

Persistent Systems reported an exceptional Q1FY22 performance with the best-ever sequential growth performance coupled with strong margins

- \$ revenue: \$ 166.82 Mn, +9.2% qoq / +27.3% yoy and 3.4% above our estimates
- INR revenue: INR 12,299.3 Mn, +10.5% qoq / +24.1% yoy and 2.1% above our estimates
- EBIT: INR 1,665.1 Mn, +13.7% qoq / +62.9% yoy and +6.8% vs our estimates
- EBIT margins: 13.5%, vs 13.2% / 10.3% in Q4FY21 / Q1FY21 respectively and 50 bps above our estimates
- PAT: INR 1,512.5 Mn, +9.8% qoq / +68% yoy and 10.8% above our estimates
- EPS at INR 19.8 in Q1FY22 vs 18 / 12 in Q4FY21 / Q1FY21 respectively

Result Highlights

- **Services** (87% of revenue) grew by 11.5% qoq / 34% yoy. **IP-led business** (13% of revenue) de-grew by 4% qoq / -4.1% yoy
- **TCV for Q3FY21 stood at \$244 Mn** (versus \$246.5 / 302 in Q4FY21 / Q3FY21), which included \$147 of new deals (versus \$134.7 / 175.5 Mn Q4FY21 / Q3FY21).
- >\$5 Mn bucket increased from 17 to 21 qoq and >\$3 Mn bucket increased from 66 to 76
- **Top Client (17% of revenue)** grew by 3.7% qoq whereas **Top 5 clients (19.5% of revenue)** grew by 15% qoq and **Top 10 (10.2% of revenue)** grew by 12.5% qoq
- **BFSI (30.8% of revenue)** grew by 11.7% qoq / 23.3% yoy. **Healthcare & Lifesciences (20.5% of revenue)** grew by 15.9% qoq / 32.5% yoy. **Technology Companies (48.7% of revenue)** grew 5.1% qoq / 27.8% yoy

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Net sales	33,659	35,658	41,879	54,405	62,998
EBITDA	5,506	4,923	6,830	8,931	10,244
Adjusted net profit	3,517	3,403	4,507	6,125	6,881
Free cash flow	7,821	(240)	6,329	5,863	8,093
EPS (Rs)	44.0	44.5	59.0	80.1	90.0
growth (%)	9%	1%	32%	36%	12%
P/E (x)	69.1	68.3	51.5	37.9	33.8
P/B (x)	69.1	68.3	51.5	37.9	33.8
EV/EBITDA (x)	42.4	46.3	32.7	24.6	20.8
ROCE (%)	12.5	10.2	14.1	16.4	16.1
RoE (%)	15.7	14.4	17.4	20.4	20.0
Dividend yield (%)	0.4	0.4	0.4	0.7	0.7

Source: Company

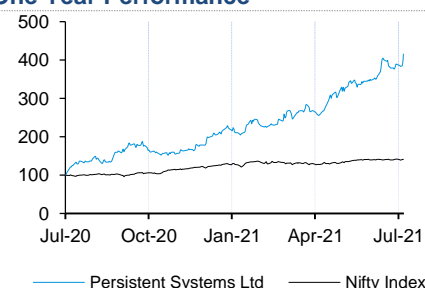
Rating	TP (Rs)	Up/Dn (%)
HOLD	3151	4

Market data

Current price	Rs	3039
Market Cap (Rs.Bn)	(Rs Bn)	232
Market Cap (US\$ Mn)	(US\$ Mn)	3115
Face Value	Rs	10
52 Weeks High/Low	Rs	3130/711
Average Daily Volume	('000)	288
BSE Code		533179
Bloomberg		PSYS:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	31.26	31.29
Public	66.34	66.07
Others	2.40	2.64
Total	100	100

Source: BSE

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Conference Call Key Takeaways

- Onsite services revenues grew 12.9% qoq: Volumes +10.2% and billing rate +2.4%.
- Offshore Service revenues grew by 10.7% qoq: Volumes +8.6% and billing rate +2%.
- Order bookings and pipeline give confidence to maintain at or near current momentum - there was no phenomenon such as high revenue bookings toward the end of quarter and such - therefore it was pure demand driven growth supported by Persistent's strong digital
- Alliance Business (company stopped reporting Alliance business separately as a segment from Q1FY22): Reported decent growth. Growth in Top Customer is essentially the Alliance business - which grew by 3.4% sequentially.
- Operating Margins: management has eye on the ball. This quarter had one-offs such as Visa impact (50 bps) and impairment of investment in start-up (60 bps). Despite these, managed to sustain margins during the quarter. Adjusted for these one-offs, EBIT margin stood at 14.6% and EBITDA margins stood at 17.5%.
- India business outperformed vs peers: 2 subsegments in India business - subsidiaries of Global customers that Persistent works with and local companies like NBFCs - wherein Persistent is a leader in the Salesforce practice.
- Robust Healthcare segment performance: S&M investments and strong talent acquisition have paid off. There are essentially 2 subsegments in Healthcare Business - Instrumentation & Medical Device Companies and Pharma & Healthcare Providers. Persistent traditionally has strength in Instrumentation subsegment. In Provider and Pharma - Persistent has deepened partnership with Salesforce and has the best capabilities and are leading service providers in the market. Management is confident of this segment delivering solid performance going ahead.
- Account mining working out well as growth in all Top accounts was impressive
- Return of normalcy may increase travel costs and impact margins to the tune of 30-40 bps
- Management aims at maintaining a good balance between Growth and Margins
- Subcon cost was higher due to restricted travel and lack of presence onsite, once normal travel resumes - subcon costs should come down
- Hired 400 freshers during the quarter and plan to hire 2000 freshers during the year
- Normal wage hike in July with margin impact of 250-275 bps. However, levers would absorb most of it and expect net impact

to be 75 – 100 bps. Aspire to absorb remaining impact with strong revenue growth

- 50 bps visa impact to margins in Q1FY22
- Capiot acquisition progressing well and saw growth of USD 500 – 550K QoQ which translates into 32% QoQ
- M&A: will be tuck-ins which would help enhance talent and will be in healthcare or BFSI. Expect to make an announcement in the next quarter or so.

Quarterly Performance Analysis

Exhibit 1

YE March (Rs. Mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %	Q1 FY22 estimates	Deviation %
Net Sales (US\$ Mn)	166.8	152.8	9.2%	131	27.3%	161.4	3.4%
Net Sales (INR Mn)	12,299	11,134	10.5%	9,914	24.1%	12,021	2.3%
Less:							
Employees Remuneration & Benefits	9,128	8,397	8.7%	7,136	27.9%	8,632	5.7%
SG&A Expenses	1,156	853	35.5%	1,320	(12.4%)	1,382	(16.4%)
Total Operating Expenditure	10,284	9,250	11.2%	8,456	21.6%	10,014	2.7%
EBITDA	2,015	1,883	7.0%	1,458	38.2%	2,007	0.4%
EBIT	1,665	1,464	13.7%	1,022	62.9%	1,559	6.8%
Less: Depreciation	350	419	(16.5%)	436	(19.6%)	448	(21.9%)
Less: Interest	23	16	42.9%	14	59.7%	15	
Add: Other income	388	400	(3.1%)	212	82.8%	301	29.1%
Profit Before Tax	2,031	1,849	9.8%	1,220	66.4%	1,844	10.1%
Adjusted Profit s	2,031	1,849	9.8%	1,220	66.4%	1,844	
Less: Total Tax	518	471	9.9%	320	61.7%	479	
PAT	1,512	1,378	9.8%	900	68.0%	1,365	10.8%
Adjusted PAT	1,512	1,378	9.8%	900	68.0%	1,365	10.8%
Reported Diluted EPS (Rs.)	19.8	18.0	9.8%	11.8	68.0%	17.9	
Adjusted Diluted EPS (Rs.)	19.8	18.0	9.8%	12	68.0%	17.9	10.8%
No of Shared Diluted (mn)	76	76		76		76	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT margin	13.5%	13.2%	39	10.3%	323	13.0%	57
EBIDTA Margin	16.4%	16.9%	(53)	14.7%	168	16.7%	(31)
NPM	12.3%	12.4%	(8)	9.1%	322	11.4%	95
Adjusted NPM	12.3%	12.4%	(8)	9.1%	322	11.4%	95
Effective Tax Rate %	25.5%	25.5%	3	26.2%	(74)	26.0%	(49)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	74.2%	75.4%	(121)	72.0%	224	71.8%	241
SG&A/Net sales	9.4%	7.7%	174	13.3%	(392)	11.5%	(210)

Growth was driven by Services business with a broad-based growth across BFSI, Healthcare and Tech

EBITDA margin expanded 30 bps qoq. Margins would have been higher if not for certain one-offs such as Visa cost (50 bps) and impairment of investment in start up (60 bps)

Next quarter will see impact of annual wage hike to the extent of 250-275 bps which will be absorbed by absence of one offs, revenue growth and operational efficiencies

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Persistent is currently trading at 37.9x / 33.9x FY22e / FY23e EPS. On the back of highest quarterly growth in the history, management is confident of maintaining growth momentum and continues to give a strong outlook for Services as well Alliance business due to robust pipeline and order book. Strong quarterly net additions also indicate that management is preparing for surge in broad-based demand which is not only from Persistent’s top clients but a sector-wide phenomenon.

This is the 3rd straight quarter of earnings surprise coupled with strong outlook and robust demand environment. We believe that Persistent will deliver industry leading growth rates and therefore will command industry leading multiple (versus Coforge – which is the most expensive midcap IT at 31x-32x FY23e EPS).

Taking all the above factors into consideration, we upgrade our target price on Persistent to INR 3,151 (earlier TP INR 2,285), based on 35x FY23e EPS estimates. Given that the stock has rallied 57% over the last 3 months – we downgrade our rating from BUY to HOLD.

Financial

Profit & Loss A/c						Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	33,659	35,658	41,879	54,405	62,998	Liabilities					
<i>Growth %</i>	<i>11.0%</i>	<i>5.9%</i>	<i>17.4%</i>	<i>29.9%</i>	<i>15.8%</i>	Equity Capital	791	764	764	764	764
Total Revenue	33,659	35,658	41,879	54,405	62,998	Reserves & Surplus	22,656	23,093	27,192	31,345	36,011
Employee Cost & Related Expenses	22,740	25,475	30,722	38,749	43,619	Equity	23,447	23,858	27,957	32,110	36,775
Miscellaneous Expenses	5,413	5,260	4,327	6,725	9,135	Net Worth	23,447	23,858	27,957	32,110	36,775
Total Operating Expenditure	28,153	30,735	35,049	45,474	52,754	Total Loans	12	407	760	760	760
EBIDTA	5,506	4,923	6,830	8,931	10,244	Capital Employed	23,712	24,448	28,958	33,188	37,903
<i>Growth %</i>	<i>18.2%</i>	<i>-10.6%</i>	<i>38.8%</i>	<i>30.8%</i>	<i>14.7%</i>	Assets					
Less: Depreciation	1,573	1,660	1,756	2,080	2,520	Gross Block	7,390	7,370	7,885	8,885	9,885
EBIT	3,934	3,263	5,075	6,851	7,724	Less: Depreciation	5,059	5,145	5,483	7,564	10,083
<i>Growth %</i>	<i>27.9%</i>	<i>-17.1%</i>	<i>55.5%</i>	<i>35.0%</i>	<i>12.7%</i>	Net Block	2,331	2,225	2,401	1,321	-199
Interest Paid	3	63	58	69	0	Investments	4,763	5,311	4,089	4,328	4,524
Non-operating Income	933	1,324	1,078	1,441	1,575	Intangible Assets	1,980	1,661	1,315	1,709	1,979
Profit Before tax	4,864	4,523	6,094	8,223	9,299	Right of Use Assets		567	853	630	0
Tax	1,347	1,121	1,588	2,098	2,418	Current Assets					
Net Profit	3,517	3,403	4,507	6,125	6,881	Sundry Debtors	4,923	5,922	5,709	7,453	8,630
Adjusted Profit	3,517	3,403	4,507	6,125	6,881	Current Investments	3,296	5,165	6,375	7,073	7,560
Reported Diluted EPS Rs	44.0	44.5	59.0	80.1	90.0	Cash and Bank Balance	6,724	4,572	9,809	13,516	19,440
<i>Growth %</i>	<i>8.9%</i>	<i>1.3%</i>	<i>32.4%</i>	<i>35.9%</i>	<i>12.3%</i>	Total Current Assets	19,064	20,032	26,838	34,053	41,961
Adjusted Diluted EPS Rs	44.0	44.5	59.0	80.1	90.0	Less: Current Liabilities & Provisions					
<i>Growth %</i>	<i>8.9%</i>	<i>1.3%</i>	<i>32.4%</i>	<i>35.9%</i>	<i>12.3%</i>	Sundry Creditors	1,517	2,247	2,733	3,613	4,191
						Total Current Liabilities & Provision	4,844	6,474	7,697	10,359	12,107
						Capital Applied	23,712	24,448	28,958	33,188	37,903
Key Ratios						Cash Flows (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	YE March (Rs. Mn)	FY19	FY20	FY21	FY22E	FY23E
EBIDTA (%)	16.4%	13.8%	16.3%	16.4%	16.3%	PAT	3,517	3,403	4,507	6,125	6,881
NPM (%)	10.4%	9.5%	10.8%	11.3%	10.9%	Add: Depreciation	1,573	1,660	1,756	2,080	2,520
RoE (%)	15.7%	14.4%	17.4%	20.4%	20.0%	Add: Interest Paid	3	63	58	69	0
RoCE (%)	12.5%	10.2%	14.1%	16.4%	16.1%	Operating Profit before WC Changes	4,160	3,802	5,242	6,833	7,826
Tax Rate %	27.7%	24.8%	26.1%	25.5%	26.0%	(Inc)/Dec in Current Assets	3,128	(3,119)	(1,569)	(3,508)	(1,984)
Book Value Per Share (Rs.)	293.1	312.2	365.8	420.1	481.2	Inc/(Dec) in Current Liabilities	(145)	1,629	1,223	2,661	1,748
						Net Cash Generated From Operations	7,143	2,312	4,897	5,986	7,591
Valuation Ratios						Free Cash Flow Analysis					
P/E (x)	69.1x	68.3x	51.5x	37.9x	33.8x	EBITDA	5,506	4,923	6,830	8,931	10,244
EV/EBITDA	42.4x	46.3x	32.7x	24.6x	20.8x	Add: Depreciation Tax Shield	435	411	457	531	655
P/BV (x)	10.4x	9.7x	8.3x	7.2x	6.3x	Working Capital Changes	3,292	-4,473	1,144	-501	612
Market Cap. / Sales (x)	7.1x	6.5x	5.5x	4.3x	3.7x	Less: Inc in FC Investment	66	-20	515	1,000	1,000
						Taxes Paid	1,347	1,121	1,588	2,098	2,418
						Total Free Cash Flows	7,821	-240	6,329	5,863	8,093
Key Ratios (Consolidated)											
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E						
Key Operating Ratios											
EBITDA Margin (%)	16.4%	13.8%	16.3%	16.4%	16.3%						
Tax / PBT (%)	27.7%	24.8%	26.1%	25.5%	26.0%						
Net Profit Margin (%)	10.4%	9.5%	10.8%	11.3%	10.9%						
RoE (%)	15.7%	14.4%	17.4%	20.4%	20.0%						
RoCE (%)	12.5%	10.2%	14.1%	16.4%	16.1%						
Current Ratio (x)	3.9x	3.1x	3.5x	3.3x	3.5x						
Dividend Payout (%)	29.4%	30.1%	40.3%	32.2%	32.2%						
Book Value Per Share (Rs.)	293.1	312.2	365.8	420.1	481.2						
Growth Indicators %											
Growth in Gross Block (%)	0.9%	(0.3%)	7.0%	12.7%	11.3%						
Sales Growth (%)	11.0%	5.9%	17.4%	29.9%	15.8%						
EBITDA Growth (%)	18.2%	(10.6%)	38.8%	30.8%	14.7%						
Net Profit Growth (%)	8.9%	(3.2%)	32.4%	35.9%	12.3%						
Diluted EPS Growth (%)	8.9%	1.3%	32.4%	35.9%	12.3%						

Source: Dalal & Broacha Research, Company

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