

# Persistent Systems

Refer to important disclosures at the end of this report

## Strong operating performance; margin outlook ahead of expectations

PSYS reported better-than-expected operating performance in Q3. Revenue grew 3.4% QoQ, despite impact of the higher-than-usual furloughs (150bps), lesser working days (50-100bps) and weakness in select clients. Management expects furloughs to extend into the next quarter and impact revenue growth by 50-75bps in Q4. Revenue growth was broad-based across Software, Hi-tech & Emerging industries (4.1% QoQ; ex-top client: 7.7%), Healthcare & Lifesciences (2.9%), and BFSI (2.8%). The services business has posted 9.2% CQGR in the last eight quarters, and Management remains confident (albeit watchful of macro uncertainties) about sustaining the growth momentum on the back of continued demand, robust deal intake (USD440mn in Q3; 1.7x book-to-bill), healthy deal pipeline, new logo additions, and steady progress in client mining. Management expects EBITM to expand by 200-300bps over the next 2-3 years, ahead of our expectations, on the back of revenue growth, flattening pyramid, SG&A leverage with progress on client mining, and large deals traction. We raise our EPS by 1%-8% for FY23E-25E, factoring-in the Q3 performance and higher margin assumptions. We retain BUY with TP of Rs4,500/share at 25x Dec-24E EPS (earlier Rs4,125).

**Result summary:** Revenue grew 3.4% QoQ to USD264.4mn (3.5% CC QoQ), above our expectations of 3% CC QoQ, driven by steady growth in the Services business and continued momentum in IP. Services revenue grew by 3% QoQ, aided by 4.9% growth in volume, while blended realization declined by 1.8%. EBITM expanded by 80bps QoQ, on account of higher lateral utilization, flattening employee pyramid, revenue growth, IP-led revenue growth, and currency movement (+60bps). Reported net profit grew 8% QoQ to Rs2.4bn. Adjusted for the exceptional item pertaining to provision for forego of export incentives (~Rs296mn), net profit stood at Rs2.7bn. The top client declined ~12% QoQ on account of planned ramp down, which started last quarter. Management believes that top-client revenue has bottomed out and expects a sharp reversal in a few quarters. Revenue from the top-50 (ex-Top 2) clients grew 7.7% QoQ. PSYS has seen steady improvement across client buckets. Order booking was at a record high, at USD440mn (1.7x book-to-bill) of TCv, including USD239mn of new business TCv. **What we liked:** Broad-based revenue growth momentum; revenue & margin beat; record-high order book; moderation in attrition (21.6% vs 23.7% QoQ). **What we did not like:** Increase in DSO to 67 days (7 days QoQ), weakness in top client (fell ~12% QoQ).

**Earnings-call KTAs:** 1) Revenue growth momentum moderated in North America (1.5% QoQ) due to weakness in the top-2 clients and higher than usual furloughs. 2) Growth in Europe (12.2% QoQ) was on the back of deal wins, although Management remains watchful of the macro conditions. 3) Company aspires to outgrow the industry, irrespective of the macro outcomes. 4) LTM attrition for the quarter stood at 21.6% vs 23.7% in Q2, and Management expects it to continue trailing downward. 5) The company has hedges of USD214mn as of end-Q3, at an average exchange rate of Rs81.55/USD. 6) Company declared an interim dividend of Rs28 per share. 7) The billing rate was impacted due to higher furloughs and lower number of working days. 8) DSO for the quarter stood at 67 days and was impacted by the spillover of collections (2.5-day impact), deferred credit given to some clients in the IP business (3.5 days), and clients with a December year-end seeing some shift from unbilled DSO to billed DSO. Mgmt expects billed DSO to stabilize at ~65 days. 9) Company added over 3,000 freshers in H1FY23 and has made an offer to 1,200 freshers, who are expected to join in the next few quarters. 10) Utilization (ex-fresher) improved 340bps QoQ to 83.3%.

### Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	41,879	57,107	83,123	97,138	114,103
EBITDA	6,855	9,730	15,179	18,294	21,947
EBITDA Margin (%)	16.4	17.0	18.3	18.8	19.2
APAT	4,507	6,904	9,496	11,756	14,393
EPS (Rs)	59.0	90.3	120.4	153.8	188.3
EPS (% chg)	32.4	53.2	33.3	27.8	22.4
ROE (%)	17.4	22.4	25.9	27.0	27.7
P/E (x)	72.2	47.1	35.4	27.7	22.6
EV/EBITDA (x)	44.6	32.1	20.7	16.9	13.7
P/BV (x)	11.6	9.7	8.2	6.9	5.7

Source: Company, Emkay Research

CMP	Target Price
Rs 4,258 as of (January 19, 2023)	Rs 4,500 (▲) 12 months
Rating	Upside
BUY (■)	5.7 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	1.4/7.6
Target Price change (%)	9.1
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	120.4	153.8
Consensus	121.5	146.9
Mean Consensus TP (12M)	Rs 4,327	

### Stock Details

Bloomberg Code	PSYS IN
Face Value (Rs)	10
Shares outstanding (mn)	76
52 Week H/L	4,954 / 3,092
M Cap (Rs bn/USD bn)	325 / 4.00
Daily Avg Volume (nos.)	308,212
Daily Avg Turnover (USD mn)	14.9

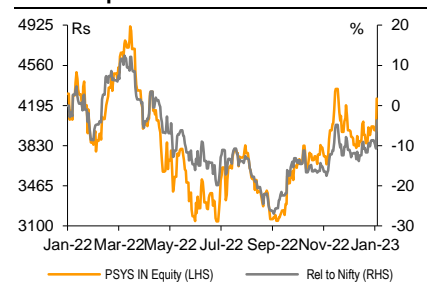
### Shareholding Pattern Dec '22

Promoters	31.3%
FIIIs	20.3%
DIIIs	26.4%
Public and Others	22.0%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	16	28	-
Rel. to Nifty	9	12	15	(1)

### Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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**Exhibit 1: Quarterly snapshot (Q3FY23)**

(Rs mn)	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
Net sales (USD mn)	264.4	255.6	3.4	199.1	32.8
Net sales	21,694	20,486	5.9	14,917	45.4
Operating expenses	17,678	16,807	5.2	12,406	
EBITDA	4,016	3,680	9.1	2,512	59.9
EBITDA Margin (%)	18.5	18.0	50	16.8	170
Depreciation	684	693		428	
EBIT	3,332	2,987	11.6	2,084	59.9
EBIT Margin (%)	15.4	14.6	80	14.0	140
Other income	-104	-31		280	-137.1
Pre-tax profit	3,228	2,956	9.2	2,364	36.5
Tax provided	848	756		600	
Profit after tax	2,380	2,200		1,764	
Emkay Net profit	2,380	2,200	8.2	1,764	34.9
EPS (Rs)	31.9	28.8	10.8	23.1	38.2

Source: Company, Emkay Research

**Exhibit 2: Actuals vs estimates (Q3FY23)**

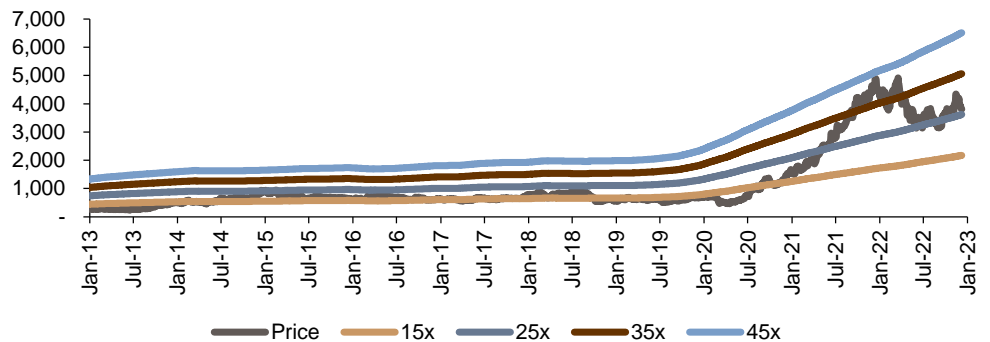
(Rs mn)	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (USD mn)	264.4	262.5	262.5	0.7%	0.7%	Revenue came ahead of our expectations.
Sales	21,694	21,600	21,606	0.4%	0.4%	
EBIT	3,332	3,203	3,156	4.0%	5.6%	
EBIT margin	15.4%	14.8%	14.6%	50 bps	80 bps	EBITM came 50bps higher than our expectations.
PAT	2,380	2,358	2,383	0.9%	-0.1%	Margin beat and higher other income negated by exceptional item, leading to in-line profit.

Source: Company, Bloomberg, Emkay Research

**Exhibit 3: Changes in estimates**

(Rs mn)	FY23E			FY24E			FY25E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue ( USD mn)	1029.9	1035.0	0.5%	1,179.9	1199.2	1.6%	1,368.8	1391.5	1.7%
YoY growth	34.5%	35.2%		14.6%	15.9%		16.0%	16.0%	
Revenue	82,765	83,123	0.4%	95,570	97,138	1.6%	112,243	114,103	1.7%
EBIT	12,113	12,433	2.6%	13,977	15,095	8.0%	16,825	18,468	9.8%
EBIT margins (%)	14.6	15.0		14.6	15.5		15.0	16.2	
Net profit	9,075	9,200	1.4%	10,924	11,756	7.6%	13,306	14,393	8.2%
EPS (Rs)	118.7	120.4	1.4%	142.9	153.8	7.6%	174.1	188.3	8.2%

Source: Company, Emkay Research

**Exhibit 4: PSYS – One-year forward P/E**

Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>41,879</b>	<b>57,107</b>	<b>83,123</b>	<b>97,138</b>	<b>114,103</b>
<b>Expenditure</b>	<b>35,023</b>	<b>47,377</b>	<b>67,944</b>	<b>78,843</b>	<b>92,156</b>
<b>EBITDA</b>	<b>6,855</b>	<b>9,730</b>	<b>15,179</b>	<b>18,294</b>	<b>21,947</b>
Depreciation	1,756	1,660	2,746	3,199	3,479
<b>EBIT</b>	<b>5,100</b>	<b>8,070</b>	<b>12,433</b>	<b>15,095</b>	<b>18,468</b>
Other Income	994	1,173	250	791	981
Interest expenses	0	0	0	0	0
<b>PBT</b>	<b>6,094</b>	<b>9,243</b>	<b>12,683</b>	<b>15,886</b>	<b>19,450</b>
Tax	1,588	2,339	3,187	4,130	5,057
Extraordinary Items	0	0	(297)	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>4,507</b>	<b>6,904</b>	<b>9,200</b>	<b>11,756</b>	<b>14,393</b>
<b>Adjusted PAT</b>	<b>4,507</b>	<b>6,904</b>	<b>9,496</b>	<b>11,756</b>	<b>14,393</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	764	764	764	764	764
Reserves & surplus	27,192	32,918	38,908	46,536	55,961
<b>Net worth</b>	<b>27,957</b>	<b>33,682</b>	<b>39,672</b>	<b>47,300</b>	<b>56,726</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>44</b>	<b>4,325</b>	<b>6,200</b>	<b>5,200</b>	<b>3,200</b>
Net deferred tax liability	(1,038)	(1,123)	(1,123)	(1,123)	(1,123)
<b>Total Liabilities</b>	<b>26,963</b>	<b>36,885</b>	<b>44,750</b>	<b>51,378</b>	<b>58,803</b>
<b>Net block</b>	<b>4,691</b>	<b>16,407</b>	<b>22,877</b>	<b>21,287</b>	<b>20,040</b>
<b>Investment</b>	<b>17,383</b>	<b>14,388</b>	<b>13,878</b>	<b>15,878</b>	<b>19,878</b>
<b>Current Assets</b>	<b>13,544</b>	<b>22,223</b>	<b>27,187</b>	<b>33,336</b>	<b>39,137</b>
Cash & bank balance	2,422	2,981	3,208	6,439	8,708
Other Current Assets	3,069	7,625	9,041	9,809	10,739
<b>Current liabilities &amp; Provision</b>	<b>8,654</b>	<b>16,133</b>	<b>19,191</b>	<b>19,122</b>	<b>20,252</b>
<b>Net current assets</b>	<b>4,889</b>	<b>6,090</b>	<b>7,995</b>	<b>14,213</b>	<b>18,885</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>26,963</b>	<b>36,885</b>	<b>44,750</b>	<b>51,378</b>	<b>58,803</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>5,100</b>	<b>8,070</b>	<b>12,433</b>	<b>15,095</b>	<b>18,468</b>
Other Non-Cash items	(487)	321	(574)	(985)	(1,273)
Chg in working cap	1,578	(407)	(1,096)	(935)	(1,136)
<b>Operating Cashflow</b>	<b>7,359</b>	<b>8,450</b>	<b>10,276</b>	<b>13,035</b>	<b>15,463</b>
Capital expenditure	(1,699)	(9,962)	(9,799)	(3,662)	(3,499)
<b>Free Cash Flow</b>	<b>5,660</b>	<b>(1,512)</b>	<b>477</b>	<b>9,373</b>	<b>11,964</b>
Investments	(4,084)	(530)	511	(2,000)	(4,000)
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(5,417)</b>	<b>(9,773)</b>	<b>(8,714)</b>	<b>(4,677)</b>	<b>(6,226)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(63)	4,161	1,875	(1,000)	(2,000)
Dividend paid (incl tax)	(1,070)	(1,987)	(3,210)	(4,127)	(4,968)
Other Financing Cash Flow	(310)	(351)	0	0	0
<b>Financing Cashflow</b>	<b>(1,443)</b>	<b>1,823</b>	<b>(1,335)</b>	<b>(5,127)</b>	<b>(6,968)</b>
<b>Net chg in cash</b>	<b>500</b>	<b>499</b>	<b>227</b>	<b>3,231</b>	<b>2,269</b>
Opening cash position	1,904	2,422	2,981	3,208	6,439
<b>Closing cash position</b>	<b>2,426</b>	<b>2,984</b>	<b>3,208</b>	<b>6,439</b>	<b>8,708</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	16.4	17.0	18.3	18.8	19.2
EBIT Margin	12.2	14.1	15.0	15.5	16.2
Effective Tax Rate	26.1	25.3	25.1	26.0	26.0
Net Margin	10.8	12.1	11.4	12.1	12.6
ROCE	24.4	29.0	31.1	33.1	35.3
ROE	17.4	22.4	25.9	27.0	27.7
RoIC	47.9	45.2	39.5	39.4	46.1

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	59.0	90.3	120.4	153.8	188.3
CEPS	81.9	112.1	160.2	195.7	233.8
BVPS	365.8	440.7	519.1	618.9	742.2
DPS	20.0	31.0	42.0	54.0	65.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	72.2	47.1	35.4	27.7	22.6
P/CEPS	52.0	38.0	26.6	21.8	18.2
P/BV	11.6	9.7	8.2	6.9	5.7
EV / Sales	7.3	5.5	3.8	3.2	2.6
EV / EBITDA	44.6	32.1	20.7	16.9	13.7
Dividend Yield (%)	0.5	0.7	1.0	1.3	1.5

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	(0.7)	(0.4)	(0.3)	(0.4)	(0.4)
Net Debt/EBIDTA	(2.9)	(1.3)	(0.7)	(0.9)	(1.2)
Working Cap Cycle (days)	21.5	19.9	21.0	29.2	32.6

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	17.4	36.4	45.6	16.9	17.5
EBITDA	32.6	41.9	56.0	20.5	20.0
EBIT	45.2	58.2	54.1	21.4	22.3
PAT	32.4	53.2	33.3	27.8	22.4

<b>Quarterly (Rs mn)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>
Revenue	14,917	16,379	18,781	20,486	21,694
EBITDA	2,512	2,809	3,333	3,680	4,016
<b>EBITDA Margin (%)</b>	<b>16.8</b>	<b>17.2</b>	<b>17.7</b>	<b>18.0</b>	<b>18.5</b>
PAT	1,764	2,010	2,116	2,200	2,380
<b>EPS (Rs)</b>	<b>23.1</b>	<b>26.3</b>	<b>27.7</b>	<b>28.8</b>	<b>31.1</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>	<b>Dec-22</b>
Promoters	31.3	31.3	31.3	31.3	31.3
FIs	19.9	20.0	20.5	19.8	20.3
DIs	26.9	26.8	25.9	25.9	26.4
Public and Others	21.9	22.0	22.4	23.0	22.0

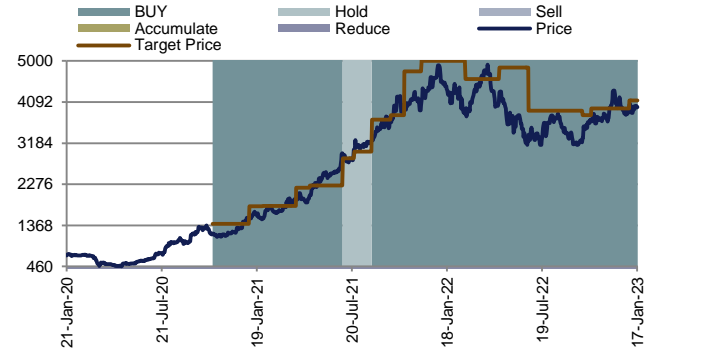
Source: Capitaline

**RECOMMENDATION HISTORY (Rs/share)**

Date	Closing Price	TP	Period	Rating	Analyst
2-Jan-23	4,028	4,125	12m	Buy	Dipeshkumar Mehta
21-Oct-22	3,666	3,950	12m	Buy	Dipeshkumar Mehta
4-Oct-22	3,299	3,800	12m	Buy	Dipeshkumar Mehta
22-Jul-22	3,633	3,900	12m	Buy	Dipeshkumar Mehta
23-Jun-22	3,368	3,900	12m	Buy	Dipeshkumar Mehta
28-Apr-22	4,309	4,850	12m	Buy	Dipeshkumar Mehta
1-Apr-22	4,723	4,600	12m	Buy	Dipeshkumar Mehta
15-Mar-22	4,327	4,600	12m	Buy	Dipeshkumar Mehta
22-Feb-22	3,927	4,600	12m	Buy	Dipeshkumar Mehta
11-Feb-22	4,196	5,000	12m	Buy	Dipeshkumar Mehta
22-Jan-22	4,302	5,000	12m	Buy	Dipeshkumar Mehta
1-Jan-22	4,904	5,000	12m	Buy	Dipeshkumar Mehta
30-Nov-21	4,139	5,000	12m	Buy	Dipeshkumar Mehta
28-Oct-21	3,989	4,770	12m	Buy	Dipeshkumar Mehta
2-Oct-21	3,643	3,800	12m	Buy	Dipeshkumar Mehta
30-Sep-21	3,716	3,700	12m	Buy	Dipeshkumar Mehta
13-Sep-21	3,588	3,700	12m	Buy	Dipeshkumar Mehta
27-Aug-21	3,254	3,700	12m	Buy	Dipeshkumar Mehta
24-Jul-21	3,039	3,000	12m	Hold	Dipeshkumar Mehta
2-Jul-21	2,930	2,850	12m	Hold	Dipeshkumar Mehta
30-Apr-21	2,038	2,250	12m	Buy	Dipeshkumar Mehta
5-Apr-21	1,959	2,200	12m	Buy	Dipeshkumar Mehta
4-Apr-21	1,953	2,200	12m	Buy	Dipeshkumar Mehta
18-Mar-21	1,849	1,800	12m	Buy	Dipeshkumar Mehta
30-Jan-21	1,524	1,800	12m	Buy	Dipeshkumar Mehta
4-Jan-21	1,520	1,790	12m	Buy	Dipeshkumar Mehta
18-Dec-20	1,306	1,400	12m	Buy	Dipeshkumar Mehta
26-Oct-20	1,189	1,400	12m	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

**RECOMMENDATION HISTORY (Rs/share)**



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 20 Jan 2023 01:55:39 (SGT)

Dissemination Date: 20 Jan 2023 01:56:39 (SGT)

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