

Persistent Systems

Estimate change



TP change



Rating change



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Bloomberg	PSYS IN
Equity Shares (m)	76
M.Cap.(INRb)/(USD b)	277.5 / 3.5
52-Week Range (INR)	4987 / 2815
1, 6, 12 Rel. Per (%)	5/-11/22
12M Avg Val (INR M)	1290

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	57.1	81.8	96.0
EBIT Margin (%)	14.0	13.9	14.5
PAT	6.9	9.3	11.4
EPS (INR)	91.3	121.7	149.8
EPS Gr. (%)	54.8	33.2	23.1
BV/Sh. (INR)	440.7	535.0	635.2

Ratios

RoE (%)	22.6	25.3	26.3
RoCE (%)	17.4	19.7	20.6
Payout (%)	33.9	35.0	35.0

Valuations

P/E (x)	39.8	29.8	24.2
P/BV (x)	8.2	6.8	5.7
EV/EBITDA (x)	27.8	18.1	14.6
Div Yield (%)	0.9	1.2	1.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	31.3	31.3	31.3
DII	25.9	26.8	29.2
FII	23.3	23.2	21.8
Others	19.5	18.8	17.7

FII Includes depository receipts

CMP: INR3,631
TP: INR3,740 (+3%)
Neutral

Strong performance continues, valuations rich

Demand intact, margin stable

- PSYS posted a strong 1QFY23. In USD terms, revenue grew 11.1% QoQ (160bp above our estimate, an organic growth of 5.6% QoQ). EBITDA margin stood at 17.7% (est. 16.9%). It reported a TCV of USD394m, with 58% new business TCV. Employee additions, at 3,039, were the highest ever, despite an elevated attrition rate of 26.3% (down 30bp QoQ).
- The company maintained a strong performance in Services (+13.5% QoQ) and demand outlook. It also delivered its highest TCV, with a book-to-bill ratio of 1.6x. PSYS' capability to win new deals is encouraging and should result in its sustained industry-leading growth in FY23.
- A strong order book and robust pipeline should allow PSYS to deliver a USD revenue growth of 35.8% in FY23, despite a higher base in FY22 (up 35% YoY). With a strong demand commentary and deal momentum, we expect PSYS to deliver top tier revenue growth among our midcap IT Coverage Universe (26% of over FY22-24E).
- The management acknowledged that while attrition (LTM) looks concerning, it has started to stabilize on a quarterly (annualized) basis and should moderate in coming quarters.
- It remains confident of maintaining margin at current levels in the near term, with the help of utilization, lower sub-contractor expenses, fresher additions, and lower ESOP costs. We expect an EBITDA margin of 17.3%/17.8% in FY23/FY24.
- PSYS is now trading at 24x FY24E P/E, which is on the higher side of the Midcap IT median valuation and appropriately factors in favorable growth and demand environment. Hence, we maintain our **Neutral** rating as we see limited upside from current levels.
- We raise our FY23/FY24 EPS estimate marginally (up 2.5%/4.9%) on better revenue growth and margin. We value the stock at 25x FY24E EPS.

Strong broad based performance in 1QFY23

- Revenue/EBIT/PAT grew 45%/55%/33% YoY in 1QFY23.
- USD revenue rose 11.1% QoQ to USD241.5m, 160bp above our estimate.
- EBITDA margin grew 50bp QoQ to 17.7%, 80bp above our estimate due to operating leverage.
- PAT grew 5% QoQ in INR2.1b (in line) on lower other income.

Key highlights from the management commentary

- PSYS posted its highest ever TCV of USD394m in 1QFY23. It is seeing early wins in new acquisitions.
- There is no cut in spends or impact on demand due to the current macro situation.
- Given the current macro situation, clients have accelerated cost rationalization initiatives. PSYS won multiple large deals on account of its cost optimization initiatives.
- Though there will be 250-300bp margin impact in 2Q on account of wage hikes, the management is confident of delivering full-year margin comparable to FY22 levels on account of higher utilization, lower sub-contractor expenses, pyramid rationalization as freshers get deployed, and lower ESOP costs in the later part of FY23.

Improvement in growth already priced in

- Historically, execution challenges and volatility in the IP portfolio led to inconsistency in PSYS' performance. However, we have noticed steady progress on the execution front after the change in management and strategy.
- This is evident from the Services segment's healthy and industry-leading performance over the past few quarters. We expect a higher emphasis on annuity revenue to address the inconsistency issue to some extent.
- The company's 1) strong performance in FY21 and FY22, 2) healthy order book, and 3) strong deal pipeline indicates an encouraging demand trend. The management aspires to attain a revenue run-rate of USD1b over the next few quarters, which is a key positive. It said it will defend margin in the near term and will expand it in the long term.
- The stock is currently trading at 24x FY24E EPS. Our TP is based on 25x FY24E EPS. We reiterate our **Neutral** rating as we believe the positives have already been captured and the stock offers limited upside from current levels.

Quarterly performance (IFRS)

Y/E March (Consolidated)	FY22				FY23E				FY22	FY23E	FY23E	(INR m)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var. (%/bp)
Revenue (USD m)	166.8	182.3	199.1	217.3	241.5	256.2	266.3	275.4	766	1,039	236.7	2.0
QoQ (%)	9.2	9.3	9.2	9.1	11.1	6.1	3.9	3.4	35.2	35.8	8.9	220bp
Revenue (INR m)	12,299	13,512	14,917	16,379	18,781	20,243	21,034	21,756	57,107	81,814	18,229	3.0
QoQ (%)	10.5	9.9	10.4	9.8	14.7	7.8	3.9	3.4			11.3	337bp
YoY (%)	24.1	34.1	38.7	47.1	52.7	49.8	41.0	32.8	36.4	43.3	48.2	449bp
GPM (%)	33.5	33.5	33.8	33.7	33.8	32.0	33.1	34.2	33.6	33.3	33.5	30bp
SGA (%)	16.6	16.9	16.9	16.5	16.1	16.0	15.9	15.9	16.7	16.0	16.6	-55bp
EBITDA	2,090	2,244	2,511	2,812	3,333	3,239	3,618	3,981	9,656	14,171	3,081	8.2
EBITDA margin (%)	17.0	16.6	16.8	17.2	17.7	16.0	17.2	18.3	16.9	17.3	16.9	85bp
EBIT	1,740	1,873	2,083	2,300	2,688	2,551	2,903	3,242	7,996	11,383	2,461	9.2
EBIT Margin (%)	14.1	13.9	14.0	14.0	14.3	12.6	13.8	14.9	14.0	13.9	13.5	81bp
Other income	365	303	281	371	131	304	316	326	1,321	1,076	365	-64.1
ETR (%)	24.6	25.7	25.4	24.8	24.9	25.5	25.5	25.5	25.1	25.4	25.5	
PAT	1,587	1,618	1,764	2,010	2,116	2,126	2,398	2,658	6,978	9,298	2,105	0.5
QoQ (%)	15.2	1.9	9.1	13.9	5.3	0.5	12.8	10.9			4.7	55bp
YoY (%)	76.3	58.6	45.9	45.9	33.3	31.5	35.9	32.3	54.8	33.2	32.6	70bp
EPS (INR)	19.8	21.2	23.1	26.3	27.7	27.8	31.4	34.8	91.3	121.7	27.5	0.5

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue breakup (USD m)										
Services	145.0	159.5	172.6	198.0	224.6	238.1	246.4	257.5	675.1	966.6
IP-led	21.9	22.8	26.5	19.3	16.9	18.7	20.4	18.5	90.5	74.6
Margins (%)										
Gross margin	33.5	33.5	33.8	33.7	33.8	32.0	33.1	34.2	33.6	33.3
EBIT margin	14.1	13.9	14.0	14.0	14.3	12.6	13.8	14.9	14.0	13.9
Net margin	12.9	12.0	11.8	12.3	11.3	10.5	11.4	12.2	12.2	11.4
Operating metrics										
Headcount	14,904	15,879	16,989	18,599	21,638				18,599	
Utilization (%)	80.1	82.8	83	80.6	79.5				81.6	
Attrition (%)	16.6	23.6	26.9	26.6	24.8				26.9	
Billing rate (USD/ppm)										
On-site	17,004	16,544	16,043	16,383	16,423				16,494	
Offshore	4,286	4,307	4,252	4,317	4,387				4,291	



Highlights from the management commentary

Growth and demand outlook

- PSYS delivered yet another strong 1QFY23, reporting a revenue growth of 11.1% QoQ and 44.8% YoY. Of this, revenue growth of 5.6% QoQ was organic in nature.
- The company posted its highest ever TCV of USD394m in 1QFY23. It is seeing early wins in new acquisitions.
- Growth was broad based across all verticals, led by BFSI. All client buckets grew well, depicting improved confidence in PSYS' account mining capabilities.
- Growth in the company's top account moderated 7.1% QoQ on account of the restructuring of an IP deal.
- IP-led revenue was soft due to lower royalty income and restructuring in the top client.
- The management expects the growth momentum to continue in the Services business.
- Order book remains strong and broad based with good portion of executable order book. The deal pipeline remains strong, which is likely to keep the growth trajectory elevated.
- There is no cut in spends or impact on demand due to the current macro situation.
- Given the current macro situation, clients have accelerated cost rationalization initiatives. PSYS won multiple large deals on account of its cost optimization initiatives.

Margin performance and outlook

- EBIT margin stood at 14.3% in 1QFY23. There was a 30bp improvement in margin, despite higher amortization, travel, and visa costs on account of a favorable forex rate (aided margin by 90bp).
- Other income was lower on account of: 1) the set-off of interest as trust accounts got consolidated, 2) lower funds used for acquisitions, and 3) MTM losses in mutual funds.
- Though there will be 250-300bp margin impact in 2Q on account of wage hikes, the management is confident of delivering full-year margin comparable to FY22 levels on account of higher utilization, lower sub-contractor expenses, pyramid

rationalization as freshers get deployed, and lower ESOP costs in the later part of FY23.

- Though customers are open to price hikes, the same may be lower than that demanded as clients face higher inflation.

Other highlights

- Though attrition remains elevated on a TTM basis, PSYS has seen a moderation on a quarterly (annualized) basis. Attrition on a TTM basis will take a few more quarters to moderate.
- Utilization will dip in 2Q and 3QFY23 on account of higher fresher addition.
- The company posted the highest ever net headcount additions at 3,039 in 1QFY23, including 545 additions from the acquisition of Media Agility.
- PSYS hired 1.9k freshers in 1QFY23 and plans to hire 1,350 freshers in 2QFY23.
- On the M&A front, the focus for the next one-to-two quarters will be to integrate and reap synergy benefits from the recent acquisitions and then look out for other opportunities.

Exhibit 1: Services up 13.5% QoQ, growth in IP falters due to lower royalty income

Industry classification	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
Services	93.0	13.5	54.9
IP-led	7.0	-12.6	-22.6

Source: Company, MOFSL

Exhibit 2: Broad-based growth across verticals led by BFSI

Verticals	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
BFSI	33.7	15.6	58.4
Healthcare and Life Science	19.9	6.8	40.5
Tech., Cos., and Emerging Verticals	46.4	10.0	37.9

Source: Company, MOFSL

Exhibit 3: Broad-based growth across geographies

Geographies	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
North America	78.4	10.9	43.8
Europe	8.5	12.5	29.5
RoW	13.1	12.0	63.5

Source: Company, MOFSL

Exhibit 4: Decline in the top client on account of restructuring

Client metrics	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
Top client	11.7	-7.1	-0.4
Top two-to-five clients	19.1	14.7	41.8
Top six-to-10 clients	9.9	14.6	40.5

Source: Company, MOFSL

Improvement in growth already priced in

- Historically, execution challenges and volatility in the IP portfolio led to inconsistency in PSYS' performance. However, we have noticed steady progress on the execution front after the change in management and strategy.
- This is evident from the Services segment's healthy and industry-leading performance over the past few quarters. We expect a higher emphasis on annuity revenue to address the inconsistency issue to some extent.
- The company's 1) strong performance in FY21 and FY22, 2) healthy order book, and 3) strong deal pipeline indicates an encouraging demand trend. The

management aspires to attain a revenue run-rate of USD1b over the next few quarters, which is a key positive. It said it will defend margin in the near term and will expand it in the long term.

- The stock is currently trading at 24x FY24E EPS. Our TP is based on 25x FY24E EPS. We reiterate our **Neutral** rating as we believe the positives have already been captured and the stock offers limited upside from current levels.

Exhibit 5: Revisions to our estimates

	Revised estimate		Earlier estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
USD:INR	78.7	79.0	78.5	79.0	0.2%	0.0%
Revenue (USD m)	1,039	1,215	1,011	1,173	2.8%	3.6%
Growth (%)	35.8	16.9	32.0	16.0	370bp	90bp
EBIT margin (%)	13.9	14.5	13.3	13.8	60bp	70bp
PAT (INR m)	9,298	11,445	9,074	10,908	2.5%	4.9%
EPS	121.7	149.8	118.7	142.7	2.5%	4.9%

Source: MOFSL, Company

Exhibit 6: Operating metrics

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Geography (%)									
North America	80.4	82.9	81.1	79.2	78.9	78.7	79.2	78.6	78.4
Europe	10.2	7.6	8.8	10.0	9.5	8.8	8.3	8.4	8.5
RoW	9.4	9.5	10.1	10.8	11.6	12.5	12.5	13.0	13.1
Vertical Mix (%)									
BFSI	31.8	31.9	29.5	30.1	30.8	30.7	32.2	32.4	33.7
Healthcare and Life Science	19.7	19.3	19.1	19.3	20.5	21.2	20.7	20.7	19.9
Tech., Cos., and Emerging Verticals	48.5	48.8	51.4	50.6	48.7	48.1	47.1	46.9	46.4
Industry Classification (%)									
Services	82.6	83.8	81.9	85.1	86.9	87.5	86.7	91.1	93.0
IP-led	17.4	16.2	18.1	14.9	13.1	12.5	13.3	8.9	7.0
Revenue Mix (%)									
Services: On-site	33.7	33.1	30.5	30.4	31.4	30.4	31.4	34.5	36.5
Services: Offshore	48.9	50.7	51.4	54.7	55.5	57.1	55.3	56.6	56.5
IP-led	17.4	16.2	18.1	14.9	13.1	12.5	13.3	8.9	7.0
Client Metrics (%)									
Top Client	17.7	19.4	18.5	17.9	17.0	16.9	17.5	14.0	11.7
Top five Clients	40.8	41.6	37.8	36.4	36.5	35.8	36.1	32.5	30.8
Top 10 Clients	49.0	50.5	47.0	46.3	46.7	45.4	45.0	42.1	40.7
Clients billed									
Services	508	487	530	558	568	596	625	678	735
IP-led	140	135	142	140	132	130	122	125	129
Customer Engagement Size									
Over USD5m	15	16	17	17	21	22	24	25	26
USD1-5m	63	63	65	66	76	84	90	93	104
DSO	69	63	57	55	54	55	58	59	60
Employee Metrics									
Technical People	10,027	10,001	11,533	12,706	13,833	14,657	15,721	17,283	20,144
Sales and BD	274	268	277	273	308	296	294	317	367
Others	528	551	628	701	763	926	974	999	1,127
Total	10,829	10,820	12,438	13,680	14,904	15,879	16,989	18,599	21,638
Billable Person Months									
- On-site	3,060	3,086	3,104	3,345	3,480	3,840	4,519	5,260	6,336
- Offshore	19,186	19,920	22,238	25,325	27,327	29,372	31,419	35,766	39,564
Linear Utilization (%)	78.5	81.2	81.0	79.1	80.1	82.8	83.0	80.6	79.5
Onsite Utilization (%)	84.8	85.8	85.4	83.5	88.5	87.3	86.1	87.0	84.6
Offshore Utilization (%)	77.5	80.5	80.4	78.5	79.0	82.2	82.5	79.6	78.7
Attrition (%)	12.7	10.6	10.3	11.7	16.6	23.6	26.9	26.6	24.8
IP Led Person Months	4,031	3,893	3,606	3,546	3,918	4,000	3,911	3,225	3,278
Billing Rates (USD/p.p.m)									
On-site	17,036	16,993	16,790	16,603	17,004	16,544	16,043	16,383	16,423
Offshore	4,308	4,304	4,204	4,203	4,286	4,307	4,252	4,317	4,387

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	28,784	30,337	33,659	35,658	41,879	57,107	81,814	96,016
Change (%)	24.5	5.4	11.0	5.9	17.4	36.4	43.3	17.4
Cost of Goods Sold	18,518	19,704	21,378	23,494	27,650	37,895	54,585	63,370
Gross Profit	10,266	10,633	12,281	12,164	14,229	19,212	27,228	32,645
Selling Expenses	5,613	5,946	6,476	7,234	7,398	9,556	13,058	15,555
EBITDA	4,653	4,687	5,805	4,930	6,830	9,656	14,171	17,091
Depreciation	1,490	1,585	1,692	1,660	1,756	1,660	2,788	3,169
EBIT	3,163	3,102	4,113	3,270	5,075	7,996	11,383	13,922
Other Income	958	1,190	864	1,254	1,020	1,321	1,076	1,440
PBT	4,121	4,293	4,977	4,523	6,094	9,317	12,459	15,363
Tax	992	1,062	2,327	1,121	1,588	2,339	3,161	3,917
Net Profit	3,129	3,231	2,650	3,403	4,507	6,978	9,298	11,445
Change (%)	5.2	3.3	-18.0	28.4	32.4	54.8	33.2	23.1
Extraordinary Item	114	0	0	0	0	75	0	0
Net Income after EO	3,015	3,231	2,650	3,403	4,507	6,904	9,298	11,445

Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	800	800	791	764	764	764	764	764
Other Reserves	18,193	20,472	22,656	23,093	27,192	32,918	38,962	46,401
Net Worth	18,993	21,272	23,447	23,858	27,957	33,682	39,726	47,165
Loans	22	17	12	46	44	4,889	4,889	4,889
Other liabilities	277	430	177	544	957	1,360	1,870	2,194
Capital Employed	19,291	21,719	23,636	24,448	28,958	39,931	46,485	54,249
Net Block	2,768	2,581	2,331	2,791	3,254	4,276	3,635	3,067
CWIP	48	8	12	166	122	1,071	1,071	1,071
Intangibles	2,832	2,585	1,980	1,661	1,315	11,060	11,060	11,060
Investments	2,339	2,881	4,346	4,621	3,621	3,878	3,878	3,878
Deferred Tax Assets	306	642	405	960	1,038	1,123	2,027	2,379
Other	1,130	272	577	866	602	4,394	1,176	1,380
Current Assets	14,039	17,620	18,905	19,856	26,703	28,339	42,161	52,179
Debtors	4,754	4,847	4,923	5,922	5,709	9,484	14,570	17,099
Investments	4,500	5,916	3,296	5,165	13,765	10,514	10,514	10,514
Cash and BB	1,510	2,414	6,729	4,572	2,419	2,978	7,992	13,937
Loans and Advances	10	7	8	14	71	16	16	16
Other Current Assets	3,266	4,436	3,950	4,183	4,739	5,347	9,070	10,614
Current Liab. and Prov.	4,173	4,870	4,920	6,474	7,697	14,210	18,522	20,764
Trade payables	1,209	1,673	1,517	2,247	2,733	4,299	7,368	8,647
Other Liabilities	1,572	1,597	1,639	2,616	2,486	5,961	6,314	6,435
Provisions	1,391	1,599	1,764	1,611	2,478	3,950	4,841	5,681
Net Current Assets	9,866	12,750	13,985	13,382	19,006	14,130	23,639	31,415
Application of Funds	19,291	21,719	23,636	24,448	28,958	39,931	46,486	54,250

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	39.1	40.4	33.1	44.5	59.0	91.3	121.7	149.8
Cash EPS	57.7	60.2	54.3	66.3	82.0	113.0	158.2	191.2
Book Value	237.4	265.9	293.2	312.2	365.9	440.7	535.0	635.2
DPS	9.0	0.0	11.0	12.0	20.0	31.0	42.6	52.4
Payout (%)	23.0	0.0	33.2	26.9	33.9	33.9	35.0	35.0

Valuation (x)

P/E ratio	92.8	89.9	109.5	81.5	61.6	39.8	29.8	24.2
Cash P/E ratio	62.9	60.3	66.9	54.8	44.3	32.1	23.0	19.0
EV/EBITDA ratio	61.1	60.2	48.3	54.3	38.3	27.8	18.1	14.6
EV/Sales ratio	9.9	9.3	8.3	7.5	6.2	4.7	3.1	2.6
Price/Book Value	15.3	13.7	12.4	11.6	9.9	8.2	6.8	5.7
Dividend Yield (%)	0.2	0.0	0.3	0.3	0.6	0.9	1.2	1.4

Profitability Ratios (%)

RoE	17.7	16.0	11.9	14.4	17.4	22.6	25.3	26.3
RoCE	13.4	11.4	9.7	10.2	14.1	17.4	19.7	20.6

Turnover Ratios

Debtors (Days)	60	58	53	61	50	61	65	65
Asset Turnover (x)	10.0	11.3	13.7	13.9	13.9	15.2	20.7	28.7

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
CF from Operations	3,926	4,156	4,536	4,597	5,781	8,857	12,039	14,614
Chg. in Working Capital	-1,062	56	-213	-1,369	1,578	-407	-1,671	-2,063
Net Operating CF	2,864	4,212	4,323	3,229	7,359	8,450	10,368	12,551
Net Purchase of FA	-2,169	-651	-374	-746	-1,251	-3,808	-2,100	-2,600
Free Cash Flow	695	3,560	3,949	2,483	6,108	4,642	8,268	9,951
Net Purchase of Invest.	-50	-2,822	-1,885	597	-4,166	-5,965	0	0
Net Cash from Inv.	-2,219	-3,474	-2,259	-148	-5,417	-9,773	-2,100	-2,600
Issue of shares	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	10	1,016	3,913	-2,344	-3,044	3,810	0	0
Dividend Payments	-578	-950	-1,590	-2,978	-1,070	-1,987	-3,254	-4,006
Net CF from Finan.	-568	66	2,323	-5,321	-4,114	1,823	-3,254	-4,006
Net Cash Flow	77	804	4,386	-2,241	-2,171	499	5,014	5,945
Exchange difference	1	101	-71	84	19	59	0	0
Opening Cash Balance	1,432	1,510	2,414	6,729	4,572	2,420	2,979	7,993
Closing Cash Balance	1,510	2,414	6,729	4,572	2,420	2,979	7,993	13,938

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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