

SELL

TP: Rs 740 | ▼ 26%

PERSISTENT SYSTEMS

IT Services

10 August 2020

CEO resigns after short stint; reiterate SELL

In a surprising development, Persistent System's (PSYS) CEO Christopher O'Connor has resigned after a short stint of 1.5 years. The new leadership team had taken over full operations of the company only a year ago in Q1FY20. O'Connor was one of the first non-Indian-origin CEOs of an Indian IT company. He had led IoT business units at IBM previously. Promoter and MD Anand Deshpande is expected to take charge till a new CEO is appointed to ensure stability of operations.

Business strategy could suffer: O'Connor's strategy for PSYS was oriented towards incremental changes rather than disruptive ones. Key pillars of his strategy were: (1) improve branding & marketing, (2) bolster reseller revenues, (3) focus on building salesforce capability with acquisition of 'Youperience', and (4) deepen account mining with IBM by leveraging his experience of working there.

Most recently, PSYS had announced the IBM Cloud Pak deployment practice to help organisations migrate and modernise IBM workloads across cloud environments. IBM's CEO in Q2CY20 named PSYS as one of the key partners helping to expand the reach of its hybrid cloud platform. All of these initiatives could get derailed post the CEO's exit.

Frequent changes in top management: In his short stint, O'Connor inducted new members into the senior management (Sandeep Kalra - Technology Services) and dismissed some old hands (in the Technology Services and Accelerite unit). His resignation adds to company's history of senior leadership churn and could pose additional challenges in current tough economic climate.

Bumpy transition to professional leadership: With O'Connor's appointment as CEO, PSYS began the transition from a promoter-run organisation to professional leadership. This transition has, however, been marked by the active engagement of promoter and MD Anand Deshpande. With the CEO's departure, PSYS remains an outlier amongst mid-cap peers who have successfully ensured or effected the transition to professional leadership.

Reiterate SELL: PSYS remains a growth laggard among mid-caps due to its delayed pivot to the enterprise business. It has also failed to move away from its patchy project-based revenues towards an annuity-based revenue model. CEO resignation adds to the volatility. Frequent changes in top management will affect client relationships. We reiterate SELL with a Jun'21 TP of Rs 740.

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Ticker/Price	PSYS IN/Rs 1,000
Market cap	US\$ 1.1bn
Shares o/s	80mn
3M ADV	US\$ 1.8mn
52wk high/low	Rs 1,007/Rs 420
Promoter/FPI/DII	30%/26%/44%

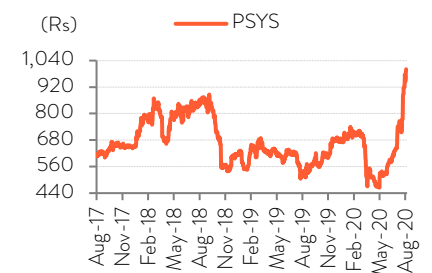
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	41,190	46,708	51,767
EBITDA (Rs mn)	6,513	7,809	8,901
Adj. net profit (Rs mn)	3,715	4,486	5,237
Adj. EPS (Rs)	46.6	56.2	65.7
Adj. EPS growth (%)	9.2	20.8	16.7
Adj. ROAE (%)	14.3	15.7	16.5
Adj. P/E (x)	21.5	17.8	15.2
EV/EBITDA (x)	12.0	10.0	8.5

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

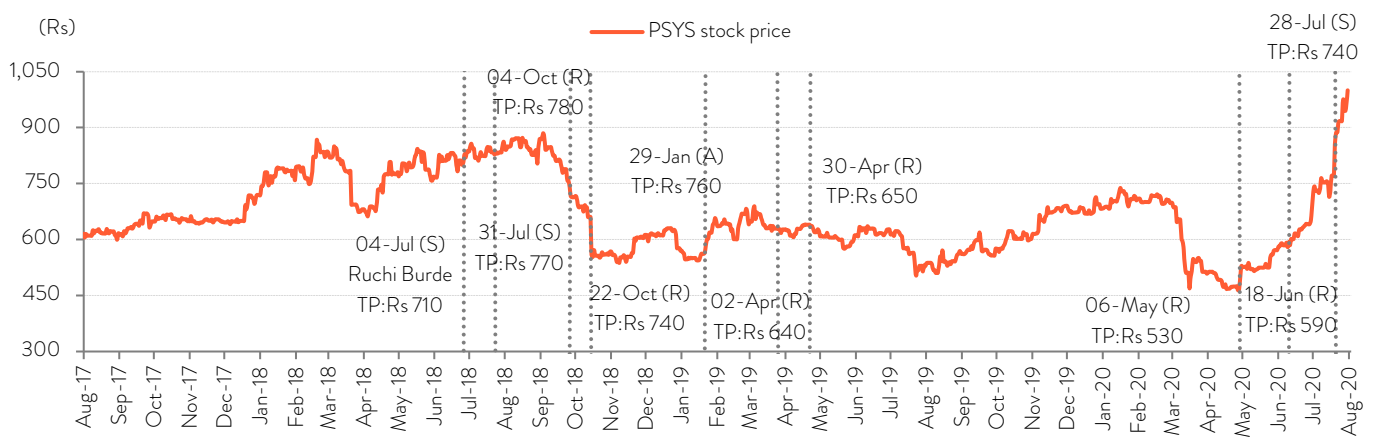
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): PERSISTENT SYSTEMS (PSYS IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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