

## Persistent Systems Q4FY21

### Financial Results & Highlights

#### Brief Introduction:

Persistent Systems Limited provides computer programming, consultancy, and related services. It operates through three segments: Technology Services, Alliance, and Accelerite (Products). The company engages in the provision of software products, services, and technology innovation in telecom and product lifecycle management domains, and digital practice; software development, professional, and marketing services; and telecommunication API gateway for defining, exposing, controlling, and monetizing telecom services to partners and application developers, as well as an Internet of Things service creation platform that allows enterprises to add a service layer to the basic APIs exposed to by connected devices, and to expose and monetize APIs. The company serves the banking, financial services, insurance, healthcare and life sciences, industrial, and software and technology industries.

| Standalone Financials (In Crs)   |        |        |        |        |        |      |      |        |
|----------------------------------|--------|--------|--------|--------|--------|------|------|--------|
|                                  | Q4FY21 | Q4FY20 | YoY %  | Q3FY21 | QoQ %  | FY21 | FY20 | YoY%   |
| Sales                            | 720    | 598    | 20.40% | 675    | 6.67%  | 2597 | 2268 | 14.51% |
| PBT                              | 190    | 166    | 14.46% | 161    | 18.01% | 668  | 533  | 25.33% |
| PAT                              | 140    | 127    | 10.24% | 126    | 11.11% | 505  | 408  | 23.77% |
| Consolidated Financials (In Crs) |        |        |        |        |        |      |      |        |
|                                  | Q4FY21 | Q4FY20 | YoY %  | Q3FY21 | QoQ %  | FY21 | FY20 | YoY%   |
| Sales                            | 1153   | 956    | 20.61% | 1105   | 4.34%  | 4296 | 3698 | 16.17% |
| PBT                              | 185    | 113    | 64%    | 165    | 12.12% | 609  | 452  | 34.73% |
| PAT                              | 138    | 84     | 64%    | 121    | 14.05% | 451  | 340  | 32.65% |

#### Detailed Results:

- The company had an excellent quarter with consolidated revenue growth of 21% YoY and PAT growth of 64% YoY.
- FY21 performance was similar with revenue growth of 16% YoY and 32% YoY PAT growth.
- USD revenues for FY21 were at \$566.1 million which was up 12.9% YoY.
- EBIT margin was at 13.2% in Q4 while EBIT was up 70.9% YoY.
- Industry revenue mix was at:
  - BFSI: 30.1%
  - HCLS: 19.3%
  - Tech & Emerging: 50.6%
- Client concentration was: Top 1 @ 17.9%, Top 5 @ 36.4% & Top 10 @ 46.3%.
- Revenue breakup in terms of business offerings was at 85.1% for Services & 14.9% for IP led.
- Geographical revenue breakup was:
  - North America: 79.2%
  - EU: 10%
  - India: 8.9%

4. RoW: 1.9%
9. Persistent Systems was recognized as a Top 15 Service Provider in 2020 ISG Index™ for a fourth consecutive quarter.
10. The company has cash & investments of Rs 1983 Cr as of 31<sup>st</sup> Mar 2021.
11. The company has 17 clients of > \$5 million engagement and 66 clients of engagement size of \$1-5 million.
12. Employee strength has risen 28.7% YoY to 13680.
13. The Board recommended a final dividend of Rs 6 per share for FY21.

#### **Investor Conference Call Highlights:**

1. USD revenues for Q4 were at \$152.8 million which was up 20.3% YoY.
2. The order booking total contract value for the quarter came in at \$246.5 million. The annual contract value of this booking is \$200.7 million.
3. Persistent added 1,242 net hires in Q4 with 1037 lateral hires and 205 freshers.
4. The company announced >100% corporate bonus for all employees given its good year.
5. The Alliance business showed a growth of 14% YoY.
6. The gross margin for Q4 had fallen 40 bps QoQ to 33.9%.
7. Forex gain in Q4 was at Rs 17.4 Cr.
8. The operational CapEx for the quarter was Rs 28.1 Cr.
9. The company also had an interim dividend payout of Rs 14 per share in Feb.
10. In BFSI, PS was chosen by a leading Fortune 25 financial services of ISV as a key partner for core IT modernization. This is a 3-year deal to support and maintain identity and authentication products for enterprise applications, involving both offshore, nearshore teams across time zones.
11. It was also chosen by a large insurance company for its credit union consumer segment to deliver retail experiences and build a cloud-based data and analytics platform. This would be helping their customers see insights as a service and build customer data warehouses.
12. In Healthcare & Life sciences division, PS was chosen by a leading U.S. health system to help them build a digital front door and patient experience solution with integration to EMR systems and patient portals. This will enable the health system to build a unified one-patient portal, simplifying business decisions, enabling a single view of the patient across departments.
13. Under software, hi-tech, and emerging technologies, PS was chosen by a global technology leader to partner with them on an engineering and go-to-market partnership on a portfolio of security products. This is a 5-year multi-million-dollar deal to develop an identity and access management product portfolio, with delivery teams spread globally across U.S., U.K., and Asia.
14. Persistent announced the partnership with FinMkt point-of-sale lending for banks and credit unions. This partnership is aimed at enabling small to mid-sized financial institutions across the globe to accelerate their digital lending strategy for merchant customers.
15. PS has also partnered with AWS ROSA on the Red Hat OpenShift platform to bring services on the AWS services to clients seeking a fully managed OpenShift platform.
16. The TCV has fallen QoQ mainly as some of the large customers do their annual renewal in Q3 which is the end of the US fiscal year.
17. The management states that the potential for the Red Hat opportunity for PS is around 2-3.5 times of current levels.

18. The management states that TCV anywhere between \$10 million to \$50 million is a sweet spot for Persistent from a bigger deal perspective.
19. The management is confident of maintaining an EBITDA margin in the range of 16-17%. It states that this is because there is still room for cost optimization and increasing utilization of the new additions to the workforce.
20. Around 65% of the company sales are coming from new product development while 35% are older products that are being modernized.
21. The management states that the alliance business should show good sustained growth from Q1 onwards.
22. The company has seen many new deal wins for mining only in the past 5 quarters and it is looking to double down on this area and establish itself here.
23. The management admits that PS has indeed been pre-emptive in its hiring to build enough capability ahead of the curve.
24. The company is looking at acquisition options and will announce its decision in 3-6 months.
25. The management has clarified that onshore teams are critical for many important functions like active delivery at the client site, for front end piece of work or for doing proof of concept or for onshore related discussions, and many others.

#### **Analyst's View:**

Persistent System is a fast-rising player in the digital transformation space. It has seen good growth in recent years and is looking to capitalize on this momentum and aim to reach revenues of \$1 billion in the next 4 years. The company had another excellent quarter with many deal wins resulting in a TCV of \$246.5 million and consolidated revenue and PAT growth of 21% & 64% YoY respectively. Q4 caps off a stellar year for Persistent which was evident from its action of awarding >100% bonus for all its employees. The management is also confident of the alliance business gaining momentum going forward. The company is also looking at possible acquisition opportunities and has maintained its steady rate of employee additions citing building capability ahead of the curve. It remains to be seen whether the company will be able to maintain its current momentum and how its India operations will be affected by 2<sup>nd</sup> Wave of COVID-19. Nonetheless, given its fast rise in recent years and its big presence in North America & its various Alliances, Persistent Systems remains a key technology stock to watch out for.

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