

*Muted numbers; margin pressure visible, while valuation remains inexpensive, we believe it will take time for new management to show results, maintain Hold with revised TP of Rs 649*

Current	Previous
CMP: Rs 602	
Rating: Hold	Rating: Hold
Target: Rs 649	Target: Rs 614

(NR-Not Rated)

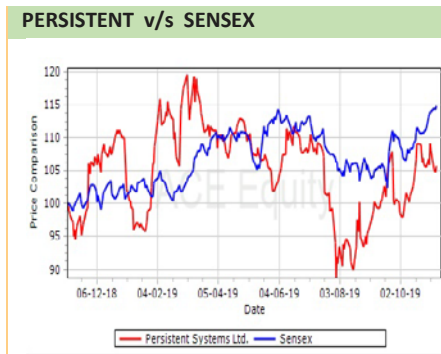
Stock Info	
INDEX	
BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Information Technology
Face Value (Rs)	10
Equity Capital (Rs Mn)	764
Market Cap (Rs Mn)	45993
52w H/L (Rs)	696 /469
Avg Weekly Vol (BSE+NSE)	638,140

Shareholding Pattern	%
<b>(As on Sept, 2019)</b>	
Promoters	31.9
Public & Others	68.1

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
PERSISTENT	12.7	-4.5	7.2
SENSEX	9.4	4.8	15.6

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

**Monami Manna**

Sr. Research Analyst

Tel: +91 22 42254817

monami.manna@arihantcapital.com

*Persistent Systems reported stable set of numbers in Q2FY20, mostly beating our estimate except a slight miss on the EBITDA and margin front. Consolidated revenue for the quarter stood at Rs 8,846 mn, which was above our estimate of Rs 8,554 mn, registering +5.9% YoY/+6.3% QoQ growth. Reported EBITDA grew +1.2% QoQ/-15.3% YoY to Rs 1,216 mn, which was a tad below our estimate of Rs 1,240 mn. EBITDA margin contracted by 69 bps QoQ/344 bps YoY to 13.8%, which was slightly below our estimate of 14.5%. Contraction in margin came on the back of rising staff costs and higher other expenses. Consolidated PAT for the quarter stood at Rs 861 mn beating our estimate of Rs 855 mn, showing a growth of +4.4% QoQ/-2.3% QoQ. As expected, this quarter was lacklustre for Persistent and Q2FY20 numbers mostly matched our estimate. We are of the opinion that it will take time for the new management to catapult the company to a new growth orbit as so far change in leadership has not yielded any perceptible result. We have cut our FY20E/21E estimate to build in lower margin, however due to inexpensive valuation maintain our Hold rating on the stock, with a revised target price of Rs 649.*

**Q2FY20 Highlights**

- USD Revenue stood at US\$125.5 mn, growth of +4.9% QoQ/+6.2% YoY. In Rupee terms, revenue was at Rs 8846 mn, growing 6.3% QoQ/+5.9% YoY.
- EBITDA stood at Rs 1216 mn, growth of 1.2% QoQ and de-growth of 15.3% YoY. EBITDA margin was at 13.8% v/s 17.2% YoY and 14.4% QoQ.
- PAT stood at Rs 861 mn, registering a growth of +4.4% QoQ/-2.3% YoY. PAT margins stood at 9.7% v/s 10.5% YoY and 9.9% QoQ.
- In USD terms, digital revenues for the quarter grew +8.1% YoY/+3.3% QoQ, while alliance and services revenues shown stable growth of +1.1% YoY/+6% QoQ and +11.6% YoY/+3.5% QoQ.
- During the quarter contribution from top 10 clients increased to 53.4% against 52.4% in Q2FY19. However top client contribution continued to remain muted at 23.7% in Q2FY20 against 25.7% in Q2FY19.

**Valuations**

At CMP of Rs 602, Persistent trades at FY20E and FY21E, P/E of 13.1x and 11.6x respectively. Factoring in Q2FY20 results, we have cut our FY20E/FY21E estimates to build in lower margin for FY20E/FY21E. We marginally raised our target P/E from 11.5x to 12x, and now value the stock at a target P/E of 12x its FY21E earnings, yielding a price of Rs 649 per share. **Maintain Hold.**

**Financial Performance**

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	30,337	4,687	3,231	40.8	15.5	15.2	14.8
FY19	33,660	5,806	3,517	44.5	17.2	15.0	13.5
FY20E	35,500	4,935	3,515	46.0	13.9	13.8	13.1
FY21E	37,800	5,859	3,969	51.9	15.5	14.9	11.6

Source: Company, Arihant Research

## Q2FY20 and H1FY20 Financial Performance

Rs Mn (consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	8,846	8,321	8,356	6.3%	5.9%	17,167	16,698	2.8%
Employee Cost	6,267	5,776	5,739	8.5%	9.2%	12,043	11,202	7.5%
Other Expenses	1,363	1,343	1,180	1.5%	15.5%	2,706	2,659	1.8%
<b>EBITDA</b>	<b>1,216</b>	<b>1,202</b>	<b>1,436</b>	<b>1.2%</b>	<b>-15.3%</b>	<b>2,418</b>	<b>2,837</b>	<b>-14.8%</b>
EBITDA Margin %	13.8%	14.4%	17.2%	-69bps	-344bps	14.1%	17.0%	-290bps
Depreciation	425	386	399	10.0%	6.6%	811	799	1.5%
<b>EBIT</b>	<b>792</b>	<b>816</b>	<b>1,038</b>	<b>-3.0%</b>	<b>-23.7%</b>	<b>1,607</b>	<b>2,037</b>	<b>-21.1%</b>
Other Income	382	300	232	27.3%	64.7%	683	419	63.0%
Finance Cost	18	19	1	NA	NA	37	1	NA
Exceptional Item	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>1,156</b>	<b>1,098</b>	<b>1,269</b>	<b>5.3%</b>	<b>-8.9%</b>	<b>2,253</b>	<b>2,455</b>	<b>-8.2%</b>
Tax Expense	295	273	387	8.1%	-23.9%	568	700	-18.9%
Effective Tax Rate %	25.5%	24.9%	30.5%	+66bps	-501bps	25.2%	28.5%	-332bps
<b>PAT</b>	<b>861</b>	<b>825</b>	<b>881</b>	<b>4.4%</b>	<b>-2.3%</b>	<b>1,685</b>	<b>1,755</b>	<b>-4.0%</b>
MI & Associates	-	-	-	-	-	-	-	-
<b>Consolidated PAT</b>	<b>861</b>	<b>825</b>	<b>881</b>	<b>4.4%</b>	<b>-2.3%</b>	<b>1,685</b>	<b>1,755</b>	<b>-4.0%</b>
PAT Margin %	9.7%	9.9%	10.5%	-18bps	-82bps	9.8%	10.5%	-69bps
<b>EPS (Rs)</b>	<b>11.3</b>	<b>10.8</b>	<b>11.0</b>	<b>4.4%</b>	<b>2.2%</b>	<b>22.1</b>	<b>21.9</b>	<b>0.5%</b>

Source: Company, Arianth Research

## Post Result Conference Call Highlights

- During the quarter EBITDA margin was impacted by wage hikes, which was somewhat offset by 25 bps forex benefit due to favourable currency movement and due to reduction in carry-forward leave from 75 days to 60 days which has led to benefit at the gross margin level. The management remain focussed on margin improvement and preserving cash.
- In BFSI vertical, the company won a large 3-year deal from a US-based bank. Also in healthcare, a multi-year deal was secured by the company. Persistent also secured a renewal deal from one of its largest healthcare clients.
- Sales & marketing expenses gone up due to some legal and due diligence expenses pertaining to one acquisition and also due to some relationship exercise done for some clients. Though there was some reversal in sales & marketing expenses last year, due to which the expense this quarter looks inflated. Going forward as the revenue goes up the company is confident that sales and marketing expense will go down and will try to maintain the sales & marketing expenses at 10% of sales.
- The management is reviewing the new tax regime and going forward at a steady state basis expect the effective tax rate to be in the range of 24-25% as against the current rate of 26%.

## Consolidated Financials

## Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	30,337	33,660	35,500	37,800
Change (%)	5.4%	11.0%	5.5%	6.5%
<b>Total Expenses</b>	25,650	27,854	30,566	31,941
<b>EBITDA</b>	4,687	5,806	4,935	5,859
Other Income	1,190	630	1,350	1,134
Depreciation	1,585	1,573	1,598	1,701
Interest	0	0	0	0
<b>PBT</b>	<b>4,293</b>	<b>4,863</b>	<b>4,687</b>	<b>5,292</b>
Extra-ordinary	0	0	0	0
<b>PBT after ext-ord.</b>	4,293	4,863	4,687	5,292
Tax	1,062	1,347	1,172	1,323
Rate (%)	24.7%	27.7%	25.0%	25.0%
<b>PAT</b>	<b>3,231</b>	<b>3,517</b>	<b>3,515</b>	<b>3,969</b>
<b>MI &amp; Associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Consolidated PAT</b>	<b>3,231</b>	<b>3,517</b>	<b>3,515</b>	<b>3,969</b>
Change (%)	7.2%	8.8%	0.0%	12.9%

Source: Company, Arianth Research

## Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
<b>Sources of Funds</b>				
Share Capital	800	791	764	764
Reserves & Surplus	20,472	22,656	24,704	25,836
<b>Net Worth</b>	<b>21,272</b>	<b>23,447</b>	<b>25,468</b>	<b>26,600</b>
<b>Loan Funds</b>	<b>17</b>	<b>12</b>	<b>12</b>	<b>12</b>
MI, Deferred Tax & other Liabilities	270	0	0	0
<b>Capital Employed</b>	<b>21,559</b>	<b>23,459</b>	<b>25,480</b>	<b>26,612</b>
<b>Application of Funds</b>				
Net Block	2,581	2,331	2,831	3,331
CWIP	52	316	316	316
Other Non-current Assets	2,669	2,094	2,094	2,094
Deferred Tax Assets	642	405	405	405
<b>Net Fixed Assets</b>	<b>5,945</b>	<b>5,146</b>	<b>5,646</b>	<b>6,146</b>
<b>Investments</b>	<b>8,797</b>	<b>7,641</b>	<b>7,641</b>	<b>7,641</b>
Debtors	4,847	4,923	4,863	5,178
Inventories	0	0	0	0
Cash & Bank Balance	2,414	6,724	6,292	6,672
Loans & Advances & other CA	4,705	4,122	7,840	8,092
<b>Total Current Assets</b>	<b>11,966</b>	<b>15,769</b>	<b>18,995</b>	<b>19,942</b>
Current Liabilities	3,390	3,158	4,863	5,178
Provisions	1,759	1,939	1,939	1,939
<b>Net Current Assets</b>	<b>6,817</b>	<b>10,671</b>	<b>12,193</b>	<b>12,825</b>
<b>Total Assets</b>	<b>21,559</b>	<b>23,459</b>	<b>25,480</b>	<b>26,612</b>

Source: Company, Arianth Research

**Cash Flow Statement**

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>4,293</b>	<b>4,863</b>	<b>4,687</b>	<b>5,292</b>
Depreciation	1,585	1,573	1,598	1,701
Interest & others	-496	-417	-1,349	-1,132
Cash flow before WC changes	5,381	6,018	4,936	5,861
<b>(Inc)/dec in working capital</b>	<b>44</b>	<b>207</b>	<b>1,765</b>	<b>0</b>
Operating CF after WC changes	5,426	6,226	6,700	5,861
Less: Taxes	-1,214	-1,347	-1,172	-1,323
<b>Operating Cash Flow</b>	<b>4,212</b>	<b>4,879</b>	<b>5,529</b>	<b>4,538</b>
(Inc)/dec in F.A + CWIP	-651	438	-500	-500
(Pur)/sale of investment	-2,822	1,156	0	0
<b>Cash Flow from Investing</b>	<b>-3,474</b>	<b>1,594</b>	<b>-500</b>	<b>-500</b>
<b>Free Cash Flow (FCF)</b>	<b>3,560</b>	<b>4,505</b>	<b>5,029</b>	<b>4,038</b>
Loan raised/(repaid)	-5	-5	0	0
Equity raised	0	-9	-27	0
Interest & others	1,120	-3,153	-6,438	-4,662
Dividend	-950	1,004	1,004	1,004
<b>Cash Flow from Financing Activities</b>	<b>166</b>	<b>-2,163</b>	<b>-5,461</b>	<b>-3,658</b>
<b>Net inc /(dec) in cash</b>	<b>904</b>	<b>4,310</b>	<b>-432</b>	<b>380</b>
Opening balance of cash	1,510	2,414	6,724	6,292
Closing balance of cash	2,414	6,724	6,292	6,672

Source: Company, Arianth Research

**Key Ratios**

Y/E March	FY18	FY19	FY20E	FY21E
<b>Per share (Rs)</b>				
EPS	40.8	44.5	46.0	51.9
CEPS	63.0	66.6	66.9	74.2
BVPS	278.3	306.8	333.2	348.1
DPS	10.0	11.0	11.0	11.0
Div. Payout (%)	23.7%	23.9%	23.9%	21.2%
<b>Valuation (x)</b>				
P/E	14.8	13.5	13.1	11.6
P/CEPS	9.6	9.0	9.0	8.1
P/BV	2.2	2.0	1.8	1.7
EV/EBITDA	9.3	6.8	8.1	6.7
Dividend Yield (%)	1.7%	1.8%	1.8%	1.8%
<b>Return Ratio (%)</b>				
EBIDTA Margin	15.5%	17.2%	13.9%	15.5%
PAT Margin	10.6%	10.4%	9.9%	10.5%
ROE	15.2%	15.0%	13.8%	14.9%
ROCE	14.4%	18.0%	13.1%	15.6%
<b>Leverage Ratio (x)</b>				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.1	-0.3	-0.2	-0.3
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.4	1.4	1.4	1.4
Receivable Days	58	53	50	50
Payable days	62	55	50	50

Source: Co, Arianth Research

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park ,  
 Building No. 10, 1<sup>st</sup> Floor,  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E).  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

**Registered Office**

Arihant House  
 E-5 RatlamKothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

**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%

**Research****Analyst****Contact****Website****Email Id****Registration No.**

INH000002764

SMS: 'Arihant' to 56677

[www.arihantcapital.com](http://www.arihantcapital.com)[research@arihantcapital.com](mailto:research@arihantcapital.com)

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

**Arihant Capital Markets Ltd.**

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
 Andheri Ghatkopar Link Road Chakala, Andheri (E)  
 Tel. 022-42254800 Fax. 022-42254880