

Result Snapshot

<u>Amt. in Rs. Crs.</u>	Q4FY20	Q3FY20	Q-o-Q(%)	Q4FY19	Y-o-Y(%)
Revenue	926.37	922.73	0.4%	831.85	11.4%
Gross Profit	313.40	306.99	2.1%	306.40	2.3%
Gross Profit (%)	33.8%	33.3%		36.8%	
EBITDA	127.69	123.43	3.4%	126.55	0.9%
EBIDTA (%)	13.8%	13.4%		15.2%	
EBIT	85.66	80.60	6.3%	88.87	-3.6%
PBT	113.04	113.98	-0.8%	111.31	1.6%
PAT	83.82	87.93	-4.7%	84.47	-0.8%
PAT%	9.0%	9.5%		10.2%	

Result / Con-call Highlights:

1) Result Update:

Persistent Systems crossed the \$500 mn mark for the first time in FY20. The company reported a topline of Rs. 3,565 cr with an EBITDA of Rs. 493 cr and an EBITDA Margin of 13.8% in FY20. PAT came in at Rs. 340 cr down by 3.2% compared to Rs. 351 cr in FY19.

For the quarter ended Q4 FY20, Persistent Systems reported revenue of \$127 mn down 1.8% Q-o-Q mainly on account of decline in IP-Led revenue. The company reported EBITDA margins and PAT margins at 13.8% and 9.0% in Q4 FY20. PAT came in lower at Rs. 83.8 cr mainly on account of lower foreign exchange gains.

2) Segmental Update:

Segmental Revenue Mix	Q4 FY20	Geography Revenue Mix	Q4 FY19	Industry Revenue Mix	Q4 FY20	Industry Classification	Q4 FY20
Services	48.4%	North America	80.2%	BFSI	31.3%	ISV	41.7%
Digital	25.3%	Europe	8.8%	Healthcare & Life Science	19.2%	Enterprise	42.0%
Alliance	22.2%	India	9.0%	Tech Cos. & Emerging Verticals	49.5%	IP Led	16.3%
Accelerite	4.1%	ROW	2.0%	Total	100.0%	Total	100.0%
Total	100.0%	Total	100.0%				

The share of top client has reduced from 20.2% in Q4FY19 to 19.2% in Q4FY20 due to client's exposure to Covid-19. The client has transactional revenue hit per customer which affects royalty agreement with Persistent Systems which has a direct effect on the bottom line of the company. However, less reliance on top client fares well for the long term growth on the company and abides by the company's strategy

Result / Con-call Highlights: (Continued)

3) Covid-19 impact:

- Board of Directors and senior executives have taken a pay cut of around 20% - 25%. These pay cuts are temporary pay cuts and are based on recovery based scenarios.
- Company has built in several models predicting the recovery of the business. The management anticipates to some degree a U shaped based recovery rather than a V shaped recovery in the business.
- Small category of clients are asking for discounts and delay in project execution. So far one client has asked for revenue trim which the company has agreed for.
- The company has contributed Rs. 25 cr in relief measures for Covid-19 around the world.
- Company has huge cash on its balance sheet and was looking out for acquisitions. However, due to Covid-19 company has to re-think about its strategy going forward.

One area where Covid-19 has had a positive effect is on digital transformation of which Persistent System could be a huge beneficiary. As the company focuses on delivering digital business acceleration, enterprise modernization and digital product engineering for businesses across all industries we believe the company is best placed to take advantage in the post Covid-19 world. The management's cautiously optimistic outlook indicates that the disruption due to Covid-19 would not be as bad as initially anticipated.

4) Other Updates:

- \$1.5 mn one off expense recognized in Q4 due to branding exercise.
- Going forward, company will report services and digital segment as one segment as all the activities in the service segment has to an extent some digital works involved.
- Alliance business continued to see some headwinds. Company is trying aggressively to make the business more profitable and has added ~60 clients in Q4 FY20.

5) Outlook:

Even though IP-Led business continues to be a drag on the revenue, it will be more than offset by the strong performance in digital segment in the coming quarters. We expect Persistent System to continue with its robust performance going forward owing to management's focus on annuity deals, cost rationalization measures and less reliance on top clients. As most of the industries Persistent System serves to have minimal impact of Covid-19 we believe the current valuations factor in the Covid-19 risk. We assign a **BUY** rating to the stock with a target price of Rs. 696 achievable in 18 – 24 month period valuing it at 14x FY23E PAT of Rs. 380 cr

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