

Strong results; Guided to achieve its goal of \$1 bn revenue run-rate

CMP: INR 4,302

Rating: Neutral

Target Price: INR 4,179

Stock Info

BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	764
Mkt Cap (INR mn)	3,28,971
52w H/L (INR)	4,988/1,483
Avg Yearly Vol (in 000')	243

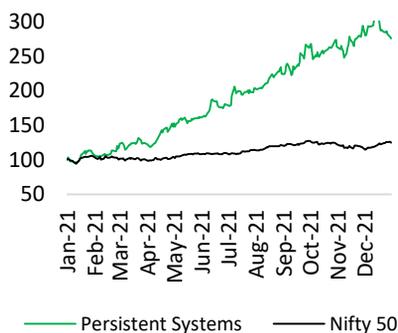
Shareholding Pattern %

(As on December, 2021)

Promoters	31.26
FII	19.92
DII	22.31
Public & Others	26.51

Stock Performance (%)	1m	3m	12m
Persistent Systems	-7.2	2.7	173
Nifty 50	5.7	-2.5	23.7

Persistent Systems Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Persistent System (PSL) has reported a strong set of numbers in Q3FY22, Constant currency revenue, PAT, INR revenue are above our estimates, Margin slightly below our estimate due to ESOP and amortization of charges related to the acquisition.

- **Constant Currency Revenue** growth +36.2% YoY/9.2% QoQ to (Mn USD) 199.1 against our estimate of 197 (Mn USD) backed by strong capabilities in designing and engineering new digital experiences, revenue streams, and business models for clients.
- **Consolidated revenue stood** at INR 14,917 Mn, against our estimate of INR 14,862 mn registering +38.7%YoY/+10.4%QoQ.
- **Consolidated EBITDA** stood at INR 2,511 mn, against our estimate of INR 2537 mn, up by 37.6%YoY/+11.9% QoQ.
- **On the margins front, EBITDA** margin contracted by 14bps YoY/+23bps QoQ to 16.8% against our estimate of 17.1%.
- **Consolidated PAT** saw a rise of 45.9%YoY/+9.1% QoQ to INR 1,764 mn against our estimates of INR 1,684 Mn.
- **EPS stood** at INR 23.08 in Q3 FY22 against INR 21.16 in Q2 FY22 (INR 15.82 in Q3FY21).
- **Healthy deal wins** on TTM (New) at \$157.6 Mn against \$149.3 Mn in Q2FY22 and \$147.7 Mn in Q1FY22 respectively. In ACV front on TTM (New) at \$128.6Mn against \$108.8Mn in Q2FY22.
- The company declares an interim dividend of INR 20/share.

Q3FY22 Conference call Highlights:

- **Head Counts:** It was another good quarter in terms of employee addition, 1,100 with 258 coming from the acquisitions.
- **Margin Outlook:** Robust services and IP revenue performance, currency benefit of 50 bps, higher utilization aided margins and was offset by ESOP impact of 75 bps and retention costs. The Integration impact of recent acquisitions is expected to weigh on margins. However, management remains confident of delivering sustainable margin in the near term because of strong growth and better utilization.

Valuations

At a CMP of INR 4302, Persistent is currently trading at a PE of 30.9x to its FY24 EPS of INR 139.3. We believe Persistent Systems has a resilient business structure from a long-term perspective and multiple long-term contracts with the world's leading brands. However, In the past, Persistent has not faced any project-related delivery challenges. The company will continue its aggressive hiring of employees, which will help in overcoming project delivery challenges going ahead. Management's priority will be to focus on growth while sustaining margins. **We value PSL at a PE of 30x to its FY24E EPS of INR 139.3, which yields a target price of INR 4,179 per share. We downgrade our rating to Neutral from Accumulate.**

Particulars (INR Mn)	Revenue s (US\$ mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY21	566	41,879	6,830	4,507	59.0	16.3%	16.1%	72.9
FY22E	753	56,165	9,352	6,797	85.9	16.7%	22.3%	50.1
FY23E	991	73,852	12,813	9,220	115.3	17.4%	27.0%	37.3
FY24E	1160	86,534	15,403	11,144	139.3	17.8%	27.8%	30.9

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3FY22 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	199.1	182.3	146	9.2%	36.2%
Net Revenue	14,917	13,512	10,754	10.4%	38.7%
Employee Cost	11,135	10,092	7,741	10.3%	43.8%
Other Expenses	1,272	1,177	1,188	8.1%	7.0%
EBITDA	2,511	2,244	1,825	11.9%	37.6%
<i>EBITDA Margin %</i>	<i>16.8%</i>	<i>16.6%</i>	<i>17.0%</i>	<i>23bps</i>	<i>-14bps</i>
Depreciation	428	371	461	15.4%	-7.2%
EBIT	2,083	1,873	1,364	11.2%	52.7%
Other Income	307	324	300	-5.4%	2.2%
Finance Cost	26	21	14	21.8%	85.5%
Exceptional Item	-	-	-	-	-
PBT	2,364	2,176	1,650	8.6%	43.3%
Tax Expense	600	559	441	7.4%	36.1%
Effective Tax Rate %	25.4%	25.7%	26.7%	-29bps	-133bps
PAT	1,764.0	1,618	1,209	9.1%	45.9%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,764.0	1,617.5	1,209	9.1%	45.9%
<i>PAT Margin %</i>	<i>11.8%</i>	<i>12.0%</i>	<i>11.2%</i>	<i>-15bps</i>	<i>58bps</i>
EPS (INR)	23.08	21.16	15.82	9.0%	45.9%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3FY22 other highlights

- **IT services revenue:** The company's IT services revenue growth accelerated by 44.3%YoY from 39.9% in Q3FY2022, driven by strong growth across verticals and inorganic revenue contribution from acquisitions. Offshore linear revenue increased by 6% QoQ, driven by 7.4% QoQ growth in volume and 1.3% QoQ decline in billing rates due to on account of furloughs and reduced working days. Onsite linear revenue grew by 12.5% QoQ, led by 16% QoQ growth in volume and 3.0% QoQ decline in billing rates on account of soft revenue in Europe.
- **Segments:** (BFSI 15% QoQ/49%YoY), BFSI given its strong execution and incremental revenue contribution from the acquisition. The software, hi-tech, and emerging industries vertical grew by 7% QoQ/25% YoY. Revenue of the healthcare and life sciences vertical grew to 7% QoQ/48% YoY.
- **Onsite billing rate:** Decreased onsite billing rate was led by lower revenue from Europe given weak seasonality and increased revenue from Mexico, Malaysia, and Canada, which has lower billing rates. Management highlighted that the company has been strengthening its nearshore delivery centers at Mexico, Canada, and Malaysia. Higher activities in Mexico and Malaysia coupled with soft Europe resulted in a decline in onsite billing rate during Q3FY22.
- **Geographies:** All geographies continued to perform well. Europe business growth accelerated to 3.0% QoQ compared to 1.2% in Q2FY2022, while business growth in North America further accelerated to 9.9% QoQ. India business reported strong revenue growth of 13.4% QoQ, backed by good presence in the BFSI segment. Management expects revenue contribution from Europe to increase from 8.8% to 15% over the next few quarters. RoW business reported revenue decline of 12.6% QoQ after strong revenue growth of 21.4% in Q2FY2022.
- **Business segment:** Healthy demand from all verticals led by BFSI driven by organic and inorganic and followed by Hi-Tech and Healthcare.
- **Outlook:** Management has guided to achieve its goal of \$1 bn revenue run-rate in the next 4-6 quarters. Growth would be backed by broad-based demand across verticals, robust deal intake, new logo additions, and higher spending on digital transformation and cloud computing. Strong net headcount additions over the past 4 quarters indicate robust underlying demand. We believe the company is well poised to capture a fair share of strength in demand, given its strong capabilities in digital engineering capability and inorganic investment in new-age technology areas.

The significant improvement in the involvement with customers. The number of clients under the \$5 million+ category increased by seven on a YoY basis (two on a QoQ basis) to 24. Further, the number of clients under \$1 million+ bucket increased by 25 YoY (6 QoQ) to 90.

The company had cash and cash equivalents of INR 1,896 cr as of December 31, 2021, against INR. 1,870 crore as of September 30, 2021. DSO days increased by three days due to higher IP invoice during the last month of the quarter. OCF to EBITDA ratio remained strong at 130%

Revenue	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Revenue from Operations, USD M	146.1	152.8	166.8	182.3	199.1
% Q - o -Q growth	7.40%	4.60%	9.20%	9.30%	9.20%
% Y - o -Y growth	12.90%	20.30%	27.30%	34.00%	36.20%
Revenue from Operations, INR M	10754	11134	12299	13512	14917
% Q - o -Q growth	6.70%	3.50%	10.50%	9.90%	10.40%
% Y - o -Y growth	16.50%	20.20%	24.10%	34.10%	38.70%
Business Offerings Revenue Mix	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Services	81.90%	85.10%	86.90%	87.50%	86.70%
IP Led	18.10%	14.90%	13.10%	12.50%	13.30%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Segment Revenue Mix	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
BFSI	29.5%	30.1%	30.8%	30.70%	32.20%
Healthcare & Life Sciences	19.1%	19.3%	20.5%	21.20%	20.70%
Software, Hi -Tech & Emerging Industries	51.4%	50.6%	48.7%	48.10%	47.10%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Geography Revenue Mix	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
North America	81.1%	79.2%	78.9%	78.7%	79.20%
Europe	8.8%	10.0%	9.5%	8.8%	8.30%
India	8.6%	8.9%	9.8%	10.5%	10.90%
ROW	1.5%	1.9%	1.8%	2.0%	1.60%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue Concentration	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Top 1	18.5%	17.9%	17.0%	16.9%	17.5%
Top 5	37.8%	36.4%	36.5%	35.8%	36.1%
Top 10	47.0%	46.3%	46.7%	45.4%	45.0%
Revenue by Delivery Centers	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Global Development Centers	30.5%	30.4%	31.4%	30.4%	31.4%
India	51.4%	54.7%	55.5%	57.1%	55.3%
IP Led	18.1%	14.9%	13.1%	12.5%	13.3%
Client Billed	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Services	530	558	568	596	625
IP Led	142	140	132	130	122
Client Engagement Size	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Large > USD 5M	17	17	21	22	24
Medium > USD 1M, < USD 5M	65	66	76	84	90
People Numbers	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Technical	11533	12706	13833	14657	15721
Sales and Business Development	277	273	308	296	294
Others	628	701	763	926	974
Total	12438	13680	14904	15879	16989
Linear Revenue Per Billed PM*	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Global Delivery Centers	16790	16603	17004	16544	16043
India	4204	4203	4286	4307	4252
Attrition Rate	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
TTM Basis	10.3%	11.7%	16.6%	23.6%	26.90%
IP Led	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
IP Led Person Months	3606	3546	3918	4000	3911
DSO	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Days	57	55	54	55	58
Efforts and Utilization Mix — Linear	Q3-FY 21	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22
Billable Person Months	25342	28670	30807	33212	35938
Global Delivery Centers	3104	3345	3480	3840	4519
India	22238	25325	27327	29372	31419
Billed Person Months	20530	22686	24676	27503	29819
Global Delivery Centers	2651	2794	3080	3840	3891
India	17879	19892	21596	29370	25928
Linear Utilization					
Blended	81.0%	79.1%	80.1%	82.8%	83.0%
Global Delivery Centers	85.4%	83.5%	88.5%	87.3%	86.1%
India	80.4%	78.5%	79.0%	82.2%	82.5%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement					
Income Statement (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	502	566	753	991	1160
Change (%)	4.3%	12.9%	33.0%	31.7%	17.0%
Revenues	35,658	41,879	56,165	73,852	86,534
Change (%)	5.9%	17.4%	34.1%	31.5%	17.2%
Total Expenses	30,728	35,049	46,814	61,039	71,131
EBITDA	4,930	6,830	9,352	12,813	15,403
Other Income	1,254	1,020	1,345	1,411	1,480
Depreciation	1,660	1,756	1,561	1,832	1,904
Interest	0	0	0	0	0
PBT	4,523	6,094	9,135	12,393	14,979
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	4,523	6,094	9,135	12,393	14,979
Tax	1,121	1,588	2,339	3,172	3,835
Rate (%)	24.8%	26.1%	25.6%	25.6%	25.6%
PAT	3,403	4,507	6,797	9,220	11,144
MI & Associates	0	0	0	0	0
Consolidated PAT	3,403	4,507	6,797	9,220	11,144
Change (%)	-3.2%	32.4%	50.8%	35.7%	20.9%

Balance Sheet					
Balance Sheet (INR Mn)	FY20	FY21	FY22E	FY23	FY24
Sources of Funds					
Share Capital	764	764	764	764	764
Reserves & Surplus	23,093	27,192	29,678	33,421	39,377
Net Worth	23,858	27,957	30,442	34,185	40,141
Loan Funds	46	44	44	44	44
MI, Deferred Tax & other Liabilities	0	0	0	0	0
Capital Employed	23,904	28,001	30,487	34,229	40,185
Application of Funds					
Net Block	2,225	3,476	4,676	5,876	7,076
CWIP	303	122	122	122	122
Other Non-current Assets	2,214	1,783	1,783	1,783	1,783
Deferred Tax Assets	960	1,038	1,038	1,038	1,038
Net Fixed Assets	5,702	6,418	7,618	8,818	10,018
Investments	9,786	9,996	9,996	9,996	9,996
Debtors	5,922	5,709	7,694	10,117	11,854
Inventories	-	-	-	-	-
Cash & Bank Balance	4,572	9,809	13,416	16,831	22,212
Loans & Advances & other CA	4,578	4,945	4,945	4,945	4,945
Total Current Assets	15,072	20,463	26,055	31,893	39,011
Current Liabilities	4,863	6,157	10,464	13,759	16,121
Provisions	1,794	2,719	2,719	2,719	2,719
Net Current Assets	8,416	11,587	12,873	15,415	20,171
Total Assets	23,904	28,001	30,487	34,229	40,185

Cash Flow Statement					
Cash Flow Statement (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	4,523	6,094	9,135	12,393	14,979
Depreciation	1,660	1,756	1,561	1,832	1,904
Interest & others	-1,254	-1,020	-1,345	-1,411	-1,480
Cash flow before WC changes	4,930	6,830	9,352	12,813	15,403
(Inc)/dec in working capital	329	1,876	2,322	872	625
Operating CF after WC changes	5,259	8,707	11,673	13,686	16,028
Less: Taxes	-1,121	-1,588	-2,339	-3,172	-3,835
Operating Cash Flow	4,139	7,119	9,334	10,513	12,194
(Inc)/dec in F.A + CWIP	-1,423	-897	-1,200	-1,200	-1,200
(Pur)/sale of investment	-2,145	-210	0	0	0
Cash Flow from Investing	-3,567	-1,108	-1,200	-1,200	-1,200
Free Cash Flow (FCF)	3,393	5,868	8,134	9,313	10,994
Loan raised/(repaid)	34	-2	0	0	0
Equity raised	-27	0	0	0	0
Interest & others	-1,430	297	-3,457	-4,828	-4,543
Dividend	-1,301	-1,070	-1,070	-1,070	-1,070
Cash Flow from Financing Activities	-2,724	-774	-4,527	-5,898	-5,612
Net inc/(dec) in cash	-2,152	5,237	3,607	3,415	5,381
Opening balance of cash	6,724	4,572	9,809	13,416	16,831
Closing balance of cash	4,572	9,809	13,416	16,831	22,212

Key Ratios					
Key Ratios (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Per share (INR)					
EPS	44.4	59.0	85.9	115.3	139.3
CEPS	66.2	81.9	105.6	138.1	163.1
BVPS	312.2	365.8	384.8	427.3	501.8
DPS	12.0	10.0	11.0	12.0	13.0
Div. Payout (%)	27.0%	17.0%	12.8%	10.4%	9.3%
Valuation (x)					
P/E	96.9	72.9	50.1	37.3	30.9
P/CEPS	64.9	52.5	40.7	31.1	26.4
P/BV	13.8	11.8	11.2	10.1	8.6
EV/EBITDA	65.8	46.7	35.0	25.5	20.9
Dividend Yield (%)	0.3%	0.2%	0.3%	0.3%	0.3%
Return Ratio (%)					
EBITDA Margin	13.8%	16.3%	16.7%	17.4%	17.8%
PAT Margin	9.5%	10.8%	12.1%	12.5%	12.9%
ROE	14.3%	16.1%	22.3%	27.0%	27.8%
ROCE	13.7%	18.1%	25.6%	32.1%	33.6%
Leverage Ratio (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.3	-0.4	-0.5	-0.6
Turnover Ratios					
Asset Turnover (x)	1.5	1.5	1.8	2.2	0.0
Receivable Days	61	50	50	50	50
Payable days	68	77	68	68	68

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880