

**Strong results; Guided to achieve its goal of \$1 bn revenue run-rate**

**CMP: INR 4,309**

**Rating: Neutral**

**Target Price: INR 4,173**

**Stock Info**

BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	764
Mkt Cap (INR mn)	3,28,971
52w H/L (INR)	4,988/1,483
Avg Yearly Vol (in 000')	296

**Shareholding Pattern %**

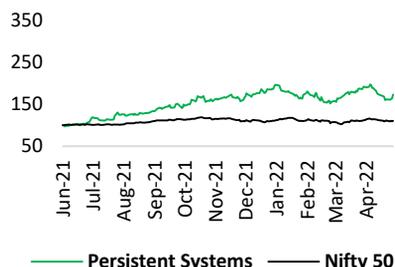
(As on December, 2021)

Promoters	31.26
FII	19.92
DII	22.31
Public & Others	26.51

**Stock Performance (%)**

	1m	3m	12m
Persistent Systems	-7.2	2.7	173
Nifty 50	5.7	-2.5	23.7

**Persistent Systems Vs Nifty 50**



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Persistent System (PSL) has reported a strong set of numbers in Q4 FY22, USD revenue, PAT, INR revenue and Margin are above our estimates. USD Revenue growth +42.2% YoY/9.2% QoQ to \$217.3 Mn against our estimate of \$214 Mn backed by strong capabilities in designing and engineering new digital experiences, revenue streams, and business models for clients. Consolidated revenue stood at INR 16,379 Mn, against our estimate of INR 16,144 mn registering +47.1%YoY/+9.8%QoQ. Consolidated EBIT stood at INR 2,300 mn, against our estimate of INR 2,180 mn, up by 57.1%YoY/+10.4% QoQ. On the margins front, EBIT margin expanded by 89bps YoY/+8bps QoQ to 14.0% against our estimate of 13.5%. Consolidated PAT saw a rise of 45.9%YoY/+13.9% QoQ to INR 2,009 mn against our estimates of INR 1,684 Mn. EPS stood at INR 26.3 in Q4 FY22 against INR 23.08 in Q3 FY22 (INR 18.03 in Q4FY21). Healthy deal wins order book for Q4FY22 at \$361 Mn in total TCv and at \$261.90M in Annual Contract Value (ACV). The company recommended a final dividend of INR 11/share.

**Segments-** The BFSI vertical grew the most in Q4FY22 at 10% QoQ and 40.5% YoY(In FY22 against FY21), for Persistent. Healthcare life sciences, and the software and high tech segments showed 9.2%QoQ/46.1%YoY and 8.5%QoQ/30.0% YoY growth, respectively. The growth supported by strong deal pipeline.

**Geography front-Europe** (8% of revenue) by 2% QoQ, India business by 21% QoQ/71.6% YoY, America (83% of revenue) grew by 10% QoQ/32.3% YoY(In FY22 against FY21), and ROW business by 14% QoQ/39.1% YoY. 12.1%.

**Valuations**

At a CMP of INR 4302, Persistent is currently trading at a PE of 37.2x to its FY24 EPS of INR 115.9. We believe Persistent Systems has a resilient business structure from a long-term perspective and multiple long-term contracts with the world's leading brands. However, The company will continue its aggressive hiring of employees, which will help in overcoming project delivery challenges going ahead. Management's priority will be to focus on growth while sustaining margins. Considering expensive valuations and near-term margin pressure due to inflation and the recent acquisition to hit margin by 70 bps.

**We value PSL at a PE of 36x to its FY24E EPS of INR 115.9, which yields a target price of INR 4,173 per share. We maintain our Neutral rating on the stock.**

Particulars (INR Mn)	Revenue s (US\$ mn)	Net Sales	EBIT	PATEPS (INR)	EBIT Margin %	RoE (%)	P/E (x)
FY21	566	41,879	5,075	4,507	59.0	12.1%	73.1
FY22	766	57,107	7,922	6,904	90.3	13.9%	47.7
FY23E	936	69,744	9,325	7,992	99.9	13.4%	43.1
FY24E	1041	77,667	10,951	9,273	115.9	14.1%	37.2

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q4FY22 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	217.3	199.1	152.8	9.2%	42.2%
<b>Net Revenue</b>	<b>16,379</b>	<b>14,917</b>	11,134	<b>9.8%</b>	<b>47.1%</b>
Employee Cost	12,213	11,135	8,397	9.7%	45.4%
Other Expenses	1,354	1,272	853	6.5%	58.7%
<b>EBITDA</b>	<b>2,812</b>	<b>2,511</b>	<b>1,883</b>	<b>12.0%</b>	<b>49.3%</b>
<i>EBITDA Margin %</i>	<i>17.2%</i>	<i>16.8%</i>	<i>16.3%</i>	<i>34bps</i>	<i>87bps</i>
Depreciation	511	428	419	19.5%	22.0%
<b>EBIT</b>	<b>2,300</b>	<b>2,083</b>	<b>1,464</b>	<b>10.4%</b>	<b>57.1%</b>
<i>EBIT Margin %</i>	<i>14.0%</i>	<i>14.0%</i>	<i>13.2%</i>	<i>8bps</i>	<i>89bps</i>
Other Income	421	307	400	37.2%	5.1%
Finance Cost	49	26	16	93.3%	211.4%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>2,672</b>	<b>2,364</b>	1,849	<b>13.0%</b>	<b>44.5%</b>
Tax Expense	662	600	471	10.3%	40.5%
Effective Tax Rate %	24.8%	25.4%	25.5%	-61bps	-71bps
<b>PAT</b>	<b>2,009.9</b>	<b>1,764.0</b>	<b>1,378</b>	<b>13.9%</b>	<b>45.9%</b>
MI & Associates	-	-	-	-	-
<b>Consolidated PAT</b>	<b>2,009.9</b>	<b>1,764.0</b>	1,378	<b>13.9%</b>	<b>45.9%</b>
<i>PAT Margin %</i>	<i>12.3%</i>	<i>11.8%</i>	<i>12.4%</i>	<i>45bps</i>	<i>-10bps</i>
<b>EPS (INR)</b>	<b>26.30</b>	<b>23.08</b>	<b>18.03</b>	<b>14.0%</b>	<b>45.9%</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Q4FY22 Conference call Highlights:

- **Head Counts:** It was another good quarter in terms of employee addition, The company has made offers to 3,800 freshers, expect over 3,000 to join in 2 quarters and 700 employees from DataGlove. The company also added the several leaders at the senior level.
- **Acquisition:** Acquisitions contributed to around 9% growth on an organic basis, which translates to 36% YoY growth. The company has acquired Software Corp. International and formed a payment business unit with that. The company has acquired Data Glove for reinforcing Azure capabilities; Persistent has formed the Microsoft Business Unit with that. The company is about to close the MediaAgility deal in the next 1-2 weeks reinforcing in the Google space.
- **Segment:** The BFSI vertical grew the most in Q4FY22 at 10% QoQ for Persistent. Healthcare life sciences, and the software and high tech segments showed 9.2% and 8.5% QoQ growth, respectively.
- **Deal wins:** The total contract value, if you look at the full year, is over \$1.2 billion. The annual contract value is \$943 million. The current TCV does not include Order intake from acquisitions and hence is comparable to previous periods.
- The company is monitoring the Russia-Ukraine conflict and the overall macro environment, short to medium-term prospects look good.
- **Attrition:** Attrition will remain near term concern and expected to moderate from the H2FY23.
- **Margin:** EBIT was the same in Q4FY22 against the last quarter despite taking in the amortization from the acquisitions announced earlier. On the tailwinds side currency benefits of +30 bps and additional benefit from credit of old receivables. On the headwinds side, the acquisition to hit margin by 70 bps.
- **Outlook:** Revenue as a lagging indicator of bookings, and mentioned that some of the deals are now coming to fruition. As per the company, customer experience in terms of pipeline and deal wins has ensured steady growth. Management has guided to achieve its goal of \$1 bn revenue run-rate in the next 4-6 quarters. The company will look to double revenue in the next 3-4 years. Also the company restructured one large IP contract which hit revenue by \$4-4.5mn. Management expect FY23 margin to be similar to FY22.

Offshore growth of 11.5% sequentially and billing Rate grew by +1.5% QoQ. Volumes grew by +9.8% QoQ

Onsite revenue growth of 20.1%, billing Rate grew by 2.1% sequentially and Volumes grew by 17.6%

Revenue	Q4-FY 21	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22
<b>Revenue from Operations, USD M</b>	<b>152.8</b>	166.8	182.3	199.1	217.3
% Q - o -Q growth	4.60%	9.20%	9.30%	9.20%	9.10%
% Y - o -Y growth	20.30%	27.30%	34.00%	36.20%	42.20%
<b>Revenue from Operations, INR M</b>	<b>11134</b>	12299	13512	14917	16379
% Q - o -Q growth	3.50%	10.50%	9.90%	10.40%	9.80%
% Y - o -Y growth	20.20%	24.10%	34.10%	38.70%	47.10%
<b>Business Offerings Revenue Mix</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
Services	85.10%	86.90%	87.50%	86.70%	91.10%
IP Led	14.90%	13.10%	12.50%	13.30%	8.90%
Total	100.00%	100.00%	100.00%	100.00%	100%
<b>Segment Revenue Mix</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
BFSI	30.1%	30.8%	30.70%	32.20%	32.40%
Healthcare & Life Sciences	19.3%	20.5%	21.20%	20.70%	20.70%
Software, Hi -Tech & Emerging Industries	50.6%	48.7%	48.10%	47.10%	46.90%
Total	100.00%	100.00%	100.00%	100.00%	100%
<b>Geography Revenue Mix</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
North America	79.2%	78.9%	78.7%	79.20%	78.60%
Europe	10.0%	9.5%	8.8%	8.30%	8.40%
India	8.9%	9.8%	10.5%	10.90%	11%
ROW	1.9%	1.8%	2.0%	1.60%	2.00%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Revenue Concentration</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
Top 1	17.9%	17.0%	16.9%	17.5%	14.0%
Top 5	36.4%	36.5%	35.8%	36.1%	32.5%
Top 10	46.3%	46.7%	45.4%	45.0%	42.1%
<b>Revenue by Delivery Centers</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
Global Development Centers	30.4%	31.4%	30.4%	31.4%	34.5%
India	54.7%	55.5%	57.1%	55.3%	56.6%
IP Led	14.9%	13.1%	12.5%	13.3%	8.9%
<b>Client Billed</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
Services	558	568	596	625	678
IP Led	140	132	130	122	125
<b>Client Engagement Size</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
Large > USD 5M	17	21	22	24	25
Medium > USD 1M, < USD 5M	66	76	84	90	93
<b>People Numbers</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
Technical	12706	13833	14657	15721	17283
Sales and Business Development	273	308	296	294	317
Others	701	763	926	974	999
Total	13680	14904	15879	16989	18599
<b>Linear Revenue Per Billed PM*</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
Global Delivery Centers	16603	17004	16544	16043	16383
India	4203	4286	4307	4252	4317
<b>Attrition Rate</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
TTM Basis	11.7%	16.6%	23.6%	26.90%	26.60%
<b>IP Led</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
IP Led Person Months	3546	3918	4000	3911	3225
<b>DSO</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
Days	55	54	55	58	59
<b>Efforts and Utilization Mix — Linear</b>	<b>Q4-FY 21</b>	<b>Q1-FY 22</b>	<b>Q2-FY 22</b>	<b>Q3-FY 22</b>	<b>Q4-FY 22</b>
<b>Billable Person Months</b>	<b>28670</b>	<b>30807</b>	<b>33212</b>	<b>35938</b>	<b>41025</b>
Global Delivery Centers	3345	3480	3840	4519	5260
India	25325	27327	29372	31419	35766
<b>Billed Person Months</b>	<b>22686</b>	<b>24676</b>	<b>27503</b>	<b>29819</b>	<b>33050</b>
Global Delivery Centers	2794	3080	3840	3891	4578
India	19892	21596	29370	25928	28472
<b>Linear Utilization</b>					
<b>Blended</b>	<b>79.1%</b>	<b>80.1%</b>	<b>82.8%</b>	<b>83.0%</b>	80.6%
Global Delivery Centers	83.5%	88.5%	87.3%	86.1%	87.0%
India	78.5%	79.0%	82.2%	82.5%	79.6%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement				
Income Statement (INR Mn)	FY21	FY22	FY23E	FY24E
<b>Revenues (US\$ mn)</b>	<b>566</b>	<b>766</b>	<b>936</b>	<b>1041</b>
Change (%)	12.9%	35.2%	22.3%	11.2%
<b>Revenues</b>	<b>41,879</b>	<b>57,107</b>	<b>69,744</b>	<b>77,667</b>
Change (%)	17.4%	36.4%	22.1%	11.4%
<b>Total Expenses</b>	<b>35,049</b>	<b>47,526</b>	<b>58,690</b>	<b>65,007</b>
<b>EBITDA</b>	<b>6,830</b>	<b>9,582</b>	<b>11,054</b>	<b>12,660</b>
Other Income	1,020	1,321	1,374	1,462
Depreciation	1,756	1,660	1,730	1,709
Interest	0	0	0	0
<b>PBT</b>	<b>6,094</b>	<b>9,243</b>	<b>10,699</b>	<b>12,413</b>
Extra-ordinary	-	-	-	-
<b>PBT after ext-ord.</b>	<b>6,094</b>	<b>9,243</b>	<b>10,699</b>	<b>12,413</b>
Tax	1,588	2,339	2,707	3,141
Rate (%)	26.1%	25.3%	25.3%	25.3%
<b>PAT</b>	<b>4,507</b>	<b>6,904</b>	<b>7,992</b>	<b>9,273</b>
<b>MI &amp; Associates</b>	-	-	-	-
<b>Consolidated PAT</b>	<b>4,507</b>	<b>6,904</b>	<b>7,992</b>	<b>9,273</b>
Change (%)	32.4%	53.2%	15.8%	16.0%

Balance Sheet				
Balance Sheet (INR Mn)	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>				
Share Capital	764	764	764	764
Reserves & Surplus	27,192	32,918	36,660	42,724
<b>Net Worth</b>	<b>27,957</b>	<b>33,682</b>	<b>37,425</b>	<b>43,488</b>
<b>Loan Funds</b>	<b>44</b>	<b>4,325</b>	<b>4,325</b>	<b>4,325</b>
MI, Deferred Tax & other Liabilities	-	-	-	-
<b>Capital Employed</b>	<b>28,001</b>	<b>38,008</b>	<b>41,750</b>	<b>47,813</b>
<b>Application of Funds</b>				
Net Block	3,476	7,284	11,084	14,884
CWIP	122	1,071	1,071	1,071
Other Non-current Assets	1,783	11,591	11,591	11,591
Deferred Tax Assets	1,038	1,123	1,123	1,123
<b>Net Fixed Assets</b>	<b>6,418</b>	<b>21,069</b>	<b>24,869</b>	<b>28,669</b>
<b>Investments</b>	<b>9,996</b>	<b>8,225</b>	<b>8,225</b>	<b>8,225</b>
Debtors	5,709	9,484	11,583	12,899
Inventories	-	-	-	-
Cash & Bank Balance	9,809	9,145	5,693	8,160
Loans & Advances & other CA	4,945	8,706	8,706	8,706
<b>Total Current Assets</b>	<b>20,463</b>	<b>28,693</b>	<b>25,982</b>	<b>29,764</b>
Current Liabilities	6,157	16,029	13,376	14,895
Provisions	2,719	3,950	3,950	3,950
<b>Net Current Assets</b>	<b>11,587</b>	<b>8,714</b>	<b>8,656</b>	<b>10,920</b>
<b>Total Assets</b>	<b>28,001</b>	<b>38,008</b>	<b>41,750</b>	<b>47,813</b>

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY21	FY22	FY23E	FY24E
<b>PBT</b>	<b>6,094</b>	<b>9,243</b>	<b>10,699</b>	<b>12,413</b>
Depreciation	1,756	1,660	1,730	1,709
Interest & others	-1,020	-1,321	-1,374	-1,462
Cash flow before WC changes	6,830	9,582	11,054	12,660
<b>(Inc)/dec in working capital</b>	<b>1,876</b>	<b>6,899</b>	<b>-4,752</b>	<b>204</b>
Operating CF after WC changes	8,707	16,481	6,302	12,863
Less: Taxes	-1,588	-2,339	-2,707	-3,141
<b>Operating Cash Flow</b>	<b>7,119</b>	<b>14,142</b>	<b>3,595</b>	<b>9,723</b>
(Inc)/dec in F.A + CWIP	-897	-13,702	-3,800	-3,800
(Pur)/sale of investment	-210	1,772	-	-
<b>Cash Flow from Investing</b>	<b>-1,108</b>	<b>-11,930</b>	<b>-3,800</b>	<b>-3,800</b>
<b>Free Cash Flow (FCF)</b>	<b>5,868</b>	<b>10,334</b>	<b>-205</b>	<b>5,923</b>
Loan raised/(repaid)	-2	4,281	-	-
Equity raised	-	-	-	-
Interest & others	297	-6,087	-2,177	-2,386
Dividend	-1,070	-1,070	-1,070	-1,070
<b>Cash Flow from Financing Activities</b>	<b>-774</b>	<b>-2,876</b>	<b>-3,247</b>	<b>-3,456</b>
<b>Net inc/(dec) in cash</b>	<b>5,237</b>	<b>-664</b>	<b>-3,452</b>	<b>2,467</b>
Opening balance of cash	4,572	9,809	9,145	5,693
Closing balance of cash	9,809	9,145	5,693	8,160

Balance Sheet				
Balance Sheet (INR Mn)	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>				
Share Capital	764	764	764	764
Reserves & Surplus	27,192	32,918	36,660	42,724
<b>Net Worth</b>	<b>27,957</b>	<b>33,682</b>	<b>37,425</b>	<b>43,488</b>
<b>Loan Funds</b>	<b>44</b>	<b>4,325</b>	<b>4,325</b>	<b>4,325</b>
MI, Deferred Tax & other Liabilities	-	-	-	-
<b>Capital Employed</b>	<b>28,001</b>	<b>38,008</b>	<b>41,750</b>	<b>47,813</b>
<b>Application of Funds</b>				
Net Block	3,476	7,284	11,084	14,884
CWIP	122	1,071	1,071	1,071
Other Non-current Assets	1,783	11,591	11,591	11,591
Deferred Tax Assets	1,038	1,123	1,123	1,123
<b>Net Fixed Assets</b>	<b>6,418</b>	<b>21,069</b>	<b>24,869</b>	<b>28,669</b>
<b>Investments</b>	<b>9,996</b>	<b>8,225</b>	<b>8,225</b>	<b>8,225</b>
Debtors	5,709	9,484	11,583	12,899
Inventories	-	-	-	-
Cash & Bank Balance	9,809	9,145	5,693	8,160
Loans & Advances & other CA	4,945	8,706	8,706	8,706
<b>Total Current Assets</b>	<b>20,463</b>	<b>28,693</b>	<b>25,982</b>	<b>29,764</b>
Current Liabilities	6,157	16,029	13,376	14,895
Provisions	2,719	3,950	3,950	3,950
<b>Net Current Assets</b>	<b>11,587</b>	<b>8,714</b>	<b>8,656</b>	<b>10,920</b>
<b>Total Assets</b>	<b>28,001</b>	<b>38,008</b>	<b>41,750</b>	<b>47,813</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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