

Industry
Bloomberg
BSE CODE

TECHNOLOGY
PSYS IN
533179

Revival in IP led revenues to boost growth in FY20

RATING	ACCUMULATE
CMP	600
Price Target	670
Potential Upside	12%

Rating Change	↓
Estimate Change	↓
Target Change	↑

STOCK INFO	
52wk Range H/L	693/472
Mkt Capital (Rs Cr)	4591
Free float (%)	69%
Avg. Vol 1M (,000)	6
No. of Shares (Crs)	8
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	3,366	3,562	4,010
EBITDA	556	551	669
EBIT	399	378	497
PAT	352	365	430
EPS (Rs)	44	47	56
EPS growth (%)	9%	7%	18%
ROE (%)	16%	15%	17%
ROCE (%)	18%	16%	19%
BV	295	312	353
P/B (X)	2	2	2
P/E (x)	14	13	11

2QFY20 Result Update

- Persistent reported mixed set of numbers in its 2QFY20 result. Revenue grew 4.9%QoQ to USD125.5million which is way above our estimates of USD122million while margin dipped 90 bps to 8.9% which fall short with our estimates of 10%
- EBIT during the quarter stood at Rs 79 crore , a de-growth of 3%QoQ. Margin came at 8.9% for the quarter mainly owing to impact from wage hike which was partially absorbed by the growth in IP-led revenue.
- Also reduction in Visa cost and benefit from currency depreciation, supported the margins.
- However onetime expenses including acquisition costs and costs involving a rebranding exercise more than offset the margin benefit. Thus resulting in margin contraction of 90bps for the quarter.
- PAT for the quarter stood at Rs 86.07 crore , a growth of 4.4%QoQ , primarily led to evenue beat and higher other income .

Turnaround in IP led revenue

Persistent's revenue grew 4.9% showing broad based growth across service lines. Service business grew 3.6%QoQ While IP-led business (22.5% of revenue), after a sluggish FY19, posted a robust growth of 9.8% QoQ .Segment wise, Alliance and Accelerite segment led the growth by growing 6.1%/21.9%QoQ respectively .Even digital segment which has been dragging the growth in last few quarters has shown a moderate growth of 3.5%QoQ, still much lower than peers.

Margin to see improvement

Persistent margins have been deteriorating for last 5 quarters. Margin has almost contracted 350bps mainly owing to lower volume and continued weakness in IP led revenue which is margin accretive .In 2QFY20 , despite increase in IP led revenue one time occurrence like acquisition costs and costs involving a rebranding exercise dragged the margins. Going forward management expects margin to improve gradually and get back to its historical level as the structural effects and one-time occurrences are now behind , as the growth continues to kick in the margin will start to see improvement.

View and valuation

With the new leadership on board , Persistent 2QFY20 reported a positive trend. Revenue posted a healthy growth of 4.9%QoQ owing to recovery in IP LED revenue(up9.8% in 2QFY20) While margin remained under pressure due to onetime occurrences . Digital business which has been responsible for revenues drag in the last few quarter, showed a 3.5% QoQ growth during the quarter. Going forward we expects more revenue predictability will come as continued recovery will seen in IP Led revenue .Even digital is expected to continue to grow however we still expects it lag among peers.

On margin front we expect margin to improve in 2H as structural change and one off are behind , however margin improvement will more of gradually process.

Post result, we have reduced our margins 60bps and 30bps for FY20/FY21E .Thus we maintain our target price of Rs670 and recommend Accumulate.

Key Risks to our rating and target

- Delay in project execution .
- Slow momentum in Digital segment .

RESEARCH ANALYST

NIHARIKA OJHA
niharika@narnolia.com
+91-22-62701230

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2QFY20 Results

Mixed performance

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	836	864	832	832	885	5.9%	6.3%	3033.7	3365.9	11.0%
Other Income	23	(1)	28	30	38	64.9%	27.5%	119	88	-26.4%
Employee Exp	486	491	486	492	537	10.4%	9.2%	1,832	1,925	5.1%
Other Expenses	206	203	225	220	226	9.9%	2.6%	733	885	20.6%
EBITDA	144	170	121	120	122	-15.3%	1.2%	469	556	18.7%
Depreciation	40	40	38	39	42	6.8%	10.0%	158	157	-0.8%
EBIT	104	131	83	82	79	-23.8%	-3.0%	310	399	28.6%
Interest	0	0	0	2	2	1617.8%	-0.6%	0	0	286.1%
PBT	127	130	111	110	116	-9.0%	5.3%	429	486	13.3%
Tax	39	38	27	27	29	-23.8%	8.1%	106	135	26.9%
PAT	88	92	84	82	86	-2.5%	4.4%	323	352	8.9%

Concall Highlights

- **IP revenue:** Strong growth came in IP revenue during the quarter. Growth was more balanced across all areas of software business, large Alliance business and from own organic activities. Management has anticipated seasonality effect to smoothen into the next couple of quarters
- **Technology segment:** Technology Services grew 3.5%QoQ ending 2Q with revenue of USD84.89 million. Revenue growth came on back of 1.9% organic growth, the rest was on behalf of billings with large Europe-based sales force acquisition that was closed last quarter.
- **Advisor-led deals:** The Company continues to invest in advisor relations and automate channels such as private equity. It is seeing a good traction with them and is also seeing some initial deal participation through these channels.
- **Alliance segment:** Strong growth came in the quarter with 10 new logos. The company had 93% renewal rate on the existing contracts which was a little higher than normally seen and they also had an increased client SAT score with their key Alliance partners. Thus these two aspects give management the confidence of an ongoing solid foundation for the business.
- **Margin performance:** The quarter saw annual wage hike which impacted the margins but was partially absorbed by the growth in IP-led revenue during the quarter. Also reduction in Visa cost, which was there in Q1 and benefit from currency depreciation, supported the margins.
- **One offs:** Company had brand refresh exercise this quarter which has resulted in one-time costs in this quarter. The company also had Youperience acquisition, which had certain legal costs relating to the due diligence. In one of the major customers the company gave discount as more of a relationship and goodwill gesture. All these items resulted in SG&A increase from 9.2% to 11%. Going forward as the company start to go along and increase the revenues; they plan to bring it down towards 10% over time. Reversal in terms of certain employee benefit provisions and change in leave policy has positively impacted USD185 million.
- **Lower operating cash flow:** Lower payable days and reduction in operating profit has resulted in lower cash flow .Also last year cash flow includes USD7 million deals which completely came in one quarter.
- **Change in tax rate:** As regards to tax provision, the company has reviewed the provision with respect to the new corporate tax rate regime and is opting for the same. In this quarter, ETR was slightly higher level for the reason that there is a reversal of deferred tax assets. Management expects the ETR to be in the range of 24% to 25% as against the current 27% to 28%.
- **Outlook on margins:** As structural effects and moving of one-time occurrences is behind, Thus Continued growth in the coming quarters will help to restore the margins .Though it will take a little bit of time but gives a confidence of getting back to historical levels.

Revenue Mix

BROAD BASED GROWTH ACROSS SEGMENTS

SERVICE (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Services	53	51	51	51	53	55	57	3.5%	11.7%
Digital	28	27	26	28	29	27	28	3.5%	8.2%
Alliance	28	40	35	36	29	33	35	6.1%	1.2%
Accelerite	7	6	6	7	7	4	5	21.9%	-16.9%

Revenue by Industry

TURNAROUND IN IP LED REVENUE

INDUSTRY WISE (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
ISV	47	48	47	48	49	49	48	-0.2%	3.87%
Enterprise	43	42	41	43	44	45	49	7.7%	18.47%
IP Led	26	34	30	30	26	26	28	9.8%	-6.58%

Revenue by Verticals

SOLID GROWTH ACROSS VERTICALS

VERTICAL (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
BFS	29	31	32	33	36	7.6%	22.21%
Healthcare & Life Science	21	22	23	23	23	2%	7.46%
Technology Cos. &	67	68	63	64	67	5%	-0.97%

Exhibit: Revenue trend

Revival in IP led revenue led to solid growth in 2QFY20.

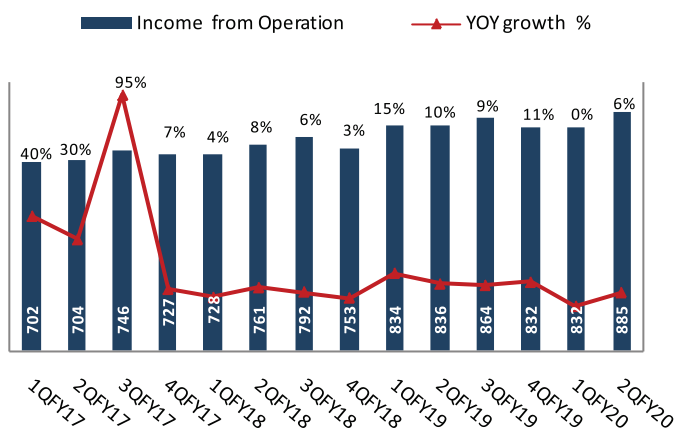


Exhibit: Digital revenue

Recovery seen in digital revenue but still below peers.

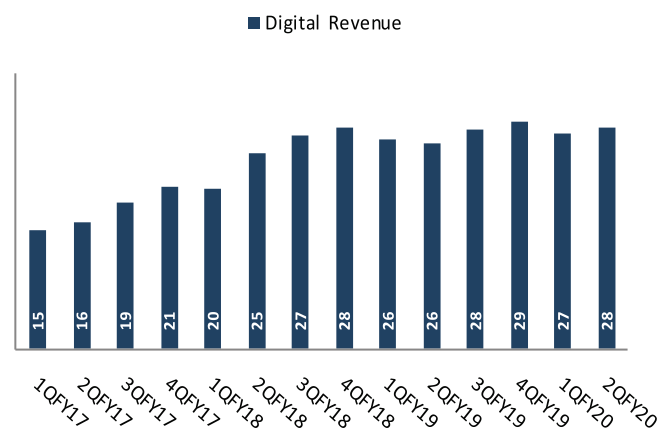


Exhibit: Ipled revenue

IP revenue has been volatile, recovery seen in 2Q

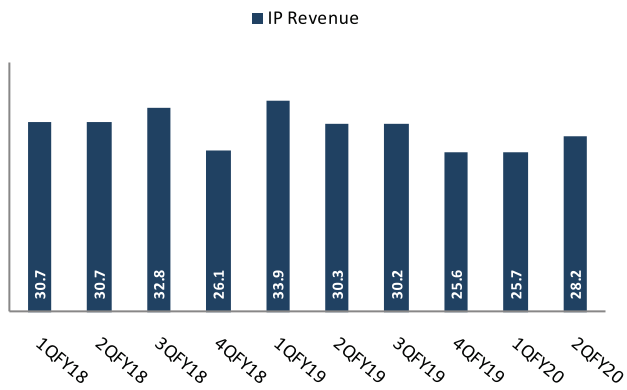


Exhibit: Margin Trend

Wage hike & one time occurrences impacted margins

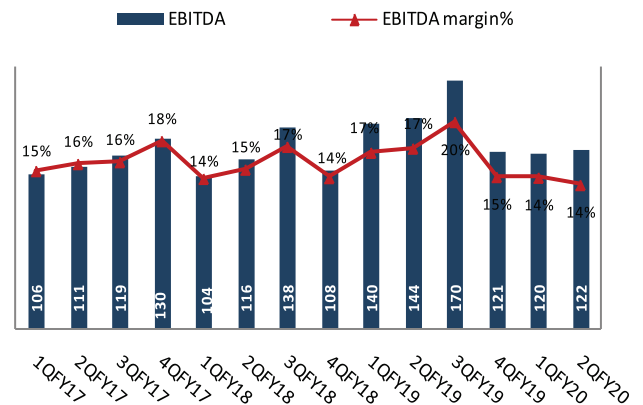


Exhibit: Utilization trend

Utilization continued to dip in 2QFY20.

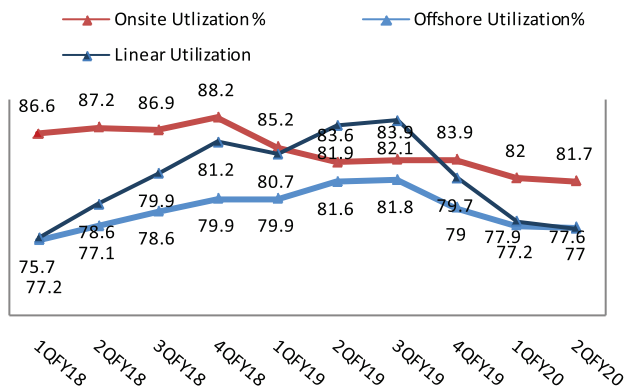


Exhibit: Attrition trend

Attrition moderated after getting into peak.

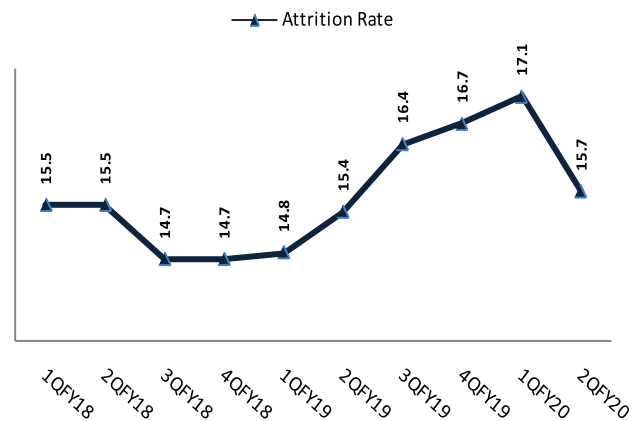
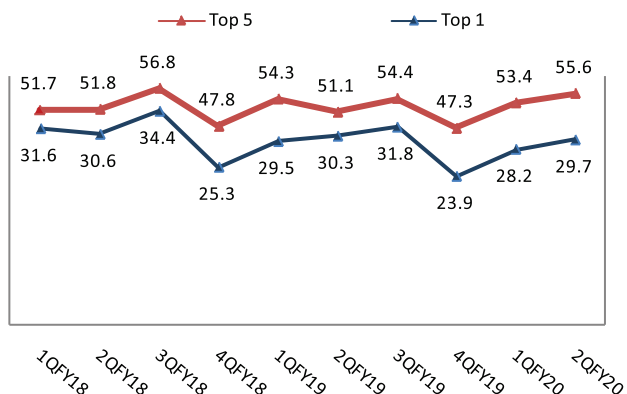


Exhibit: Top Client contribution

Remained strong during the quarter



Operational Details

INDUSTRY REVENUE MIX	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
BFSI	-	-	23.7%	24.7%	25.7%	27.0%	27.7%	28.4%
Healthcare & Life Science	-	-	17.6%	18.2%	18.2%	19.6%	18.9%	18.4%
Technology Cos. & Emerging	-	-	58.7%	57.1%	56.1%	53.4%	53.4%	53.2%

GEOGRAPHY	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
North America	84.4%	80.9%	79.7%	82.6%	83.7%	80.9%	82.5%	81.4%
Europe	7.3%	8.2%	12.0%	7.5%	7.6%	7.9%	8.5%	9.9%
India	5.8%	7.9%	6.1%	7.3%	6.8%	7.7%	6.7%	6.7%
ROW	2.5%	3.0%	2.2%	2.6%	1.9%	3.5%	2.3%	2.0%

INDUSTRY WISE(%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
ISV	38.5%	40.6%	38.8%	39.5%	39.8%	41.2%	40.6%	38.6%
Enterprise	34.7%	37.1%	33.8%	34.9%	35.2%	37.2%	37.9%	38.9%
IP Led	26.8%	22.3%	27.4%	25.6%	25.0%	21.6%	21.5%	22.5%

CLIENT	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 1	28.0%	21.7%	23.8%	25.7%	26.3%	20.2%	23.6%	23.7%
Top 5	46.3%	40.9%	43.8%	43.3%	45.0%	40.0%	44.6%	44.3%
Top 10	55.3%	49.9%	53.7%	52.4%	54.6%	50.2%	52.6%	53.4%
Large > \$ 3Mn	19	18	18	18	20	20	22	22
Medium > \$1Mn, < \$ 3Mn	51	53	58	56	56	57	56	56

DELIVERY CENTERS	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	32	34	31	30	30	31	31	N/A
Offshore	41	44	42	45	45	47	48	N/A
IP Led	27	22	27	26	25	22	22	N/A

YIELD	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
yield	5355	5225	5497	5329	5386	5082	4953	5134

PEOPLE NUMBERS	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Technical	8460	8329	8196	8566	8761	9185	9363	9726
Sales & Business Development	206	211	237	247	266	273	272	285
Rest	443	436	469	489	503	504	532	532
Grand Total	9109	8976	8902	9302	9530	9962	10167	10543

ATTRITION RATE	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Attrition Rate	14.7	14.7	14.8	15.4	16.4	16.7	17.1	0.157

UTILIZATION	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
LINEAR Utilization	79.9	81.2	80.7	81.9	82.1	79.7	77.9	77.6
Onsite Utilization %	86.9	88.2	85.2	83.6	83.9	83.9	82.0	81.7
Offshore Utilization%	78.6	79.9	79.9	81.6	81.8	79.0	77.2	77.0

SEGMENTS	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Services	41.9%	45.5%	41.5%	43.0%	41.9%	44.6%	45.8%	45.2%
Digital	22.0%	24.0%	21.4%	22.0%	22.9%	24.4%	22.7%	22.4%
Alliance	29.6%	24.3%	32.1%	29.5%	29.4%	24.8%	27.8%	28.1%
Accelerite	6.5%	6.2%	5.0%	5.5%	5.8%	6.2%	3.7%	4.3%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	40	80	80	80	80	80	77	77
Reserves	1,182	1,326	1,559	1,819	2,047	2,266	2,325	2,644
Networth	1,222	1,406	1,639	1,899	2,127	2,345	2,402	2,721
Debt	3	2	3	2	2	1	1	1
Other Non Current Liab	39	12	13	28	43	25	25	25
Total Capital Employed	1,226	1,408	1,642	1,901	2,129	2,346	2,403	2,722
Net Fixed Assets (incl CWIP)	436	409	445	557	509	424	334	271
Non Current Investments	82	212	135	234	288	435	435	435
Other Non Cur Asst	46	1	87	7	9	7	7	7
Non Current Assets	478	456	571	701	599	524	434	371
Debtors	303	359	428	475	485	492	521	586
Cash & Bank	96	142	143	151	242	672	651	818
Other Curr Assets	90	104	179	86	156	139	147	165
Current investments	407	462	483	450	592	330	488	676
current tax asset	-	-	-	9	11	19	19	19
Short-term loans and advances	41	41	81	1	1	1	1	1
Current Assets	937	1,106	1,314	1,404	1,763	1,890	2,063	2,503
Creditors	43	53	165	121	167	152	161	181
Provisions	121	176	122	139	160	169	178	201
Other Curr Liab	114	127	164	111	120	112	119	134
Other financial liability	-	-	-	45	40	44	44	44
Curr Liabilities	278	355	452	417	487	484	510	567
Net Curr Assets	658	751	861	987	1,276	1,406	1,553	1,935
Total Assets	1,543	1,775	2,107	2,346	2,659	2,856	2,938	3,315

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1669	1891	2312	2878	3034	3366	3562	4010
Change (%)	29%	13%	22%	24%	5%	11%	6%	13%
EBITDA	414	390	414	465	469	556	540	669
Change (%)	32%	-6%	6%	12%	1%	19%	-3%	24%
Margin (%)	25%	21%	18%	16%	15%	17%	15%	17%
Depr & Amor.	103	94	97	149	158	157	162	171
EBIT	312	296	317	316	310	399	378	497
Int. & other fin. Cost	0	0	0	-	0	0	7	7
Other Income	31	94	78	96	119	88	117	91
EBT	343	390	396	412	429	486	487	581
Exp Item	-	-	-	11	-	-	-	-
Tax	93	99	98	99	106	135	122	151
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	249	291	297	302	323	352	365	430
Adjusted PAT	249	291	297	302	323	352	365	430
Change (%)	33%	17%	2%	1%	7%	9%	4%	18%
Margin(%)	15%	15%	13%	10%	11%	10%	10%	11%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	22%	22%	20%	17%	16%	16%	15%	17%
ROCE	28%	23%	21%	18%	15%	18%	16%	19%
Asset Turnover	1	1	1	1	1	1	1	1
Current Ratio	3	3	2.9	3.4	3.6	3.9	4.0	4.4
Debtor Days	66	69	67	60	58	53	53	53
Book Value Per Share	9	10	26	15	20	16	16	16
Payable Days	306	171	207	237	266	295	312	353
Earnings Per Share	62	36	37	38	40	44	47	56
P/E	17	20	20	16	18	14	13	11
Price / Book Value	3	4	4	3	3	2	2	2
EV/EBITDA	10	14	14	10	12	9	8	6
EV/Sales	2	3	3	2	2	1	1	1

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	343	390	396	401	429	486	487	581
(inc)/Dec in Working Capital	51	28	84	106	106	106	106	106
Non Cash Op Exp	87	49	43	97	108	115	163	171
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	98	100	101	105	121	141	122	151
others	0	0	0	0	0	0	0	0
CF from Op. Activities	281	312	254	286	421	432	517	575
(inc)/Dec in FA & CWIP	-58	-96	-166	-218	-65	-38	-73	-108
Free Cashflow	223	216	88	69	356	394	444	466
(Pur)/Sale of Inv	-1239	0	46	0	0	-14	-158	-188
others	1099	-126	44	-4	-278	168	0	0
CF from Inv. Activities	-196	-232	-116	-222	-347	-226	-231	-296
inc/(dec) in NW	0	0	0	0	0	0	-3	0
inc/(dec) in Debt	2	1	-1	0	0	0	0	0
Int. Paid	-44	0	0	0	0	0	0	0
Div Paid (inc tax)	-7	-67	-125	-58	-95	-102	-111	-111
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	-50	-66	-127	-58	-96	-160	-308	-111
Inc(Dec) in Cash	35	14	11	6	-22	47	-22	168
Add: Opening Balance	48	84	129	140	156	127	174	152
Closing Balance	83	99	140	146	135	174	152	320

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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