

## Persistent Systems

### Structural pivot to high growth

We maintain BUY on Persistent Systems (PSYS) and assign it in our top picks, due to a solid 3Q (in-line), strong growth visibility supported by robust TCVC bookings (including high ACV component), and a structural pivot towards high growth. The strong technology-led differentiation overlaid by improved client mining/bigger deals and focus on partnerships/sourcing will drive PSYS into industry-leading quadrant. With growth markers established around Technology services, acceleration in Alliance can be an added trigger as PSYS realigns with top customer around Red Hat, hybrid cloud (Cloud Paks) opportunities. Operational performance continues to improve with margin improvement despite two-month impact of wage hike and stronger cash generation/payout. Our upgraded target price of INR 1,900 values PSYS at 22x Dec-22E (21x earlier), supported by 26% EPS CAGR over FY21-23E and >38% RoIC.

- 3QFY21 highlights:** Revenue came in at USD 146mn, +7.4/12.9% QoQ/YoY. Within the segments, Technology Services posted +6.0/17.5% QoQ/YoY and Alliance business posted +12.1/-0.2% QoQ/YoY. Growth was led by Technology & Emerging vertical at +13.1% QoQ, and Healthcare & Life-sciences vertical at 6.3% QoQ while BFSI remained flat (-0.7% QoQ), given ramp down in large customers due to seasonality. Revenue from T1 improved 2.4% QoQ, contributing 18.5% of the revenue. EBIT margin stood at 12.7%, +60bps QoQ, which was negatively impacted by wage hike (-200bps) and currency (-20bps), offset by revenue growth and operational efficiency. PSYS reported the strongest TCVC of USD 302mn during the quarter.
- Outlook:** We have factored in USD revenue growth at 12.3/16.7/13.3% with Technology Services growth at 17.5/18.7/14.9% and Alliance growth at -2.0/+9.9/+7.7% over FY21/22/23E respectively. We estimate EBITDA margin at 16.1/16.8/17.2% over FY21/22/23E, resulting in FY21-23E EPS CAGR at 26.3%. At CMP, PSYS is trading at 21/17x FY22/23E.

#### Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	146	129	12.9	136	7.4	481	502	564	658	746
Net Sales	10.75	9.23	16.5	10.08	6.7	33.66	35.66	41.87	49.68	57.78
EBIT	1.36	0.81	69.2	1.22	12.0	4.23	3.27	4.88	6.17	7.83
APAT	1.21	0.92	31.7	1.02	18.6	3.66	3.59	4.31	5.55	6.87
Diluted EPS (Rs)	15.8	12.0	31.7	13.3	18.6	47.8	47.0	56.4	72.7	89.9
P/E (x)						31.9	32.5	27.0	21.0	17.0
EV / EBITDA (x)						17.6	20.8	14.8	11.6	9.4
RoE (%)						15.7	14.4	17.1	19.4	20.7

Source: Company, HSIE Research, Consolidated Financials

#### Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	560	564	0.7	639	658	2.9	720	746	3.6
Revenue	41.79	41.87	0.2	48.57	49.68	2.3	55.78	57.78	3.6
EBIT	4.86	4.88	0.5	5.82	6.17	6.1	7.26	7.83	7.9
EBIT margin (%)	11.6	11.7	3bps	12.0	12.4	44bps	13.0	13.5	54bps
APAT	4.27	4.31	0.9	5.23	5.55	6.3	6.41	6.87	7.1
EPS (Rs)	55.8	56.4	0.9	68.4	72.7	6.3	83.9	89.9	7.1

Source: Company, HSIE Research

BUY

CMP (as on 29 Jan 2021)	Rs 1,524
Target Price	Rs 1,900
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	Rs 1,675	Rs 1,900
	FY21E	FY22E
EPS %	+0.9	+6.3

#### KEY STOCK DATA

Bloomberg code	PSYS IN
No. of Shares (mn)	76
MCap (Rs bn) / (\$ mn)	116/1,597
6m avg traded value (Rs mn)	266
52 Week high / low	Rs 1,700/420

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.1	71.7	117.5
Relative (%)	13.7	50.1	105.1

#### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	31.29	31.29
FIs & Local MFs	28.86	29.51
FPIs	18.74	18.71
Public & Others	21.11	20.49
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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