

### Persistent Systems' Q4FY21 performance was in-line with our estimates on the revenue front and beat our estimates on the profitability front

- **\$ revenue: \$ 152.8 Mn**, +4.6% qoq / +20.3% yoy and 0.7% above our estimates
- **INR revenue: INR 11,134 Mn**, +3.5% qoq / +20.2% yoy and 0.6% above our estimates
- **EBITDA: INR 1,883 Mn**, +3.2% qoq / +48.4% yoy and +3.1% vs our estimates. (EBITDA growth was robust on a yoy basis as Project & Travel related expenses dropped by 71% yoy from INR 135 Mn to INR 29 Mn, Doubtful debt provision dropped by 88% yoy from INR 39 Mn to INR 5 Mn and CSR activities expenses dropped by 94% yoy from INR 30 Mn to INR 2 Mn)
- **EBITDA margins: 16.9%**, vs 17% / 13.7% in Q3FY21 / Q4FY20 respectively and 40 bps above our estimates
- **EBIT: INR 1,464 Mn**, +7.4% qoq / +72.5% yoy and +10.6% vs our estimates
- **EBIT margins: 13.2%**, vs 12.7% / 9.2% in Q3FY21 / Q4FY20 respectively and 80 bps above our estimates
- **PAT: INR 1,377.6 Mn**, +13.9% qoq / +64.3% yoy and 18.6% above our estimates
- **EPS at INR 18 in Q4FY21** vs 15.8 / 11 in Q3FY21 / Q4FY20 respectively

### Business Offering Highlights

- **Services (85.1% of Revenue)** had a robust growth of 8.6% QoQ & 22.3% YoY.
- **IP Led (14.9% of Revenue)** declined by -13.9% QoQ but had a healthy growth of 10% YoY

### Business Units Highlight

- **Technology Services (79% of Revenue)** had a strong growth of 8.3% QoQ & 96.3% YoY
- **Alliance (21% of Revenue)** declined by -7.3% QoQ but grew by 13.8% YoY

### Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net sales	33,659	35,658	41,879	49,936	55,621
EBITDA	5,506	4,923	6,830	8,270	9,125
Adjusted net profit	3,517	3,403	4,507	5,475	6,238
Free cash flow	7,821	(240)	6,329	6,208	6,765
EPS (Rs)	44.0	44.5	59.0	71.6	81.6
growth (%)	9%	1%	32%	21%	14%
P/E (x)	46.3	45.7	34.5	28.4	24.9
P/B (x)	46.3	45.7	34.5	28.4	24.9
EV/EBITDA (x)	28.0	30.7	21.4	17.2	14.9
ROCE (%)	12.5	10.2	14.1	14.9	14.6
RoE (%)	15.7	14.4	17.4	18.4	18.5
Dividend yield (%)	0.6	0.5	0.6	1.0	1.0

Source: Dalal & Broacha Research

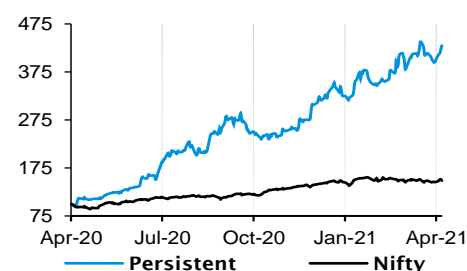
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>2285</b>	<b>12</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>2,038</b>
Market Cap (Rs.Bn)	(Rs Bn)	156
Market Cap (US\$ Mn)	(US\$ Mn)	2105
Face Value	Rs	10
52 Weeks High/Low	Rs	2185/460
Average Daily Volume	('000)	268
BSE Code		533179
Bloomberg		PSYS:IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	31.29	31.29
Public	66.07	65.95
Others	2.64	2.76
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Conference Call Key Highlights

### Operational Highlights

- **Treasury Income:** Treasury Income was reported at Rs. 211 Mn vs Rs. 288 Mn in Q3FY21. **Treasury Income was lower due to MTM Adjustments of MF Investments arising due to increase in yields post-March.**
- **Offshore/Onshore Revenue:** Offshore (Linear Revenue) grew by 11.2% on account of volume growth and **Onsite Revenue grew by 4.2% comprising of Volume growth of 5.4%** (declining the billing rate by -1.1%)
- **Utilization: Overall Utilization stood at 79.1%** in Q4FY21 vs 81% in Q3FY21 and has been **slightly lower however the firm has done hiring of 1600+ in Q3 and 1200+ in Q4 which will normalize those levels going ahead.**
- **Cash & Collections:** Cash stood at \$268 Mn in FY21. **Strong collections during the quarter led to a DSO of 55 days in Q4FY21 vs 57 days in Q3FY21.**
- **Wage Hike:** Pay Hike was announced in November, 2020 for all the employees and Q4 had a full effect of the pay cycle.
- **Key Leadership Development:** In a key Leadership Development, Stefan (joined Persistent via Acquisition) will be heading the Salesforce Business Unit.

**Margin Impact: Impact on Gross margins was Lower Royalty Revenues and 40 bps impact due to currency fluctuations and partly offset by growth in Services business and optimization of IP Person Month (increase in offshoring).**

**Bonus & One-Offs: Announced more than 100% of corporate bonus based on company performance and also spent one-time amount of \$600,000 to provide in giving the resilience kit to the entire Persistent team.**

### Segmental Highlights

- Growth was across the board led by **BFSI (30.1% of Revenue)** growing by 6.7% QoQ & 15.7% YoY followed by **Healthcare & Lifesciences (19.3% of Revenue)** which grew by 4.6% QoQ & 19.7% YoY and **Technologies (50.6% of Revenue & includes the largest customer)** which grew marginally by 2.9% QoQ but had a healthy growth of 23% YoY.
- All the services line performed well and **growth was led by Digital Engineering, Cloud, Security, Data.**

### Business Offerings & Business Units Highlights

- Technology & Services grew by 8.2% QoQ basis and in FY21 registered an industry leading growth of 18.4%.
- Alliance Business was subject to traditional Q4 seasonality and declined by -7.1% QoQ but grew by 13% YoY basis.

**Dip in the IP-led Revenues due to the seasonality factor however strong growth in services offset this decline and led to a Revenue growth of 4.6% QoQ.**

### Merger & Acquisition

- **Integration of Capiot acquisition is progressing well and helping in drive Persistent's data integration business** by working with Capiot on existing as well as new clients.
- Update on an upcoming acquisition will be given in Q1FY21.

### Deal Wins & Orderbook

- **Another strong quarter with healthy orderbook with a deal TCV of \$246.5 Mn in Q4FY21 vs \$302 Mn in Q3FY21.** (Q3 is seasonally a strong quarter)
- **Annual Contract Value (ACV) stood at \$207 Mn (excluding longer-term deals with time period of 3-5 years)**

- Large Deal Renewals usually take place during the month of October, November December.
- **ACV of \$207 Mn and any deal which is in the range 1.2x-1.3x of ACV gives a good growth momentum.** Past 5-6 quarters many deal signings included multi-year deals and renewals will not be due for the next few years.

### Outlook

- Benefit on Amortization Cost front in the current quarter which will reduce by 50bps in Q1 and will remain stable.
- **Management indicated that it is confident of maintaining Average Deal TCV of \$200 Mn which translates into 3-4% QoQ growth.**
- **Red Hat Opportunity:** Every \$1 generated by IBM via Red Hat leads potential revenue of 2-3x for Persistent Systems.
- **Despite the marginal qoq de-growth in Alliance business, Alliance Business signed some large deals over Q3 & Q4 period which will help in profitable growth of this business** in the near to medium term as Top customer has restructured their business in Cloud & Security.

**Contract Restructuring: \$50 Mn**  
Contract Restructuring was because existing customer was bought by large Hyperscaler but does not impact next 12-18 months Revenue Outlook.

**Confident of being in the 17% EBITDA Margin band** led by levers such as cost optimization in the IT business, increase in Utilization and SG&A Investments with a larger revenue base.

**Salary Hike for FY22 will be rolled out from July 2021 onwards.**

## Quarterly Performance Analysis

### Exhibit 1

YE March (Rs. Mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %	Q4 FY21 estimates	Deviation %
Net Sales (US\$ Mn)	152.8	146.2	4.6%	127	20.3%	151.8	0.7%
Net Sales (INR Mn)	11,134	10,754	3.5%	9,264	20.2%	11,064	0.6%
Less:							
Employees Remuneration & Benefits	8,397	7,741	8.5%	6,839	22.8%	8,021	4.7%
SG&A Expenses	853	1,188	(28.2%)	1,155	(26.1%)	1,217	(29.9%)
Total Operating Expenditure	9,250	8,929	3.6%	7,994	15.7%	9,238	0.1%
EBITDA	1,883	1,825	3.2%	1,269	48.4%	1,826	3.1%
EBIT	1,464	1,364	7.4%	849	72.5%	1,324	10.6%
Less: Depreciation	419	461	(9.1%)	420	(0.3%)	502	(16.5%)
Less: Interest	16	14	15.1%	12	35.5%	15	
Add: Other income	400	300	33.4%	293	36.5%	277	44.7%
Profit Before Tax	1,849	1,650	12.0%	1,130	63.5%	1,585	16.6%
Adjusted Profits	1,849	1,650	12.0%	1,130	63.5%	1,585	
Less: Total Tax	471	441	6.9%	292	61.2%	423	
PAT	1,378	1,209	13.9%	838	64.3%	1,162	18.6%
Adjusted PAT	1,378	1,209	13.9%	838	64.3%	1,162	18.6%
Reported Diluted EPS (Rs.)	18.0	15.8	13.9%	11.0	64.3%	15.2	
Adjusted Diluted EPS (Rs.)	18.0	15.8	13.9%	11	64.3%	15.2	18.6%
No of Shared Diluted (mn)	76	76		76		76	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Deviation in bps</b>
EBIT margin	13.2%	12.7%	47	9.2%	399	12.0%	119
EBITDA Margin	16.9%	17.0%	(5)	13.7%	322	16.5%	41
NPM	12.4%	11.2%	113	9.0%	332	10.5%	187
Adjusted NPM	12.4%	11.2%	113	9.0%	332	10.5%	187
Effective Tax Rate %	25.5%	26.7%	(123)	25.9%	(36)	26.7%	(123)
<b>Cost Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Deviation in bps</b>
Employee Cost/Net Sales	75.4%	72.0%	344	73.8%	159	72.5%	292
SG&A/Net sales	7.7%	11.1%	(339)	12.5%	(481)	11.0%	(334)

Source: Dalal & Broacha Research, Company

Growth was led by Services business and healthy deal wins

Gross margins were impacted due to Lower Royalty Revenues and 40 bps impact due to currency fluctuations

EBITDA Margin is expected to remain stable at 17% range

## Valuation & Outlook

Persistent System's Services business (85% of business) reported industry leading growth of 8.2% qoq / 22.3% qoq. Deal wins and Order book are encouraging and management has indicated that the momentum will continue going forward. Outlook on Alliance business (which has been lumpy historically) is also positive as Top Client has undergone restructuring which will provide some tailwinds in the near to medium term. EBITDA margins are also expected to remain stable around 16-5-17% range. Given that the management can maintain an average TCV of \$200 Mn, this can convert into 3-4% sequential growth which can drive Persistent Systems to report industry leading growth in FY22e. Given the strong performance and robust outlook, we upgrade our EPS estimates from INR 67.3 / 77.3 to INR 71.6 / 81.6 for FY22e / FY23e.

**We maintain a BUY rating on the stock with a revised target price of INR 2,285, at 28x FY23e EPS (earlier INR 1,934).**

# Financials

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
<b>Net Sales</b>	<b>33,659</b>	<b>35,658</b>	<b>41,879</b>	<b>49,936</b>	<b>55,621</b>	<b>Liabilities</b>					
<i>Growth %</i>	<i>11.0%</i>	<i>5.9%</i>	<i>17.4%</i>	<i>19.2%</i>	<i>11.4%</i>	Equity Capital	791	764	764	764	764
<b>Total Revenue</b>	<b>33,659</b>	<b>35,658</b>	<b>41,879</b>	<b>49,936</b>	<b>55,621</b>	Reserves & Surplus	22,656	23,093	27,192	30,904	35,134
Employee Cost & Related Expenses	22,740	25,475	30,722	35,732	39,123	<b>Equity</b>	<b>23,447</b>	<b>23,858</b>	<b>27,957</b>	<b>31,668</b>	<b>35,898</b>
Miscellaneous Expenses	5,413	5,260	4,327	5,935	7,373	<b>Net Worth</b>	<b>23,447</b>	<b>23,858</b>	<b>27,957</b>	<b>31,668</b>	<b>35,898</b>
<b>Total Operating Expenditure</b>	<b>28,153</b>	<b>30,735</b>	<b>35,049</b>	<b>41,667</b>	<b>46,496</b>	<b>Total Loans</b>	<b>12</b>	<b>407</b>	<b>760</b>	<b>760</b>	<b>760</b>
<b>EBIDTA</b>	<b>5,506</b>	<b>4,923</b>	<b>6,830</b>	<b>8,270</b>	<b>9,125</b>	<b>Capital Employed</b>	<b>23,712</b>	<b>24,448</b>	<b>28,958</b>	<b>32,721</b>	<b>36,991</b>
<i>Growth %</i>	<i>18.2%</i>	<i>-10.6%</i>	<i>38.8%</i>	<i>21.1%</i>	<i>10.3%</i>	<b>Assets</b>					
Less: Depreciation	1,573	1,660	1,756	2,059	2,225	Gross Block	7,390	7,370	7,885	8,885	9,885
<b>EBIT</b>	<b>3,934</b>	<b>3,263</b>	<b>5,075</b>	<b>6,211</b>	<b>6,900</b>	Less: Depreciation	5,059	5,145	5,483	7,542	9,767
<i>Growth %</i>	<i>27.9%</i>	<i>-17.1%</i>	<i>55.5%</i>	<i>22.4%</i>	<i>11.1%</i>	<b>Net Block</b>	<b>2,331</b>	<b>2,225</b>	<b>2,401</b>	<b>1,343</b>	<b>118</b>
Interest Paid	3	63	58	61	0	<b>Investments</b>	<b>4,763</b>	<b>5,311</b>	<b>4,089</b>	<b>4,278</b>	<b>4,442</b>
Non-operating Income	933	1,324	1,078	1,248	1,530	Intangible Assets	1,980	1,661	1,315	1,569	1,747
<b>Profit Before tax</b>	<b>4,864</b>	<b>4,523</b>	<b>6,094</b>	<b>7,398</b>	<b>8,430</b>	Right of Use Assets		567	853	630	0
Tax	1,347	1,121	1,588	1,923	2,192	<b>Current Assets</b>					
<b>Net Profit</b>	<b>3,517</b>	<b>3,403</b>	<b>4,507</b>	<b>5,475</b>	<b>6,238</b>	Sundry Debtors	4,923	5,922	5,709	6,841	7,619
<b>Adjusted Profit</b>	<b>3,517</b>	<b>3,403</b>	<b>4,507</b>	<b>5,475</b>	<b>6,238</b>	Current Investments	3,296	5,165	6,375	6,492	6,675
<b>Reported Diluted EPS Rs</b>	<b>44.0</b>	<b>44.5</b>	<b>59.0</b>	<b>71.6</b>	<b>81.6</b>	Cash and Bank Balance	6,724	4,572	9,809	14,168	20,026
<i>Growth %</i>	<i>8.9%</i>	<i>1.3%</i>	<i>32.4%</i>	<i>21.5%</i>	<i>13.9%</i>	<b>Total Current Assets</b>	<b>19,064</b>	<b>20,032</b>	<b>26,838</b>	<b>33,018</b>	<b>39,910</b>
<b>Adjusted Diluted EPS Rs</b>	<b>44.0</b>	<b>44.5</b>	<b>59.0</b>	<b>71.6</b>	<b>81.6</b>	<b>Less:Current Liabilities &amp; Provisions</b>					
<i>Growth %</i>	<i>8.9%</i>	<i>1.3%</i>	<i>32.4%</i>	<i>21.5%</i>	<i>13.9%</i>	Sundry Creditors	1,517	2,247	2,733	3,311	3,694
<b>Key Ratios</b>						<b>Total Current Liabilities &amp; Provisi</b>	<b>4,844</b>	<b>6,474</b>	<b>7,697</b>	<b>9,499</b>	<b>10,766</b>
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	<b>Capital Applied</b>	<b>23,712</b>	<b>24,448</b>	<b>28,958</b>	<b>32,721</b>	<b>36,991</b>
<b>EBIDTA (%)</b>	<b>16.4%</b>	<b>13.8%</b>	<b>16.3%</b>	<b>16.6%</b>	<b>16.4%</b>	<b>Cash Flows (Consolidated)</b>					
<b>NPM (%)</b>	<b>10.4%</b>	<b>9.5%</b>	<b>10.8%</b>	<b>11.0%</b>	<b>11.2%</b>	<b>YE March (Rs. Mn)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
<b>RoE (%)</b>	<b>15.7%</b>	<b>14.4%</b>	<b>17.4%</b>	<b>18.4%</b>	<b>18.5%</b>	<b>PAT</b>	<b>3,517</b>	<b>3,403</b>	<b>4,507</b>	<b>5,475</b>	<b>6,238</b>
<b>RoCE (%)</b>	<b>12.5%</b>	<b>10.2%</b>	<b>14.1%</b>	<b>14.9%</b>	<b>14.6%</b>	Add: Depreciation	1,573	1,660	1,756	2,059	2,225
<b>Tax Rate %</b>	<b>27.7%</b>	<b>24.8%</b>	<b>26.1%</b>	<b>26.0%</b>	<b>26.0%</b>	Add: Interest Paid	3	63	58	61	0
<b>Book Value Per share (Rs.)</b>	<b>293.1</b>	<b>312.2</b>	<b>365.8</b>	<b>414.4</b>	<b>469.7</b>	<b>Operating Profit before WC Changes</b>	<b>4,160</b>	<b>3,802</b>	<b>5,242</b>	<b>6,346</b>	<b>6,933</b>
<b>Valuation Ratios</b>						(Inc)/Dec in Current Assets	3,128	(3,119)	(1,569)	(1,821)	(1,034)
<b>P/E (x)</b>	<b>46.3x</b>	<b>45.7x</b>	<b>34.5x</b>	<b>28.4x</b>	<b>24.9x</b>	Inc/(Dec) in Current Liabilities	(145)	1,629	1,223	1,802	1,267
<b>EV/EBITDA</b>	<b>28.0x</b>	<b>30.7x</b>	<b>21.4x</b>	<b>17.2x</b>	<b>14.9x</b>	<b>Net Cash Generated From Operations</b>	<b>7,143</b>	<b>2,312</b>	<b>4,897</b>	<b>6,326</b>	<b>7,167</b>
<b>P/BV (x)</b>	<b>6.9x</b>	<b>6.5x</b>	<b>5.6x</b>	<b>4.9x</b>	<b>4.3x</b>	<b>Cash Flow from Investing Activities</b>					
<b>Market Cap. / Sales (x)</b>	<b>4.8x</b>	<b>4.4x</b>	<b>3.7x</b>	<b>3.1x</b>	<b>2.8x</b>	(Inc)/Dec in Fixed Assets	(66)	20	(515)	(1,000)	(1,000)
<b>Free Cash Flow Analysis</b>						Add: Non Operating Income Income	933	1,324	1,078	1,248	1,530
	FY19	FY20	FY21E	FY22E	FY23E	<b>Cash Flow from Investing Activities</b>	<b>(49)</b>	<b>406</b>	<b>2,098</b>	<b>(418)</b>	<b>30</b>
<b>EBITDA</b>	<b>5,506</b>	<b>4,923</b>	<b>6,830</b>	<b>8,270</b>	<b>9,125</b>	<b>Cash Flow from Financing Activities</b>					
<b>Add: Depreciation Tax Shield</b>	<b>435</b>	<b>411</b>	<b>457</b>	<b>535</b>	<b>578</b>	Dividend Paid	(869)	(917)	(1,577)	(1,533)	(1,747)
<b>Working Capital Changes</b>	<b>3,292</b>	<b>-4,473</b>	<b>1,144</b>	<b>326</b>	<b>253</b>	<b>Net Cash Flow from Financing Activitie</b>	<b>(2,783)</b>	<b>(4,303)</b>	<b>(1,472)</b>	<b>(1,773)</b>	<b>(1,968)</b>
<b>Less: Inc in FC Investment</b>	<b>66</b>	<b>-20</b>	<b>515</b>	<b>1,000</b>	<b>1,000</b>	<b>Net Inc/Dec in cash equivalents</b>	<b>4,310</b>	<b>(1,585)</b>	<b>5,523</b>	<b>4,136</b>	<b>5,229</b>
<b>Taxes Paid</b>	<b>1,347</b>	<b>1,121</b>	<b>1,588</b>	<b>1,923</b>	<b>2,192</b>	<b>Opening Balance</b>	<b>2,414</b>	<b>6,724</b>	<b>4,572</b>	<b>9,809</b>	<b>14,168</b>
<b>Total Free Cash Flows</b>	<b>7,821</b>	<b>-240</b>	<b>6,329</b>	<b>6,208</b>	<b>6,765</b>	<b>Closing Cash Balance</b>	<b>6,724</b>	<b>5,139</b>	<b>10,095</b>	<b>13,945</b>	<b>19,397</b>

Source: Dalal & Broacha Research, Company

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