

CMP: Rs 1,183

Rating: Hold

Target Price: Rs 1,252

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)	90,422
52w H/L (Rs)	1,391/ 420
Avg Yearly Vol (in 000')	155

Shareholding Pattern %

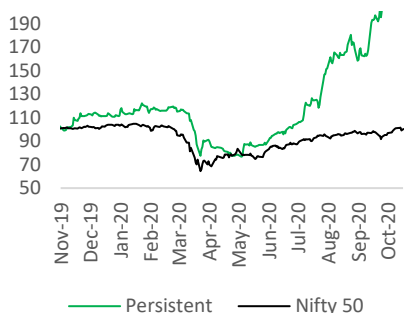
(As on September, 2020)

Promoters	31.29
FII	18.74
DII	28.87
Public & Others	21.10

Stock Performance (%)

	3m	6m	12m
Persistent	29.3	155.1	97.4
Nifty 50	7.1	27.9	2.3

Persistent Vs Nifty



Persistent System has reported good performance during Q2FY21. Dollar revenue of the company increased by 8.4% YoY/3.9% QoQ to \$136 mn, led by 17% YoY increase in services revenues (84% of revenues) partially offset by 22% YoY decline in IP led revenue. Consolidated revenue stood at Rs 10,077 mn vs Rs 8,846 mn YoY, registering a growth of 13.9%YoY/1.7%QoQ. In terms of verticals, growth was led by BFSI and healthcare segment which grew by 28%/19% YoY respectively. In terms of geography North America share in the total revenue increased to 82.9% from 80.4% QoQ while Europe business share decreased to 7.6% from 10.2% QoQ. EBITDA was up by 37%YoY/14% QoQ to Rs 1,664 mn while EBITDA margin expanded sharply by 276bps YoY/181bps QoQ. Profit for the quarter grew by 19% YoY/13% QoQ to Rs 1,020 mn.

Q2FY21 Concall Highlights

- Company has appointed Sandeep Kalra as CEO effective from Oct 23, 2020, post the resignation of Christopher O'Connor.
- Technology and emerging verticals accounted for over 48% of the total revenues while BFSI accounted for about 32% with healthcare and life sciences accounting for 19% of the total revenue.
- On the linear revenue front, the onsite revenue grew by 1.8% with a volume growth of 2% and decline in billing rate by 0.3%. The offshore linear revenue grew by 7.7% with an increase in volume of 7.8% and a decline in billing rate by 0.1%.
- The management has stated that they will increase the salary of all it's employees globally effective from 1st November 2020.
- Days Sales Outstanding (DSO) has improved from 69 days in Q1FY21 to 63 days this quarter.
- The company has recently received a notice from the Department of Revenue Intelligence (DRI) pertaining to export incentives of Rs25.55cr claimed by the company.
- From a customer revenue growth perspective, top 1, 5, 10 and 20 customer categories grew by 14%, 6%, 7% and 7% QoQ respectively, thereby showing a healthy broad-based growth.
- In the technology companies and emerging verticals, the company has won a large deal with a global media solution provider. With regards to BFSI sector also, the company has won few large deals in Europe.
- Persistent reported lower employee attrition during the September quarter. It fell to 10.6% from 12.7% a quarter ago.

Valuations

Persistent has reported strong performance during Q2FY20 which we believe will continue. Strong growth momentum in services business, sustainability in margins with strong deal in pipeline will be the key catalyst for further re-rating in the stock. At CMP of Rs 1183, Persistent is currently trading at FY21/22E P/E of 24.3/23.6x. While maintaining our estimates, we value Persistent at P/E of 25x to its FY22E EPS 50, which yields a target price of Rs 1,252 per share. Due to recent run up in the stock price in the last 6 month (at 155%) and higher valuation, we downgrade our rating to Hold from Accumulate.

(Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA M %	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%	26.7
FY21E	39,926	5,470	3,714	48.6	13.7%	14.0%	24.3
FY22E	43,245	5,925	3,962	50.1	13.7%	13.7%	23.6

Q2FY21 - Quarterly Performance (Consolidated)

Rs Mn (consolidated)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Net Revenue	10,077	9,914	8,846	1.7%	13.9%
Cost of professionals	1,351	1,350	897	0.1%	50.6%
Employee Cost	6,097	5,785	5,370	5.4%	13.5%
Other Expenses	965	1,320	1,363	-26.9%	-29.2%
EBITDA	1,664	1,458	1,216	14.1%	36.8%
<i>EBITDA Margin %</i>	<i>16.5%</i>	<i>14.7%</i>	<i>13.8%</i>	<i>181bps</i>	<i>276bps</i>
Depreciation	440	436	425	1.0%	3.5%
EBIT	1,224	1,022	792	19.8%	54.7%
Other Income	165	212	382	-22.3%	-56.9%
Finance Cost	14	14	18	NA	NA
Exceptional Item	-	-	-	-	-
PBT	1,375	1,220	1,156	12.7%	19.0%
Tax Expense	355	320	295	10.9%	20.5%
<i>Effective Tax Rate %</i>	<i>25.8%</i>	<i>26.2%</i>	<i>25.5%</i>	<i>-42bps</i>	<i>31bps</i>
PAT	1,020	900	861	13.3%	18.5%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,020	900	861	13.3%	18.5%
<i>PAT Margin %</i>	<i>10.1%</i>	<i>9.1%</i>	<i>9.7%</i>	<i>104bps</i>	<i>39bps</i>
EPS (Rs)	13.3	11.8	10.9	13.3%	22.7%

Source: Company, Arihant Research

Key Financials

Income Statement (Rs Mn)	FY19	FY20	FY21E	FY22E
Revenues	33,660	35,658	39,926	43,245
Change (%)	11.0%	5.9%	12.0%	8.3%
Total Expenses	27,854	30,728	34,456	37,321
EBITDA	5,806	4,930	5,470	5,925
Other Income	630	1,254	1,279	1,305
Depreciation	1,573	1,660	1,797	1,946
Interest	0	0	0	0
PBT	4,863	4,523	4,952	5,283
Extra-ordinary	0	0	0	0
PBT after ext-ord.	4,863	4,523	4,952	5,283
Tax	1,347	1,121	1,238	1,321
Rate (%)	27.7%	24.8%	25.0%	25.0%
PAT	3,517	3,403	3,714	3,962
MI & Associates	0	0	0	0
Consolidated PAT	3,517	3,403	3,714	3,962
Change (%)	8.8%	-3.2%	9.2%	6.7%

Balance Sheet (Rs Mn)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	791	764	764	764
Reserves & Surplus	22,656	23,093	25,769	28,255
Net Worth	23,447	23,858	26,533	29,019
Loan Funds	12	46	46	46
MI, Deferred Tax & other Liabilities	0	0	0	0
Capital Employed	23,459	23,904	26,580	29,065
Application of Funds				
Net Block	2,331	2,225	2,725	3,224
CWIP	316	303	303	303
Other Non-current Assets	2,094	2,214	2,214	2,214
Deferred Tax Assets	403	960	960	960
Net Fixed Assets	5,144	5,702	6,202	6,701
Investments	7,641	9,786	9,786	9,786
Debtors	4,923	5,922	5,469	6,042
Inventories	0	0	0	0
Cash & Bank Balance	6,724	4,572	8,350	10,263
Loans & Advances & other CA	4,122	4,578	4,583	4,583
Total Current Assets	15,769	15,072	18,402	20,889
Current Liabilities	3,156	4,863	6,016	6,516
Provisions	1,939	1,794	1,794	1,794
Net Current Assets	10,673	8,416	10,592	12,578
Total Assets	23,459	23,904	26,580	29,065

Cash Flow Statement (Rs Mn)	FY19	FY20	FY21E	FY22E
PBT	4,863	4,523	4,952	5,283
Depreciation	1,573	1,660	1,797	1,946
Interest & others	-417	-1,254	-1,279	-1,305
Cash flow before WC changes	6,018	4,930	5,470	5,925
(Inc)/dec in working capital	206	329	1,606	-73
Operating CF after WC changes	6,224	5,259	7,076	5,852
Less: Taxes	-1,347	-1,121	-1,238	-1,321
Operating Cash Flow	4,877	4,139	5,838	4,531
(Inc)/dec in F.A + CWIP	440	-1,423	-500	-499
(Pur)/sale of investment	1,156	-2,145	0	0
Cash Flow from Investing	1,596	-3,567	-500	-499
Free Cash Flow (FCF)	4,503	3,393	5,338	4,032
Loan raised/(repaid)	-5	34	0	0
Equity raised	-9	-27	0	0
Interest & others	-1,130	-1,430	-260	-818
Dividend	-1,019	-1,301	-1,301	-1,301
Cash Flow from Financing Activities	-2,163	-2,724	-1,560	-2,118
Net inc /(dec) in cash	4,311	-2,152	3,778	1,914
Opening balance of cash	2,414	6,724	4,572	8,350
Closing balance of cash	6,724	4,572	8,350	10,263

Key Ratios	FY19	FY20	FY21E	FY22E
Key Ratios (Rs Mn)				
Per share (Rs)				
EPS	44.0	44.4	48.6	50.1
CEPS	66.6	66.2	72.1	74.7
BVPS	306.8	312.2	347.2	366.8
DPS	11.0	12.0	12.0	12.0
Div. Payout (%)	23.9%	27.0%	24.7%	24.0%
Valuation (x)				
P/E	13.7	26.7	24.3	23.6
P/CEPS	9.0	17.9	16.4	15.8
P/BV	2.0	3.8	3.4	3.2
EV/EBITDA	6.8	17.4	15.0	14.1
Dividend Yield (%)	1.8%	1.0%	1.0%	1.0%
Return Ratio (%)				
EBIDTA Margin	17.2%	13.8%	13.7%	13.7%
PAT Margin	10.4%	9.5%	9.3%	9.2%
ROE	15.0%	14.3%	14.0%	13.7%
ROCE	18.0%	13.7%	13.8%	13.7%
Leverage Ratio (x)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.2	-0.3	-0.4
Turnover Ratios				
Asset Turnover (x)	1.4	1.5	1.5	1.5
Receivable Days	53	50	50	51
Payable days	55	68	55	55

Source: Co, Arihant Research

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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st 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	www.arihantcapital.com	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 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