



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q1 FY20 Result Update@ Dalal&Broacha

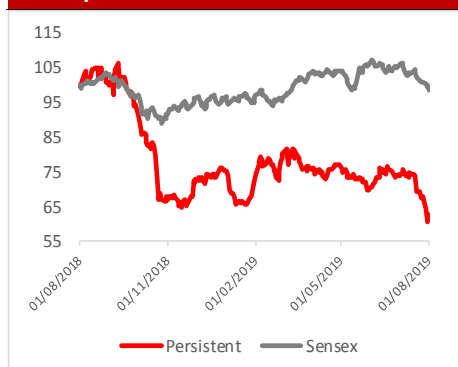
Neutral

Current Price	525
Target Price	644
Upside	22%
52 Week Range	472/915

Key Share Data

Market Cap (Rs.Bn)	40.63
Market Cap (US\$ Mn)	588.8
No of o/s shares (Mn)	76
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) '000	145.74
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg	PSYS:IN

Price performance



% Shareholding	Jun-19	Mar-19
Promoters	31.67	30.61
Public	65.59	66.71
Others	2.74	2.68
Total	100	100

Persistent Q1FY20 performance marginally below our already reduced estimates

- USD revenue stood at \$119.6 Mn Vs our estimate of \$120.7 Mn
- Revenue at INR 8321.14 Mn, +0.03% qoq / -0.25% yoy and 0.9% below our estimate
- EBITDA at INR 1201.9 Mn, -0.4% qoq and -14% yoy and 1.4% below our estimate
- EBITDA margin stood at 14.4% Vs 14.5% / 16.7% in Q4FY19 / Q1FY19
- PAT at INR INR 824.7 Mn, -2.3% qoq / -5.7% yoy and 1.7% above our estimate

Digital and Accelerite report severe underperformance

- Digital (22.7% of revenue) reported a de-growth of 5.9% qoq and 2.7% yoy while accelerite (3.7% of revenue) was down 39.7% qoq. Digital segment's performance has consistently disappointed for last 4 quarters with sub 5% yoy growth compared to what the management guidance of 20%+ yoy growth
- Services (45.8% of total revenue) grew by a meagre 3.8% qoq. While Alliance business (27.8% of revenue) reported a growth of 13.3% qoq, it was on the back of -17.4% de-growth in the previous quarter and therefore not impressive.
- IT services (79% of revenue) reported a growth of 1.2% whereas IP-led revenues (22% of topline) was largely flat at +0.6% qoq
- EBITDA margins took a hit of 230 bps yoy mainly due to lack of growth in IP revenues
- Utilisation was down from 79.7% in Q4FY19 to 77.9% in Q1FY20

Concall KTAs

- (i) Multiple Salesforce wins in Europe because of the acquisition
- (ii) Industrial segment performing very well for Persistent
- (iii) Set up a large deal team as company's focus is going to be on large annuity deals
- (iv) IBM alliance unit has won twice as many logos in the past quarter as any other quarter since the company has started approaching the market directly
- (v) Big deal in re-seller business in Q1FY19 and therefore performance in Q1FY20 had a 'high base' impact
- (vi) Linear Business (Services) Billing Rate down 0.5% and Volumes up +1.8%. Offshore Volume up 2.3% and Billing rate +0.9%; Onsite Volume declined by 1.8% and Billing Rate declined by 0.8%
- (vii) Lower margins in the current quarter mainly due to softness in IP revenue
- (viii) Margin walkthrough – Lower utilization 50 bps, Visa cost - 70 bps, Forex impact – 30 bps impact
- (ix) Provision of INR 100 Mn for IL&FS
- (x) Acquired company is in marketing cloud
- (xi) Accelerite and IBM portfolio were reasons for big impact on margins. Have hired a few people to refine business.
- (xii) Pay hike in Q2FY20 – expected impact of 250 – 260 bps
- (xiii) Focus on deepening of client relationships and large (annuity) deals will be focus
- (xiv) Expect opportunities to arise out of IBM's Red Hat acquisition. Opportunity in helping in integration of 2 companies and also a big opportunity from client's perspective
- (xv) Hired business (industry) leaders in S&M team
- (xvi) Need to re-package accelerite portfolio along with services in a better manner to revive the business

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	% Growth	PE (x)	ROE (%)	ROCE (%)
FY18	30,337	5%	3,076	10.1%	3,231	10.6%	40.4	3%	13.0x	16.4%	11.5%
FY19	33,659	11%	3,934	11.7%	3,517	10.4%	44.0	9%	11.9x	15.7%	12.5%
FY20E	34,410	2%	3,713	10.8%	3,608	10.5%	47.2	3%	11.1x	14.6%	11.2%
FY21E	37,893	10.1%	4,405	11.6%	4,101	10.8%	53.7	13.6%	9.8x	15.0%	11.8%

Source: Company, Dalal&Broacha Research



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Q1FY20 Performance Highlights:

YE March (Rs. Mn)	Q1 FY20	Q4 FY19	Q-o-Q change %	Q1 FY19	Y-o-Y change %	Q1 FY19 estimates	Deviation %
Net Sales (US\$ Mn)	119.6	118.3	1.1%	124	(3.2%)	120.8	(1.0%)
Net Sales (INR Mn)	8,321	8,319	0.0%	8,343	(0.3%)	8,397	(0.9%)
Less:							
Employees Remuneration & Benefits	5,776	5,722	0.9%	5,463	5.7%	5,750	0.5%
SG&A Expenses	1,343	1,389	(3.3%)	1,479	(9.2%)	1,427	(5.9%)
Total Operating Expenditure	7,119	7,111	0.1%	6,942	2.5%	7,177	(0.8%)
EBITDA	1,202	1,207	(0.4%)	1,401	(14.2%)	1,220	(1.5%)
EBIT	816	830	(1.8%)	1,000	(18.4%)	825	(1.2%)
Less: Depreciation	386	377	2.5%	401	(3.7%)	395	
Add: Other income	300	284	5.8%	187	60.8%	269	11.8%
Profit Before Tax	1,116	1,114	0.2%	1,187	(5.9%)	1,094	2.0%
Adjusted Profits	1,116	1,114	0.2%	1,187	(5.9%)	1,094	
Less: Total Tax	273	268	1.7%	313	(12.7%)	284	
PAT	843	846	(0.3%)	874	(3.5%)	810	4.2%
Adjusted PAT	843	846	(0.3%)	874	(3.5%)	810	4.2%
Reported Diluted EPS (Rs.)	11.0	10.7	3.2%	10.9	1.0%	10.6	
Adjusted Diluted EPS (Rs.)	11.0	10.7	3.2%	11	1.0%	10.6	4.2%
No of Shared Diluted (mn)	76	79		80		76	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT margin	9.8%	10.0%	(18)	12.0%	(218)	9.8%	(2)
EBIDTA Margin	14.4%	14.5%	(7)	16.8%	(234)	14.5%	(8)
NPM	10.1%	10.2%	(4)	10.5%	(34)	9.6%	49
Adjusted NPM	10.1%	10.2%	(4)	10.5%	(34)	9.6%	49
Effective Tax Rate %	24.5%	24.1%	37	26.4%	(191)	26.0%	(155)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	69.4%	68.8%	63	65.5%	393	68.5%	94
SG&A/Net sales	16.1%	16.7%	(56)	17.7%	(159)	17.0%	(86)

Valuation & Outlook

Q1FY20 performance was weaker than our expectations and therefore we expect FY20 to be softer than previously expected. Additionally, Persistent's performance across verticals has been below expectations over the last 4 quarters and therefore the company is currently undergoing a major restructuring in Sales & Marketing, overall strategy and market approach. The stock is currently trading at 11.1x and 9.8 x FY20e/FY21e EPS. While we believe that the new CEO and Sandeep Kalra (newly appointed Head of Technology services) is in the right direction, changes will take another 2-3 quarters to materialize and percolate in the financial performance of the company. We maintain our BUY rating on the stock but with a reduced TP of 644 (vs INR 674 earlier), which is 12x FY21e EPS of INR 53.7 (vs 56.2 earlier) as we believe that the company will take a slightly longer time achieve our initial estimates.



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Profit & Loss A/c					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	28,784	30,337	33,659	34,410	37,893
Growth %	24.5%	5.4%	11.0%	2.2%	10.1%
Total Revenue	28,784	30,337	33,659	34,410	37,893
Employee Cost & Related Expenses	19,827	21,497	22,740	23,619	25,740
Miscellaneous Expenses	4,304	4,180	5,413	5,517	6,063
Total Operating Expenditure	24,131	25,677	28,153	29,137	31,803
EBITDA	4,653	4,660	5,506	5,273	6,091
Growth %	12.5%	0.1%	18.2%	-4.2%	15.5%
Less: Depreciation	1,490	1,585	1,573	1,560	1,686
EBIT	3,163	3,076	3,934	3,713	4,405
Growth %	-0.3%	-2.8%	27.9%	-5.6%	18.6%
Interest Paid	1	1	3	19	0
Non-operating Income	958	1,218	933	1,109	1,137
Profit Before tax	4,007	4,293	4,864	4,803	5,542
Tax	992	1,062	1,347	1,194	1,441
Net Profit	3,015	3,231	3,517	3,608	4,101
Adjusted Profit	3,129	3,231	3,517	3,608	4,101
Reported Diluted EPS Rs	37.7	40.4	44.0	47.2	53.7
Growth %	1.4%	7.2%	8.9%	7.4%	13.6%
Adjusted Diluted EPS Rs	39.1	40.4	44.0	47.2	53.7
Growth %	5.2%	3.3%	8.9%	7.4%	13.6%

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PAT	3,014.7	3,230.9	3,517.0	3,608.4	4,100.9
Add: Depreciation	1,490.2	1,584.9	1,572.5	1,560.1	1,685.7
Add: Interest Paid	0.9	0.8	3.1	19.3	0.0
Operating Profit before WC Changes	3,661.4	3,598.7	4,159.7	4,078.8	4,649.8
(Inc)/Dec in Current Assets	205.7	(3,119.6)	3,127.9	2,620.0	446.0
(Inc)/(Dec) in Current Liabilities	(2,342.3)	2,810.6	(145.0)	422.1	1,975.2
Changes in Inventory	0.0	0.0	0.0	0.0	0.0
Net Cash Generated From Operations	1,524.8	3,289.6	7,142.6	7,120.9	7,071.0
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(179.1)	(287.7)	(66.3)	(1,000.0)	(1,000.0)
Add: Non Operating Income	958.5	1,217.9	932.9	1,109.1	1,136.8
Cash Flow from Investing Activities	(397.3)	(66.5)	(49.5)	1,895.7	(51.3)
Cash Flow from Financing Activities					
(Inc)/(Dec) in Total Loans	120.6	174.8	(181.9)	(28.6)	46.3
Dividend Paid	(866.6)	(904.6)	(984.8)	(1,010.4)	(1,148.2)
Net Cash Flow from Financing Activities	(2,329.8)	(1,039.2)	(2,783.3)	(1,209.8)	(1,274.2)
Net Inc/Dec in cash equivalents	(1,202.3)	2,183.9	4,309.8	7,806.8	5,745.5
Opening Balance	1,432.4	230.1	2,414.0	6,723.8	14,530.6
Closing Cash Balance	230.1	2,414.0	6,723.8	14,530.6	20,276.1

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios					
EBITDA Margin (%)	16.2%	15.4%	16.4%	15.3%	16.1%
Tax / PBT (%)	24.8%	24.7%	27.7%	24.9%	26.0%
Net Profit Margin (%)	10.5%	10.6%	10.4%	10.5%	10.8%
RoE (%)	18.1%	16.4%	15.7%	14.6%	15.0%
RoCE (%)	13.6%	11.5%	12.5%	11.2%	11.8%
Current Ratio (x)	5.8x	3.6x	3.9x	4.6x	4.1x
Dividend Payout (%)	28.7%	32.2%	32.2%	32.2%	32.2%
Book Value Per Share (Rs.)	226.8	265.9	293.1	338.8	375.2
Growth Indicators %					
Growth in Gross Block (%)	2.6%	4.1%	0.9%	13.5%	11.9%
Sales Growth (%)	24.5%	5.4%	11.0%	2.2%	10.1%
EBITDA Growth (%)	12.5%	0.1%	18.2%	(4.2%)	15.5%
Net Profit Growth (%)	1.4%	7.2%	8.9%	2.6%	13.6%
Diluted EPS Growth (%)	1.4%	7.2%	8.9%	7.4%	13.6%
Turnover Ratios					
Debtors Days	57	58	53	51	47
Creditors Days	30	32	31	40	46

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	800	800	791	791	791
Reserves & Surplus	17,344	20,472	22,656	25,102	27,882
Equity	18,144	21,272	23,447	25,893	28,674
Net Worth	18,144	21,272	23,447	25,893	28,674
Net Deferred tax liability/(Asset)	250	430	253	224	270
Total Loans	22	17	12	12	12
Capital Employed	18,416	21,719	23,712	26,129	28,956
Assets					
Gross Block	7,036	7,324	7,390	8,390	9,390
Less: Depreciation	4,268	4,743	5,059	6,619	8,305
Net Block	2,768	2,581	2,331	1,771	1,085
Investments	4,997	3,010	4,763	4,873	5,016
Intangible Assets	222	2,585	1,980	69	76
Current Assets					
Sundry Debtors	4,781	4,847	4,923	4,714	5,087
Current Investments	4,500	5,916	3,296	2,753	1,895
Cash and Bank Balance	230	2,414	6,724	14,531	20,276
Loans and Advances	1,362	149	172	361	398
Other Current Assets	1,705	4,555	3,950	1,893	1,895
Total Current Assets	12,579	17,882	19,064	24,251	29,550
Less: Current Liabilities & Provisions					
Sundry Creditors	1,171	1,673	1,517	2,395	2,788
Provisions	524	1,599	1,686	1,495	1,801
Other Current Liabilities	484	1,717	1,641	1,376	2,653
Total Current Liabilities & Provisions	2,179	4,989	4,844	5,267	7,242
Capital Applied	18,416	21,719	23,712	26,129	28,956

Free Cash Flow Analysis						
	FY	FY17	FY18	FY19	FY20E	FY21E
EBITDA		4,653	4,660	5,506	5,273	6,091
Add: Depreciation Tax Shield		369	392	435	388	438
Working Capital Changes		-326	1,828	3,292	59	-621
Less: Inc in FC Investment		179	288	66	1,000	1,000
Taxes Paid		992	1,062	1,347	1,194	1,441
Total Free Cash Flows		3,525	5,531	7,821	3,526	3,467



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