

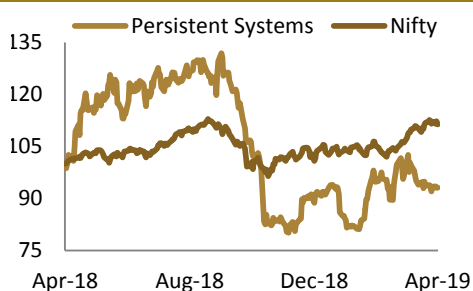
Market statistics

Current stock price (₹)	640
Shares O/S (cr.)	8.0
Mcap (₹ cr)	5,115
52W H/L (₹)	915/533
6m avg. volume	265,746
Bloomberg	PSYS IN

Shareholding pattern

Promoters	30.61
Domestic Institution	21.89
Foreign Institution	20.91
Non-institution	26.59
of which more than 1%	

Persistent Systems vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	16.5	16.3	16.1
EPS (₹)	46.2	50.8	56.2
CEPS (₹)	65.9	70.8	78.0
P/E (x)	13.7	12.6	11.4
P/BV (x)	2.2	1.9	1.7
EV/EBITDA (x)	7.5	6.1	5.5
Income growth (%)	11.0	5.2	6.5
EBITDA growth (%)	28.5	6.9	8.4
PAT growth (%)	14.5	9.8	10.6

Persistent Systems reported a decrease of 2.1% QoQ in revenue in US\$ terms, while margins decreased 230bps QoQ (adjusting for one-off provision). The decrease in revenue was on account of 15.4% QoQ decrease in the IP-led revenues. Services volume increased 1.7% QoQ, while North America business decreased 5.4% QoQ. PSYS management says is difficult to forecast IP business. Persistent has been able to create a differentiated model through its early investment in digital technologies, and select acquisition of IP from its existing customers. However, 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.

Revenue decrease of 2.1% QoQ in US\$ terms: PSYS reported higher-than-expected revenue growth in Q4FY19 at US\$118.3mn Revenue decline during the quarter was due to 15.4% QoQ fall in IP-led revenue, as Q4 is a seasonally soft quarter for IP-led revenue, whereas IT services revenue grew by 2.3% QoQ. Growth in IT services revenue was driven by 1.7% QoQ growth in volume and 0.6% QoQ growth in realisation. Digital revenue continued its growth momentum at 4.3% QoQ. EBITDA margin contracted by 230bps QoQ to 17.4% (after adjusting for one-off provisions), owing to lower IP revenue, higher SG&A expenses and rupee headwind, which was partially offset by cost optimization and reversal in variable pay for sales on missing targets (US\$1.2mn) for the year. Lower profitability was offset by higher-than-expected other income and lower-than-expected tax rate (on account of R&D tax credit), resulting in PAT growth of 12% QoQ. Including Rs.182.5mn for probable impairment of deposits owing to liquidity crisis at IL&FS, PAT declined 7.9% QoQ to Rs.845mn.

Digital and Accelerite continued to grow, while IP revenue remained soft: Digital revenue continued its growth momentum at 4.3% QoQ, while services revenue bounced back to growth at 4.2% QoQ (vs. a decline of 0.4% in Q3FY19). Alliance revenue declined by US\$6.2mn (17.4% QoQ owing to weak seasonality for IP-led revenue). Regionally, North America's revenue was down by 5.4% QoQ, while Europe's revenue increased by 1.8% QoQ during Q4FY19. India and RoW business grew by 10.9%/80.3% on a QoQ basis.

Leadership changes, expect stable margin in FY20E: PSYS appointed former IBM executive Mr. Christopher O'Connor and Sandeep Kalra as its CEO and President – Technology Services. Dr. Anand Deshpande will continue as the Executive Chairman of the company and focus on strategy and opportunities in the market. The new leadership team will focus on sales resources, business and new areas in the digital space to drive growth in FY20E. Attrition rate has been inching up for the past 4Q's owing to change in sales model at the starting of FY19. We believe the attrition rate could remain elevated on account of appointment of the new leadership team, possibilities of change in sales policy, transition in its business model (towards IP and digital business) and improvement of overall hiring environment. Management expects margin to remain stable in FY20E on account of improvement of offshore mix, increased pricing in onsite locations owing to constraint in talent supply and anticipated higher revenue from digital/ IP business.

Outlook & Valuation: Though revenue growth rate was uninspiring for FY19 owing to internal challenges, we expect the growth trajectory in FY20E to be better than FY19. However, the normalization of Persistent's expectations from the alliance portfolio does not excite us on the revenue growth front. There are multiple headwinds to the margins which plays spoilsport. Hence, we maintain our Hold rating on the stock and await better entry points, even though PSYS is trading at cheap valuations.

ANALYST

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Exhibit 1: Quarterly details

` mn	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	117.0	120.8	118.3	(2.1)	1.2	Volume up 1.7% QoQ in Services (onsite: -1.2% QoQ and offshore: +2.2%). IP-led solutions was down 15.4%
Revenues	7,525	8,642	8,319	(3.7)	10.5	
- Operating costs	6,442	6,939	6,871	(1.0)	6.7	
EBITDA	1,084	1,703	1,448	(15.0)	33.6	
EBITDA margin (%)	14.4	19.7	17.4	(230)bps	300bps	EBITDA margin declined primarily due to lower IP revenue
- Interest expense	0	1	1	53.7	221.9	
- Depreciation	421	396	377	(4.9)	(10.5)	
+ Other income, net (incl forex)	321	(11)	225	NA	(29.7)	
PBT	983	1,295	1,296	0.0	31.7	
- Taxes	246	378	268	(29.0)	8.9	
Effective tax rate (%)	25.1	29.2	20.7	(847)bps	(434)bps	Effective tax rate for FY20 to be between ~27-28%
PAT	737	917	1,027	12.0	39.4	
Net Margin	9.8	10.6	12.3	174bps	255bps	

Source: Company

Exhibit 2: Change in estimates

` mn	FY20E			FY21E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	522	506	(3.1)	557	539	(3.2)
Revenue	36,537	35,414	(3.1)	38,973	37,699	(3.3)
EBITDA margin (%)	18.5	18.1	(35)bps	18.9	18.4	(45)bps
EPS (`)	51.0	50.8	(0.4)	57.2	56.2	(1.7)

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
US	86.5	85.5	83.4	84.4	80.9	79.7	82.6	83.7	80.9
Europe	5.3	5.9	8.5	7.3	8.2	12.0	7.5	7.6	7.9
APAC	8.2	8.6	8.1	8.3	10.9	8.3	9.9	8.7	11.2
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	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Top client (%)	26.5	27.9	25.9	28.0	21.7	23.8	25.7	26.3	20.2
Top 5 clients (%)	43.3	45.7	43.8	46.3	40.9	43.8	43.3	45.0	40.0
Top 10 clients (%)	52.4	55.2	53.5	55.3	49.9	53.7	52.4	54.6	50.2
Large >US\$3mn	15	18	19	19	18	18	18	20	20
Medium > US\$1m <US\$3m	55	52	49	51	53	58	56	56	57
Clients billed (Services)	313	303	419	431	426	438	433	437	420
Clients billed (IP Led)	308	306	277	268	177	181	178	192	185

Source: Company



Human Resources: 432 employees on a net basis joined PSYS QoQ taking total head-count to 9,962. Attrition was up 40bps QoQ at 16.7%.

Exhibit 5: Employee strength at PSYS

(Nos)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Billable Personnel – onsite	2,236	2,431	2,689	2,777	2,713	2,757	2,656	2,659	2,630
Billable Personnel - offshore	14,942	15,205	15,556	15,166	14,669	14,836	14,827	15,163	16,034
Total billable employees	17,178	17,636	18,245	17,943	17,382	17,593	17,483	17,822	18,664
Billed Personnel - onsite	1,907	2,104	2,346	2,413	2,391	2,348	2,221	2,232	2,206
Billed Personnel - offshore	11,459	11,507	11,994	11,922	11,728	11,857	12,097	12,402	12,674
Total billed employees	13,366	13,611	14,340	14,335	14,119	14,205	14,318	14,634	14,880
Utilisation details									
Utilisation (blended, %)	77.8	77.2	78.6	79.9	81.2	80.7	81.9	82.1	79.7
Utilisation (onsite, %)	85.3	86.5	87.2	87.2	88.1	85.2	83.6	83.9	83.9
Utilisation (offshore, %)	76.6	75.7	77.1	77.1	80.0	79.9	81.6	81.8	79.0
Employees									
Technical	8,808	8,744	8,599	8,460	8,329	8,196	8,566	8,761	9,185
Sales & Business Development	193	210	208	206	211	237	247	266	273
Others	459	447	439	443	436	469	489	503	504
Total	9,460	9,401	9,246	9,109	8,976	8,902	9,302	9,530	9,962

Source: Company

Exhibit 6: Billing rates

US\$/ppm	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Onsite	15,914	16,307	16,023	16,314	16,662	16,360	15,787	16,204	16,846
Offshore	4,244	4,212	4,148	4,220	4,349	4,333	4,372	4,392	4,385

Source: Company

Exhibit 7: Other details

Revenue mix	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Onsite	27.8	29.9	31.9	32.1	34.1	31.1	29.7	29.9	31.4
Offshore	44.6	42.9	42.1	41.1	43.6	41.5	44.7	45.1	47.0
IP Led	27.6	27.2	26.0	26.8	22.3	27.4	25.6	25.0	21.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DSO	65	64	66	66	66	68	63	61	63
Attrition (%)	15.7	15.5	15.5	14.7	14.7	14.8	15.4	16.4	16.7

Source: Company



Financials

Income Statement (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Revenues	28,784	30,337	33,659	35,414	37,699
Op. Expenses	24,131	25,677	27,671	29,014	30,761
EBITDA	4,654	4,660	5,988	6,399	6,938
Other Income	958	1,217	633	850	1,050
Depreciation	1,490	1,585	1,573	1,602	1,742
EBIT	4,122	4,293	5,049	5,647	6,246
Interest	1	1	3	4	4
PBT	4,121	4,292	5,046	5,643	6,242
Tax	992	1,062	1,347	1,580	1,748
PAT	3,129	3,230	3,699	4,063	4,494
Minority/EI	(114)	-	(183)		
Adj Pat	3,015	3,230	3,517	4,063	4,494

Key Parameters

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (`)					
EPS	39.1	40.4	46.2	50.8	56.2
CEPS	57.7	60.2	65.9	70.8	78.0
BVPS	237.4	265.9	293.1	328.7	368.5
DPS	9.0	10.0	11.0	13.0	14.0
Payout (%)	26.9	29.0	27.8	29.8	29.2
Valuation (x)					
P/E	15.3	17.1	13.7	12.6	11.4
P/BV	2.5	2.6	2.2	1.9	1.7
EV/EBITDA	9.4	10.8	7.5	6.1	5.5
Dividend Yield (%)	1.5	1.4	1.7	2.0	2.2
Return ratio (%)					
EBITDA Margin	16.2	15.4	17.8	18.1	18.4
PAT Margin	11.3	10.6	10.4	11.5	11.9
ROAE	17.7	16.0	16.5	16.3	16.1
ROACE	23.3	21.3	22.6	22.7	22.4
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	3.8	3.9	4.3	4.6	5.0
Growth Ratios (%)					
Income growth	24.5	5.4	11.0	5.2	6.5
EBITDA growth	18.9	0.1	28.5	6.9	8.4
PAT growth	12.8	3.2	14.5	9.8	10.6
Turnover Ratios					
F.A Turnover x	10.2	11.7	14.4	13.3	12.9
Debtors Days	67	60	59	59	58
Payable days	20	23	22	21	21

Balance Sheet (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Equity Share Capital	800	800	791	791	791
Reserves & Surplus	18,193	20,472	22,656	25,508	28,691
Total Shareholders Fund	18,993	21,272	23,447	26,299	29,482
Non- current liabilities	445	201	302	314	327
Long term Borrowings	22	17	12	12	12
Deferred tax liabilities	277	25	37	37	37
Other LT liabilities & prov	146	160	253	265	278
Current Liabilities	3,720	4,474	4,402	4,690	4,972
Trade payables	1,210	1,673	1,517	1,590	1,686
Other cur liabilities & Prov	2,510	2,801	2,885	3,100	3,287
Total Liabilities	23,157	25,947	28,151	31,303	34,782
Assets					
Non- current Assets					
Fixed assets	2,817	2,589	2,343	2,663	2,921
Non-current investments	5,172	5,466	6,326	6,326	6,326
Long-term loans & adv	131	143	164	194	207
Other non-current assets	994	129	418	485	516.42
Current assets	14,043	17,620	18,900	21,635	24,812
Current investments	4,500	5,916	3,296	3,296	3,296
Trade receivables	4,754	4,847	4,923	5,239	5,577
Cash & bank balances	1,461	1,344	1,739	3,776	6,013
Short-term loans & adv	14	7	8	10	10
Other current assets	3,314	5,506	8,934	9,314	9,915
Total Assets	23,157	25,947	28,151	31,303	34,782

Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY20E
PBT	4,121	4,292	5,046	5,643	6,242
Depreciation	1,995	1,333	1,585	1,602	1,742
Interest expense	1	1	3	4	4
Others	(114)	-	(183)	-	-
CF before W.cap	6,004	5,626	6,451	7,249	7,988
Inc/dec in W.cap	1,387	657	3,793	496	688
Op CF after W.cap	4,730	4,969	2,658	6,754	7,300
Less Taxes	992	1,062	1,347	1,580	1,748
Net CF From Operations	3,624	3,907	1,311	5,174	5,552
Inc/(dec) in F.A + CWIP	1,034	1,357	1,327	1,922	2,000
(Pur)/sale of investments	2,141	1,711	(1,761)	-	-
Others	(1)	(1)	(3)	(4)	(4)
CF from Invst Activities	(3,176)	(3,069)	431	(1,926)	(2,004)
Loan raised	(4)	(5)	(5)	-	-
Equity Raised	313	(15)	(314)	(0)	(0)
Dividend	842	936	1,028	1,211	1,310
CF from Fin Activities	(419)	(956)	(1,347)	(1,211)	(1,310)
Net inc /(dec) in cash	29	(118)	396	2,036	2,238
Op. bal of cash	1,432	1,461	1,344	1,739	3,776
Cl. balance of cash	1,461	1,344	1,739	3,776	6,013

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