

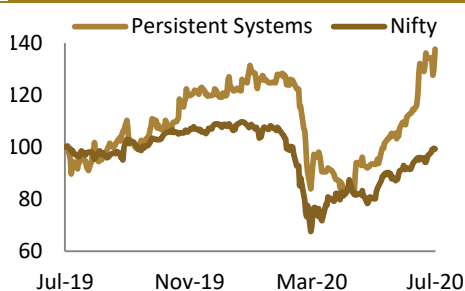
Market statistics

Current stock price (₹)	857
Shares O/S (cr.)	7.7
Mcap (₹ cr)	6,551
52W H/L (₹)	915/420
Bloomberg	PSYS IN

Shareholding pattern

Promoters	31.47
Domestic Institution	27.24
Foreign Institution	19.17
Non-institution	22.13
of which more than 1%	
Shridhar Bhalchandra Shukla	1.60
Ashutosh Vinayak Joshi	1.46

Persistent Systems vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	15.4	15.6	15.6
EPS (₹)	47.4	51.2	57.5
CEPS (₹)	69.0	74.5	82.4
P/E (x)	18.1	16.7	14.9
P/BV (x)	2.8	2.5	2.2
EV/EBITDA (x)	12.2	10.0	8.2
Income growth (%)	5.9	13.3	8.7
EBITDA growth (%)	(13.6)	19.9	10.4
PAT growth (%)	(1.3)	8.0	12.3

ANALYST
 Naushil Shah
 +91-22 4224 5125
 naushil.shah@trustgroup.in

Persistent Systems Limited (PSL) reported a strong set of numbers in a tough environment, led by strong performances in BFSI healthcare and life-science verticals. Revenue increased by 3.1% QoQ to US\$131mn, ahead of our estimates, owing to strong growth in IP-led business and continued growth momentum in IT services revenues. Top account declined by 4.9% QoQ. There are multiple headwinds to the revenue and margins which play spoilsport. Hence, we maintain our Hold rating on the stock and await better entry points.

Strong Quarter: Persistent Systems reported strong set of numbers despite COVID-19 induced business disruption, led by strong performance in BFSI healthcare and life-science verticals. US\$ revenue increased by 3.1% QoQ to US\$131mn, ahead of our estimates, owing to strong growth in both IP-led and IT services revenues. IP-led revenue during the quarter grew 9.8% QoQ (down 11.6% YoY), while IT services revenue increased 1.8% QoQ (up 15.3% YoY). Technology Services Unit (TSU) revenue grew by 2.2% QoQ, while Alliance unit reported 6.4% QoQ growth after a decline of revenue in last two quarters. EBITDA margin improved 100bps QoQ to 14.8% led by lower travelling expenses, better cost management, absence of donation to PM cares and rupee benefits (+110bps). The margin headwinds during the quarter were provision for doubtful debt (US\$650K) and pricing discount to customers. Client metrics: The number of clients under the US\$5mn+ category increased by four QoQ to 15. Further, the number of clients under US\$1mn+ bucket increased by two QoQ to 63.

Expect growth to continue going ahead, deal wins remain strong. The company continues to focus on BFSI healthcare and life science verticals and expects growth momentum in these verticals to continue in the medium term on account of strong deal wins, new logo addition, and a healthy deal pipeline. Though the deal wins were broad-based, the company indicated that the vendor consolidation deal in BFSI vertical and a US\$50 million deal in the emerging vertical would help the company to deliver growth in the technology vertical.. The management believes that margin improvement would continue in coming quarters on account of lower travel expenses, rebound of discounts in Q2FY21 that was provided to some customers in the wake of the pandemic, reduction in subcontractor costs and reduction in expenses of new engagement.

Strong growth in Alliance business: Alliance business' revenue increased by 6.4% QoQ in Q1FY21 against a decline of 18.4% QoQ in Q4FY20. The recent acquisition of Red Hat by IBM provides a strong growth opportunity. **Strong growth in IP revenue:** IP-led business reported growth of 9.8% QoQ after a sharp decline in revenues (down 24.3% QoQ) in Q4FY20. The growth is driven by the reseller business, while the royalty income was steady.

Outlook & Valuation: We have revised our earnings estimates upward for FY21E/ FY22E on account of strong Q1FY21 and strong deal signings. At CMP, the stock is trading at a valuation of 17x/15x its FY21E/ FY22E earnings. While client addition in the Top bucket has been decent over the recent quarters growth for PSYS has been lumpy. Further, the normalization of PSYS's expectations from the Alliance portfolio does not excite us on the revenue growth front. There are multiple headwinds to the revenue and margins which plays spoilsport. Hence, we maintain our Hold rating on the stock and await better entry points.

**Exhibit 1: Quarterly details**

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	119.6	127.1	131.0	3.1	9.5	Volume up 2.9% QoQ in Services (onsite: 7% QoQ and offshore: +2.2%). IP-led solutions was down 11.6% YoY.
Revenues	8,321	9,264	9,914	7.0	19.1	
- Operating costs	7,019	7,946	8,437	6.2	20.2	
EBITDA	1,302	1,318	1,477	12.1	13.5	
EBITDA margin (%)	15.6	14.2	14.9	68bps	(74)bps	EBITDA margin increased strong revenue trajectory QoQ.
- Interest expense	19	12	14	21.2	(23.5)	
- Depreciation	386	420	436	3.7	12.8	
+ Other income, net (incl forex)	300	293	212	(27.6)	(29.3)	
PBT	1,198	1,179	1,240	5.2	3.5	
- Taxes	273	292	320	9.6	17.4	
Effective tax rate (%)	22.8	24.8	25.8	105	305	Effective tax rate for FY21 to be between ~25%
PAT	925	887	919	3.7	(0.6)	
Net Margin	11.1	9.6	9.3	(30)bps	(184)bps	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	483	538	11.4	518	586	13.1
Revenue	35,266	40,407	14.6	37,818	43,928	16.2
EBITDA margin (%)	14.1	15.3	125bps	14.5	15.6	110bps
EPS (₹)	42.6	51.2	20.2	47.6	57.5	20.8

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
US	79.7	82.6	83.7	80.9	82.5	81.4	80.1	80.2	80.4
Europe	12.0	7.5	7.6	7.9	8.5	9.9	10.6	8.8	10.2
APAC	8.3	9.9	8.7	11.2	9.0	8.7	9.3	11.0	9.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Client details

Client concentration	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Top client (%)	23.8	25.7	26.3	20.2	23.6	23.7	21.5	19.2	17.7
Top 5 clients (%)	43.8	43.3	45.0	40.0	44.6	44.3	42.3	41.5	40.8
Top 10 clients (%)	53.7	52.4	54.6	50.2	52.6	53.4	51.1	49.9	49.0
Large >US\$5mn					10	11	10	11	15
Medium > US\$1m <US\$5m					68	65	65	61	63
Clients billed (Services)	438	433	437	420	429	470	483	501	508
Clients billed (IP Led)	181	178	192	185	167	156	154	151	140

Source: Company



Human Resources: 197 employees on a net basis joined PSYS QoQ taking total head-count to 10,829. Attrition was down 160bps QoQ at 12.7%.

Exhibit 5: Employee strength at PSYS

(Nos)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Billable Personnel – onsite	2,757	2,656	2,659	2,630	2,658	2,779	2,893	2,872	3,060
Billable Personnel - offshore	14,836	14,827	15,163	16,034	16,783	17,067	17,526	18,708	19,186
Total billable employees	17,593	17,483	17,822	18,664	19,441	19,846	20,419	21,580	22,246
Billed Personnel - onsite	2,348	2,221	2,232	2,206	2,179	2,271	2,430	2,425	2,595
Billed Personnel - offshore	11,857	12,097	12,402	12,674	12,962	13,138	13,865	14,550	14,866
Total billed employees	14,205	14,318	14,634	14,880	15,141	15,409	16,295	16,975	17,461
Utilisation details									
Utilisation (blended, %)	80.7	81.9	82.1	79.7	77.9	77.6	79.8	78.7	78.5
Utilisation (onsite, %)	85.2	83.6	83.9	83.9	82.0	81.7	84.0	84.4	84.8
Utilisation (offshore, %)	79.9	81.6	81.8	79.0	77.2	77.0	79.1	77.8	77.5
Employees									
Technical	8,196	8,566	8,761	9,185	9,363	9,726	9,729	9,835	10,027
Sales & Business Development	237	247	266	273	272	285	266	263	274
Others	469	489	503	504	532	532	537	534	528
Total	8,902	9,302	9,530	9,962	10,167	10,543	10,532	10,632	10,829

Source: Company

Exhibit 6: Billing rates

US\$/ppm	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Onsite	16,360	15,787	16,204	16,846	16,742	17,155	16,761	17,276	17,036
Offshore	4,333	4,372	4,392	4,385	4,427	4,437	4,420	4,427	4,308

Source: Company

Exhibit 7: Other details

Revenue mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Onsite	31.1	29.7	29.9	31.4	30.5	31.0	31.5	33.0	33.7
Offshore	41.5	44.7	45.1	47.0	48.0	46.5	47.3	50.7	48.9
IP Led	27.4	25.6	25.0	21.6	21.5	22.5	21.2	16.3	17.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DSO	68	63	61	63	65	64	68	65	69
Attrition (%)	14.8	15.4	16.4	16.7	17.1	15.7	14.9	14.3	12.7

Source: Company



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	30,337	33,659	35,658	40,407	43,928
Op. Expenses	25,677	27,671	30,487	34,209	37,085
EBITDA	4,660	5,988	5,171	6,198	6,843
Other Income	1,217	633	1,324	924	1,024
Depreciation	1,585	1,573	1,660	1,794	1,914
EBIT	4,293	5,049	4,835	5,328	5,953
Interest	1	3	63	57	48
PBT	4,292	5,046	4,772	5,272	5,905
Tax	1,062	1,347	1,121	1,328	1,476
PAT	3,230	3,699	3,651	3,943	4,429
Minority	-	(183)	(248)	(169)	(169)
Adj Pat	3,230	3,517	3,403	3,774	4,260

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	40.4	46.2	47.4	51.2	57.5
CEPS	60.2	65.9	69.0	74.5	82.4
BVPS	265.9	293.1	309.9	348.8	388.2
DPS	10.0	11.0	12.0	14.0	16.0
Payout (%)	29.0	27.8	29.6	27.3	27.8
Valuation (x)					
P/E	17.1	13.7	18.1	16.7	14.9
P/BV	2.6	2.2	2.8	2.5	2.2
EV/EBITDA	10.8	7.5	12.2	10.0	8.2
Dividend Yield (%)	1.4	1.7	1.4	1.6	1.9
Return ratio (%)					
EBITDA Margin	15.4	17.8	14.5	15.3	15.6
PAT Margin	10.6	10.4	9.5	9.3	9.7
ROAE	16.0	16.5	15.4	15.6	15.6
ROACE	21.3	22.6	20.4	21.0	21.0
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.2)	(0.4)	(0.4)	(0.5)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	3.9	4.3	3.1	3.2	3.4
Growth Ratios (%)					
Income growth	5.4	11.0	5.9	13.3	8.7
EBITDA growth	0.1	28.5	(13.6)	19.9	10.4
PAT growth	3.2	14.5	(1.3)	8.0	12.3
Turnover Ratios					
F.A Turnover x	11.7	14.4	14.9	15.7	16.5
Debtors Days	60	59	62	69	68
Payable days	23	22	28	29	28

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Equity Share Capital	800	791	764	770	770
Reserves & Surplus	20,472	22,656	23,093	25,790	28,818
Total Shareholders Fund	21,272	23,447	23,858	26,560	29,588
Non-current liabilities	201	302	(370)	(329)	(258)
Long term Borrowings	17	12	46	46	46
Deferred tax liabilities	25	37	(960)	(960)	(960)
Other LT liabilities & prov	160	253	544	585	656
Current Liabilities	4,474	4,402	6,474	7,217	7,823
Trade payables	1,673	1,517	2,247	2,531	2,743
Other cur liabilities & Prov	2,801	2,885	4,227	4,686	5,080
Total Liabilities	25,947	28,151	29,962	33,447	37,154
Assets					
Non-current Assets					
Fixed assets	2,589	2,343	2,391	2,574	2,660
Non-current investments	5,466	6,326	6,849	6,849	6,849
Long-term loans & adv	143	164	176	221	241
Other non-current assets	129	418	690	775	842
Current assets	17,620	18,900	19,856	23,028	26,562
Current investments	5,916	3,296	7,837	7,837	7,837
Trade receivables	4,847	4,923	5,922	7,196	7,823
Cash & bank balances	1,344	1,739	1,900	3,324	5,823
Short-term loans & adv	7	8	14	22	24
Other current assets	5,506	8,934	4,183	4,650	5,055
Total Assets	25,947	28,151	29,962	33,447	37,154

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	4,292	5,046	4,772	5,272	5,905
Depreciation	1,333	1,585	663	1,794	1,914
Interest expense	1	3	63	57	48
Others	-	(183)	(248)	(169)	(169)
CF before W.cap	5,626	6,451	5,249	6,953	7,698
Inc/dec in W.cap	657	(1,191)	(840)	1,095	443
Op CF after W.cap	4,969	7,642	6,089	5,858	7,255
Less Taxes	1,062	1,347	1,121	1,328	1,476
Net CF From Operations	3,907	6,296	4,969	4,529	5,779
Inc/(dec) in F.A + CWIP	1,357	1,327	1,707	1,977	2,000
(Pur)/sale of investments	1,711	3,224	80	-	-
Others	(1)	(3)	(63)	(57)	(48)
CF from Invst Activities	(3,069)	(4,553)	(1,850)	(2,033)	(2,048)
Loan raised	(5)	(5)	34	-	-
Equity Raised	(15)	(314)	(1,911)	5	(0)
Dividend	936	1,028	1,081	1,078	1,232
CF from Fin Activities	(956)	(1,347)	(2,958)	(1,072)	(1,232)
Net inc/(dec) in cash	(118)	396	161	1,424	2,499
Op. bal of cash	1,461	1,344	1,739	1,900	3,324
Cl. balance of cash	1,344	1,739	1,900	3,324	5,823

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1% at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows: - Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.