

Weak set of numbers, despite management change internal issues plaguing the company, due to poor near term outlook downgrade to Hold with a revised TP of Rs 697

Current	Previous
CMP: Rs 636	
Rating: Hold	Rating: Accumulate
Target: Rs 697	Target: Rs 636

(NR-Not Rated)

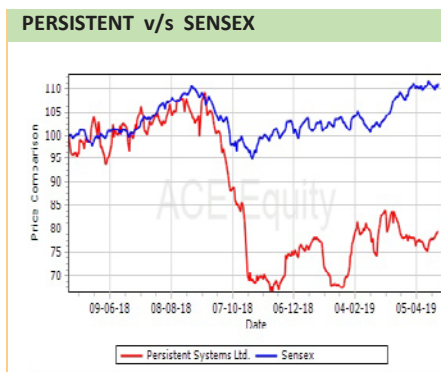
Stock Info	
INDEX	
BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Information Technology
Face Value (Rs)	10
Equity Capital (Rs Mn)	791
Market Cap (Rs Mn)	50308
52w H/L (Rs)	915 / 533
Avg Weekly Vol (BSE+NSE)	188,430

Shareholding Pattern	%
(As on March, 2019)	
Promoters	30.6
Public & Others	69.4

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
PERSISTENT	14.2	14.8	-17.2
SENSEX	8.4	17.1	12.5

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Persistent Systems came out with weak set of numbers in Q4FY19. The company missed our estimates on all fronts as Revenue, EBITDA and PAT all came below our estimate. Revenue in rupee terms grew 10.5% YoY to Rs 8319 mn against our estimate of Rs 8590 mn. EBITDA stood at Rs 1266 mn against our estimate of Rs 1470 mn. PAT for the quarter stood at Rs 845 mn below our estimate of Rs 930 mn. Management in its concall acknowledged the fact that poor performance was owing to company specific issues rather than industry headwinds. We are cautious on the stock from near term perspective, and downgrade our rating from Accumulate to Hold with revised TP of Rs 697.

Q4FY19 Highlights

- USD Revenue stood at US\$118.3 mn, growth of 1.2% YoY and decline of 2.1% QoQ. In Rupee terms, revenue stood at Rs 8319 mn, growth of 10.5% YoY and decline of 3.7% QoQ.
- EBITDA stood at Rs 1266 mn, growth of 14% YoY and decline of 25.7% QoQ. EBITDA margins stood at 15.2%, v/s 14.8% YoY and 19.7% QoQ.
- PAT stood at Rs 845 mn, growth of 14.6% YoY and decline of 7.9% QoQ. PAT margins stood at 10.2% v/s 9.8% YoY and 10.6% QoQ.

Key Deal Wins during Q4FY19

- Product engineering for a global, analytics, business Intelligence and data management software provider.
- Engineering partnership for building next generation liquid chromatography data systems for a global diagnostics and life science research corporation.
- Engineering ownership of an encryption, data security and privacy solution for a US-based global software major.
- Strengthening the security experience of customer-centric web portals for a US-based bank.
- Product engineering around analytics for the world's largest immigration software company.
- Data strategy and integration engagement for the world's largest food and beverage company.
- Platform-led value-based care solution for a health benefits management services company in the U.S

Valuations

At CMP of Rs 636, Persistent is trading at FY20E and FY21E, P/E multiples of 13.5x and 12.3x respectively. We have revised our FY20E estimate downwards and introduced FY21E estimate. We now value the stock at FY21E target P/E of 13.5x, which yields a price of Rs 697 per share. **Due to poor near term outlook we downgrade the stock from Accumulate to 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	15.6
FY19	33,660	5,806	3,517	44.5	17.2	15.0	14.3
FY20E	35,500	6,177	3,732	47.2	17.4	14.7	13.5
FY21E	37,800	6,615	4,082	51.6	17.5	15.3	12.3

Source: Company, Arihant Research

Q4FY19 and FY19 Financial Performance

Rs Mn (consolidated)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q	Y-o-Y	FY19	FY18	Y-o-Y
Net Revenue	8,319	8,642	7,525	-3.7%	10.5%	33,660	30,337	11.0%
Employee cost	4,997	5,075	4,655	-1.5%	7.4%	19,874	18,748	6.0%
Other Expenses	2,056	1,864	1,760	10.3%	16.8%	7,980	6,901	15.6%
EBITDA	1,266	1,703	1,111	-25.7%	14.0%	5,806	4,687	23.9%
<i>EBITDA margin %</i>	<i>15.2%</i>	<i>19.7%</i>	<i>14.8%</i>	<i>-449bps</i>	<i>46bps</i>	<i>17.2%</i>	<i>15.5%</i>	<i>180bps</i>
Depreciation	377	396	421	-4.9%	-10.5%	1,573	1,585	-0.8%
EBIT	889	1,307	690	-32.0%	28.9%	4,234	3,102	36.5%
Other Income	225	-12	294	NA	-23.2%	630	1,190	-47.1%
Finance cost	1	-	-	NA	NA	-	-	NA
Exceptional Item	-	-	-	-	-	-	-	-
PBT	1,113	1,295	984	-14.0%	13.2%	4,863	4,293	13.3%
Tax Expense	268	378	246	-29.0%	8.9%	1,347	1,062	26.8%
Effective tax rate %	24.1%	29.2%	25.1%	-508bps	-95bps	27.7%	24.7%	296bps
PAT	845	917	737	-7.9%	14.6%	3,517	3,231	8.8%
MI & Associates	-	-	-	-	-	-	-	-
Consolidated PAT	845	917	737	-7.9%	14.6%	3,517	3,231	8.8%
<i>PAT margin %</i>	<i>10.2%</i>	<i>10.6%</i>	<i>9.8%</i>	<i>-45bps</i>	<i>36bps</i>	<i>10.4%</i>	<i>10.6%</i>	<i>-20bps</i>
EPS (Rs)	10.7	11.6	9.3	-7.9%	14.6%	44.5	40.8	8.8%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- H2FY19 is better than H1FY19 despite internal challenges, forex loss for Q4FY19 was lower at Rs 59mn against Rs 241mn in Q3FY19.
- The company did Rs 575mn operational capex in FY19.
- Growth declined due to one top customer (IBM account, 24.8% QoQ de-growth), it was a tough year, poor performance mainly due to company's internal issues, rather than industry specific factors.
- Persistent is planning to hold an Investor Meet in Mumbai on 13th June, 2019 (tentative) to share FY20 outlook for the company after new CEO change on Board.
- No attrition seen after new management came on board, also customers feedback is positive for new management after the new CEO met several key customers.
- Margin performance is good despite poor revenue growth. In FY20 the company is focussing on asset monetisation and holding on to margins (steady margins).
- Percentage of offshore business increased compared to onsite, which led to revenue de-growth, but since margins are higher for offshore business, so margins are steady, going forward Persistent management expect this trend to continue.
- Increased sales and marketing expenses expected going forward.
- Drivers for growth in digital business will be good partnerships with its clients like Salesforce, also nurturing its key relationships with main clients.
- In the medium term perspective they are trying to move into more enterprise side of the market like cloud, data etc and looking at healthcare and financial services sectors.
- Cash and reserve is USD 215mn at present, so comfortable if there is any acquisition, but will be able to give clear picture in the upcoming June 13th meeting.

As of April 26, 2019, the Company has purchased 2,230,113 shares for a total value of Rs 1,421.71 mn representing 63% of the total buyback size.

Consolidated Financials

Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Revenues	30,337	33,660	35,500	37,800
<i>Change (%)</i>	5.4%	11.0%	5.5%	6.5%
Total Expenses	25,650	27,854	29,323	31,185
EBITDA	4,687	5,806	6,177	6,615
Other Income	1,190	630	710	869
Depreciation	1,585	1,573	1,704	1,814
Interest	0	0	0	0
PBT	4,293	4,863	5,183	5,670
Extra-ordinary	0	0	0	0
PBT after ext-ord.	4,293	4,863	5,183	5,670
Tax	1,062	1,347	1,451	1,588
<i>Rate (%)</i>	24.7%	27.7%	28.0%	28.0%
PAT	3,231	3,517	3,732	4,082
MI & Associates	0	0	0	0
Consolidated PAT	3,231	3,517	3,732	4,082
<i>Change (%)</i>	7.2%	8.8%	6.1%	9.4%

Source: Company, Aриhant Research

Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Share Capital	800	791	791	791
Reserves & Surplus	20,472	22,656	24,677	25,809
Net Worth	21,272	23,447	25,468	26,600
Loan Funds				
	17	12	12	12
MI, Deferred Tax & other Liabilities	270	0	0	0
Capital Employed	21,559	23,459	25,480	26,612
Application of Funds				
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
Net Fixed Assets	5,945	5,146	5,646	6,146
Investments	8,797	7,641	7,641	7,641
Debtors	4,847	4,923	4,863	5,178
Inventories	0	0	0	0
Cash & Bank Balance	2,414	6,724	6,291	6,671
Loans & Advances & other CA	4,705	4,122	7,840	8,092
Total Current Assets	11,966	15,769	18,995	19,942
Current Liabilities	3,390	3,158	4,863	5,178
Provisions	1,759	1,939	1,939	1,939
Net Current Assets	6,817	10,671	12,192	12,824
Total Assets	21,559	23,459	25,480	26,612

Source: Company, Aриhant Research

*Share Capital as on 26th April, 2019 as buyback is ongoing, will update once buyback gets completed

Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
PBT	4,293	4,863	5,183	5,670
Depreciation	1,585	1,573	1,704	1,814
Interest & others	-496	-417	-709	-867
Cash flow before WC changes	5,381	6,018	6,178	6,617
(Inc)/dec in working capital	44	207	1,765	0
Operating CF after WC changes	5,426	6,226	7,943	6,617
Less: Taxes	-1,214	-1,347	-1,451	-1,588
Operating Cash Flow	4,212	4,879	6,492	5,029
(Inc)/dec in F.A + CWIP	-651	438	-500	-500
(Pur)/sale of investment	-2,822	1,156	0	0
Cash Flow from Investing	-3,474	1,594	-500	-500
Free Cash Flow (FCF)	3,560	4,505	5,992	4,529
Loan raised/(repaid)	-5	-5	0	0
Equity raised	0	-9	0	0
Interest & others	1,120	-3,183	-7,458	-5,183
Dividend	-950	1,034	1,034	1,034
Cash Flow from Financing Activities	166	-2,163	-6,424	-4,150
Net inc /(dec) in cash	904	4,310	-433	380
Opening balance of cash	1,510	2,414	6,724	6,291
Closing balance of cash	2,414	6,724	6,291	6,671

Source: Company, Aриhant Research

Key Ratios

Y/E March	FY18	FY19	FY20E	FY21E
Per share (Rs)				
EPS	40.8	44.5	47.2	51.6
CEPS	60.9	64.3	68.7	74.5
BVPS	268.9	296.4	322.0	336.3
DPS	10.0	11.0	11.0	11.0
Div. Payout (%)	24.5%	24.7%	23.3%	21.3%
Valuation (x)				
P/E	15.6	14.3	13.5	12.3
P/CEPS	10.4	9.9	9.3	8.5
P/BV	2.4	2.1	2.0	1.9
EV/EBITDA	10.2	7.5	7.1	6.6
Dividend Yield (%)	1.6%	1.7%	1.7%	1.7%
Return Ratio (%)				
EBIDTA Margin	15.5%	17.2%	17.4%	17.5%
PAT Margin	10.6%	10.4%	10.5%	10.8%
ROE	15.2%	15.0%	14.7%	15.3%
ROCE	14.4%	18.0%	17.6%	18.0%
Leverage Ratio (x)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.1	-0.3	-0.2	-0.3
Turnover Ratios				
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, Aриhant Research

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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%

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