

Persistent Systems Q2FY21

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	617	558	10.57%	586	5.29%	1202	1084	10.89%
PBT	159	134	18.66%	158	0.63%	317	246	28.86%
PAT	118	107	10.28%	121	-2.48%	239	190	25.79%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1024	923	10.94%	1012	1.19%	2037	1785	14.12%
PBT	138	116	18.97%	122	13.11%	260	225	15.56%
PAT	102	86	18.60%	90	13.33%	192	169	13.61%

Detailed Results:

- The company had a decent quarter with consolidated revenue growth of 11% YoY and PAT growth of 19% YoY.
- H1 performance was similar with revenue growth of 14% YoY and 13.6% YoY PAT growth.
- USD revenues were at \$136.09 million which was up 8.4% YoY.
- EBITDA was up 36.3% YoY.
- Industry revenue mix was at:
 - BFSI: 9%
 - HCLS: 3%
 - Tech & Emerging: 8%
- Client concentration was: Top 1 @ 19.4%, Top 2-5 @ 22.2% & Top 6-10 @ 9%.
- Revenue breakup in terms of business offerings was at 83.8% for Services & 16.2% for IP led.
- Geographical revenue breakup was:
 - North America: 9%
 - EU: 6%

3. India: 1%
4. RoW: 4%
9. Persistent Systems was cited as a Strong Performer in the Forrester Wave: Digital Process Automation Service Providers, Q3 CY2020.
10. Persistent launched Center of Excellence Accelerating Hybrid Cloud Journey with Red Hat OpenShift.
11. Persistent Achieved AWS Service Delivery Designation for AWS Lambda.
12. Persistent Systems was recognized as a Top 15 Service Provider in 2020 ISG Index™ for a second consecutive quarter.
13. The company has cash & investments of Rs 1693 Cr as of 30th Sep 2020.
14. The company has 16 clients of > \$5 million engagement and 63 clients of engagement size of \$1-5 million.

Investor Conference Call Highlights:

1. The company has appointed Mr. Sandeep Kalra as CEO in Q2.
2. Tech companies and emerging verticals led the growth at 4.7% QoQ, followed by BFSI at 4.2% QoQ and Healthcare & Life Sciences at 1.4% QoQ.
3. The company continues to see strong traction in its Product Engineering Services as well as cloud and infrastructure service lines.
4. Persistent won a number of large deals in TSU across its existing customers and net new customers.
5. It won large multiyear, multimillion-dollar deals to set up a global technology center for a leading cloud-based voice, video messaging platform & a large tax technology company.
6. It also won a multimillion, multi-year deal to provide operational support, including IT service desk and onboarding for end customers and traders for an innovative multi-bank trade finance network in Europe.
7. The company also won a multiyear, multimillion-dollar deal for a large multinational medical technology company for rearchitecting their flagship product from legacy to modern component-based architecture.
8. For one of its existing customers in the scientific instrumentation space, PS won a multiyear, multimillion-dollar contract across new business units to build newer reporting applications.
9. The company has announced the acquisition of CAPIOT to strengthen its data integration capabilities in the MuleSoft, TIBCO, and Red Hat space. This deal is expected to help expand the footprint with its Salesforce customers.
10. The utilization improved to 81.2% as compared to 78.5% last quarter. Attrition was lower at 10.6% on the trailing 12-month basis as compared to 12.7% in the previous quarter. The company has planned to do salary increments in November for all employees.
11. The gross margin came in at 34.7% as against 33% in the previous quarter. Sales and marketing expenses came in at 8.9% of revenue as against 8.7% in the previous quarter.
12. Admin and other expenses came in at 8.1% of revenue. Forex loss came in at INR 51 million as against INR 58 million in the previous quarter.
13. The operational CapEx for the quarter was INR 263 million, part of which was to enable all employees to have the equipment to continue to work from home.
14. The forward contracts outstanding as at 30th September were \$129 million with an average rate of INR 76.30 per \$1.

15. The management maintains that there are a lot of service offerings that can be taken from the tech services business to the Alliance and vice versa.
16. The company will be looking to significantly move the resources from on-site to offshore, and that will provide cost savings and help mitigate the impact of the salary increment along with the reduction in discounts.
17. It is indeed part of the company's strategy to keep trying to book larger deals, long-term deals with both existing customers or new customers and bring up the quality of revenue and the quality of customers in each packet.
18. The management maintains that it is seeing green shoots of opportunities from alliances.
19. In terms of acquisition strategy, the company is looking at 3 things basically. They are to increase the value proposition, industry vertical, and geographic diversification.
20. Margins are expected to rise in FY22 as amortization comes down and provisioning for COVID gets reduced.
21. The company is broadly at 60% offshoring. The management believes that offshoring will rise as more & more customers come to accept it and due to the cost savings involved.
22. The company had 2 large deals in the reseller business in Europe last quarter which was a one-off but gets renewed each year.
23. The company is also looking to expand the services business in both alliance and tech services verticals in the EU.
24. The company is looking to target growth to \$1 billion over the next 4 years.
25. The company is looking to bring in its existing services into the Alliance side in the next 2-3 quarters.
26. The management aims to maintain the company's position in the top quartile of the industry growth at least.
27. The Salesforce business had indeed paused in the EU at the start of COVID but it is coming back now.
28. The company will unveil its plans to reach \$ 1 billion in the next 4 years in the coming quarters.
29. The company is maintaining big cash reserves to be able to do any acquisitions whenever it needs to.
30. The company has initiated a program to reduce its dependence on subcontractors. This dependence should trend down in the medium term.
31. For this quarter and next quarter, PS has a plan to add anywhere between 300 to 400 people on a quarterly basis.

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 a decent quarter with much large deal wins. It is also looking to increase its offshoring quantum which should yield cost savings in the long term. The company is also looking to introduce many cross-sell opportunities between its tech services and alliance verticals. 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.



If you found this report useful and would like to receive more such investing insights, you can [subscribe to our updates](#).

Subscribe



Click here to Subscribe on WhatsApp

