

Persistent Systems

Steady progression

We maintain BUY on Persistent Systems (PSYS) as our top pick in mid-tier IT based on (1) strong order booking (highest new deals), consistency in large deal wins and increased deal participation with the company crossing USD 1bn threshold providing growth visibility; (2) improved client mining/cross-sell/annuity reflected in revenue/client in services (1.6x in last two years as compared to flat over FY15-21) and USD 5mn+ client count up 3x in three years, supported by leveraging partnerships and recent acquisitions; and (3) scope for margin expansion supported by utilisation and efficiencies, SG&A leverage, and T1 growth rebound. Q4 performance was broadly in line with revenue, driven by the T1 account offset by a decline in IP-led revenue and project ramp-down of hyper scaler client. Improved outlook for T2 accounts (incl. USD 100mn TCV deal) will support near-term growth trajectory. Our TP is INR 5,880, valuing PSYS at 32x Dec-24E EPS, supported by 25% EPS CAGR over FY23-25E.

- Q4FY23 highlights:** (1) PSYS posted revenue growth of 3.5% QoQ CC (similar to its Q3) at USD 275mn and 35% revenue growth in FY23 (incl. ~9% inorganic). (2) Growth was skewed as the top account (9.3% of revenue) grew 30% QoQ (yet down 23% in FY23), driving services growth of 5.5% QoQ; growth ex-T1 was a modest 1.7% QoQ, impacted by a decline in IP-led revenue and project ramp-down of hyper scaler client (-1.1% QoQ impact). (3) Deal TCV/ACV was up 17/18% YoY at USD 422mn and USD 310mn respectively; within that new deal component was highest ever. (4) EBITM was flat (in-line) at 15.4% in Q4FY23 with FY23 EBITM at 14.9%; EBITM was supported by growth in the offshore mix, T1 growth and impacted by a decline in segmental margins in Healthcare and Tech & Emerging verticals. (5) Attrition continued to trend lower and PSYS added 291 headcount in Q4 with plans for 850-1000 fresher adds in FY24E and wage hike plans in Q2FY24E.
- Outlook:** We have factored in USD revenue growth at 16% CAGR over FY23-25E, implying 3.6% and 3.9% CQGR for FY24/25E respectively. EBITM factored at 15.8% and 16.5% translates into an EPS CAGR of 25% for PSYS. At CMP, PSYS trades at a PE of 28x FY24E and 23x FY25E EPS and the current valuation implies a ~12% USD revenue CAGR over FY23-32E.

Quarterly Financial summary

YE March (INR bn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Revenue (USD mn)	275	217	26.3	264	3.9	566	766	1,036	1,200	1,396
Net Sales	22.54	16.38	37.6	21.69	3.9	41.88	57.11	83.51	99.60	117.22
EBIT	3.47	2.30	50.7	3.33	4.0	5.07	7.92	12.47	15.73	19.34
APAT	2.52	2.01	25.1	2.60	(3.2)	4.51	6.90	9.43	12.06	14.71
Diluted EPS (INR)	32.9	26.3	25.1	34.0	(3.2)	59.0	90.3	123.4	157.8	192.4
P/E (x)						75.8	49.5	36.2	28.3	23.2
EV / EBITDA (x)						47.2	33.5	21.3	17.0	13.6
RoE (%)						17.4	22.4	25.1	27.8	28.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Revenue (USD mn)	1,189	1,200	1.0	1,382	1,396	1.0
Revenue	98.66	99.60	1.0	116.05	117.22	1.0
EBIT	15.77	15.73	(0.2)	19.13	19.34	1.1
EBIT margin (%)	16.0	15.8	-19bps	16.5	16.5	2bps
APAT	12.08	12.06	(0.2)	14.55	14.71	1.1
EPS (INR)	158.1	157.8	(0.2)	190.3	192.4	1.1

Source: Company, HSIE Research

BUY

CMP (as on 25 Apr 2023)	INR 4,472
Target Price	INR 5,880
NIFTY	17,769
KEY CHANGES	OLD NEW
Rating	BUY BUY
Price Target	INR 5,820 INR 5,880
EPS %	FY24E FY25E
	-0.2 +1.1

KEY STOCK DATA

Bloomberg code	PSYS IN
No. of Shares (mn)	77
MCap (INR bn) / (\$ mn)	344/4,206
6m avg traded value (INR mn)	1,632
52 Week high / low	INR 5,135/3,092

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.7)	16.8	11.6
Relative (%)	(2.5)	15.8	5.3

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	31.26	31.26
FIs & Local MFs	26.29	28.40
FPIs	20.28	20.53
Public & Others	22.17	19.81
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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