



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

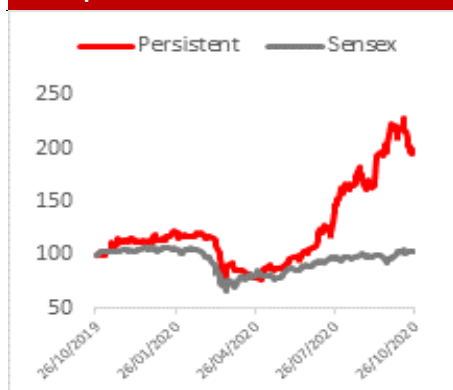
Buy on Dips

Current Price	1187
Target Price	1120
Upside	-6%
52 Week Range	420/1390

Key Share Data

Market Cap (Rs.Bn)	91
Market Cap (US\$ Mn)	1227
No of o/s shares (Mn)	76
Face Value	10
Monthly Avg.	
Vol(BSE+NSE)('000)	314
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg	PSYS:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	31.29	31.47
Public	65.85	65.46
Others	2.86	3.07
Total	100	100

Persistent Systems reported a strong Q2FY21 performance which marginally beat our estimates on the revenue front and a strong beat on our profitability estimates

- \$ revenue: \$ 136.09 Mn, +3.9% qoq / +8.4% yoy and +0.8% above our estimates
- INR revenue: INR 10077.5 Mn, +1.7% qoq / +13.9% yoy and 0.4% above our estimates
- EBITDA: INR 1,658 Mn, +13.7% qoq / +36.3% yoy and +10.2% vs our estimates.
- EBITDA for the quarter was robust due to a 56.8% qoq drop / 75.5% yoy drop in Travel Expenses, 7% yoy drop in S&M expenses, 3.3% yoy drop in Admin & Other Expenses and 70.5% qoq drop / 57.9% yoy drop in Royalty Expenses.
- EBITDA margins: 16.4%, vs 14.7% / 13.8% in Q1FY21 / Q2FY20 respectively and 140 bps above our estimates
- EBIT: INR 1218 Mn, +19.1% qoq / +53.9% yoy and +17.4% vs our estimates
- EBIT margins: 12.1%, vs 10.3% / 8.9% in Q1FY21 / Q2FY20 respectively and 180 bps above our estimates
- PAT: INR 1,020 Mn, +13.3% qoq / +18.5% yoy and 11.8% above our estimates
- EPS at INR 13.3 in Q2FY21 vs 11.8 / 11.3 in Q4FY20 / Q1FY20 respectively

Service-wise Analysis

Services (84% of topline) reported a 5.4% qoq / 17.2% yoy growth and **IP-led revenues (16% of topline)** reported a de-growth of 3.3% qoq / 21.9% yoy

Industry-wise

BFSI (31.9% of revenue) was up 4.2% qoq / 21.8% yoy. **Healthcare & Life Sciences (19.3% of revenue)** was up 1.8% qoq / 13.7% yoy. **Technology companies and Emerging verticals (48.8% of revenue)** was up 4.5% qoq and flat yoy.

Concall KTAs

1. Seeing green shoots and good traction in Alliance business from Top Customer and Other customers on the back of large deal pipeline and cross selling opportunities between Alliance and Technology Services Unit. Positive on revenue growth and profitability. One can expect Alliance business to start performing from FY22e onwards
2. IBM split should be positive. Persistent does more work for core IBM and less for new co
3. Non-linear was impacted due to seasonality which was offset to some extent by higher royalty income
4. **Linear Revenue: Onsite grew by 1.8%:** +2% due to Volume growth and -0.2% due to dip in billing. **Offshore Revenue grew by 7.7%:** +7.8% due to Volume and -0.1% due to billing
5. Margins expansion due to higher revenue, higher utilization and higher royalty income
6. Wage hike across the board from 1st November onwards
7. Margins to sustain through Q3 at least on the back of seasonally strong IP revenue + transition of large deal to off-shore + roll-back of discounts given in Q1. Additionally, tailwinds such as lower amortization and lower COVID care spend to aid margins from FY22e

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%	29.4x	16.4%	11.5%
FY19	33,659	11%	3,934	11.7%	3,517	10.4%	44.0	9%	27.0x	15.7%	12.5%
FY20	35,658	6%	3,263	9.2%	3,403	9.5%	44.5	-3%	26.7x	14.4%	10.2%
FY21E	41,062	15%	4,664	11.4%	3,946	9.6%	51.6	15.9%	23.0x	15.5%	13.2%
FY22E	45,346	10%	5,355	11.8%	4,756	10.5%	62.2	20.5%	19.1x	16.6%	13.5%

Source: Company, Dalal&Broacha Research



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8. Will utilize ~INR 1690 Cr Cash and Investment towards larger acquisition with focus on Europe
9. Vision of making Persistent a \$1 Bn enterprise through organic + inorganic approach over the next 4 years (details to be given on investor day)
10. Subcontracting expenses remained at similar levels as lockdown was restricting capabilities. However, one can expect this % to go down going ahead
11. Will hire 300-400 employees next quarter

Q2FY21 Performance Review

YE March (Rs. Mn)	Q2 FY21	Q1 FY21	Q-o-Q change %	Q2 FY20	Y-o-Y change %	Q2 FY21 estimates	Deviation %
Net Sales (US\$ Mn)	136.1	131.0	3.9%	126	8.4%	135.0	0.8%
Net Sales (INR Mn)	10,077	9,914	1.7%	8,846	13.9%	10,033	0.4%
Less:							
Employees Remuneration & Benefits	7,448	7,136	4.4%	6,267	18.9%	7,199	3.5%
SG&A Expenses	965	1,320	(26.9%)	1,363	(29.2%)	1,329	(27.4%)
Total Operating Expenditure	8,413	8,456	(0.5%)	7,630	10.3%	8,528	(1.3%)
EBITDA	1,664	1,458	14.1%	1,216	36.8%	1,504	10.6%
EBIT	1,224	1,022	19.8%	792	54.7%	1,038	18.0%
Less: Depreciation	440	436	1.0%	425	3.5%	467	(5.8%)
Less: Interest	14	14	0.3%	18	(22.7%)	15	
Add: Other income	165	212	(22.3%)	382	(56.9%)	215	(23.2%)
Profit Before Tax	1,375	1,220	12.7%	1,156	19.0%	1,237	11.2%
Adjusted Profits	1,375	1,220	12.7%	1,156	19.0%	1,237	
Less: Total Tax	355	320	10.9%	295	20.5%	325	
PAT	1,020	900	13.3%	861	18.5%	912	11.8%
Adjusted PAT	1,020	900	13.3%	861	18.5%	912	11.8%
Reported Diluted EPS (Rs.)	13.3	11.8	13.3%	11.3	18.5%	11.9	
Adjusted Diluted EPS (Rs.)	13.3	11.8	13.3%	11	18.5%	11.9	11.8%
No of Shared Diluted (mn)	76	76		76		76	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT margin	12.1%	10.3%	184	8.9%	320	10.3%	181
EBITDA Margin	16.5%	14.7%	181	13.8%	276	15.0%	152
NPM	10.1%	9.1%	104	9.7%	39	9.1%	103
Adjusted NPM	10.1%	9.1%	104	9.7%	39	9.1%	103
Effective Tax Rate %	25.8%	26.2%	(42)	25.5%	31	26.2%	(42)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	73.9%	72.0%	193	70.8%	307	71.8%	215
SG&A/Net sales	9.6%	13.3%	(374)	15.4%	(583)	13.3%	(367)

Source: Company, Dalal&Broacha Research

Business Offerings Revenue Mix (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q1FY21
Services	79%	78%	79%	84%	83%	84%
IP Led	22%	23%	21%	16%	17%	16%
Total	100%	100%	100%	100%	100%	100%
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q1FY21
Services	94	97	102	106	108	114
Q-o-Q (%)	1.2%	3.6%	4.9%	4.3%	1.8%	5.4%
Y-o-Y (%)	4.6%	10.6%	12.5%	14.7%	15.3%	17.2%
IP Led	26	28	27	21	23	22
Q-o-Q (%)	0.6%	9.8%	-2.8%	-24.5%	10.1%	-3.3%
Y-o-Y (%)	-24.1%	-6.7%	-9.2%	-19.0%	-11.4%	-21.9%

- Revenue outperformed vs our revenue estimates on the back of Services revenue
- Margin expansion due to higher revenue, utilization and royalty income
- Margins to sustain into Q3 at least with certain positive triggers kicking in from FY22e

- IP Led business declined qoq on the back of higher base in Q1FY21 + seasonally weak quarter
- Q3FY21 is expected to be seasonally strong quarter for IP business



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Industry Revenue Mix (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q1FY21
BFSI	27.7%	28.4%	30.5%	31.3%	31.8%	31.9%
Healthcare & Lifescience	18.9%	18.4%	18.9%	19.2%	19.7%	19.3%
Technology Companies and Emerging Verticals	53.4%	53.2%	50.6%	49.5%	48.5%	48.8%
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q1FY21
BFSI	33.1	35.6	39.5	39.8	41.7	43.4
Q-o-Q (%)	3.7%	7.6%	10.7%	0.7%	4.8%	4.2%
Y-o-Y (%)		22.1%	27.1%	24.5%	25.7%	21.8%
Healthcare & Lifescience	22.6	23.1	24.5	24.4	25.8	26.3
Q-o-Q (%)	-2.5%	2.1%	5.9%	-0.3%	5.8%	1.8%
Y-o-Y (%)		7.3%	11.2%	5.2%	14.2%	13.7%
Technology Companies and EM Verticals	63.9	66.8	65.5	62.9	63.5	66.4
Q-o-Q (%)	1.1%	4.5%	-1.9%	-4.0%	1.0%	4.5%
Y-o-Y (%)		-1.1%	-3.4%	-0.4%	-0.5%	-0.5%

- All 3 industries outperformed on a sequential basis

- Expect Technology and EM verticals to outperform from FY22e onwards

Valuation & Outlook

Persistent Systems is currently trading at 23x / 19.1x FY21e / FY22e EPS. Services Unit continued to outperform and management has seen green shoots and indicated that there is immense traction in Alliance business on the back of healthy deal pipeline and surge in demand for Red Hat. The split at IBM level also seems to be positive as per management. Persistent has also advanced in their IBM partner certification and AWS certification coupled with industry leading accolades in various verticals.

Taking into consideration all the above factors, we raise our EPS estimates from INR 48.7 / INR 56.9 to INR 51.6 / INR 62.2 in FY21e / FY22e respectively.

We raise our Target Price from INR 967 to INR 1120, i.e. 18x FY22e EPS



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Profit & Loss A/c					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	30,337	33,659	35,658	41,062	45,346
Growth %	5.4%	11.0%	5.9%	15.2%	10.4%
Total Revenue	30,337	33,659	35,658	41,062	45,346
Employee Cost & Related Expen	21,497	22,740	25,475	30,173	32,725
Miscellaneous Expenses	4,180	5,413	5,260	4,393	5,391
Total Operating Expenditure	25,677	28,153	30,735	34,566	38,116
EBIDTA	4,660	5,506	4,923	6,497	7,230
Growth %	0.1%	18.2%	-10.6%	32.0%	11.3%
Less: Depreciation	1,585	1,573	1,660	1,833	1,875
EBIT	3,076	3,934	3,263	4,664	5,355
Growth %	-2.8%	27.9%	-17.1%	42.9%	14.8%
Interest Paid	1	3	63	59	61
Non-operating Income	1,218	933	1,324	722	1,134
Profit Before tax	4,293	4,864	4,523	5,327	6,427
Tax	1,062	1,347	1,121	1,381	1,671
Net Profit	3,231	3,517	3,403	3,946	4,756
Adjusted Profit	3,231	3,517	3,403	3,946	4,756
Reported Diluted EPS Rs	40.4	44.0	44.5	51.6	62.2
Growth %	7.2%	8.9%	1.3%	15.9%	20.5%
Adjusted Diluted EPS Rs	40.4	44.0	44.5	51.6	62.2
Growth %	3.3%	8.9%	1.3%	15.9%	20.5%

Key Ratios					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
EBIDTA (%)	15.4%	16.4%	13.8%	15.8%	15.9%
NPM (%)	10.6%	10.4%	9.5%	9.6%	10.5%
RoE (%)	16.4%	15.7%	14.4%	15.5%	16.6%
RoCE (%)	11.5%	12.5%	10.2%	13.2%	13.5%
Tax Rate %	24.7%	27.7%	24.8%	25.9%	26.0%
Book Value Per share (Rs)	265.9	293.1	312.2	354.9	397.1
Valuation Ratios					
P/E (x)	29.4x	27.0x	26.7x	23.0x	19.1x
EV/EBITDA	19.9x	15.8x	17.6x	13.3x	11.5x
P/BV (x)	4.5x	4.1x	3.8x	3.3x	3.0x
Market Cap. / Sales (x)	3.1x	2.8x	2.5x	2.2x	2.0x

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
PAT	3,230.9	3,517.0	3,402.9	3,945.6	4,756.3
Add: Depreciation	1,584.9	1,572.5	1,659.6	1,833.1	1,875.1
Add: Interest Paid	0.8	3.1	63.3	59.0	61.2
Operating Profit before WC Changes	3,598.7	4,159.7	3,802.1	5,115.6	5,559.0
(Inc)/Dec in Current Assets	(3,119.6)	3,127.9	(3,119.3)	(2,859.8)	(1,290.1)
Inc/(Dec) in Current Liabilities	2,810.6	(145.0)	1,629.4	684.0	1,133.8
Net Cash Generated From Operations	3,289.6	7,142.6	2,312.2	2,939.7	5,402.7
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(287.7)	(66.3)	20.1	(2,000.0)	(1,000.0)
Add: Non Operating Income Income	1,217.9	932.9	1,323.8	722.2	1,133.7
Cash Flow from Investing Activities	(66.5)	(49.5)	406.0	(2,080.1)	(384.1)
Cash Flow from Financing Activities					
Dividend Paid	(904.6)	(869.3)	(917.1)	(591.8)	(1,331.8)
Net Cash Flow from Financing Activities	(1,039.2)	(2,783.3)	(4,303.1)	(697.1)	(1,545.5)
Net Inc/Dec in cash equivalents	2,183.9	4,309.8	(1,585.0)	162.5	3,473.1
Opening Balance	230.1	2,414.0	6,723.8	4,572.1	4,592.4
Closing Cash Balance	2,414.0	6,723.8	5,138.9	4,734.6	8,065.5

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity Capital	800	791	764	764	764
Reserves & Surplus	20,472	22,656	23,093	26,358	29,583
Equity	21,272	23,447	23,858	27,123	30,347
Net Worth	21,272	23,447	23,858	27,123	30,347
Total Loans	17	12	407	407	407
Capital Employed	21,719	23,712	24,448	27,755	31,027
Assets					
Gross Block	7,324	7,390	7,370	9,370	10,370
Less: Depreciation	4,743	5,059	5,145	6,979	8,854
Net Block	2,581	2,331	2,225	2,391	1,516
Investments	3,010	4,763	5,311	5,691	5,874
Intangible Assets	2,585	1,980	1,661	1,913	2,112
Right of Use Assets			567	709	630
Current Assets					
Sundry Debtors	4,847	4,923	5,922	7,312	7,454
Current Investments	5,916	3,296	5,165	5,948	6,568
Cash and Bank Balance	2,414	6,724	4,572	4,592	8,145
Total Current Assets	17,882	19,064	20,032	22,912	27,754
Less: Current Liabilities & Provisions					
Sundry Creditors	1,673	1,517	2,247	2,557	3,028
Total Current Liabilities & Provisior	4,989	4,844	6,474	7,158	8,292
Capital Applied	21,719	23,712	24,448	27,755	31,027

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin (%)	15.4%	16.4%	13.8%	15.8%	15.9%
Tax / PBT (%)	24.7%	27.7%	24.8%	25.9%	26.0%
Net Profit Margin (%)	10.6%	10.4%	9.5%	9.6%	10.5%
RoE (%)	16.4%	15.7%	14.4%	15.5%	16.6%
RoCE (%)	11.5%	12.5%	10.2%	13.2%	13.5%
Current Ratio (x)	3.6x	3.9x	3.1x	3.2x	3.3x
Dividend Payout (%)	32.2%	29.4%	30.1%	17.3%	32.2%
Book Value Per Share (Rs.)	265.9	293.1	312.2	354.9	397.1
Growth Indicators %					
Growth in Gross Block (%)	4.1%	0.9%	(0.3%)	27.1%	10.7%
Sales Growth (%)	5.4%	11.0%	5.9%	15.2%	10.4%
EBITDA Growth (%)	0.1%	18.2%	(10.6%)	32.0%	11.3%
Net Profit Growth (%)	7.2%	8.9%	(3.2%)	15.9%	20.5%
Diluted EPS Growth (%)	7.2%	8.9%	1.3%	15.9%	20.5%



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