

We recommended BUY on Persistent Systems at Rs. 700/share in Jan'20. Share Price touched Rs. 3600/share in Sept'21. Following information was available on our website for you to make an informed decision to BUY the stock in your portfolio.

Recommendation | BUY

Persistent Systems Ltd | Share Price Rs. 688/share

Market Capitalization Rs. 5,350 Cr

P/E Ratio 12X FY21

About Persistent Systems Ltd

With sales turnover of Rs. 3,366 Cr (as of FY19), Persistent Systems provides product engineering services, platform based solutions and IP-based software products to its global customers. It designs, develops and maintains software systems and solutions, creates new applications and enhances the functionality of the customer's existing software products.

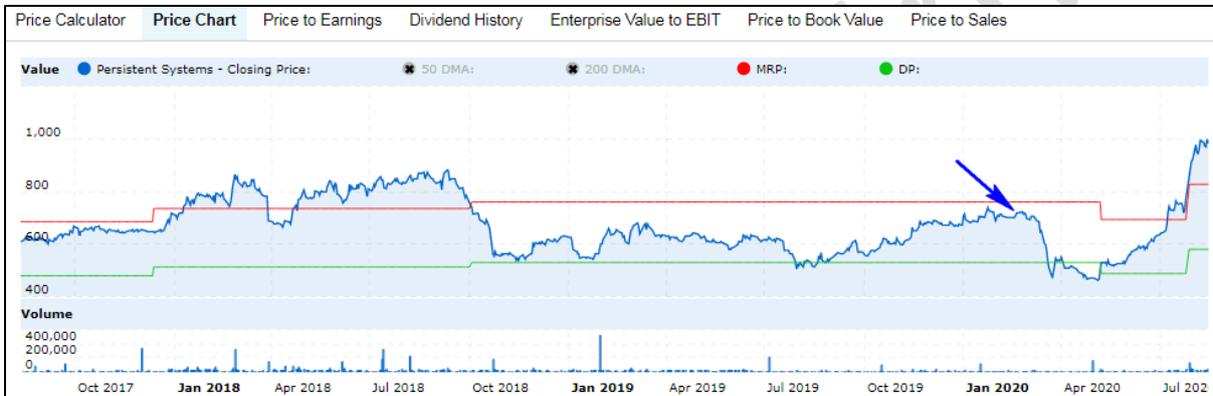
Persistent Systems Stock Analysis 2019										
EXCLUSIVE										
Value Creation Index Colour Code Guide										
	Mar'10	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15	Mar'16	Mar'17	Mar'18	Mar'19
Net Sales (Rs. Cr.)	601	776	1,000	1,295	1,669	1,891	2,312	2,878	3,034	3,366
Y-o-Y Gr. Rt.	-	29.06%	28.93%	29.41%	28.94%	13.31%	22.26%	24.48%	5.39%	10.95%
Adjusted EPS (Rs.)	14.38	17.47	17.81	25.25	32.02	31.46	31.43	33.9	34	44.06
Y-o-Y Gr. Rt.	-	21.49%	1.95%	41.77%	26.81%	-1.75%	-0.10%	7.86%	0.29%	29.59%
Adjusted Net Profit	115.02	139.74	142	202	256	252	251	271	272	349
Net Op. Cash Flow (Rs. Cr.)	124	158	172	216	281	312	254	286	421	432
Debt to Cash Flow from Ops	0	0	0	0.01	0.01	0.01	0.01	0.01	0.01	0
CAGR	9 yrs	5 yrs	3 yrs	1 yr						
Net Sales	21.09%	15.06%	13.33%	10.95%						
Adjusted EPS	13.25%	6.59%	11.92%	29.59%						
Share Price	13.18%	4.15%	3.11%	6%						
Key Financial Parameters	Mar'10	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15	Mar'16	Mar'17	Mar'18	Mar'19
Return on Equity (%)	22.37	20.26	17.94	20.26	22.31	22.19	18.23	17.11	16.16	15.79
Operating Profit Margin (%)	26.22	24.84	25.79	26.37	26.68	25.6	20.27	19.5	19.38	19.13
Net Profit Margin (%)	19.13	18.01	14.17	14.49	14.93	15.37	11.99	10.47	10.65	10.45
Debt to Equity	0.01	0	0	0	0	0	0	0	0	0

Long term performance of Persistent systems was stellar, with sales growth more than 21% in 9 years and profit growth of 13%. It had consistently clocked ROE of more than 15% year after year.

Stock price of Persistent Systems was below our MRP so you would have added to the stock by your own. Our investors have been buying Persistent partially during 2019-20 period.



Our MRP showed Rs. 759/share as fair price and Rs. 531 as Discounted Price. Upside Potential from this price was More than 15% CAGR.



To verify, you could have referred to Persistent System’s Price Calculator tab which includes all Valuation ratios:

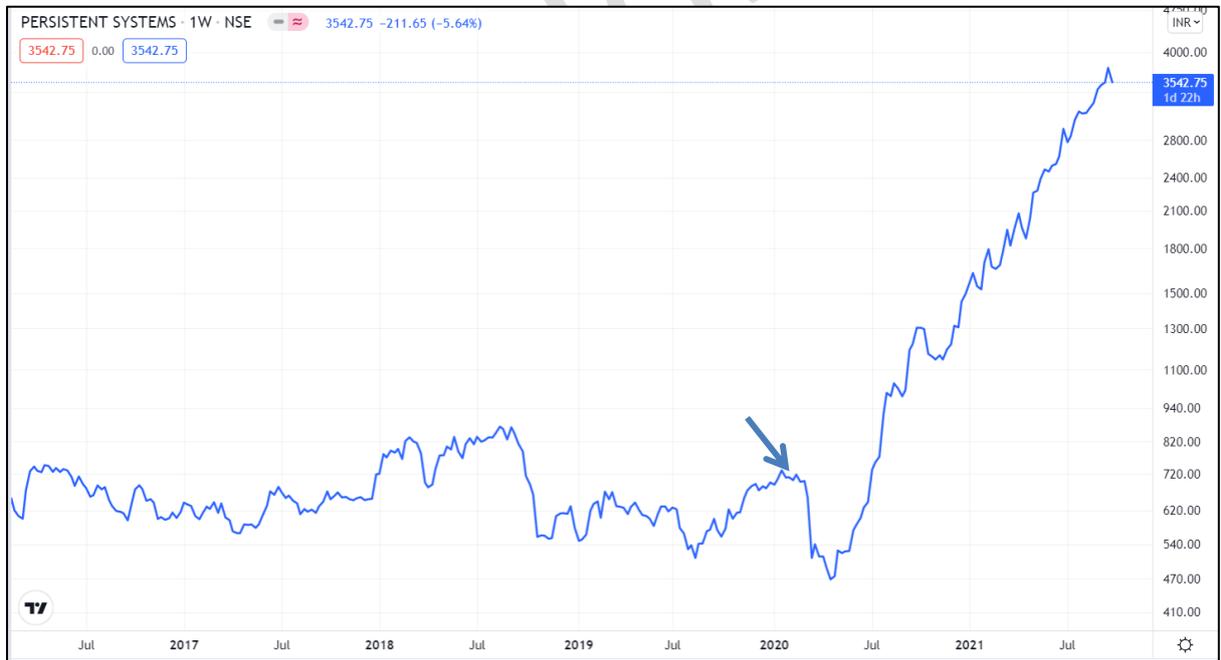
Persistent System was trading at lower end of Price to Earnings ratio, a very common valuation tool used for IT companies.



Even on Price to Sales Ratio it was trading at its cheapest valuation



After quarterly result of Dec'19 were declared in Jan'20, we recommended BUY on Persistent Systems when our hypothesis that new management strategy will work better started panning out.



What would have given you more confidence to add Persistent System's future prospects at Rs. 700/share?

Read our Analyst note in Jan'20

- We have often tracked companies with the new management closely. It brings fresh perspective and energy to deliver good performance. With a new CEO at the helm, the sales team has been revamped from chasing new clients to mining 'existing clients' for larger deals instead of project-based deals. Read here on strategy change
- New vision is leading to momentum in sales growth thereby improving company's future prospects. Poor performance in margin is transitional from sales and dip fall in gross profit. As sales & utilization inches higher, it will lead to better profit margin eventually. (Costs would remain fixed while incremental growth in sales directly flows to profit).
- [The new management has highlighted to focus on long term annuity like model in services business to ensure some stability. The company took measures to cut down less profitable clients in the past. With new management at the helm, they are adopting a strategy to reduce project like nature of business. IP led business is quite good, also a volatile sales business. Persistent is usually ignored due to volatile performance on quarter by quarter basis versus other IT business model which show consistent linear QoQ growth.
- We believe that Persistent Systems is not a bad company and will be appreciated once growth gets more consistent and predictable. Their sales team may have been less competent versus its peers which led to slower than expected growth in digital space despite being one of the leading players. Last 10 years sales growth is 18% CAGR and 5 years sales growth is 15% CAGR. It is not that the company hasn't exhibit execution abilities, just that it has not been able to crack increasing sales in current environment. We hope it will be taken care as new management takes over the baton from promoter led management.] (2019)

Concerns

- Lower margin could be a new normal as the company chases highly competitive annuity sales.
- Change in top management if leads to any aggression can impact company's otherwise conservative culture.

What should investors do?

- *We recommend BUY on Persistent Systems as it is likely to trade at 700/share (market closed at the time of writing). One can buy in 700-725 range. We had said, "the stock trades at Enterprise value/Sales of 0.75x sales with EBITDA margins > 15% and average ROE > 30% (adj for cash & other income). This implies P/E ratio of 9-10x. Cash per share is 180/share (~35% of stock price). Recently in private market L&T bought Mindtree Ltd. at 2x EV/Sales, Barings PE bought NIIT Tech Ltd. at 2x EV/Sales with lower/similar operating margin profile.*
- We had also said, "We find Persistent Systems' promoters score high on integrity and philanthropy. Governance and disclosures are good, only piece missing appears to be execution on growth; however, this is factored in cheap price." Now that we find growth coming back we like to build a full position for all our customers.

**All the above information/images/tools were available at the day of our recommendation on Persistent Systems. We have not reproduced this any of the above.*

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