

# Persistent Systems Limited



## Persistent Systems Limited.

**Strong performance continues**

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 3,707	INR 4,131	11.4%	INR 283,338	ACCUMULATE	Internet Software & Services

### Synopsis:

Persistent Systems Limited (PSYS) Q2FY23 performance was slightly higher than our estimate. Dollar Revenue was up 5.6% QoQ to USD 255.6Mn (KRChoksey est. USD 254Mn). Rupee revenue grew by 9.1% QoQ to INR 20,486Mn (KRChoksey est. INR 20,272Mn). Reported operating margin was marginally higher at 14.6%, aided by IP-business performance, lower sub-con cost & better segmental margin from Tech vertical & absence of visa cost which was partially offset by wage hike (-230bps). Reported net profit grew by 4% QoQ to INR 2,200Mn (KRChoksey est. INR 2,186Mn) with margin of 10.7%, down 53 bps QoQ. Persistent remains confident of maintaining operating margins within a narrow range in FY23 aided by growth leverage/revenue mix. PSYS' profit is expected to increase materially over FY22-25E, supported by continued client mining (USD 5mn+logos doubled in the last two years) and increase in deal size (net-new deal duration increased from 1.2 years to 1.7 years over the last two years). Our target price of INR 4,131 is based on 28.5x Mar-24E EPS with EPS CAGR of 26.7% over FY22-24E.

### MARKET DATA

Shares outs (Mn)	76
Mkt Cap (INR Mn)	2,83,338
52 Wk H/L (INR)	4986.85/3091.65
Volume Avg (3m K)	399.9
Face Value (INR)	10
Bloomberg Code	PSYS IN

### KEY FINANCIALS

(INR Mn)	Q2FY23A	Q1FY23A	Q2FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	255.6	242	182	5.6%	40.4%	254.0	0.6%
Revenue	20,486	18,781	13,512	9.1%	51.6%	20,272	1.1%
EBIT	2,987	2,688	1,873	11.1%	59.5%	2,792	7.0%
PAT	2,200	2,116	1,618	4.0%	36.0%	2,186	0.6%
OPM (%)	14.6%	14.3%	13.9%	27 bps	72 bps	13.8%	81 bps
NPM(%)	10.7%	11.3%	12.0%	-53 bps	-124 bps	10.8%	-4 bps

Source: Company, KRChoksey Research

### Robust growth across all the verticals

Persistent System Limited (PSYS) Q2FY23 performance is slightly higher than our estimates. Revenue came in at USD 255.6mn, +5.6/+40.4% QoQ/YoY, (organic growth of +4.8/+38.8% QoQ/YoY), led by healthy growth in services revenue ( up +4.9% QoQ), and IP-led revenue (+18.1%QoQ). Growth in Q2FY23 was broad-based across verticals, led by BFSI at +3% QoQ (backed by Media Agility), followed by technology & emerging at +8.3% QoQ (driven by DataGlove) and healthcare & life-sciences was up by 4.7% QoQ. Revenue from the top account declined by 21.3% QoQ, contributing 9% to the total, while revenue from top 6 to 10 accounts grew by +4.7% QoQ and non-top 10 accounts grew +13% QoQ. PSYS has added 838 employees in Q2FY23 taking the count to 22,476, up 4%.

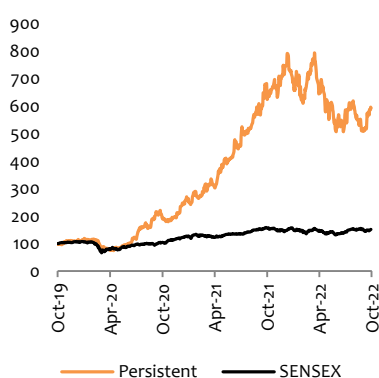
### Strong deal wins to drive growth across geographies

PSYS reported a TCV of USD 368Mn, with 62% new business TCV. Company maintained its strong performance in Services (+4.9% QoQ) and demand outlook. IP bounced back with a strong 18.1% QoQ growth. It also delivered a strong TCV (despite a high 1Q base), with a book-to-bill ratio of 1.4x. PSYS' capability to garner new deals is encouraging and should result in its sustained industry-leading growth in FY23. Strong order book and robust pipeline commentary should allow PSYS to deliver a mid thirties USD revenue growth in FY23, despite a high base in FY22 (up 35% YoY).

### Wage hike dragged the EBIT margin

In Q2FY23, the company registered EBIT margin of 14.6%, marginally higher by 27bp, supported by IP-business performance, lower sub-con cost & better segmental margin from Tech vertical higher onshore/offshore realization, SG&A leverage and absence of visa cost which was partially offset by wage hike (-230bps). We see that high proportion of fresher will turn billable in Q3/Q4. This, along with improved utilization, will further aid margin.

### SHARE PRICE PERFORMANCE



### MARKET INFO

SENSEX	59,202.9
NIFTY	17,564.0

### SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	31.3	31.3	31.3
FIIIs	19.8	20.5	20.0
DIIIs	25.9	25.9	26.8
Others	23.0	22.4	21.9
Total	100.0	100.0	100.0

27.4%

Revenue CAGR between FY22 and FY24E

26.7%

PAT CAGR between FY22 and FY24E

## Persistent Systems Limited.

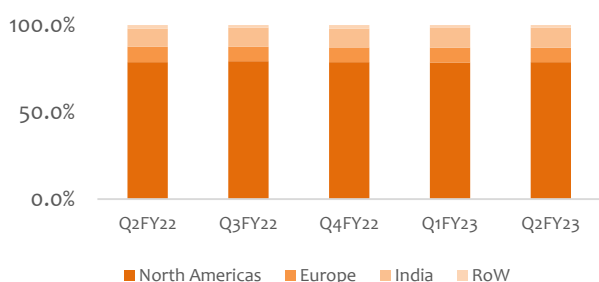
### Key Concall Highlights:

(i) Given the current macro situation, discussions with clients continues majorly for cost optimization; the slowdown in the US and Europe, and a strong dollar, clients are also showing some prudence on long-term investments (ii) There is no cut in spends or impact on demand, but we notice some delays in projects in major economies (iii) Headcount was up by ~4% (838 employees), took the count to 22,476; PSYS has added 3k trainees in H1FY23 (iv) Incremental supply-side factors (attrition trending lower) will be favorable for PSYS in term of margin expansion (v) The order book remains strong and broad based, with a good portion of an executable order book. The deal pipeline remains strong, which is likely to keep the growth trajectory elevated

### Valuation and View

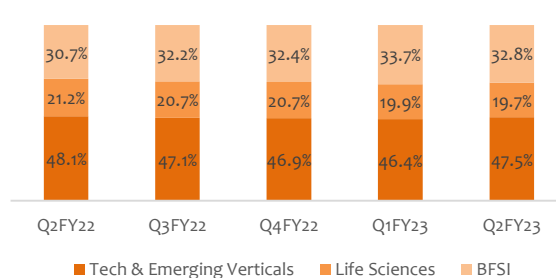
Persistent is currently trading at a valuation with a P/E multiple of 31.6x/25.5x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, higher focused on digital business, aspiration to attain USD 1bn run-rate in FY23 will aid growth over the medium to long term in future. Considering the recent macro environment and attrition trending lower, we continue with our target price to INR 4,131 with an upside of ~11.4% over the current market price along with our view to an “ACCUMULATE” rating to the stock with a P/E multiple of 28.5x to the FY24 estimated EPS of ~INR 145.

GEOGRAPHIC BREAK-UP (% of Revenues)



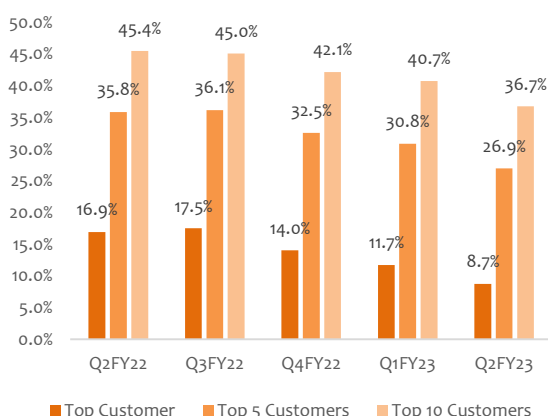
Source: Company, KRChoksey Research

SERVICE LINE BREAK-UP (% of revenues)



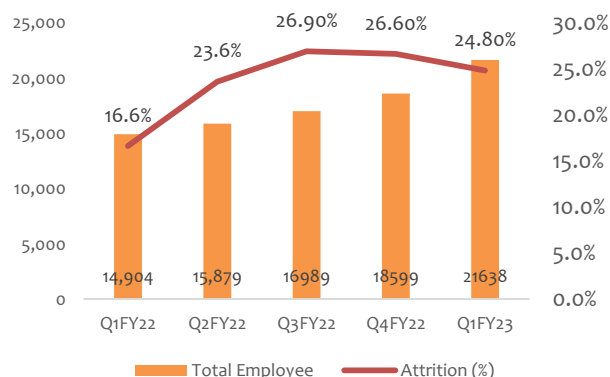
Source: Company, KRChoksey Research

Client Concentration (%)



Source: Company, KRChoksey Research

Total Employee & Attrition



Source: Company, KRChoksey Research

## Persistent Systems Limited.

### KEY FINANCIALS

#### Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Property, Plant and Equipment	2,581	2,331	2,225	2,401	1,977	1,691	1,494
Right-of-use Asset	0.00	0.00	566.81	852.58	852.58	852.58	852.58
CWIP	8	12	166	122	122	122	122
Goodwill	77	81	89	86	86	86	86
Intangible Assets	2,508	1,899	1,572	1,230	1,435	1,435	1,435
Non-current Investments	3,010	4,763	5,311	4,089	4,089	4,089	4,089
Deferred Tax Assets	642	405	960	1,038	1,038	1,038	1,038
Loans and Advances	143	164	176	135	135	135	135
<b>Total non current assets</b>	<b>8,969</b>	<b>9,656</b>	<b>11,066</b>	<b>9,952</b>	<b>9,733</b>	<b>9,447</b>	<b>9,250</b>
Current Investments	5916	3296	5165	6375	6375	6375	6375
Trade Receivables	4847	4923	5922	5709	7106	7840	8848
Cash & Bank Balances	2414	6724	4572	9809	12614	16065	19882
Short term loans and advances	7	8	14	71	71	71	71
Other current Assets	4436	3950	4183	4739	4739	4739	4739
<b>Total current assets</b>	<b>17,620</b>	<b>18,900</b>	<b>19,856</b>	<b>26,703</b>	<b>30,905</b>	<b>35,090</b>	<b>39,915</b>
<b>Total Assets</b>	<b>26,589</b>	<b>28,556</b>	<b>30,922</b>	<b>36,655</b>	<b>40,638</b>	<b>44,537</b>	<b>49,165</b>
Equity Share Capital	800	791	764	764	764	764	764
Other Equity	20,472	22,656	23,093	27,192	30,527	34,059	38,128
<b>Total Equity</b>	<b>21,272</b>	<b>23,447</b>	<b>23,858</b>	<b>27,957</b>	<b>31,291</b>	<b>34,823</b>	<b>38,892</b>
Deferred tax liabilities (net)	270	0	0	0	0	0	0
Long term borrowings	17	12	46	44	44	44	44
Other Long term liabilities	0	0	353	716	716	716	716
Long term Provisions	160	253	183	241	241	241	241
<b>Total non current liabilities</b>	<b>447</b>	<b>265</b>	<b>582</b>	<b>1,001</b>	<b>1,001</b>	<b>1,001</b>	<b>1,001</b>
Deferred payment liabilities	0	75	0	0	0	0	0
Trade Payables	1,673	1,517	2,247	2,733	3,381	3,749	4,308
Other Current Liabilities	1,597	1,566	2,492	2,127	2,127	2,127	2,127
Short-term Provisions	1,599	1,686	1,611	2,478	2,478	2,478	2,478
Current tax liabilities (net)	0	0	132	359	359	359	359
<b>Total Current Liabilities</b>	<b>4,870</b>	<b>4,844</b>	<b>6,482</b>	<b>7,697</b>	<b>8,345</b>	<b>8,712</b>	<b>9,272</b>
<b>Total liabilities</b>	<b>26,589</b>	<b>28,556</b>	<b>30,922</b>	<b>36,655</b>	<b>40,638</b>	<b>44,537</b>	<b>49,165</b>

Source: Company, KRChoksey Research

Persistent Systems Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	30,337	33,659	35,658	41,879	57,107	76,551	92,641
Total Operating expenses	25,650	27,854	30,729	35,049	47,526	63,294	76,385
EBITDA	4,687	5,805	4,930	6,830	9,582	13,257	16,256
Depreciation	1,585	1,573	1,660	1,756	1,660	2,505	2,794
EBIT	3,102	4,233	3,270	5,075	7,922	10,752	13,462
Other income, net	1,190	631	1,254	1,020	1,321	1,266	1,406
Pre-tax Income	4,293	4,863	4,523	6,094	9,243	12,018	14,868
Income tax expense	1,062	1,347	1,121	1,588	2,339	3,064	3,791
Net profit Before MI	3,231	3,517	3,403	4,507	6,904	8,953	11,077
Minority Interest	0	0	0	0	0	0	0
Net profit Before MI	3,231	3,517	3,403	4,507	6,904	8,953	11,077
Diluted EPS (INR)	40.84	44.45	44.38	58.78	90.34	117.16	144.95
Shares in Million	80	79	77	77	76	76	76

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	3,062	4,842	4,076	5,831	5,912	6,878	7,455
Net Cash Flow from/(used in) Investing Activities	-83	6,912	-210	1,726	-211	-359	-105
Net Cash Flow from Financing Activities	-803	-7,513	-4,208	-1,072	-2,896	-3,067	-3,534
Net Inc/Dec in cash equivalents	2,176	4,241	-342	6,484	2,805	3,452	3,817
Opening Balance	1,510	2,414	6,724	4,572	9,809	12,614	16,065
Closing Balance Cash and Cash Equivalents	2,414	6,724	4,572	9,809	12,614	16,065	19,882

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBIT Margin (%)	10.2%	12.6%	9.2%	12.1%	13.9%	14.0%	14.5%
Tax rate (%)	24.7%	27.7%	24.8%	26.1%	25.3%	25.5%	25.5%
Net Profit Margin (%)	10.6%	10.4%	9.5%	10.8%	12.1%	11.7%	12.0%
RoE (%)	15.7%	15.3%	13.7%	17.5%	20.7%	19.7%	20.2%
RoCE (%)	15.4%	15.0%	13.5%	17.2%	20.4%	19.4%	20.0%
Current ratio	2.4	3.2	2.3	2.8	4.7	5.5	5.5
EPS (INR per share)	40.8	44.4	44.4	58.8	90.3	117.2	144.9

Source: Company, KRChoksey Research

## Persistent Systems Limited.

Persistent Systems Limited				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
21-Oct-22	3707	4131	ACCUMULATE	Accumulate	5% – 15%
25-July-22	3638	4131	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
29-April-22	4324	4928	ACCUMULATE	Sell	Less than – 5%

### ANALYST CERTIFICATION:

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