

CMP: Rs 1547

Rating: Accumulate

Target Price: Rs 1768

Stock Info

BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Computers-Software
Face Value (Rs)	10
Equity Capital (Rs mn)	764
Mkt Cap (Rs mn)	1,16,166
52w H/L (Rs)	1700/ 420
Avg Yearly Vol (in 000')	168

Shareholding Pattern %

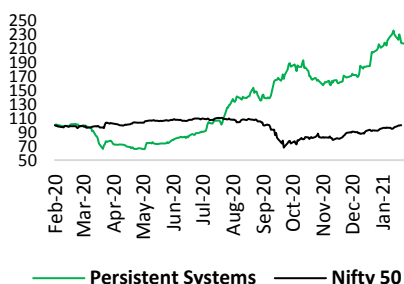
(As on Dec, 2020)

Promoters	31.29
FII	18.71
DII	29.51
Public & Others	20.49

Stock Performance (%)

	3m	6m	12m
Persistent	31.5	65.9	115.1
Nifty	19.2	25.3	19.0

Persistent Vs Nifty



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Persistent (PSL) has reported a good set of numbers in Q3FY21. The result is above our estimates all fronts. The company has reported highest ever consolidated revenue stood at Rs 10,754 Mn, registering +16.5% YoY/+6.7% QoQ. EBITDA stood at Rs 1,825 Mn, up by 47.7%YoY/9.7% QoQ. On the margins front, EBITDA margin expanded by 358bps YoY/45bps QoQ to 17%. Consolidated PAT saw a rise of 37.5%YoY/18.6% QoQ to Rs 1,209 Mn vs 879 Mn in Q3FY20. EPS at Rs.15.82 vs Rs.11.50 YoY (Rs. 13.34 QoQ). Declared dividend of Rs. 14 per share.

Q3FY21 Highlights

- **BFSI**, -0.7% QoQ declined slightly due to cost control by couple of large customers. Management is hopeful of BFSI vertical to revert to growth. More banks are working new products online, on infra modernizations roadmaps on what can go on cloud. As more products are on Digital side, security spend is also there. Top 5 Global Bank is a one of the largest customer of Persistent.
- **Healthcare**, +6.3% QoQ On the online side work is in creating Digital front door, apps for Patient experience. On the devices side, there is acceleration in Product development roadmaps.
- Linear revenue grew 5.0% QoQ despite furloughs driven by volume growth
- Volume is Onsite +0.2% ; +11.5% QoQ
- Pricing is Onsite -1.2%; -2.3% QoQ
- Margins outlook, Wage hike impact was only for 2 months in Q3. So 1 month impact will come in Q4 and Efficiencies are still there. In Q4, furloughs will also not be there.
- Margin headwinds include ramp up of Travel and Facility expenses which will be offset by revenue growth. Management believes there is still some more room to improve margins.
- Persistent has a plan to add 300-400 net hiring in Q3 & Q4.

Valuations

This is the strongest quarter for IP and specifically for its CE/CLM product suite. For the first time ever in its history, PSL put out total contract value (TCV) of all contracts, new or renewal and large and otherwise. It was US\$305mn, highest in the 5 quarters it has been tracked. Of this, ~US\$176mn was indicated to be net new. The annual contract value (ACV) was at US\$256mn, of which US\$141mn was indicated to be net new. we have significantly raised our estimates on revenue, margins and EPS as we see a very strong order booking number in the context of its size, both in net new TCV/ACV. At CMP of Rs 1547, Persistent is trading at FY23 P/E of 18x. **We value Persistent at P/E of 21x to its FY23E EPS 84, which yields target price of Rs 1,768 per share. We upgrade our rating to Accumulate from Hold earlier.**

Particulars (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	33,660	5,806	3,517	44	17.2%	15.0%	14
FY20	35,658	4,930	3,403	44	13.8%	14.3%	35
FY21E	41,282	6,275	4,371	57	15.2%	16.5%	27
FY22E	46,129	8,026	5,665	72	17.4%	19.5%	22
FY23E	51,598	9,494	6,735	84	12.3%	20.7%	18

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

Q3 FY21 - Quarterly Performance (Consolidated)

Rs Mn (consolidated)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Net Revenue	10,754	10,077	9,227	6.7%	16.5%
Employee Cost	7,741	7,448	6,593	3.9%	17.4%
Other Expenses	1,188	965	1,399	23.1%	-15.1%
EBITDA	1,825	1,664	1,235	9.7%	47.7%
<i>EBITDA Margin %</i>	<i>17.0%</i>	<i>16.5%</i>	<i>13.4%</i>	<i>45bps</i>	<i>358bps</i>
Depreciation	461	440	428	4.8%	7.6%
EBIT	1,364	1,224	807	11.4%	69.0%
Other Income	300	165	348	81.9%	-13.7%
Finance Cost	14	14	15	NA	NA
Exceptional Item	-	-	-	-	-
PBT	1,650	1,375	1,140	20.0%	44.8%
Tax Expense	441	355	260	24.1%	69.2%
<i>Effective Tax Rate %</i>	<i>26.7%</i>	<i>25.8%</i>	<i>22.9%</i>	<i>88bps</i>	<i>386bps</i>
PAT	1,209	1,020	879	18.6%	37.5%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,209	1,020	879	18.6%	37.5%
<i>PAT Margin %</i>	<i>11.2%</i>	<i>10.1%</i>	<i>9.5%</i>	<i>112bps</i>	<i>172bps</i>
EPS (Rs)	15.82	13.34	11.50	18.6%	37.5%

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

Q3FY21 Concall Highlights

- Management closed FY20 very strong for the first time in Persistence's history crossing the half billion – dollar mark in revenue.
- Management had particular strength in technology services unit, which delivered a robust quarter driven through solid expansion.
- TCV Signed \$302mn deal wins (including new and renewal) - one of the healthiest in last 5 quarters. New deal wins is at \$176 mn from Existing and New customers. Deal tenures are getting shorter (Lesser than 3 years)
- In Q4 Outlook, Management is hopeful of no revenue decline in Q4 due to seasonality.
- Persistence explore new technologies, delivery models and new ways of working together to deliver digital excellence to its costumers.
- Management continued a strong expansion of new logos across the business.
- Persistent prescient adoption of cloud technologies internally allowed management to enable more than 99% of employees to work from home within the first week. This helped us ensure business continuity for customers.
- Persistent continue to deliver engineering solution expertise in key industry segment and service lines, helping customers to imagine their new digital future.
- Management continued to see growth in average deal size during the quarter.
- Management saw secular growth across top customers, in particular across BFSI and software & Hi-Tech Industry segments.
- Management delivering differentiate value to its clients by anticipation what they need beyond their current requirements, tapping the best expertise from across Persistent.

Key Financials

Income Statement (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	33,660	35,658	41,282	46,129	51,598
Change (%)	11.0%	5.9%	15.8%	11.7%	11.9%
Total Expenses	27,854	30,728	35,007	38,102	42,104
EBITDA	5,806	4,930	6,275	8,026	9,494
Other Income	630	1,254	1,267	1,279	1,292
Depreciation	1,573	1,660	1,713	1,753	1,806
Interest	0	0	0	0	0
PBT	4,863	4,523	5,828	7,553	8,980
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	4,863	4,523	5,828	7,553	8,980
Tax	1,347	1,121	1,457	1,888	2,245
Rate (%)	27.7%	24.8%	25.0%	25.0%	25.0%
PAT	3,517	3,403	4,371	5,665	6,735
MI & Associates	0	0	0	0	0
Consolidated PAT	3,517	3,403	4,371	5,665	6,735
Change (%)	8.8%	-3.2%	28.5%	29.6%	18.9%

Balance Sheet (Rs Mn)	FY19	FY20	FY21E	FY22	FY23
Sources of Funds					
Share Capital	791	764	764	764	764
Reserves & Surplus	22,656	23,093	25,769	28,255	31,709
Net Worth	23,447	23,858	26,533	29,019	32,473
Loan Funds	12	46	46	46	46
MI, Deferred Tax & other Liabilities	0	0	0	0	0
Capital Employed	23,459	23,904	26,580	29,065	32,519
Application of Funds					
Net Block	2,331	2,225	2,725	3,224	3,722
CWIP	316	303	303	303	303
Other Non-current Assets	2,094	2,214	2,214	2,214	2,214
Deferred Tax Assets	403	960	960	960	960
Net Fixed Assets	5,144	5,702	6,202	6,701	7,199
Investments	7,641	9,786	9,786	9,786	9,786
Debtors	4,923	5,922	5,655	6,445	7,210
Inventories	0	0	0	0	0
Cash & Bank Balance	6,724	4,572	8,368	10,295	13,452
Loans & Advances & other CA	4,122	4,578	4,583	4,583	4,583
Total Current Assets	15,769	15,072	18,606	21,323	25,245
Current Liabilities	3,156	4,863	6,221	6,951	7,916
Provisions	1,939	1,794	1,794	1,794	1,794
Net Current Assets	10,673	8,416	10,592	12,579	15,535
Total Assets	23,459	23,904	26,580	29,065	32,519

Cash Flow Statement (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT	4,863	4,523	5,828	7,553	8,980
Depreciation	1,573	1,660	1,713	1,753	1,806
Interest & others	-417	-1,254	-1,267	-1,279	-1,292
Cash flow before WC changes	6,018	4,930	6,275	8,026	9,494
(Inc)/dec in working capital	206	329	1,625	-60	201
Operating CF after WC changes	6,224	5,259	7,899	7,966	9,695
Less: Taxes	-1,347	-1,121	-1,457	-1,888	-2,245
Operating Cash Flow	4,877	4,139	6,442	6,078	7,450
(Inc)/dec in F.A + CWIP	440	-1,423	-500	-499	-498
(Pur)/sale of investment	1,156	-2,145	0	0	0
Cash Flow from Investing	1,596	-3,567	-500	-499	-498
Free Cash Flow (FCF)	4,503	3,393	5,942	5,579	6,952
Loan raised/(repaid)	-5	34	0	0	0
Equity raised	-9	-27	0	0	0
Interest & others	-1,130	-1,430	-846	-2,352	-2,494
Dividend	-1,019	-1,301	-1,301	-1,301	-1,301
Cash Flow from Financing Activities	-2,163	-2,724	-2,146	-3,653	-3,795
Net inc / (dec) in cash	4,311	-2,152	3,796	1,927	3,157
Opening balance of cash	2,414	6,724	4,572	8,368	10,295
Closing balance of cash	6,724	4,572	8,368	10,295	13,452

Key Ratios (Rs Mn)	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	44.0	44.4	57.2	71.6	84.2
CEPS	66.6	66.2	79.6	93.8	106.8
BVPS	306.8	312.2	347.2	366.8	405.9
DPS	11.0	12.0	12.0	12.0	13.0
Div. Payout (%)	23.9%	27.0%	21.0%	16.8%	15.4%
Valuation (x)					
P/E	13.7	34.9	27.0	21.6	18.4
P/CEPS	9.0	23.3	19.4	16.5	14.5
P/BV	2.0	5.0	4.5	4.2	3.8
EV/EBITDA	6.8	23.1	17.5	14.0	11.6
Dividend Yield (%)	1.8%	0.8%	0.8%	0.8%	0.8%
Return Ratio (%)					
EBITDA Margin	17.2%	13.8%	15.2%	17.4%	18.4%
PAT Margin	10.4%	9.5%	10.6%	12.3%	13.1%
ROE	15.0%	14.3%	16.5%	19.5%	20.7%
ROCE	18.0%	13.7%	17.2%	21.6%	23.6%
Leverage Ratio (x)					
Total D/E	0.0	0.0	0.0	0.0	1.0
Net D/E	-0.3	-0.2	-0.3	-0.4	-0.4
Turnover Ratios					
Asset Turnover (x)	1.4	1.5	1.6	1.6	1.6
Receivable Days	53	50	50	51	51
Payable days	55	68	55	55	56

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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