

Industry  
Bloomberg  
BSE CODE

TECHNOLOGY  
PSYS IN  
533179

## Mixed quarter, Cautiously optimistic for 1Q

RATING	ACCUMULATE
CMP	507
Price Target	560
Potential Upside	10%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	740/420
Mkt Capital (Rs Cr)	3842
Free float (%)	69%
Avg. Vol 1M (,000)	6
No. of Shares (Crs)	8
Promoters Pledged %	0

FINANCIAL	Fig in Rs Cr		
	FY18	FY19	FY20
Net Sales	3,034	3,366	3,566
EBITDA	469	556	492
EBIT	158	157	166
PAT	323	352	341
EPS (Rs)	40	44	44
EPS growth (%)	7%	9%	0%
ROE (%)	16%	16%	14%
ROCE (%)	15%	18%	14%
BV	266	295	309
P/B (X)	3	2	2
P/E (x)	18	14	11

### 4QFY20 Result Update

- Persistent reported in line revenues in 4Q result. Revenue for the quarter came at USD 127 million (in line with our estimates of USD 126.9 million), a de growth of 1.8% QoQ in USD terms.
- The growth was majorly impacted due to decline in IP business (Alliance + Accelerite) which dropped 24.3%/18.9% QoQ /YoY while service business offset some impact by growing 4.2%/14.7% QoQ/YoY .
- EBIT came at Rs 85 crore, a growth of 5.2% QoQ. Margin for the quarter came as a surprise as it improved 50bps to 9.2% vs 8.8% despite decline in business mix (alliance business). Decline in IP business was offset by lower SG&A and Currency benefit (50bps) .
- Gross margin for the quarter improved 40bps to 33.8% vs. 33.3% last quarter .
- PAT for the quarter declined 4.7% QoQ to Rs 84 crore, primarily owing to higher ETR .
- The company has provided Rs48.5 million provision against IL&FS provision, taking it to 100%.

### Strong growth continued in TSU while Alliance remained soft

Persistent Technology Service Unit which constitutes of service and digital segment grew 3.7% QoQ in 4Q on the back of 6.3% growth in 3Q. Digital segment grew sequentially by 7.1% QoQ while service segment posted 2.2% QoQ growth. Growth in TSU was led by continued acceleration in BFSI which grew 0.7% QoQ while Healthcare & Life Science remained flat. The top TSU customer grew by 3.9%, top 5 grew 4% and top 10 grew 2.8% QoQ. Going forward, The company is seeing wallet share rise and pipeline remain healthy for FY21E.

However, Alliance (22.2% of revenue) again declined 18.4% QoQ mainly impacted by lower re-seller/royalty revenue and COVID-19 impact .

Accelerite recovered with a growth of 11.8% QoQ and offerings integrated with TSU.

### View and valuation

Persistent reported mixed set of number in 4Q result. Revenue largely came in line with our estimates impacted by steep decline in IP revenue (24.3% QoQ) while margin came as surprise and expanded 50 bps (vs our estimates of decline) to 9.2%. Technology Service Unit supported the growth by improving 3.7% QoQ while alliance further declined 18.4% QoQ in 4Q after declining 2% QoQ in 3Q. Top account (IBM) reached its lowest level since Alliance commencement. Going ahead, Post Covid we expect persistent to reduce the lag among peers led by continued acceleration in TSU segment (supported by more annuity based project). Even alliance business will see some recovery with diversification of its business (Red Hat opportunity) . However it will gradual progress. Discount given to customers and delay in deal ramp ups due to Covid crisis will impact revenues in near term .

Post result, seeing in line revenue and management optimism for future, we value the stock at target price of Rs 560 and recommend Accumulate.

### Key Risks to our rating and target

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

### RESEARCH ANALYST

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## 4QFY20 Results

### Mixed performance

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	832	832	885	923	926	11.4%	0.4%	3365.9	3565.8	5.9%
Other Income	28	30	38	35	29	3.2%	-15.7%	88	132	51.0%
Employee Exp	486	492	537	559	568	16.8%	1.5%	1,925	2,156	12.0%
Other Expenses	225	220	226	240	232	2.9%	-3.3%	885	918	3.7%
EBITDA	121	120	122	124	127	5.2%	2.7%	556	492	-11.5%
Depreciation	38	39	42	43	42	11.5%	-1.9%	157	166	5.6%
EBIT	83	82	79	81	85	2.3%	5.2%	399	326	-18.2%
Interest	0	2	2	1	1	1034.0%	-20.9%	0	6	1965.6%
PBT	111	110	116	114	113	1.6%	-0.9%	486	453	-7.0%
Tax	27	27	29	26	29	8.8%	12.1%	135	112	-16.9%
PAT	84	82	86	88	84	-0.7%	-4.7%	352	341	-3.2%

### Concall Highlights

#### Alliance business

- The company saw ups and down during the quarter. While there was strong growth in certain categories and continued to grow in resellers business, the company saw change in royalty structure which is an issue and is planning to work out QoQ.
- The company is trying to make more balance with top clients by leveraging more services. The company is now expanding more with ISV or systems providers.

#### Technology services unit

- 4Q came as very strong for TSU with growth of 3.7% QoQ on a back of 6%QoQ. Digital revenue grew sequentially by 7.1% QoQ. The booking for TSU remained healthy.
- From vertical performance, BFSI grew 5.5% sequentially, followed by IP business, Hitech grew 5% QoQ. Healthcare, life science fairly remained flat QoQ.
- From the service line, the salesforce service line continued the growth momentum by delivering 13%QoQ. The company saw strong traction from cloud and infrastructure business.
- The top TSU customer grew by 3.9%, top 5 grew 4% and top 10 grew 2.8%QoQ.
- The company is seeing wallet share rise. The company forward looking technologies will continue to support growth in this unit.

#### Margin performance

- The Sales and marketing expenses came lower by 1% due to few exits at the end of last quarter and also due to some adjustments. G&A remained in the same range as last quarter, the company expects credit loss due to Covid crisis and made provision of Rs 3 Crore particularly for small customers who may see liquidity crush.
- The company has provided Rs 48.5million provision against IL&FS provision, taking it to 100%.
- Ebitda margin was at 13.8% vs 13.4% last quarter. Currency benefit during the quarter was 50 bps points.

#### Update on COVID 19 and outlook

- The company managed to bring most of its employee's home which few days for lockdown started in India. The company anticipates some degree of U-shaped recovery post Covid crisis. There will be some degree of slow down for a short period and then come back.
- The company is seeing customers asking for discounts. Also seeing delays in a few new or second phases which is expected to impact some business. However the company has not seen any large scale degradation in the businesses.
- For 1Q, the company remains cautiously optimistic for the quarter.

#### Other highlights

- The company for the first time crossed the USD500 million rate in FY20. However revenue in 4Q declined by 1.8%QoQ mainly due growth in service revenue offset by weakness in IP.
- For the quarter linear revenue grew 4.2%QoQ. The decline in IP revenue was due to seasonality and also the impact of reseller business which got impacted by Covid 19 situation.
- Offshore linear revenue grew 5.1%, despite the growth in volume 4.9%and billing rate by 0.2%. Onsite linear revenue grew 0.8% constituted by increase in billing rate 3.1% while there was decline in volume by 0.2%
- The company continued to grow large accounts and saw fairly large multi year deals. Added 7 new logos in the quarter. No immediate plans for Buyback.

## Revenue Mix

### STRONG GROWTH IN TECHNOLOGY WHILE ALLIANCE CONTINUED TO DRAG

SERVICE(USD Mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
Services	51	51	53	55	57	60	61	2.2%	16.6%
Digital	26	28	29	27	28	30	32	7.0%	11.4%
Alliance	35	36	29	33	35	35	28	-18.4%	-3.8%
Accelerite	6	7	7	4	5	5	5	11.8%	-28.9%

## Revenue by Industry

### SHARP DECLINE IN IP BUSINESS NEGATES THE POSITIVE IMPACT OF ISV AND ENTERPRISE.

INDUSTRY WISE (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
ISV	47	48	49	49	48	50	53	5.0%	8.78%
Enterprise	41	43	44	45	49	52	53	3.6%	21.35%
IP Led	30	30	26	26	28	27	21	-24.5%	-18.89%

## Revenue by Verticals

### SOLID GROWTH IN BFS WHILE TECHNOLOGY VERTICAL DECLINED

VERTICAL (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
BFS	29	31	32	33	36	39	40	0.7%	24.59%
Healthcare & Life Science	21	22	23	23	23	24	24	0%	5.28%
Technology Cos. &	67	68	63	64	67	65	63	-4%	-0.37%

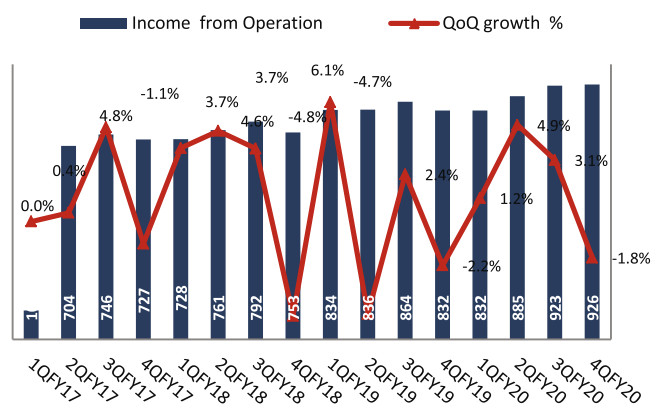
## Revenue by Geography

### GROWTH WAS LED BY ROW WHILE US/EU DECLINED

VERTICAL (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ%	YoY%
North America	98	101	96	99	102	104	102	-1.7%	6.55%
Europe	9	9	9	10	12	14	11	-19%	19.72%
ROW	12	11	13	11	11	12	14	16%	5.56%

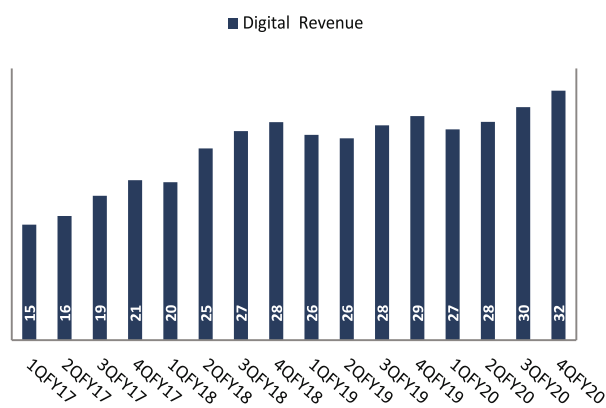
## Exhibit: Revenue trend

Sharp decline in IP business offset service business growth, resulting in revenue decline in 4Q.



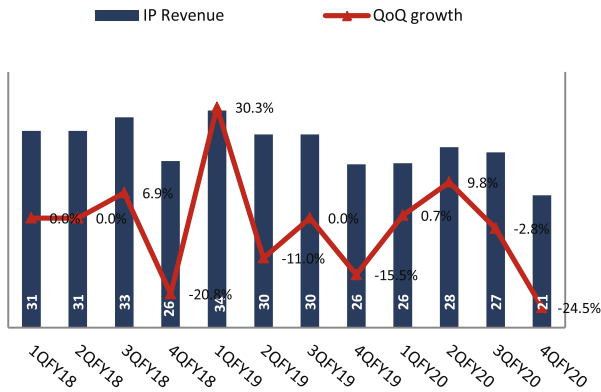
## Exhibit: Digital revenue

Recovery seen in digital revenue but still below peers.



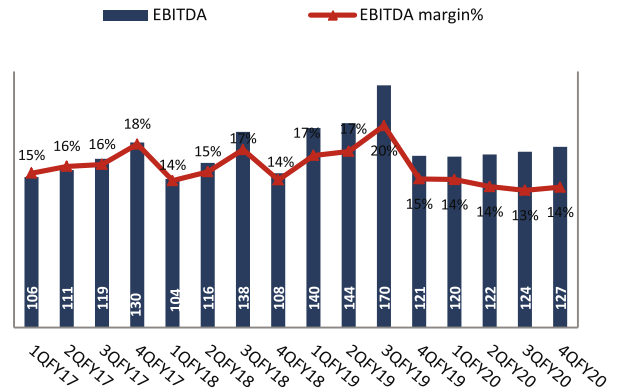
## Exhibit: Ipled revenue

IP revenue has been volatile, remained weak in 4Q.



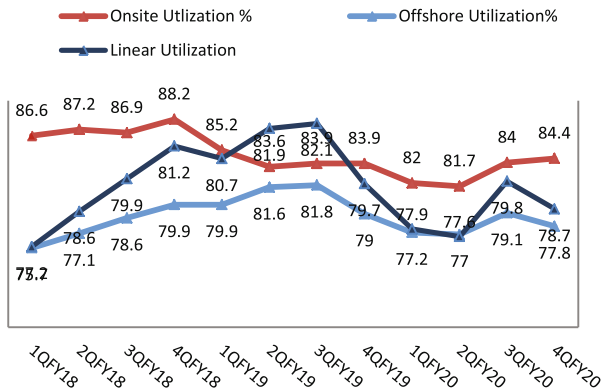
## Exhibit: Margin Trend

Margin recovered in 4Q, however remained below its peak.



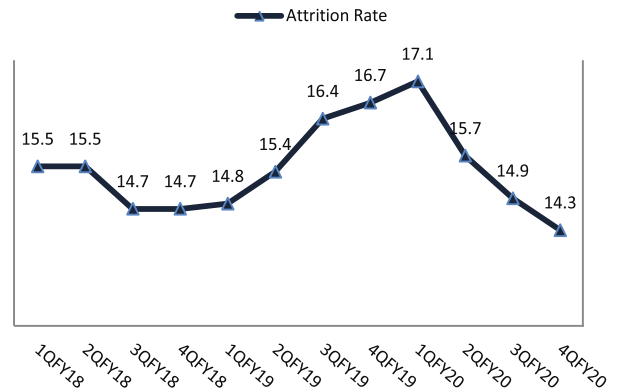
## Exhibit: Utilization trend

Decline in Utilization due to covid 19.



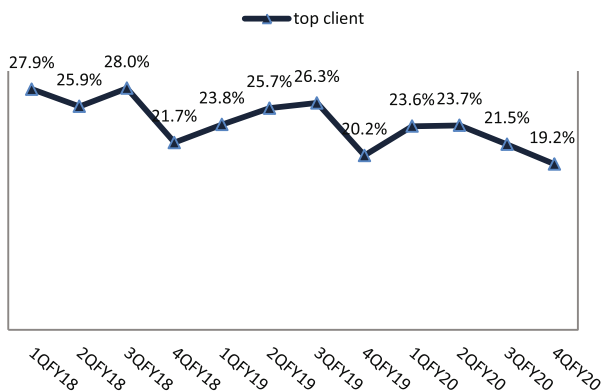
## Exhibit: Attrition trend

Attrition moderated after getting into peak.



## Exhibit: Top Client contribution

Weakness continued in 4Q also.



## Operational Details

INDUSTRY REVENUE MIX	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
BFSI	23.7%	24.7%	25.7%	27.0%	27.7%	28.4%	30.5%	31.3%
Healthcare & Life Science	17.6%	18.2%	18.2%	19.6%	18.9%	18.4%	18.9%	19.2%
Technology Cos. & Emerging Verticals	58.7%	57.1%	56.1%	53.4%	53.4%	53.2%	50.6%	49.5%

GEOGRAPHY	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
North America	79.7%	82.6%	83.7%	80.9%	82.5%	81.4%	80.1%	80.2%
Europe	12.0%	7.5%	7.6%	7.9%	8.5%	9.9%	10.6%	8.8%
India	6.1%	7.3%	6.8%	7.7%	6.7%	6.7%	7.4%	9.0%
ROW	2.2%	2.6%	1.9%	3.5%	2.3%	2.0%	1.9%	2.0%

INDUSTRY WISE (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
ISV	38.8%	39.5%	39.8%	41.2%	40.6%	38.6%	39.0%	41.7%
Enterprise	33.8%	34.9%	35.2%	37.2%	37.9%	38.9%	39.8%	42.0%
IP Led	27.4%	25.6%	25.0%	21.6%	21.5%	22.5%	21.2%	16.3%

CLIENT	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top 1	23.8%	25.7%	26.3%	20.2%	23.6%	23.7%	21.5%	19.2%
Top 5	43.8%	43.3%	45.0%	40.0%	44.6%	44.3%	42.3%	41.5%
Top 10	53.7%	52.4%	54.6%	50.2%	52.6%	53.4%	51.1%	49.9%
Large > \$ 3Mn	18	18	20	20	22	20	22	20
Medium > \$1Mn, < \$ 3Mn	58	56	56	57	56	56	53	52

DELIVERY CENTERS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Onsite	31	30	30	31	31	31	32	33
Offshore	42	45	45	47	48	47	47	50.7
IP Led	27	26	25	22	22	23	21	16.3

YIELD	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
yield	5497	5329	5386	5082	4953	5134	5231	4906

PEOPLE NUMBERS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Technical	8196	8566	8761	9185	9363	9726	9729	9835
Sales & Business Development	237	247	266	273	272	285	266	263
Rest	469	489	503	504	532	532	537	534
Grand Total	8902	9302	9530	9962	10167	10543	10532	10632

## Operational Details

ATTRITION RATE	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Attrition Rate	14.8	15.4	16.4	16.7	17.1	15.7	14.9	14.3

UTILIZATION	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
LINEAR Utilization	80.7	81.9	82.1	79.7	77.9	77.6	79.8	78.7
Onsite Utilization %	85.2	83.6	83.9	83.9	82.0	81.7	84.0	84.4
Offshore Utilization%	79.9	81.6	81.8	79.0	77.2	77.0	79.1	77.8

SEGMENTS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Services	41.5%	43.0%	41.9%	44.6%	45.8%	45.2%	46.5%	48.4%
Digital	21.4%	22.0%	22.9%	24.4%	22.7%	22.4%	23.2%	25.3%
Alliance	32.1%	29.5%	29.4%	24.8%	27.8%	28.1%	26.7%	22.2%
Accelerite	5.0%	5.5%	5.8%	6.2%	3.7%	4.3%	3.6%	4.1%

## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Share Capital	40	40	80	80	80	80	80	76
Reserves	978	1,182	1,326	1,559	1,819	2,047	2,266	2,309
<b>Networth</b>	<b>1,018</b>	<b>1,222</b>	<b>1,406</b>	<b>1,639</b>	<b>1,899</b>	<b>2,127</b>	<b>2,345</b>	<b>2,386</b>
Debt	1	3	2	3	2	2	1	5
Other Non Current Liab	64	39	12	13	28	43	25	54
<b>Total Capital Employed</b>	<b>1,020</b>	<b>1,226</b>	<b>1,408</b>	<b>1,642</b>	<b>1,901</b>	<b>2,129</b>	<b>2,346</b>	<b>2,390</b>
Net Fixed Assets (incl CWIP)	468	436	409	445	557	509	424	396
Non Current Investments	17	82	212	135	234	288	435	462
Other Non Cur Asst	52	46	1	87	7	9	7	34
<b>Non Current Assets</b>	<b>507</b>	<b>478</b>	<b>456</b>	<b>571</b>	<b>701</b>	<b>599</b>	<b>524</b>	<b>611</b>
Debtors	245	303	359	428	475	485	492	592
Cash & Bank	56	96	142	143	151	242	672	457
Other Curr Assets	43	90	104	179	86	156	139	195
Current investments	312	407	462	483	450	592	330	516
current tax asset	-	-	-	-	9	11	19	16
<b>Short-term loans and advances</b>	<b>35</b>	<b>41</b>	<b>41</b>	<b>81</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Current Assets	691	937	1,106	1,314	1,404	1,763	1,890	1,985
Creditors	32	43	53	165	121	167	152	225
Provisions	105	121	176	122	139	160	169	161
Other Curr Liab	47	114	127	164	111	120	112	132
Other financial liability	-	-	-	-	45	40	44	116
<b>Curr Liabilities</b>	<b>184</b>	<b>278</b>	<b>355</b>	<b>452</b>	<b>417</b>	<b>487</b>	<b>484</b>	<b>647</b>
<b>Net Curr Assets</b>	<b>507</b>	<b>658</b>	<b>751</b>	<b>861</b>	<b>987</b>	<b>1,276</b>	<b>1,406</b>	<b>1,338</b>
<b>Total Assets</b>	<b>1,267</b>	<b>1,543</b>	<b>1,775</b>	<b>2,107</b>	<b>2,346</b>	<b>2,659</b>	<b>2,856</b>	<b>3,092</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
<b>Revenue from Operation</b>	<b>1295</b>	<b>1669</b>	<b>1891</b>	<b>2312</b>	<b>2878</b>	<b>3034</b>	<b>3366</b>	<b>3566</b>
Change (%)	29%	29%	13%	22%	24%	5%	11%	6%
<b>EBITDA</b>	<b>313</b>	<b>414</b>	<b>390</b>	<b>414</b>	<b>465</b>	<b>469</b>	<b>556</b>	<b>492</b>
Change (%)	39%	32%	-6%	6%	12%	1%	19%	-11%
Margin (%)	24%	25%	21%	18%	16%	15%	17%	14%
Depr & Amor.	78	103	94	97	149	158	157	166
<b>EBIT</b>	<b>234</b>	<b>312</b>	<b>296</b>	<b>317</b>	<b>316</b>	<b>310</b>	<b>399</b>	<b>326</b>
Int. & other fin. Cost	0	0	0	0	-	0	0	6
Other Income	29	31	94	78	96	119	88	132
<b>EBT</b>	<b>263</b>	<b>343</b>	<b>390</b>	<b>396</b>	<b>412</b>	<b>429</b>	<b>486</b>	<b>453</b>
Exp Item	-	-	-	-	11	-	-	-
Tax	75	93	99	98	99	106	135	112
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>188</b>	<b>249</b>	<b>291</b>	<b>297</b>	<b>302</b>	<b>323</b>	<b>352</b>	<b>341</b>
<b>Adjusted PAT</b>	<b>188</b>	<b>249</b>	<b>291</b>	<b>297</b>	<b>302</b>	<b>323</b>	<b>352</b>	<b>341</b>
Change (%)	32%	33%	17%	2%	1%	7%	9%	-3%
Margin(%)	14%	15%	15%	13%	10%	11%	10%	10%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
ROE	20%	22%	22%	20%	17%	16%	16%	14%
ROCE	23%	28%	23%	21%	18%	15%	18%	14%
Asset Turnover	1	1	1	1	1	1	1	1
Current Ratio	4	3	3	2.9	3.4	3.6	3.9	3.1
Debtor Days	69	66	69	67	60	58	53	61
Book Value Per Share	9	9	10	26	15	20	16	23
Payable Days	255	306	171	207	237	266	295	309
Earnings Per Share	47	62	36	37	38	40	44	44
P/E	12	17	20	20	16	18	14	11
Price / Book Value	2	3	4	4	3	3	2	2
EV/EBITDA	7	10	14	14	10	12	9	8
EV/Sales	2	2	3	3	2	2	1	1

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PBT	263	343	390	396	401	429	486	452
(inc)/Dec in Working Capital	47	51	28	84	106	106	106	106
Non Cash Op Exp	59	87	49	43	97	108	115	140
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	60	98	100	101	105	121	141	133
others	0	0	0	0	0	0	0	0
<b>CF from Op. Activities</b>	<b>215</b>	<b>281</b>	<b>312</b>	<b>254</b>	<b>286</b>	<b>421</b>	<b>432</b>	<b>323</b>
(inc)/Dec in FA & CWIP	-116	-58	-96	-166	-218	-65	-38	-76
Free Cashflow	100	223	216	88	69	356	394	247
(Pur)/Sale of Inv	-1091	-1239	0	46	0	0	-14	0
others	983	1099	-126	44	-4	-278	168	244
<b>CF from Inv. Activities</b>	<b>-171</b>	<b>-196</b>	<b>-232</b>	<b>-116</b>	<b>-222</b>	<b>-347</b>	<b>-226</b>	<b>-15</b>
inc/(dec) in NW	0	0	0	0	0	0	0	0
inc/(dec) in Debt	1	2	1	-1	0	0	0	0
Int. Paid	-34	-44	0	0	0	0	0	-6
Div Paid (inc tax)	-6	-7	-67	-125	-58	-95	-102	-130
others	0	0	0	0	0	0	0	0
<b>CF from Fin. Activities</b>	<b>-39</b>	<b>-50</b>	<b>-66</b>	<b>-127</b>	<b>-58</b>	<b>-96</b>	<b>-160</b>	<b>-300</b>
<b>Inc(Dec) in Cash</b>	<b>6</b>	<b>35</b>	<b>14</b>	<b>11</b>	<b>6</b>	<b>-22</b>	<b>47</b>	<b>8</b>
Add: Opening Balance	43	48	84	129	140	156	127	182
<b>Closing Balance</b>	<b>49</b>	<b>83</b>	<b>99</b>	<b>140</b>	<b>146</b>	<b>135</b>	<b>174</b>	<b>190</b>



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