

**CMP: INR 2,038**

**Rating: Hold**

**Target Price: INR 2,171**

**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)	1,48,780
52w H/L (INR)	2353/1569
Avg Yearly Vol (in 000')	168

**Shareholding Pattern %**

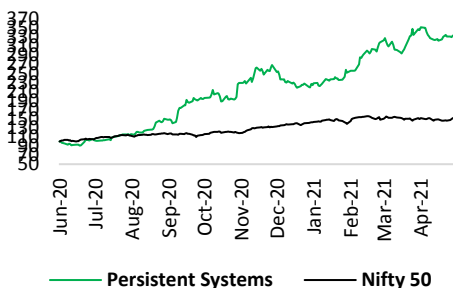
(As on Mar, 2021)

Promoters	31.29
FII	19.26
DII	29.58
Public & Others	19.87

**Stock Performance (%)**

	3m	6m	12m
Persistent	27.7	66.2	311.1
Nifty	8.92	27.3	55.5

**Persistent Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

Persistence System (PSL) overall has reported a good set of numbers in Q4FY21. Only Revenue (INR) slightly below our estimates. Consolidated revenue stood at INR 11,134 Mn, below our estimates of INR 11,631 mn registering +20.2% YoY/3.5% QoQ. Consolidated EBITDA stood at INR 1,883 mn, above with our estimates of INR 1,494 mn, up by 42.9% YoY/-1.1% QoQ. On the margins front, EBITDA margin improved by 322bps YoY/contracted 5bps QoQ to 16.9% above our estimates 13%. Consolidated PAT saw a rise of 64.3% YoY to INR 1378 mn vs above our estimates of INR 1,333 Mn.

**Q4FY21 Highlights**

- **Order Booking:** TCV \$246.5mn and ACV \$200.7mn, for Q4 FY21. Q3 mostly strong quarter for company, given 80% revenue come from the US and fiscal year close for the US. This data includes all large, small and new booking exiting and new customers.
- **Head Counts:** It was another good quarter in term of employee addition, 1242 net hire and out of this lateral hiring 1037 and fresher for the quarter stood 205. Attrition Rate on a TTM basis is 11.7% vs 10.3% in Q3FY21.
- **Revenue from top customer** improved 1% qoq and 12% yoy, contributing 17.9% of the total revenue.
- **Business segment:** Industry basis growth was led by BFSI and Healthcare & Life Sciences with grew by 6.9% and 6.1% respectively. On a Yoy basis BFSI 15.9% and Healthcare 20.9%. Growth in technology companies which include by large customers 2.7% QoQ and 22.8% yoy. Overall healthy growth on a sequential basis. Service line perspective growth led by digital engineering, Cloud, securities, data all growing meaningful in Q4FY21.
- **Margin Outlook:** Management remains confident of 17% EBITDA margins target. Margins levers include improvement in utilization – down in Q4 due to strong hiring, improvement in IP business, SG&A investments and operational efficiencies.
- **Revenue Outlook:** Demand environment remains good. Management remains committed to industry leading – top quartile growth for next year.

**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. We have factored in USD revenue growth at +18.3/15.8% and we estimate EBITDA margin at 16.3%/17% over FY22/23E.

At CMP of INR 2,038, Persistent is currently trading at FY23 P/E of 23.5x. **We recommend a Hold and assign 25x P/E multiple to its FY23E earnings of INR 86.6 per share which gives a TP of INR 2,171 per share, an upside of 6.51%.**

Particulars (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	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%	34.6
FY22E	49,456	8,076	5,561	70.3	16.3%	18.3%	29.0
FY23E	58,181	9,862	6,947	86.8	17.0%	20.3%	23.5

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

## Q4 FY21 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	152.8	146	127	4.6%	20.3%
<b>Net Revenue</b>	<b>11,134</b>	<b>10,754</b>	<b>9,264</b>	<b>3.5%</b>	<b>20.2%</b>
Employee Cost	8,397	7,741	6,839	8.5%	22.8%
Other Expenses	853	1,188	1,155	-28.2%	-26.1%
<b>EBITDA</b>	<b>1,883</b>	<b>1,825</b>	<b>1,269</b>	<b>3.2%</b>	<b>48.4%</b>
<i>EBITDA Margin %</i>	<i>16.9%</i>	<i>17.0%</i>	<i>13.7%</i>	<i>-5bps</i>	<i>322bps</i>
Depreciation	419	461	420	-9.1%	-0.3%
<b>EBIT</b>	<b>1,464</b>	<b>1,364</b>	<b>849</b>	<b>7.4%</b>	<b>72.5%</b>
Other Income	400	300	293	33.4%	36.5%
Finance Cost	16	14	12	NA	NA
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>1,849</b>	<b>1,650</b>	<b>1,130</b>	<b>12.0%</b>	<b>63.5%</b>
Tax Expense	471	441	292	6.9%	61.2%
Effective Tax Rate %	25.5%	26.7%	25.9%	-123bps	-36bps
<b>PAT</b>	<b>1,378</b>	<b>1,209</b>	<b>838</b>	<b>13.9%</b>	<b>64.3%</b>
MI & Associates	-	-	-	-	-
<b>Consolidated PAT</b>	<b>1,377.59</b>	<b>1,209</b>	<b>838</b>	<b>13.9%</b>	<b>64.3%</b>
<i>PAT Margin %</i>	<i>12.4%</i>	<i>11.2%</i>	<i>9.0%</i>	<i>113bps</i>	<i>332bps</i>
<b>EPS (INR)</b>	<b>18.03</b>	<b>15.82</b>	<b>10.97</b>	<b>13.9%</b>	<b>64.3%</b>

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

## Q4FY21 Concall Highlights

- **Salary:** Increase in Nov 2020 and next salary increased will do in FY2021. FY22 wage hike cycle will be normalized, effective July.
- **Geographies:** US grew +2.1% qoq (+18.8% yoy). Europe grew 18.8% qoq (+36.7% yoy). India grew +8.2% qoq (+18.9% yoy); RoW grew +32.4% qoq (+14.3% yoy)
- Deal Size: Persistent is winning deals in digital product engineering, salesforce, low code, no code, cloud - Deal sizes are \$10-50mn which are large deals for persistent.
- Pipeline is strong on large and small deals. Overall, \$200-250mn ACV range per quarter is pretty healthy.
- Deal Tenure is closure to 3-5 years. Order backlog will be given in Q1FY22 to track qoq movement.
- S&M Outlook: Management mentioned that they will continue to make prudent investments in sales and marketing. There will be S&M investments but not disproportionate.

**Alliance:**

- Seasonally weak in Q4 hence revenue declined sequentially; however, it grew yoy.
- Despite the degrowth in FY21, management is excited about this business.
- Signed 2 large deals in Alliances and remains optimistic on profitable growth. Management expects growth rate in Alliance will start to inch up in FY22 on the back of good orderbook.
- Largest customer - Hybrid, Data, Security, automation - PSYS is well aligned in all these areas. There has been uptick in Data and Security, Cloud. Those areas will come up.
- Hiring: strong hiring reflection of revenue, offshoring and capability build ahead of curve. Fresher hiring targets of 800-1000 in FY22
- M&A: Lookout of good acquisition. To accrue capabilities. Meaningful update hopefully be given in next 2-6 months.

Key Financials

Income Statement (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Revenues (US\$ mn)</b>	<b>481</b>	<b>502</b>	<b>566</b>	<b>670</b>	<b>776</b>
Revenues	33,660	35,658	41,879	49,456	58,181
Change (%)	11.0%	5.9%	17.4%	18.1%	17.6%
<b>Total Expenses</b>	<b>27,854</b>	<b>30,728</b>	<b>35,049</b>	<b>41,380</b>	<b>48,319</b>
<b>EBITDA</b>	<b>5,806</b>	<b>4,930</b>	<b>6,830</b>	<b>8,076</b>	<b>9,862</b>
Other Income	630	1,254	1,020	1,118	1,205
Depreciation	1,573	1,660	1,756	1,780	1,804
Interest	0	0	0	0	0
<b>PBT</b>	<b>4,863</b>	<b>4,523</b>	<b>6,094</b>	<b>7,414</b>	<b>9,263</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>4,863</b>	<b>4,523</b>	<b>6,094</b>	<b>7,414</b>	<b>9,263</b>
Tax	1,347	1,121	1,588	1,854	2,316
Rate (%)	27.7%	24.8%	26.1%	25.0%	25.0%
<b>PAT</b>	<b>3,517</b>	<b>3,403</b>	<b>4,507</b>	<b>5,561</b>	<b>6,947</b>
<b>MI &amp; Associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Consolidated PAT</b>	<b>3,517</b>	<b>3,403</b>	<b>4,507</b>	<b>5,561</b>	<b>6,947</b>
Change (%)	8.8%	-3.2%	32.4%	23.4%	24.9%

Balance Sheet (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>					
Share Capital	791	764	764	764	764
Reserves & Surplus	22,656	23,093	27,192	29,678	33,421
<b>Net Worth</b>	<b>23,447</b>	<b>23,858</b>	<b>27,957</b>	<b>30,442</b>	<b>34,185</b>
<b>Loan Funds</b>	<b>12</b>	<b>46</b>	<b>44</b>	<b>44</b>	<b>44</b>
MI, Deferred Tax & other Liabilities	0	0	0	0	0
<b>Capital Employed</b>	<b>23,459</b>	<b>23,904</b>	<b>28,001</b>	<b>30,487</b>	<b>34,229</b>
<b>Application of Funds</b>					
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
<b>Net Fixed Assets</b>	<b>5,144</b>	<b>5,702</b>	<b>6,418</b>	<b>7,618</b>	<b>8,818</b>
<b>Investments</b>	<b>7,641</b>	<b>9,786</b>	<b>9,996</b>	<b>9,996</b>	<b>9,996</b>
Debtors	4,923	5,922	5,709	6,775	7,970
Inventories	-	-	-	-	-
Cash & Bank Balance	6,724	4,572	9,809	13,085	16,058
Loans & Advances & other CA	4,122	4,578	4,945	4,945	4,945
<b>Total Current Assets</b>	<b>15,769</b>	<b>15,072</b>	<b>20,463</b>	<b>24,805</b>	<b>28,973</b>
Current Liabilities	3,156	4,863	6,157	9,214	10,839
Provisions	1,939	1,794	2,719	2,719	2,719
<b>Net Current Assets</b>	<b>10,673</b>	<b>8,416</b>	<b>11,587</b>	<b>12,873</b>	<b>15,415</b>
<b>Total Assets</b>	<b>23,459</b>	<b>23,904</b>	<b>28,001</b>	<b>30,487</b>	<b>34,229</b>

Cash Flow Statement (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
<b>PBT</b>	<b>4,863</b>	<b>4,523</b>	<b>6,094</b>	<b>7,414</b>	<b>9,263</b>
Depreciation	1,573	1,660	1,756	1,780	1,804
Interest & others	-417	-1,254	-1,020	-1,118	-1,205
Cash flow before WC changes	6,018	4,930	6,830	8,076	9,862
<b>(Inc)/dec in working capital</b>	<b>206</b>	<b>329</b>	<b>1,876</b>	<b>1,991</b>	<b>430</b>
Operating CF after WC changes	6,224	5,259	8,707	10,067	10,292
Less: Taxes	-1,347	-1,121	-1,588	-1,854	-2,316
<b>Operating Cash Flow</b>	<b>4,877</b>	<b>4,139</b>	<b>7,119</b>	<b>8,213</b>	<b>7,976</b>
(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
<b>Cash Flow from Investing</b>	<b>1,596</b>	<b>-3,567</b>	<b>-1,108</b>	<b>-1,200</b>	<b>-1,200</b>
<b>Free Cash Flow (FCF)</b>	<b>4,503</b>	<b>3,393</b>	<b>5,868</b>	<b>7,013</b>	<b>6,776</b>
Loan raised/(repaid)	-5	34	-2	0	0
Equity raised	-9	-27	0	0	0
Interest & others	2,184	438	577	-2,667	-2,733
Dividend	-1,019	-1,301	-1,070	-1,070	-1,070
<b>Cash Flow from Financing Activities</b>	<b>1,151</b>	<b>-856</b>	<b>-494</b>	<b>-3,737</b>	<b>-3,803</b>
<b>Net inc/(dec) in cash</b>	<b>7,625</b>	<b>-284</b>	<b>5,517</b>	<b>3,276</b>	<b>2,973</b>
Opening balance of cash	2,414	6,724	4,572	9,809	13,085
Closing balance of cash	10,038	6,440	10,089	13,085	16,058

Key Ratios (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Per share (INR)</b>					
EPS	44.0	44.4	59.0	70.3	86.8
CEPS	66.6	66.2	81.9	92.8	109.4
BVPS	306.8	312.2	365.8	384.8	427.3
DPS	11.0	12.0	10.0	11.0	12.0
Div. Payout (%)	23.9%	27.0%	17.0%	15.7%	13.8%
<b>Valuation (x)</b>					
P/E	13.7	34.9	34.6	29.0	23.5
P/CEPS	9.0	23.3	24.9	22.0	18.6
P/BV	2.0	5.0	5.6	5.3	4.8
EV/EBITDA	6.8	23.1	21.4	18.4	14.9
Dividend Yield (%)	1.8%	0.8%	0.5%	0.5%	0.6%
<b>Return Ratio (%)</b>					
EBITDA Margin	17.2%	13.8%	16.3%	16.3%	17.0%
PAT Margin	10.4%	9.5%	10.8%	11.2%	11.9%
ROE	15.0%	14.3%	16.1%	18.3%	20.3%
ROCE	18.0%	13.7%	18.1%	20.7%	23.5%
<b>Leverage Ratio (x)</b>					
Total D/E	0.0	0.0	0.0	0.0	1.0
Net D/E	-0.3	-0.2	-0.3	-0.4	-0.5
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.4	1.5	1.5	1.6	1.7
Receivable Days	53	61	50	50	50
Payable days	55	68	77	68	68

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

**Arihant Research Desk**

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered 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	Arihant House E-5 Ratlam Kothi 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 Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**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