

Persistent Systems

Strong bookings provide growth visibility

Persistent Systems (PSYS) posted an in-line revenue and a slightly better operating performance. Key positives include (1) deal bookings, which were at an all-time high—both renewals and net-new TCV, which provides adequate growth visibility (9MFY23 net-new ACV ~55% of revenue-rate) and positive commentary on Q4 order bookings; (2) focus on larger deals with annuity and progress in client mining, reflected in USD 5mn+ client count increasing from 30 in Q2 to 34 in Q3 and continued increase in revenue per account (up 50% since pre-covid); and (3) recovery expected in T2 accounts, which has been a growth headwind in recent quarters (T50 accounts ex-T2 grew ~8% QoQ). PSYS attaining its margin aspiration of 200-300bps increase in 2-3 years is an upside risk to our estimates. Maintain BUY on PSYS (top pick in mid-tier IT) with a TP of INR 5,230, valued at 32x Sep-24E EPS. Valuation drivers (currently at 28.5x FY24E) include industry-leading 25% EPS CAGR over FY22-25E, ~50% RoIC and improving FCF and payout.

- **Q3FY23 highlights:** (1) PSYS' revenue came in at USD 264mn, +3.5% QoQ CC and 33% YoY, led by healthy growth in both IP led (+8.6% QoQ) and services revenue (+3% QoQ), but impacted by furlough (-2% impact). (2) Growth in Q3FY23 was broad-based across verticals, led by technology & emerging (+4.1% QoQ and 47.8% of revenue) followed by healthcare (+2.9% QoQ and 19.6% of rev) and BFSI (+2.8% QoQ and 32.6% of revenue). (3) EBITM improved 78bps QoQ to 15.4% (14.8% est.), supported by a higher gross margin (+33bps), SG&A leverage (+22bps impact), higher onsite utilisation, FX tailwind and better segmental margin of BFSI vertical, offset by higher sub-con. APAT growth was 47% YoY adjusted exceptions. (4) Client mining continued to improve with USD 5mn+ client count increasing from 30 in Q2 to 34 in Q3. (5) Deal TCV at USD 440mn was up 20% QoQ and 32% YoY.
- **Outlook:** We have factored in USD revenue growth of +35.0/15.6/15.0% and EBITM of 14.8/15.0/15.5% for FY23/24/25E, resulting in FY22-25E EPS CAGR of 25%. At CMP, PSYS is trading at a PE of 28.5x FY24E and 23.9x FY25E EPS.

Quarterly Financial summary

YE March (INR bn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue (USD mn)	264	199	32.8	256	3.4	566	766	1,034	1,195	1,375
Net Sales	21.69	14.92	45.4	20.49	5.9	41.88	57.11	83.30	99.19	115.48
EBIT	3.33	2.08	60.0	2.99	11.6	5.07	7.92	12.30	14.83	17.84
APAT	2.60	1.76	47.3	2.20	18.1	4.51	6.90	9.45	11.42	13.64
Diluted EPS (INR)	34.0	23.1	47.3	28.8	18.1	59.0	90.3	123.7	149.4	178.4
P/E (x)						72.2	47.1	34.4	28.5	23.9
EV / EBITDA (x)						44.8	31.8	20.3	16.6	13.6
RoE (%)						17.4	22.4	25.1	26.2	26.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Revenue (USD mn)	1,033	1,034	0.1	1,193	1,195	0.2	1,372	1,375	0.2
Revenue	83.17	83.30	0.2	98.98	99.19	0.2	115.26	115.48	0.2
EBIT	12.21	12.30	0.7	14.23	14.83	4.2	16.63	17.84	7.3
EBIT margin (%)	14.7	14.8	9bps	14.4	15.0	58bps	14.4	15.5	103bps
APAT	9.15	9.45	3.4	11.19	11.42	2.0	13.07	13.64	4.3
EPS (INR)	119.7	123.7	3.4	146.4	149.4	2.0	171.1	178.4	4.3

Source: Company, HSIE Research

BUY

CMP (as on 19 Jan 2023) INR 4,258

Target Price INR 5,230

NIFTY 18,108

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 5,030	INR 5,230
	FY24E	FY25E
EPS %	+2.0	+4.3

KEY STOCK DATA

Bloomberg code	PSYS IN
No. of Shares (mn)	76
MCap (INR bn) / (\$ mn)	325/3,999
6m avg traded value (INR mn)	1,319
52 Week high / low	INR 4,954/3,092

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.3	27.9	(0.2)
Relative (%)	13.3	16.8	(1.5)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	31.26	31.26
FIs & Local MFs	25.87	26.29
FPIs	19.69	20.28
Public & Others	23.18	22.17
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Apurva Prasad

apurva.prasad@hdfcsec.com
+91-22-6171-7327

Amit Chandra

amit.chandra@hdfcsec.com
+91-22-6171-7345

Vinesh Vala

vinesh.vala@hdfcsec.com
+91-22-6171-7332

Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analyst or his/her relative or HDFC Securities Ltd. does have/ does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193 Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

HDFC securities
Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com