.2%
EBITDA Margin %	16.4%	16.9%	14.7%	-53bps	168bps
Depreciation	350	419	436	-16.5%	-19.6%
EBIT	1,665	1,464	1,022	13.7%	62.9%
Other Income	388	400	212	-3.1%	82.8%
Finance Cost	23	16	14	42.9%	59.7%
Exceptional Item	-	-	-	-	-
PBT	2,031	1,849	1,220	9.8%	66.4%
Tax Expense	518	471	320	9.9%	61.7%
Effective Tax Rate %	25.5%	25.5%	26.2%	3bps	-74bps
PAT	1,512	1,378	900	9.8%	68.0%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,512	1,377.59	900	9.8%	68.0%
PAT Margin %	12.3%	12.4%	9.1%	-8bps	322bps
EPS (INR)	19.79	18.03	11.78	9.8%	68.0%

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

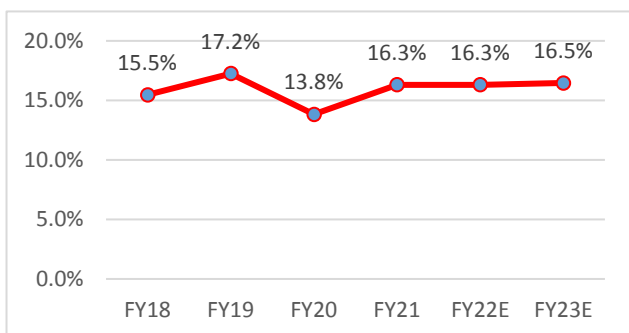
Revenues (US\$ mn) and Growth (%)



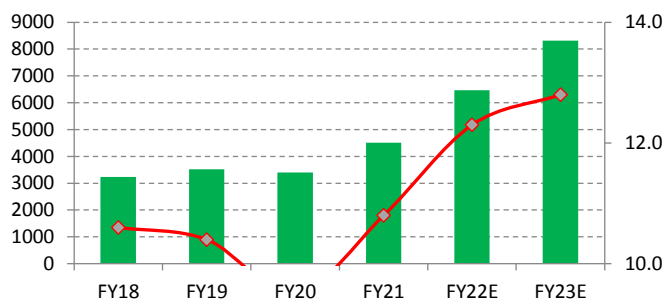
Revenue INR Mn and Growth (%)



EBITDA Margins (%)



PAT and PAT Margin (%)



Partnership with Red Hat, Salesforce & other hyperscalers, hiring of leadership (in Europe, digital tech & BFSI), inorganic growth and acceleration in digital technologies make Persistent a key beneficiary of multi-year growth in technology

Going forward, the company aims to have a wage hike (impact in Q2FY22E). This, coupled with an increase in travel and attrition is expected to further impact margins

Revenue	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Revenue from Operations, USD M	166.8	152.8	146.1	136	131
% Q - o -Q growth	9.20%	4.60%	7.40%	3.90%	3.10%
% Y - o -Y growth	27.30%	20.30%	12.90%	8.40%	9.50%
Revenue from Operations, INR M	12299	11134	10754	10077	9914
% Q - o -Q growth	10.50%	3.50%	6.70%	1.70%	7.00%
% Y - o -Y growth	24.10%	20.20%	16.50%	13.90%	19.10%
Business Offerings Revenue Mix	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Services	86.90%	85.10%	81.90%	83.80%	82.60%
IP Led	13.10%	14.90%	18.10%	16.20%	17.40%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Segment Revenue Mix	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
BFSI	30.8%	30.1%	29.5%	31.9%	31.8%
Healthcare & Life Sciences	20.5%	19.3%	19.1%	19.3%	19.7%
Software, Hi -Tech & Emerging Industries	48.7%	50.6%	51.4%	48.8%	48.5%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Geography Revenue Mix	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
North America	78.9%	79.2%	81.1%	82.9%	80.4%
Europe	9.5%	10.0%	8.8%	7.6%	10.2%
India	9.8%	8.9%	8.6%	8.1%	7.9%
ROW	1.8%	1.9%	1.5%	1.4%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue Concentration	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Top 1	17.0%	17.9%	18.5%	19.4%	17.7%
Top 5	36.5%	36.4%	37.8%	41.6%	40.8%
Top 10	46.7%	46.3%	47.0%	50.5%	49.0%
Revenue by Delivery Centers	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Global Development Centers	31.4%	30.4%	30.5%	33.1%	33.7%
India	55.5%	54.7%	51.4%	50.7%	48.9%
IP Led	13.1%	14.9%	18.1%	16.2%	17.4%
Client Billed	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Services	568	558	530	487	508
IP Led	132	140	142	135	140
Client Engagement Size	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Large > USD 5M	21	17	17	16	15
Medium > USD 1M, < USD 5M	76	66	65	63	63
People Numbers	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Technical	13833	12706	11533	10001	10027
Sales and Business Development	308	273	277	268	274
Others	763	701	628	551	528
Total	14904	13680	12438	10820	10829
Linear Revenue Per Billed PM*	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Global Delivery Centers	17004	16603	16790	16993	17036
India	4286	4203	4204	4304	4308
Attrition Rate	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
TTM Basis	16.6%	11.7%	10.3%	10.6%	12.7%
IP Led	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
IP Led Person Months	3918	3546	3606	3893	4031
DSO	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Days	54	55	57	63	69
Efforts and Utilization Mix-Linear	Q1-FY 22	Q4-FY 21	Q3-FY 21	Q2-FY 21	Q1-FY 21
Billable Person Months	81287	28670	25342	23006	22246
Global Delivery Centers	11202	3345	3104	3086	3060
India	70085	25325	22238	19920	19186
Billed Person Months	63820	22686	20530	18680	17461
Global Delivery Centers	9305	2794	2651	2647	2595
India	54516	19892	17879	16033	14866
Linear Utilization					
Blended	78.5%	79.1%	81.0%	81.2%	78.5%
Global Delivery Centers	83.1%	83.5%	85.4%	85.8%	84.8%
India	77.8%	78.5%	80.4%	80.5%	77.5%

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

Key Financials

Income Statement						
Income Statement (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenues (US\$ mn)	464	481	502	566	736	916
Revenues	30,337	33,660	35,658	41,879	54,545	68,716
Change (%)	5.4%	11.0%	5.9%	17.4%	30.2%	26.0%
Total Expenses	25,650	27,854	30,728	35,049	45,654	57,412
EBITDA	4,687	5,806	4,930	6,830	8,891	11,304
Other Income	1,190	630	1,254	1,020	1,414	1,690
Depreciation	1,585	1,573	1,660	1,756	1,636	1,855
Interest	0	0	0	0	0	0
PBT	4,293	4,863	4,523	6,094	8,669	11,139
Extra-ordinary	0	0	0	0	0	0
PBT after ext-ord.	4,293	4,863	4,523	6,094	8,669	11,139
Tax	1,062	1,347	1,121	1,588	2,202	2,829
Rate (%)	24.7%	27.7%	24.8%	26.1%	25.4%	25.4%
PAT	3,231	3,517	3,403	4,507	6,467	8,309
MI & Associates	0	0	0	0	0	0
Consolidated PAT	3,231	3,517	3,403	4,507	6,467	8,309
Change (%)	7.2%	8.8%	-3.2%	32.4%	43.5%	28.5%

Balance Sheet					
Balance Sheet (INR Mn)	FY19	FY20	FY21	FY22E	FY23
Sources of Funds					
Share Capital	791	764	764	764	764
Reserves & Surplus	22,656	23,093	27,192	29,678	33,421
Net Worth	23,447	23,858	27,957	30,442	34,185
Loan Funds	12	46	44	44	44
MI, Deferred Tax & other Liabilities	0	0	0	0	0
Capital Employed	23,459	23,904	28,001	30,487	34,229
Application of Funds					
Net Block	2,331	2,225	3,476	4,676	5,876
CWIP	316	303	122	122	122
Other Non-current Assets	2,094	2,214	1,783	1,783	1,783
Deferred Tax Assets	403	960	1,038	1,038	1,038
Net Fixed Assets	5,144	5,702	6,418	7,618	8,818
Investments	7,641	9,786	9,996	9,996	9,996
Debtors	4,923	5,922	5,709	7,472	9,413
Inventories	-	-	-	-	-
Cash & Bank Balance	6,724	4,572	9,809	13,336	16,578
Loans & Advances & other CA	4,122	4,578	4,945	4,945	4,945
Total Current Assets	15,769	15,072	20,463	25,753	30,936
Current Liabilities	3,156	4,863	6,157	10,162	12,802
Provisions	1,939	1,794	2,719	2,719	2,719
Net Current Assets	10,673	8,416	11,587	12,873	15,415
Total Assets	23,459	23,904	28,001	30,487	34,229

Cash Flow Statement					
Cash Flow Statement (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
PBT	4,863	4,523	6,094	8,669	11,139
Depreciation	1,573	1,660	1,756	1,636	1,855
Interest & others	-417	-1,254	-1,020	-1,414	-1,690
Cash flow before WC changes	6,018	4,930	6,830	8,891	11,304
(Inc)/dec in working capital	206	329	1,876	2,242	699
Operating CF after WC changes	6,224	5,259	8,707	11,133	12,003
Less: Taxes	-1,347	-1,121	-1,588	-2,202	-2,829
Operating Cash Flow	4,877	4,139	7,119	8,931	9,173
(Inc)/dec in F.A + CWIP	440	-1,423	-897	-1,200	-1,200
(Pur)/sale of investment	1,156	-2,145	-210	0	0
Cash Flow from Investing	1,596	-3,567	-1,108	-1,200	-1,200
Free Cash Flow (FCF)	4,503	3,393	5,868	7,731	7,973
Loan raised/(repaid)	-5	34	-2	0	0
Equity raised	-9	-27	0	0	0
Interest & others	2,184	-1,430	297	-3,133	-3,662
Dividend	-1,019	-1,301	-1,070	-1,070	-1,070
Cash Flow from Financing Activities	1,151	-2,724	-774	-4,203	-4,732
Net inc /(dec) in cash	7,625	-2,152	5,237	3,527	3,241
Opening balance of cash	2,414	6,724	4,572	9,809	13,336
Closing balance of cash	6,724	4,572	9,809	13,336	16,578

Key Ratios						
Key Ratios (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)						
EPS	40.8	44.0	44.4	59.0	81.7	103.9
CEPS	63.0	66.6	66.2	81.9	102.4	127.1
BVPS	278.3	306.8	312.2	365.8	384.8	427.3
DPS	10.0	11.0	12.0	10.0	11.0	12.0
Div. Payout (%)	23.7%	23.9%	27.0%	17.0%	13.5%	11.6%
Valuation (x)						
P/E	14.8	13.7	34.9	51.5	37.2	29.3
P/CEPS	9.6	9.0	23.3	37.1	29.7	23.9
P/BV	2.2	2.0	5.0	8.3	7.9	7.1
EV/EBITDA	9.3	6.8	23.1	32.6	25.5	20.0
Dividend Yield (%)	1.7%	1.8%	0.8%	0.3%	0.4%	0.4%
Return Ratio (%)						
EBITDA Margin	15.5%	17.2%	13.8%	16.3%	16.3%	16.5%
PAT Margin	10.6%	10.4%	9.5%	10.8%	11.9%	12.1%
ROE	15.2%	15.0%	14.3%	16.1%	21.2%	24.3%
ROCE	14.4%	18.0%	13.7%	18.1%	23.8%	27.6%
Leverage Ratio (x)						
Total D/E	0.0	0.0	0.0	0.0	0.0	1.0
Net D/E	-0.1	-0.3	-0.2	-0.3	-0.4	-0.5
Turnover Ratios						
Asset Turnover (x)	1.4	1.4	1.5	1.5	1.8	2.0
Receivable Days	58	53	61	50	50	50
Payable days	62	55	68	77	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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