

Persistent Systems Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	675	586	15.19%	617	9.40%	1878	1670	12.46%
PBT	161	121	33.06%	159	1.26%	478	366	30.60%
PAT	126	90	40.00%	118	6.78%	365	280	30.36%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	1105	958	15.34%	1024	7.91%	3142	2746	14.42%
PBT	165	114	45%	138	19.57%	425	339	25.37%
PAT	121	88	38%	102	18.63%	313	256	22.27%

Detailed Results:

- The company had an excellent quarter with consolidated revenue growth of 15% YoY and PAT growth of 38% YoY.
- 9M performance was similar with revenue growth of 14% YoY and 22% YoY PAT growth.
- USD revenues were at \$146.15 million which was up 12.9% YoY.
- EBITDA was up 47.8% YoY.
- Industry revenue mix was at:
 - BFSI: 29.5%
 - HCLS: 19.1%
 - Tech & Emerging: 51.5%
- Client concentration was: Top 1 @ 18.5%, Top 5 @ 37.8% & Top 10 @ 47%.
- Revenue breakup in terms of business offerings was at 81.9% for Services & 18.1% for IP led.
- Geographical revenue breakup was:
 - North America: 81%
 - EU: 8.8%

3. India: 8.6%
4. RoW: 1.6%
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 1903 Cr as of 31st Dec 2020.
11. The company has 17 clients of > \$5 million engagement and 65 clients of engagement size of \$1-5 million.
12. PS announced an interim dividend of Rs 14 per share.
13. Persistent completed acquisition of 100% shares of CAPIOT Software Private Limited.

Investor Conference Call Highlights:

1. The company added >1600 new full time employees in Q3 with >70% of them being lateral hires.
2. The salary increment postponed from July was implemented in November.
3. PS added new deals with a total TCV of \$302 million in Q3.
4. The cash on books was at \$258 million or Rs 1888 Cr as of the end of Q3.
5. The acquisition of CAPIOT added \$1 million to revenues while alliance business added \$34.6 million in Q3.
6. PS's large deal wins in alliance business will see revenues coming in from Q1 onwards.
7. In BFSI, PS won a large multiyear deal to deliver a solution. It will be helping the client, who is one of the top 5 banks globally, to comply with the rules issued by U.S. Financial Crimes Enforcement Network, FinCEN, through identification and verification of beneficial owners of legal entity customers and so on.
8. The management states that the broad theme in BFSI will be compliance, modernization, launching new products in digital banking, & making new digital products more secure. The main theme in Healthcare & Life Science will be the digital front door, which is the consumer experience, for Persistent.
9. In terms of the linear revenue, offshore linear revenue grew by 8.9%, comprising of volume growth of 11.5% and declining billing rate by 2.3%, essentially because of the lower number of working days.
10. The on-site linear revenue decreased by 1%, while there was an increase in volume by 0.2% and the billing rate declined by 1.2%, again, basically because of the impact of furloughs.
11. BFSI had a marginally soft quarter with a dip of 0.8% given the seasonality factor, while health care saw good 6.4% QoQ and technology companies and emerging verticals registered a very good growth of 13.2% QoQ.
12. The gross margin in Q3 was at 34.3% vs 34.7% in Q2.
13. The SG&A expenses were 17.3% as against 18.3% in the previous quarter
14. Forex loss was much less at Rs 20 lacs as against Rs 5.1 Cr in the previous quarter.
15. The lateral hires of around 1000 employees in Q3 were done mainly for the deal wins in FY21 so far. The fresh hires of 600+ people were done anticipating future deal wins as the company is ramping up its winning momentum.
16. Around \$175 million of the TCV of deal wins in Q3 was from new customers.
17. The utilization rate was in the range of 80-81% in Q3. The employee costs rose 4% QoQ mainly due to the new hires done in Q3 and the wage hike in November.
18. The management has admitted that some of the cost savings like the ones in travel will get reversed in the future.

19. The company is not going to do any buybacks with its cash and is keeping large cash reserves to stay ready for any potential acquisitions.
20. The management believes that the improvement in IP business in Q3 is sustainable.
21. In BFSI, the management has stated that it is seeing most of the activity coming in from the digital banking side with more and more banks are trying to launch newer products in the online space. A lot of them are looking at working with the hyperscalers and working towards a hybrid cloud environment.
22. The average duration of the new customer deals in Q3 with TCV of \$175 million is less than 3 years.
23. The management has stated that PS will concentrate on consolidating industry verticals and sharpening service lines for organic growth and it will also be looking for inorganic growth opportunities in Europe. This has been identified as the go-to strategy to pursue growth for PS for the next 4-8 quarters.
24. The management has admitted that its strategy to keep creating opportunities in services is to compensate for the volatility in the IP side of the business. Another reason for pursuing services with partners is to source new customers and add new revenue streams which can be expanded upon with cross selling at a later date.
25. The management has stated that the M&A would be more in terms of getting capabilities on cloud, security, data and it is not looking to acquire IP-based companies.
26. PS is looking to double down in Europe to reduce geographical concentration and dependence on USA and to leverage the opportunities there with its acquisitions. In 3-4 years, the management expects revenues from EU to be at 15-18% of total revenues.

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 an excellent quarter with many deal wins resulting in a TCV of \$302 million. It is also looking to double down on the industry partnerships as it is a growing source of income for PS and a new medium to source new customers. The company is also looking at possible acquisition opportunities particularly in Europe to reduce dependence on USA. It remains to be seen whether the company will be able to maintain its current momentum and whether its strategic acquisitions will prove to be as useful as projected. 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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