



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q4 FY19 Result Update@ Dalal&Broacha

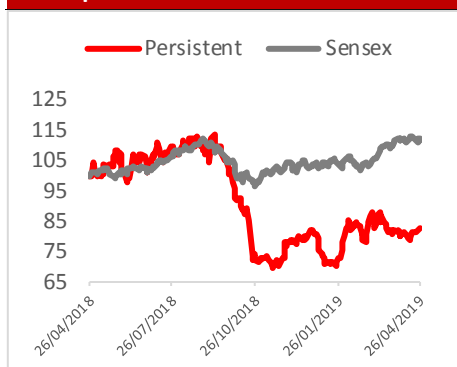
Neutral

Current Price	635
Target Price	674
Upside	6%
52 Week Range	533/915

Key Share Data

Market Cap (Rs.Bn)	50.83
Market Cap (US\$ Mn)	726
No of o/s shares (Mn)	80
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) '000	197.92
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg	PSYS:IN

Price performance



% Shareholding	Mar-19	Dec-18
Promoters	30.61	30.47
Public	66.71	66.76
Others	0	0
Total	100	100

Persistent reported its Q4FY19 numbers which were largely disappointing and below our estimates on all fronts

- Revenue in dollar terms was reported at \$118.3 Mn, -2.1% qoq, +1.2% yoy and -4.2% below our est. of \$123.5 Mn
- In INR terms, revenue came in at INR 8319 Mn, -3.7% qoq, +10.5% yoy and -4.4% below our est. of INR 8699 Mn
- EBTIDA stood at INR 1,207 Mn, -17.4% qoq, +11.4% yoy and +10.5% vs. our est. of INR 1,348 Mn
- EBITDA margin of 14.5%, -241 bps qoq and +11 bps yoy
- EBITDA margin was down 241 bps qoq due to 2 main reasons – (i) Lower IP revenues in the quarter and (ii) Provisioning for IL&FS (~Rs.182mn for FY19)
- PAT stood at INR 846 Mn, +7.8% qoq, +14.7% yoy and in line with our est. of INR 844 Mn
- EPS stood at INR 10.6 in Q4FY19 vs INR 11.5 / 9.2 in Q3FY19 / Q4FY18

Q4 was soft mainly due to weak performance of Top client, seasonality and on-going internal restructuring

- Alliance business (~25% of revenue) reported a de-growth of 17.4% qoq in line with management's commentary that IBM itself (Top Client) was facing issues in driving growth. Digital (25% of revenue) was up 2.8% yoy in Q4FY19 and up 9% yoy, way short of expectations of delivering a 20% yoy growth
- Management stated that Q4 is usually a soft quarter and clients had delayed decision making on IT spend
- Margins were impacted as IP-led revenue (non-linear) was down 15.4% qoq
- Geographically, US (81% of revenue) was down 5% qoq whereas Europe (8% of revenue) was soft at 1.8% qoq growth

Key Concall Takeaways

(i) Linear revenues were up 2.2% QoQ whereas IP-led revenues were down 15% QoQ (ii) Increase in overall volume was 1.7% and billing rate up 0.6% qoq (iii) Onsite Volumes were down -1.2% and billing rate was up 4% qoq (iv) Offshore volumes were up 2.2% qoq whereas billing rates were down 0.1% qoq (v) Lower IP revenue coupled with INR appreciation had an impact at GM level and EBITDA margin level (vi) G&A was higher (at 16.7% in Q4FY19 vs. 15.8% in Q3FY19) as it included impairment of deposits with IL&FS. Impairment of IL&FS instrument impacted EBITDA to the tune of 2.2% for the quarter and 0.5% for the year (vii) Hopeful of revival in growth from Q2FY20 (however management stated that it will be in a better position to comment in the next quarter) onwards as S&M restructuring is complete and new introductions in the management (Chris O'Conner as CEO and Sandip Kalra as head of Technology services) will have settled in (viii) The new CEO (Chris O'Conner) suggested that he had various plans of monetizing the IP segment by developing tertiary services and solutions around existing IPs (ix) Margins have 2 main levers, i.e. Onsite Off-shore mix and higher IP revenues (x) CE/CLM business should revive in FY20

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%	15.8x	16.7%	11.8%
FY19	33,659	11%	3,934	11.7%	3,517	10.4%	44.0	9%	14.6x	16.2%	13.0%
FY20E	36,735	9%	4,310	11.7%	3,924	10.7%	49.0	12%	13.0x	16.2%	13.0%
FY21E	40,748	10.9%	4,975	12%	4,496	11.0%	56.2	14.6%	11.4x	16.6%	13.5%



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Q4FY19 Performance Highlights:

YE March (Rs. Mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %	Q1 FY19 estimates	Deviation %
Net Sales (US\$ Mn)	118.3	120.8	(2.1%)	117	1.2%	123.5	(4.2%)
Net Sales (INR Mn)	8,319	8,642	(3.7%)	7,525	10.5%	8,699	(4.4%)
Less:							
Employees Remuneration & Benefits	5,722	5,815	(1.6%)	5,351	6.9%	5,872	(2.6%)
SG&A Expenses	1,389	1,365	1.8%	1,090	27.4%	1,479	(6.1%)
Total Operating Expenditure	7,111	7,180	(1.0%)	6,442	10.4%	7,351	(3.3%)
EBITDA	1,207	1,462	(17.4%)	1,084	11.4%	1,348	(10.5%)
EBIT	830	1,066	(22.1%)	663	25.3%	931	(10.8%)
Less: Depreciation	377	396	(4.9%)	421	(10.5%)	418	
Add: Other income	284	230	23.5%	321	(11.5%)	261	8.8%
Profit Before Tax	1,114	1,296	(14.0%)	984	13.3%	1,191	(6.5%)
Adjusted Profits	1,114	1,296	(14.0%)	984	13.3%	1,191	
Less: Total Tax	268	378	(29.0%)	246	8.9%	348	
PAT	846	918	(7.8%)	737	14.7%	844	0.3%
Adjusted PAT	846	918	(7.8%)	737	14.7%	844	0.3%
Reported Diluted EPS (Rs.)	10.6	11.5	(7.8%)	9.2	14.7%	10.5	
Adjusted Diluted EPS (Rs.)	10.6	11.5	(7.8%)	9	14.7%	10.5	0.3%
No of Shared Diluted (mn)	80	80		80		80	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT margin	10.0%	12.3%	(235)	8.8%	117	10.7%	(72)
EBIDTA Margin	14.5%	16.9%	(241)	14.4%	11	15.5%	(99)
NPM	10.2%	10.6%	(45)	9.8%	37	9.7%	47
Adjusted NPM	10.2%	10.6%	(45)	9.8%	37	9.7%	47
Effective Tax Rate %	24.1%	29.2%	(509)	25.0%	(96)	29.2%	(510)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	68.8%	67.3%	150	71.1%	(232)	67.5%	129
SG&A/Net sales	16.7%	15.8%	91	14.5%	221	17.0%	(30)

Valuation & Outlook

Persistent has consistently failed to deliver a healthy performance in the last several quarters, indicating that its unable to convert sales despite investing in and rebuilding S&M and attract good talent. Management has had 2 new additions in Q4FY19 – Chris O’conner as CEO from IBM and Sandip Kalra from Harman to head Persistent’s Technology services division in California. We believe that these internal changes should translate into positives such as revival in Alliance business, Digital and IP-led revenues over the next few quarters. Although management is confident of yields from higher investments in S&M, we will continue to watch Persistent’s performance over the next few quarters as the company has failed to deliver as per expectations. The stock is currently trading at 13x and 11.4x FY20e and FY21e EPS. We have a **NEUTRAL** rating on the stock with a TP of 674, which is 12x FY21e EPS of INR 56.2.



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Profit & Loss A/c				
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Net Sales	30,337	33,659	36,735	40,748
Growth %	5.4%	11.0%	9.1%	10.9%
Total Revenue	30,337	33,659	36,735	40,748
Employee Cost & Related Expense:	21,497	22,740	24,525	27,313
Miscellaneous Expenses	4,180	5,413	6,151	6,520
Total Operating Expenditure	25,677	28,153	30,676	33,833
EBIDTA	4,660	5,506	6,059	6,915
Growth %	0.1%	18.2%	10.0%	14.1%
Less: Depreciation	1,585	1,573	1,749	1,940
EBIT	3,076	3,934	4,310	4,975
Growth %	-2.8%	27.9%	9.6%	15.4%
Interest Paid	1	3	0	0
Non-operating Income	1,218	933	992	1,100
Profit Before tax	4,293	4,864	5,302	6,075
Tax	1,062	1,347	1,379	1,580
Net Profit	3,231	3,517	3,924	4,496
Adjusted Profit	3,231	3,517	3,924	4,496
Reported Diluted EPS Rs	40.4	44.0	49.0	56.2
Growth %	7.2%	8.9%	11.6%	14.6%
Adjusted Diluted EPS Rs	40.4	44.0	49.0	56.2
Growth %	3.3%	8.9%	11.6%	14.6%

Cash Flows (Consolidated)				
YE March (Rs. Mn)	FY18	FY19	FY20E	FY21E
PAT	3,230.9	3,517.0	3,923.7	4,495.6
Add: Depreciation	1,584.9	1,572.5	1,749.0	1,940.1
Add: Interest Paid	0.8	3.1	0.0	0.0
Operating Profit before WC Changes	3,598.7	4,159.7	4,680.9	5,335.5
Net Cash Generated From Operations	2,314.9	5,760.0	6,199.3	6,023.9
Cash Flow from Investing Activities				
(Inc)/Dec in Fixed Assets	841.7	(2,000.0)	(1,500.0)	(1,500.0)
Add: Non Operating Income	1,217.9	932.9	991.8	1,100.2
Cash Flow from Investing Activities	1,574.7	(1,504.5)	(656.7)	(518.6)
Cash Flow from Financing Activities				
Inc/(Dec) in Total Loans	(112.0)	38.5	4.3	27.1
Dividend Paid	(904.6)	(984.8)	(1,098.6)	(1,258.8)
Net Cash Flow from Financing Activities	(2,937.9)	(1,097.1)	(1,259.1)	(1,420.4)
Net Inc/Dec in cash equivalents	951.7	3,158.5	4,283.5	4,084.8
Opening Balance	230.1	1,181.8	4,340.3	8,623.7
Closing Cash Balance	1,181.8	4,340.3	8,623.7	12,708.6

Key Ratios (Consolidated)				
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Key Operating Ratios				
EBITDA Margin (%)	15.4%	16.4%	16.5%	17.0%
Tax / PBT (%)	24.7%	27.7%	26.0%	26.0%
Net Profit Margin (%)	10.6%	10.4%	10.7%	11.0%
RoE (%)	16.7%	16.2%	16.2%	16.6%
RoCE (%)	11.8%	13.0%	13.0%	13.5%
Current Ratio (x)	7.0x	5.2x	4.9x	5.0x
Dividend Payout (%)	32.2%	32.2%	32.2%	32.2%
Book Value Per Share (Rs.)	256.7	286.5	319.7	357.8
Growth Indicators %				
Growth in Gross Block (%)	(12.0%)	32.3%	18.3%	15.5%
Sales Growth (%)	5.4%	11.0%	9.1%	10.9%
EBITDA Growth (%)	0.1%	18.2%	10.0%	14.1%
Net Profit Growth (%)	7.2%	8.9%	11.6%	14.6%
Diluted EPS Growth (%)	7.2%	8.9%	11.6%	14.6%
Turnover Ratios				
Debtors Days	49	44	45	43
Creditors Days	19	28	38	40

Balance Sheet (Consolidated)				
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	800	800	800	800
Reserves & Surplus	19,732	22,117	24,777	27,825
Equity	20,532	22,917	25,577	28,625
Net Worth	20,532	22,917	25,577	28,625
Net Deferred tax liability/(Asset)	143	182	186	213
Total Loans	17	17	17	17
Capital Employed	20,692	23,115	25,779	28,855
Assets				
Gross Block	6,195	8,195	9,695	11,195
Less: Depreciation	3,871	5,443	7,192	9,132
Net Block	2,324	2,751	2,502	2,062
Investments	5,569	6,076	6,182	6,291
Intangible Assets	125	34	73	81
Current Assets				
Sundry Debtors	3,425	4,611	4,529	5,024
Current Investments	5,916	6,059	5,510	4,890
Cash and Bank Balance	1,182	4,340	8,624	12,709
Loans and Advances	988	370	386	428
Other Current Assets	3,222	2,188	2,204	2,445
Total Current Assets	14,733	17,568	21,253	25,495
Less: Current Liabilities & Provisions				
Sundry Creditors	717	1,774	2,269	2,595
Provisions	428	543	556	711
Other Current Liabilities	953	1,058	1,469	1,834
Total Current Liabilities & Provisions	2,098	3,375	4,294	5,140
Capital Applied	20,692	23,115	25,779	28,855

Free Cash Flow Analysis				
	FY18	FY19	FY20E	FY21E
EBITDA	4,660	5,506	6,059	6,915
Add: Depreciation Tax Shield	392	435	455	504
Working Capital Changes	853	2,884	-82	-830
Less: Inc in FC Investment	-842	2,000	1,500	1,500
Taxes Paid	1,062	1,347	1,379	1,580
Total Free Cash Flows	5,685	5,479	3,554	3,510

Key Ratios				
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
EBITDA (%)	15.4%	16.4%	16.5%	17.0%
NPM (%)	10.6%	10.4%	10.7%	11.0%
RoE (%)	16.7%	16.2%	16.2%	16.6%
RoCE (%)	11.8%	13.0%	13.0%	13.5%
Tax Rate %	24.7%	27.7%	26.0%	26.0%
Book Value Per share (Rs.)	256.7	286.5	319.7	357.8
Valuation Ratios				
P/E (x)	15.8x	14.6x	13.0x	11.4x
EV/EBITDA	10.7x	8.5x	7.0x	5.6x
P/BV (x)	2.5x	2.2x	2.0x	1.8x
Market Cap./ Sales (x)	1.7x	1.5x	1.4x	1.3x



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