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3R MATRIX			
	+	=	-
Right Sector (RS)	Green	Grey	Orange
Right Quality (RQ)	Green	Grey	Orange
Right Valuation (RV)	Green	Grey	Orange
+ Positive	= Neutral	- Negative	

What has changed in 3R MATRIX

	Old	New
RS	Grey	↔
RQ	Green	↔
RV	Grey	↔

ESG Disclosure Score NEWESG RISK RATING 19.32

Updated March 08, 2023

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 34,178 cr
52-week high/low:	Rs. 5,131/3,092
NSE volume: (No of shares)	3.7 lakh
BSE code:	533179
NSE code:	PERSISTENT
Free float: (No of shares)	5.3 cr

Shareholding (%) 31-03-2023

Promoters	31.3
FII	20.6
DII	27.6
Others	20.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.4	-2.6	16.7	11.6
Relative to Sensex	-1.1	-2.5	15.7	5.3

Sharekhan Research, Bloomberg

Persistent Systems Ltd

Good Q4; Maintain Buy

IT & ITES		Sharekhan code: PERSISTENT		
Reco/View: Buy	↔	CMP: Rs. 4,472	Price Target: Rs. 5,010	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- Persistent Systems reported strong constant currency (CC) revenue growth of 3.5% q-o-q beating our estimates of 3.0% (CC) revenue growth led by IT Services. Top-1 client's revenues increased by 30.5% q-o-q in USD terms.
- EBIT margin was flat q-o-q at 15.4%, broadly in-line with our estimates of 15.5% owing to higher Project related travel expenses, royalty and SGA expenses.
- Total TCVs stood at \$421.6 million, down 4% / up 17% q-o-q/y-o-y. New business TCVs stood at \$250.3 million versus \$239 million in Q3FY2023, up 5%/28% q-o-q/y-o-y. Strong new business ACV at \$168.3 million up 17%/28% q-o-q/y-o-y
- We believe Persistent Systems is well-placed to navigate the near term uncertain environment owing to its ability to deliver industry-leading revenue growth on account of broad-based demand across verticals, robust order intake and new logo additions. Hence, we maintain a Buy rating on Persistent Systems with unchanged PT of Rs. 5,010. At the CMP the stock trades at 29.5x its FY2024E EPS and 25.1x its FY2025E EPS

Persistent Systems reported strong constant currency (cc) revenue growth of 3.5% q-o-q beating our estimates of 3.0% (cc) revenue growth led by IT Services. USD revenue grew 3.9% q-o-q (up 26.3% y-o-y) to \$274.6 million, led by a 5.5% q-o-q growth in IT services revenues. However, IP-led revenue declined by 8% q-o-q. EBITDA margin was flat q-o-q at 18.5%, below our expectations of 18.9%. EBIT margin was also flat q-o-q at 15.4%, broadly in line with our estimate of 15.5% owing to higher Project related travel expenses, royalty and SG&A expenses during the quarter. Net profit at Rs. 251.5 crore was down by 6% q-o-q and up 25.1% y-o-y, missed our estimates of 271.1 crore owing to forex loss. Total TCVs stood at \$421.6 million, down 4% / up 17% q-o-q/y-o-y. Book-to-bill ratio stood at 1.5x in Q4FY2023. New business TCVs stood at \$250.3 million versus \$239 million in Q3FY2023, up 5%/28% q-o-q/y-o-y. Strong new business ACV at \$168.3 million up 17%/28% q-o-q/y-o-y. Company added two clients in its \$20 million and revenue category on a sequential basis, while number of clients grew by 8 in \$1 million+ revenue bracket. In terms of geographies, growth was led by Europe which grew 18.9% q-o-q while North Americas and ROW grew 4.9% each q-o-q while in terms of verticals growth was led by Health care & Lifesciences and Software, Hitech & Emerging Industries which grew 4.4%/4.3% q-o-q respectively. Top 1 client revenues increased by 30.5% q-o-q in USD terms; excluding top client revenue was up 1.7% QoQ. The attrition rate (TTM) moderated by 180 bps q-o-q to 19.8% while Blended utilization fell by 30 bps q-o-q to 77.3%. The company stated that there were no significant ramp downs but indicated that a hyperscaler revenue was lost. It expects a tougher 1-2 quarters before the environment starts turning better. The company said that they are seeing opportunities even in a tougher market. The company expects consistent and growing trend rather than growth being front ended/back-ended. We believe Persistent Systems is well-placed to navigate the near term uncertain environment owing to its ability to deliver industry-leading revenue growth on account of broad-based demand across verticals, robust order intake and new logo additions. Hence, we maintain a Buy rating on Persistent Systems with unchanged PT of Rs. 5,010. At the CMP the stock trades at 29.5x its FY2024E EPS and 25.1x its FY2025E EPS.

Key positives

- Strong new business TCVs at \$250.3 million up 5% q-o-q/up 28% y-o-y. Strong New Business ACV at \$168.3 million up 17% q-o-q/ up 28% y-o-y.
- Revenue from the top client grew 30.5% q-o-q in USD terms.
- Broad-based growth across verticals led by Health care & Lifesciences and Software, Hitech & Emerging Industries which grew 4.4%/4.3% q-o-q respectively while BFSI grew 2.9% q-o-q.

Key negatives

- Net additions were muted at 291 employees taking overall headcount to 22,889.
- Blended utilisation rates at 77.3% deteriorated by 30 bps q-o-q.

Management Commentary

- The management indicated that there were multiple levers to improve margins through scaling of existing accounts, addition of freshers and through new areas like generative AI and cloud where they would get better pricing. The management also cited their aspiration of improving margin by 200-300 bps in 2-3 years.
- The company stated that there were no significant ramp downs but indicated that a hyperscaler revenue was lost. The management stated that they expect a tougher 1-2 quarters before the environment starts turning better. However, they are seeing opportunities even in a tougher market. The company expects consistent and growing trend rather than growth being front ended/back-ended.

Revision in estimates – We have fine-tuned our estimates for FY24/25 owing to macro-overhang

Our Call

Valuation – Good Q4, Maintain Buy - We believe Persistent Systems is well-placed to navigate the near term uncertain environment owing to its ability to deliver industry-leading revenue growth on account of broad-based demand across verticals, robust order intake and new logo additions. Hence, we maintain a Buy rating on Persistent Systems with unchanged PT of Rs. 5,010. At the CMP the stock trades at 29.5x its FY2024E EPS and 25.1x its FY2025E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements and/or constraint in local talent supply in the US would affect earnings. Further, macro headwinds and possible recession in the US are likely to moderate the pace of technology spends.

Valuation

Particulars	FY22	FY23	FY24E	FY25E	Rs cr
Revenue	5,710.7	8,350.6	9,528.8	11,112.4	
OPM (%)	16.8	18.2	18.3	18.5	
Adjusted PAT	690.4	950.7	1,134.0	1,329.7	
% YoY growth	53.2	37.7	19.3	17.3	
Adjusted EPS (Rs.)	90.3	127.2	151.7	177.9	
P/E (x)	49.5	35.2	29.5	25.1	
P/B (x)	10.1	8.6	7.3	6.2	
EV/EBITDA (x)	37.0	23.4	19.6	16.2	
RoNW (%)	22.4	25.9	26.3	26.3	
RoCE (%)	26.0	27.8	28.9	29.6	

Source: Company; Sharekhan estimates

Key Highlights

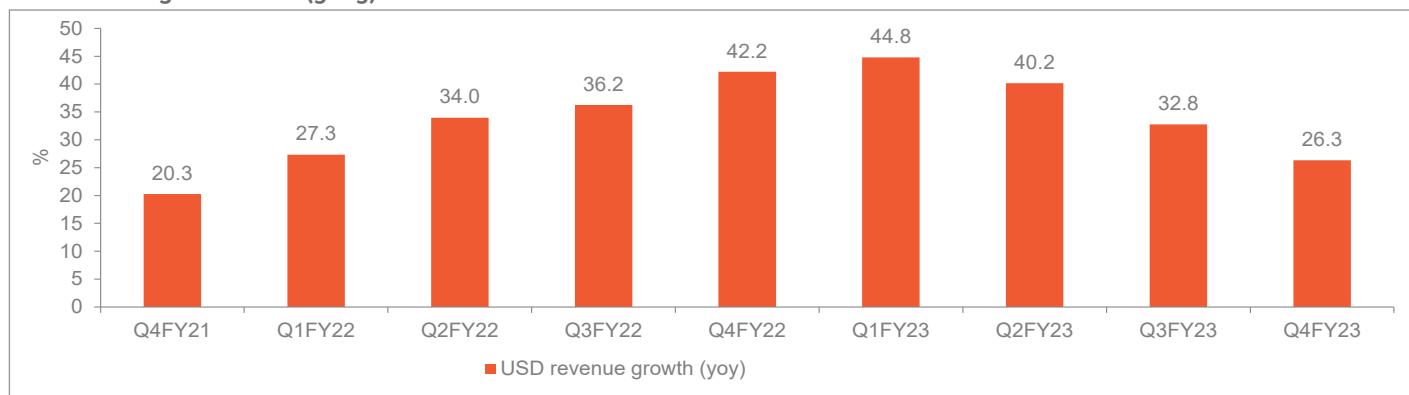
- ♦ **Strong order intake provides growth visibility:** The company's total TCVs stood at \$421.6 million, down 4% / up 17% q-o-q/y-o-y. Book-to-bill ratio stood at 1.5x in Q4FY2023. New business TCVs stood at \$250.3 million versus \$239 million in Q3FY2023, up 5%/28% q-o-q/y-o-y. Strong New Business ACV at \$168.3 million up 17%/28% q-o-q/ y-o-y.
- ♦ **Sequential growth across verticals:** In terms of verticals, growth was led by Health care & Lifesciences and Software, Hitech & Emerging Industries which grew 4.4%/4.3% q-o-q respectively while BFSI grew 2.9% q-o-q.
- ♦ **Growth across geographies:** In terms of geographies, growth was led by Europe which grew 18.9% q-o-q due to ramp-ups while North Americas and ROW grew 4.9% each q-o-q while India revenues declined by 15.6% q-o-q.
- ♦ **Strong sequential growth in Top Client:** Revenue from the top client grew 30.5 % q-o-q. Revenue from the top-5 clients grew by 11.4% q-o-q, while revenues from top-10 clients grew by 11% q-o-q. Revenue from the top-20 clients grew 4.1% q-o-q, while revenue from the non-top-20 clients grew by 3.7% q-o-q in line with the company's expectations. The sequential growth has to be seen in the context of the decline in top client driven during FY23 which was primarily on account of ramp downs in the previous two quarters on account of the structured cost saving program undertaken by the top customers.
- ♦ **Client addition:** Persistent added two clients in its \$20 million + revenue category on a sequential basis, while number of clients grew by 8 in \$1 million+ revenue category.
- ♦ **Lower utilisation, attrition rate moderates:** Utilisation during the quarter deteriorated by 30 bps q-o-q to 77.3% in Q4FY2023. Offshoring revenue mix increased to 60.4% in Q4FY2023. Attrition rate moderated by 180 bps to 19.8% in Q4FY2023 compared 21.6% in Q3FY2023.
- ♦ **Net headcount additions muted:** Net employee additions were 291 taking total headcount to 22,889 versus net addition of 122/838 employees in Q3FY2023/Q2FY2023. Company expects fresher hiring of 850-1000 employees for FY24.
- ♦ **Subcontracting Costs:** The Management said that sub 11% subcon costs may not be sustainable. The way they are winning projects and due to required ramp ups subcontractors may be required to fill the gaps. They expect subcontracting cost at 12-12.5% of revenues.
- ♦ **Cash generation and DSO:** The company had cash and investments of Rs. 1,599.1 crore as of December 31, 2023, versus Rs. 1,747.3 crore as on March 31, 2022. It was lower due to dividend payout and passive interest costs. DSO increased by 1 days sequentially to 68.

Results (Consolidated)

Particulars	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Revenues In USD (mn)	274.6	217.3	264.4	26.3	3.9
Revenues In INR	2,254.5	1,637.9	2,169.4	37.6	3.9
Direct Costs	1,489.4	1,085.9	1,436.0	37.1	3.7
SG&A	348.8	270.7	331.8	28.8	5.1
EBITDA	416.3	281.2	401.6	48.1	3.7
Depreciation & amortization	69.7	51.1	68.4	36.4	2.0
EBIT	346.6	230.0	333.2	50.7	4.0
Forex gain/(loss)	-18.9	12.0	10.5	-257.4	-279.5
Other Income	12.9	25.1	8.7	-48.6	48.3
PBT	340.6	267.2	352.4	27.5	-3.4
Tax Provision	89.1	66.2	84.8	34.6	5.0
PAT	251.5	201.0	267.6	25.1	-6.0
Minority interest	0.0	0.0	0.0		
Net profit	251.5	201.0	238.0	25.1	5.7
Exceptional items (IL&FS)	0.0	0.0	-29.7		
Adjusted net profit	251.5	201.0	267.6	25.1	-6.0
EPS (Rs)	33.7	26.3	31.9	27.9	5.5
Margin (%)					
EBITDA	18.5	17.2	18.5	130	-4
EBIT	15.4	14.0	15.4	133	1
NPM	11.2	12.3	12.3	-112	-118
Tax rate	26.2	24.8	24.1	138	208

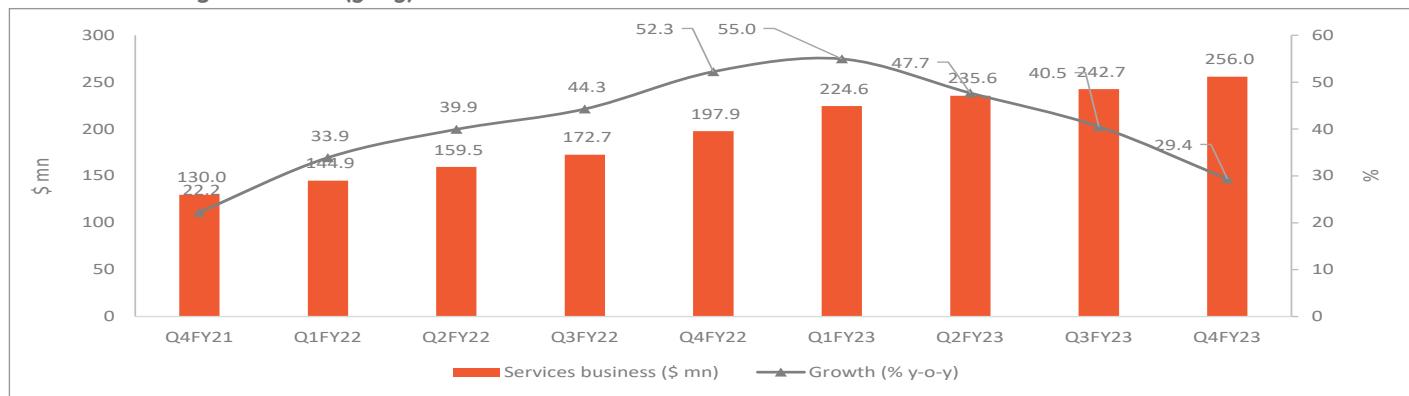
Source: Company, Sharekhan Research

USD revenue growth trend (y-o-y)



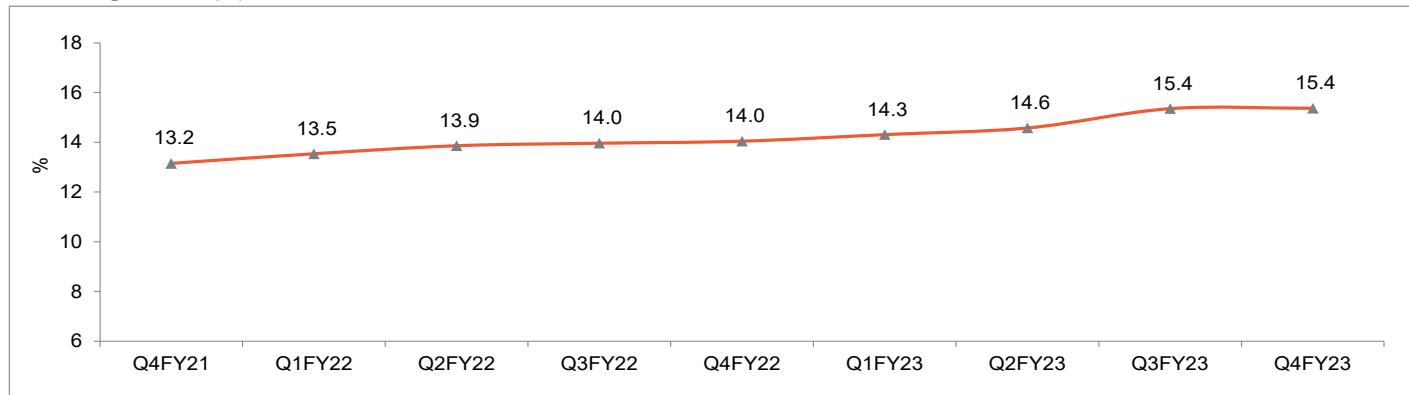
Source: Company, Sharekhan Research

Service business growth trend (y-o-y)



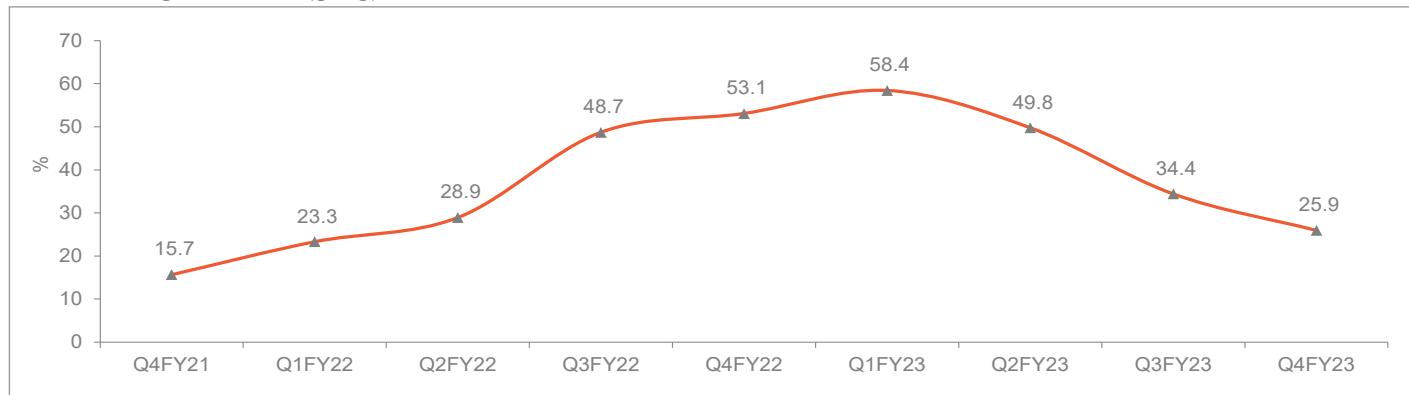
Source: Company, Sharekhan Research

EBIT margin trend (%)



Source: Company, Sharekhan Research

BFSI revenue growth trend (y-o-y)



Source: Company, Sharekhan Research

Healthcare and life sciences revenue growth trend (y-o-y)



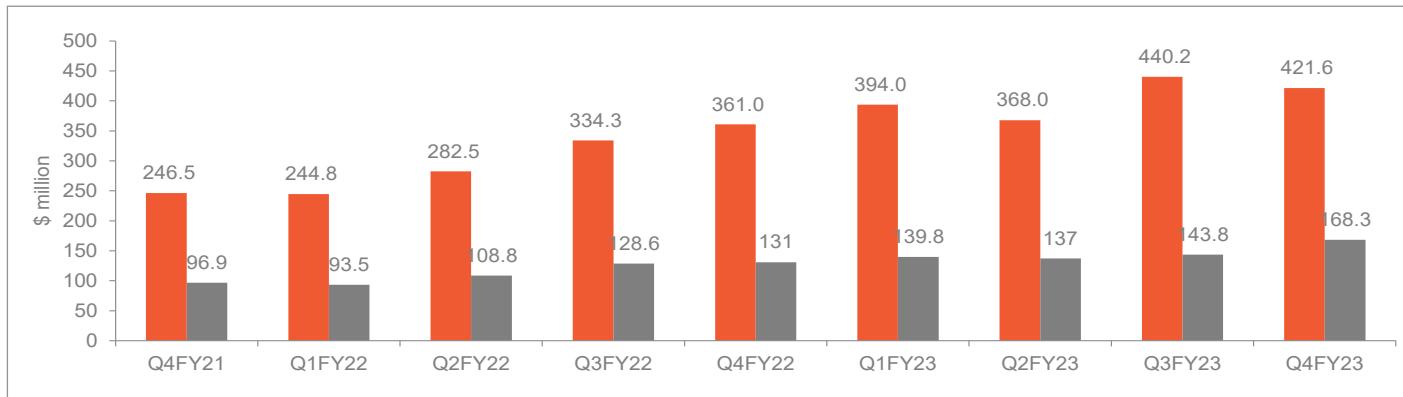
Source: Company, Sharekhan Research

Software and hi-tech revenue growth trend (y-o-y)



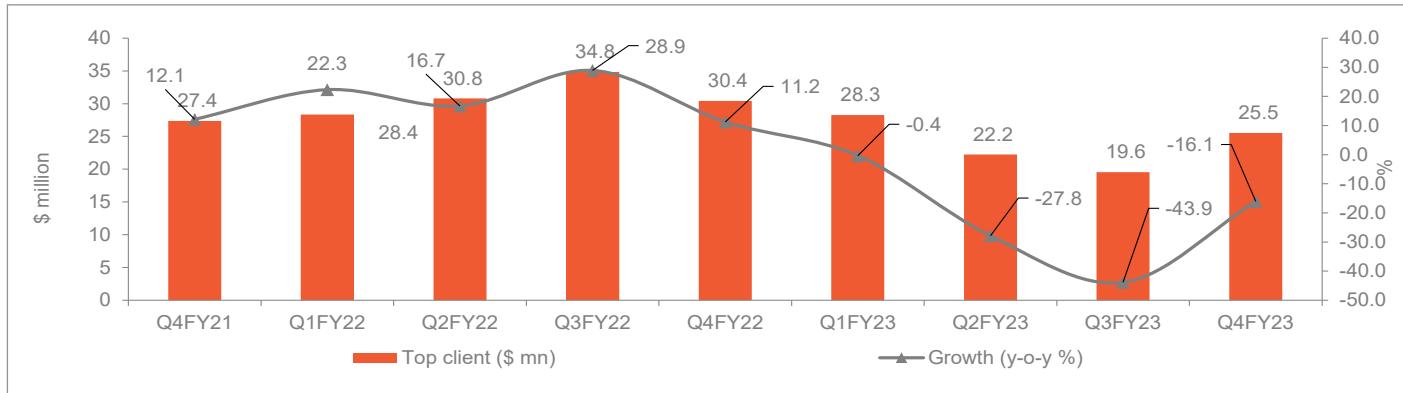
Source: Company, Sharekhan Research

Total deal TCV and new business ACV trend



Source: Company, Sharekhan Research

Top client (\$ mn) and growth (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Persisting multiple global headwinds turning outlook for FY24E uncertain

Owing to multiple global headwinds the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence, concerns relating to macro headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

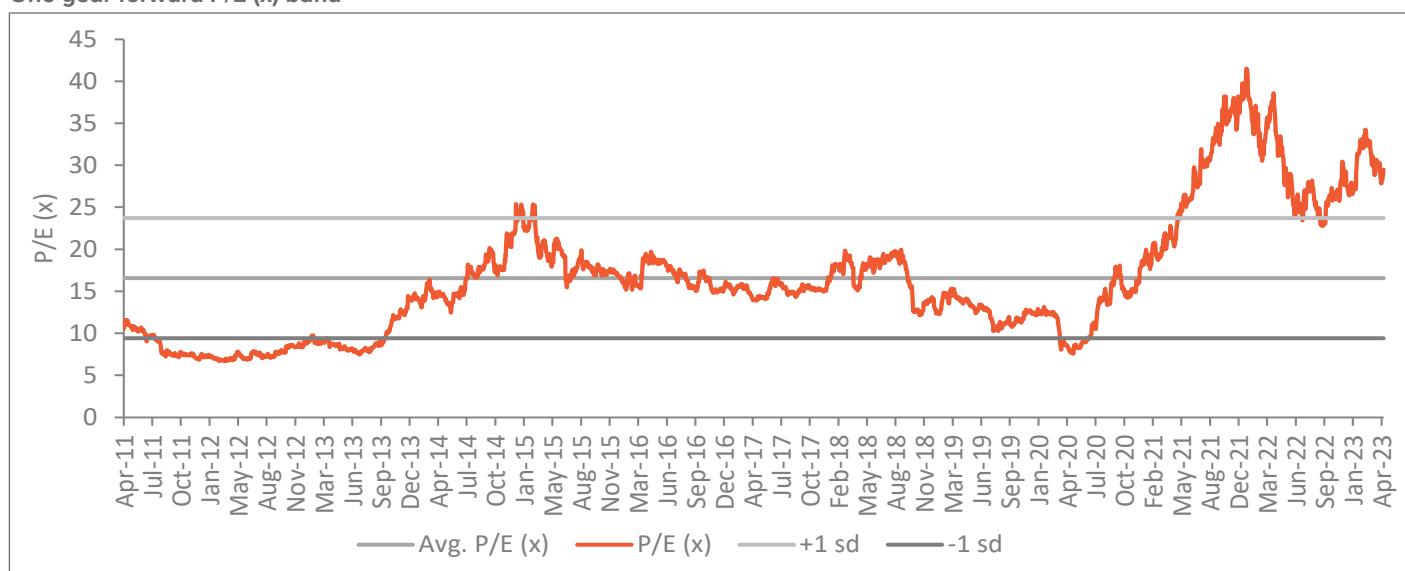
■ Company Outlook – Well positioned to capture immense growth opportunity

As PSL is an early identifier of digital trends and has strong product development capabilities, we believe the company is well placed to capture a significant chunk of spends in digital technologies by clients going ahead. The management remains optimistic to deliver industry-leading revenue growth in FY2023 on account of broad-based demand across verticals, robust deal intake, new logo additions and incremental revenue from the acquired entities. We believe the company's leadership position in outsourced product development (OPD), elongated client relationships, and being an end-to-end service provider would help PSL to make the most of the opportunity.

■ Valuation – Good Q4, Maintain Buy:

We believe Persistent Systems is well-placed to navigate the near term uncertain environment owing to its ability to deliver industry-leading revenue growth on account of broad-based demand across verticals, robust order intake and new logo additions. Hence, we maintain a Buy rating on Persistent Systems with unchanged PT of Rs. 5,010. At the CMP the stock trades at 29.5x its FY2024E EPS and 25.1x its FY2025E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

Incorporated in 1990, PSL is a global software company specialising in product and technology services. The company has proven expertise, strong presence in newer technologies, and strength to improve its IP base. PSL focuses on developing IoT products and platforms, as it sees significant traction from industrial machinery, SmartCity, healthcare, and smart agriculture verticals. PSL has been focusing on product development, establishing processes to build distributed agile teams, and partnering with the world's leading product companies to build software contributing across the entire product lifecycle. The company derives revenue from North America, Europe, and RoW.

Investment theme

Large corporates have been allocating higher budgets towards digital transformation initiatives and IT spends are moving from ISV to the enterprise model. PSL has restructured its business and aligned its sales resources to capitalise the benefits from clients' digital transformation journey. The alliance with IBM and investments in new-age technologies (IoT, Blockchain, artificial learning, and machine learning) are expected to help the company capture opportunities from these spends.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, 2) constraint in local talent supply in the US would have an adverse impact on its earnings and 3) macro headwinds and possible recession in the US are likely to moderate the pace of technology spending.

Additional Data

Key management personnel

Dr. Anand Deshpande	Founder, Chairman and MD
Sandeep Kalra	President: Technology Services
Sunil Sapre	Chief Financial Officer (CFO)
Mark Simpson	President, IBM Alliance

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	KOTAK MAHINDRA TRUSTEE CO	5.0
2	Kotak Mahindra Asset Management Co	4.6
3	HDFC Asset Management Co Ltd	3.2
4	Axis Asset Management Co Ltd	3.1
5	Vanguard Group Inc/The	2.4
6	FundRock Management Co SA	1.8
7	Motilal Oswal Asset Management Co	1.4
8	Nippon Life India Asset Management	1.4
9	L&T Mutual Fund Trustee Ltd	1.4
10	BlackRock Inc	1.1

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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