



## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	✓	Red
Right Quality (RQ)	✓	Grey	Red
Right Valuation (RV)	Green	✓	Red

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Grey	↔	Grey

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated July 08, 2023

19.32

## Low Risk

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

Source: Morningstar

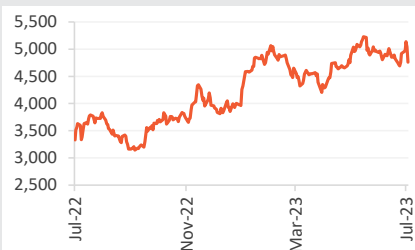
## Company details

Market cap:	Rs. 36,537 cr
52-week high/low:	Rs. 5,278/3,092
NSE volume: (No of shares)	3.8 lakh
BSE code:	533179
NSE code:	PERSISTENT
Free float: (No of shares)	5.3 cr

## Shareholding (%)

Promoters	26.6
FII	24.8
DII	37.2
Others	11.4

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-3.5	10.7	10.1	33.5
Relative to Sensex	-8.5	-1.0	0.1	13.8

Sharekhan Research, Bloomberg

## Persistent Systems Ltd

## Decent Q1; Maintain Buy

## IT &amp; ITES

## Sharekhan code: PERSISTENT

## Reco/View: Buy

CMP: Rs. 4,750

Price Target: Rs. 5,500



Upgrade



Maintain



Downgrade

## Summary

- Persistent reported revenues of \$282.9 million, up 3% q-o-q/17.1% y-o-y in constant currency (CC) terms, nearly in line with our estimates of \$283.6 million
- EBIT margin fell ~50 bps q-o-q to 14.9% missing our estimates of 15.5%, as the tailwind of revenue growth was offset by higher SG&A costs, higher amortization costs, and doubtful debt provision.
- Order booking moderated to \$380.3 million in TCV, down ~10% q-o-q/3% y-o-y. Persistent would endeavour for aspirational quarterly growth of 3-5% in a good economy and 2-4% in a bad economy.
- Persistent Systems continues to deliver industry-leading revenue growth despite challenging macro environment on account of consistently decent order booking, strong contributions from top clients and broad-based demand across verticals. Hence, we maintain a Buy rating on Persistent Systems with revised PT of 5500. At the CMP, the stock trades at 30.1/24.4x its FY24/25E EPS.

Persistent reported revenue at \$282.9 million, up 3% q-o-q/17.1% y-o-y in constant currency nearly in line with our estimates of \$283.6 million. Revenue stood at Rs. 2321 crore, up 3% q-o-q/23.6% y-o-y. EBIT margins fell ~50 bps to 14.9% missing our estimates of 15.5% as the tailwind of revenue growth was offset by higher SG&A costs, higher amortization costs, and doubtful debt provision. Adjusted net profit stood at Rs 277.4 crore, up 10.3% q-o-q/ 31.1% y-o-y. There was a Rs. 48.6 one-off on account of \$-1bn revenue celebration. Order booking moderated at \$380.3 million in TCV terms, down ~10% q-o-q/3% y-o-y while deal ACV stood at \$271.9 million. The number of active clients increased by 8 to 369. The company added 1 client in \$20m-\$30m and 4 clients in \$5m-\$10m category. Headcount stood at 23,130, reflecting a net addition of 241 people during the quarter. LTM attrition moderated to 15.5% q-o-q, down 430 bps y-o-y. Utilisation improved 100bps to 78.3% q-o-q. Growth was led by BFSI, Software, Hitech & Emerging Industries, which grew 6.2%/3.3% q-o-q respectively. Order booking moderated as total TCVs stood at \$380.3 million, down 10% q-o-q/3% y-o-y. Book-to-bill ratio stood at 1.3x in Q1FY2024. New business TCVs stood at \$237.2 compared to \$250.3 million in Q4FY23. The company stated that they would endeavour for aspirational growth of 3-5% in a good economic and 2-4% in a bad economy with the aspiration 200-300 basis points margin improvement over the next 2 to 3 years. Persistent Systems continues to deliver industry-leading revenue growth despite challenging macro environment on account of consistently decent order booking, contributions from top clients and broad-based demand across verticals. Hence, we maintain a Buy rating on Persistent Systems with revised PT of 5,500. At CMP, the stock trades at 30.1/24.4x its FY24/25E EPS.

## Key positives

- LTM Attrition dropped to 15.5%, down 430 bps q-o-q
- Utilisation improved 100 bps q-o-q to 78.3%
- Revenue from the top client/top 5 grew 13% and 8.5% q-o-q.

## Key negatives

- Order booking moderated to \$380.3, down 10% q-o-q/3% y-o-y.
- Net additions were muted at 241 employees taking overall headcount to 23,130.

## Management Commentary

- Company stated that they would endeavour for aspirational quarterly growth of 3-5% in a good economy and 2-4% in a bad economy.
- Management stated that the first priority is to ensure a healthy growth momentum, focusing on investing in sales, marketing, generative AI, and cloud data security. Optimizing margins in the next 2 to 3 quarters is not a primary concern, with the aspiration being 200 to 300 basis points improvement over the next 2 to 3 years. Additionally, there is a significant under-utilization of freshers who have been with the company for 12-15 months, having undergone training and shadowing different programs.

**Revision in estimates:** We have fine-tuned our estimates for FY24/25E owing to macro-overhang.

## Our Call

**Valuation – Decent Q1, Maintain Buy:** Persistent delivered another quarter of industry-leading revenue growth on account of consistently decent order booking, strong contributions from top clients and broad-based demand across verticals. We expect 18%/25% Sales and PAT CAGR over FY23-25E. Hence, we maintain a Buy rating on Persistent Systems with a revised PT of 5,500. At CMP, the stock trades at 30.1/24.4x its FY24/25E EPS.

## Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of banking crisis, macro headwinds and possible recession in the US are likely to moderate the pace of technology spends.

## Valuation

Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	5,710.7	8,350.6	9,860.1	11,622.0
OPM (%)	16.8	18.2	18.9	19.8
Adjusted PAT	690.4	950.7	1,213.0	1,495.7
% YoY growth	53.2	37.7	27.6	23.3
Adjusted EPS (Rs.)	90.3	127.2	157.7	194.5
P/E (x)	52.6	37.3	30.1	24.4
P/B (x)	10.8	9.2	7.7	6.5
EV/EBITDA (x)	39.3	24.9	19.5	15.3
RoNW (%)	22.4	25.9	28.0	29.0
RoCE (%)	26.0	27.8	30.4	32.8

Source: Company; Sharekhan estimates

## Key Highlights

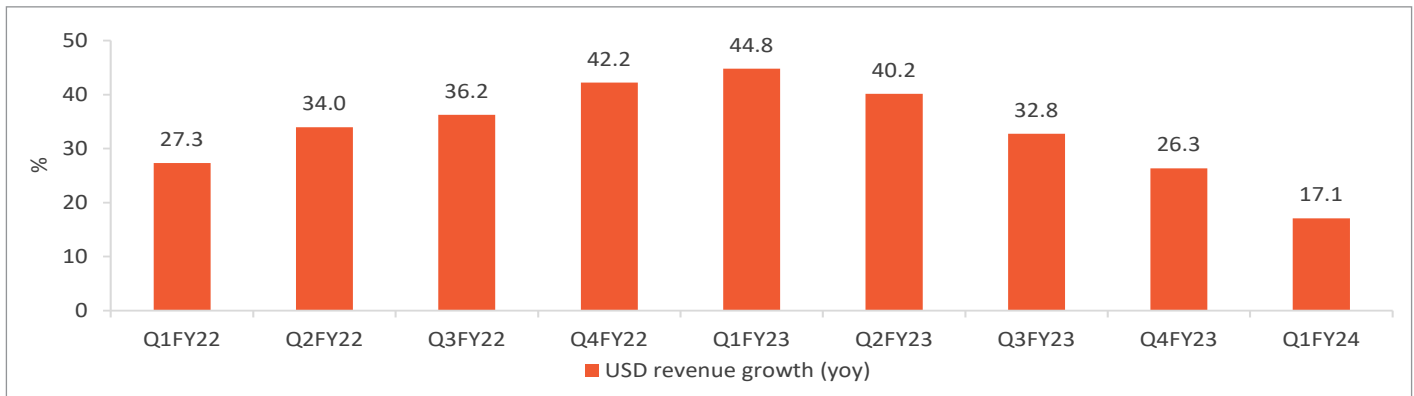
- ♦ **Order bookings:** Total TCVs stood at \$380.3 million, down 10%q-o-q/3%y-o-y. Book-to-bill ratio stood at 1.3x in Q1FY2024. New business TCVs stood at \$237.2 as compared to \$250.3 million in Q4FY23. Strong New Business ACV at \$168.3 million down 14% q-o-q/ up 3% y-o-y.
- ♦ **Sequential growth across verticals:** In terms of verticals growth was led by BFSI, Software, Hitech & Emerging Industries which grew 6.2%/3.3% q-o-q respectively while Health care & Lifesciences declined 2.7% q-o-q.
- ♦ **Growth across geographies:** In terms of geographies, growth was led by North America/India, which grew 4.8%/ 2.0% q-o-q respectively while Europe and ROW declined 4.9% /31.3% q-o-q.
- ♦ **Strong sequential growth in top clients:** Revenues from the top client grew 13 % q-o-q. Revenue from the top-5 clients grew by 8.5% q-o-q, while revenues from top-10 clients grew by 9% q-o-q. Revenue from the top-20 clients grew 8.4% q-o-q.
- ♦ **Client addition:** The company added 1 client in its \$20 million + revenue category on a sequential basis, while number of clients grew by four in \$5 million+ revenue category.
- ♦ **Utilisation improves, Attrition moderates:** Utilisation improved by 100 bps q-o-q to 78.3%. Attrition rate moderated by 430 bps to 15.5%.Net employee additions were 241 taking total headcount to 23,130. 800 freshers to join between August and December.
- ♦ **Cash generation and DSO:** Cash & investments stood at Rs. 1409.3 crore at the end of Q1FY24 versus Rs. 1,559.1 crore at the end of Q4FY23. DSO declined by one day sequentially to 67.

## Results (Consolidated)

Particulars	Q1FY24	Q1FY23	Q4FY23	YoY (%)	Rs cr QoQ (%)
Revenues In USD (mn)	282.9	241.5	274.6	17.1	3.0
Revenues In INR	2,321.2	1,878.1	2,254.5	23.6	3.0
Direct Costs	1,527.8	1,243.3	1,489.4	22.9	2.6
SG&A	370.4	301.5	348.8	22.8	6.2
<b>EBITDA</b>	<b>422.9</b>	<b>333.3</b>	<b>416.3</b>	<b>26.9</b>	<b>1.6</b>
Depreciation & amortization	76.3	64.5	69.7	18.3	9.5
<b>EBIT</b>	<b>346.6</b>	<b>268.8</b>	<b>346.6</b>	<b>29.0</b>	<b>0.0</b>
Forex gain/(loss)	-6.4	4.2	-18.9	-253.3	-66.1
Other Income	15.5	8.9	12.9	73.4	19.8
PBT	355.7	281.9	340.6	26.2	4.4
Tax Provision	78.3	70.3	89.1	11.4	-12.1
<b>PAT</b>	<b>277.4</b>	<b>211.6</b>	<b>251.5</b>	<b>31.1</b>	<b>10.3</b>
Minority interest	0.0	0.0	0.0		
<b>Net profit</b>	<b>228.8</b>	<b>211.6</b>	<b>251.5</b>	<b>8.1</b>	<b>-9.0</b>
<b>Exceptional items (IL&amp;FS)</b>	<b>-48.6</b>	<b>0.0</b>	<b>0.0</b>		
<b>Adjusted net profit</b>	<b>277.4</b>	<b>211.6</b>	<b>251.5</b>	<b>31.1</b>	<b>10.3</b>
EPS (Rs)	29.8	27.7	33.7	7.4	-11.6
<b>Margin (%)</b>					
EBITDA	18.2	17.7	18.5	47	-25
EBIT	14.9	14.3	15.4	62	-44
NPM	12.0	11.3	11.2	68	79
Tax rate	22.0	24.9	26.2	-292	-414

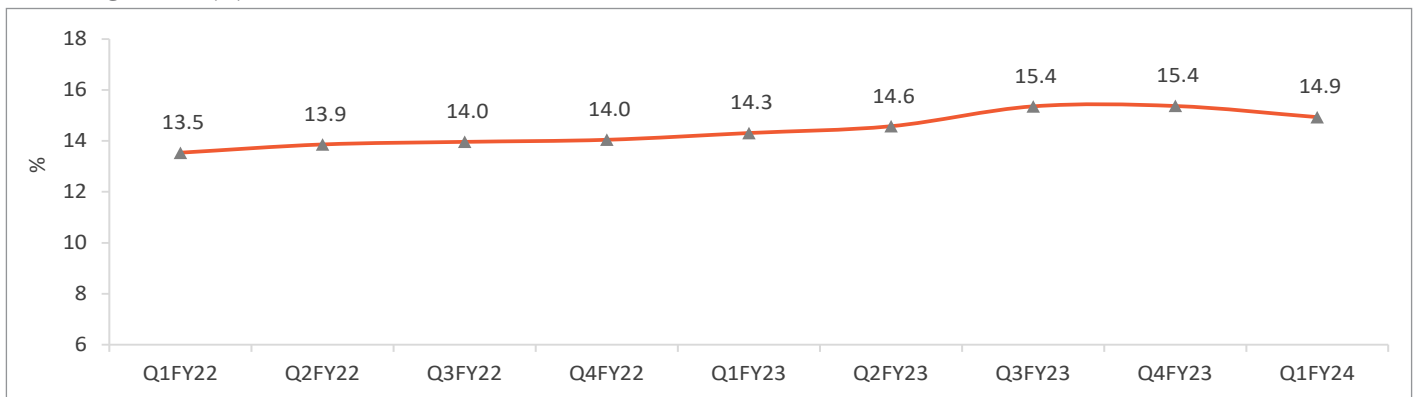
Source: Company, Sharekhan Research

#### USD revenue growth trend (y-o-y)



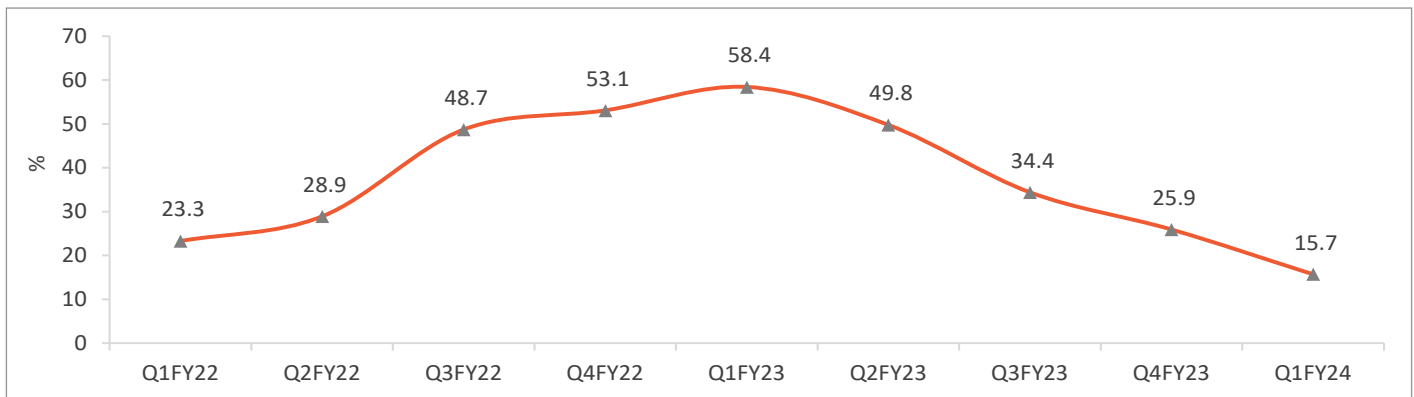
Source: Company, Sharekhan Research

#### EBIT margin trend (%)



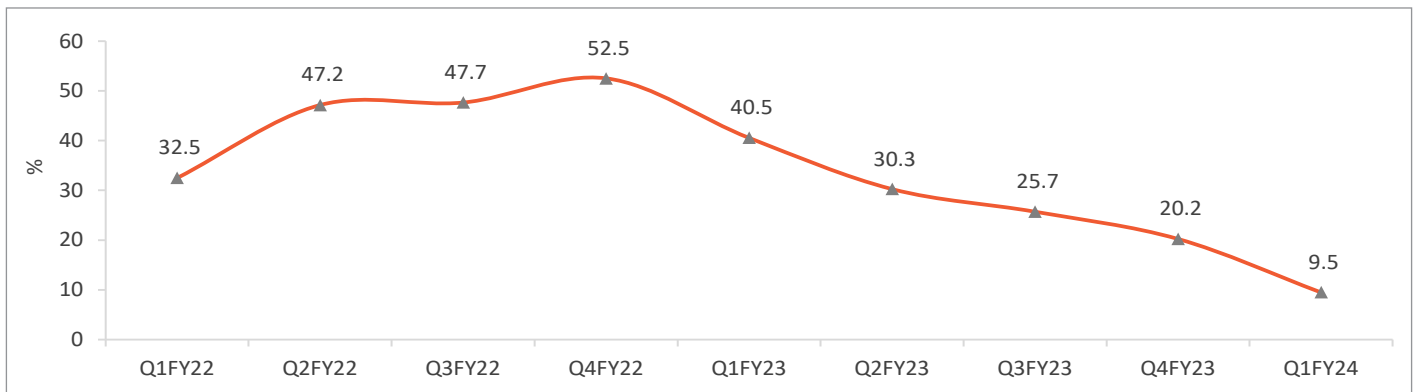
Source: Company, Sharekhan Research

#### BFSI revenue growth trend (y-o-y)



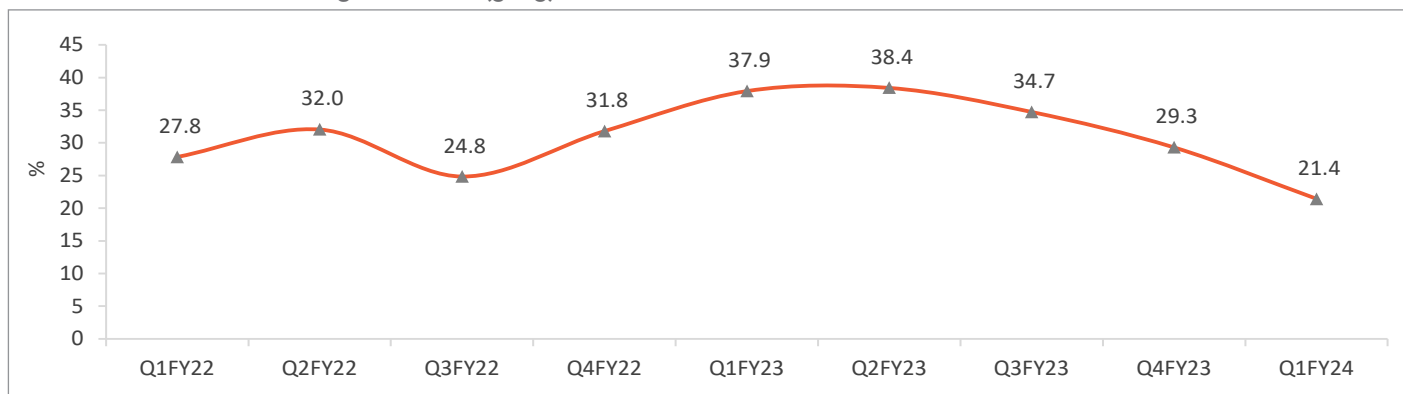
Source: Company, Sharekhan Research

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



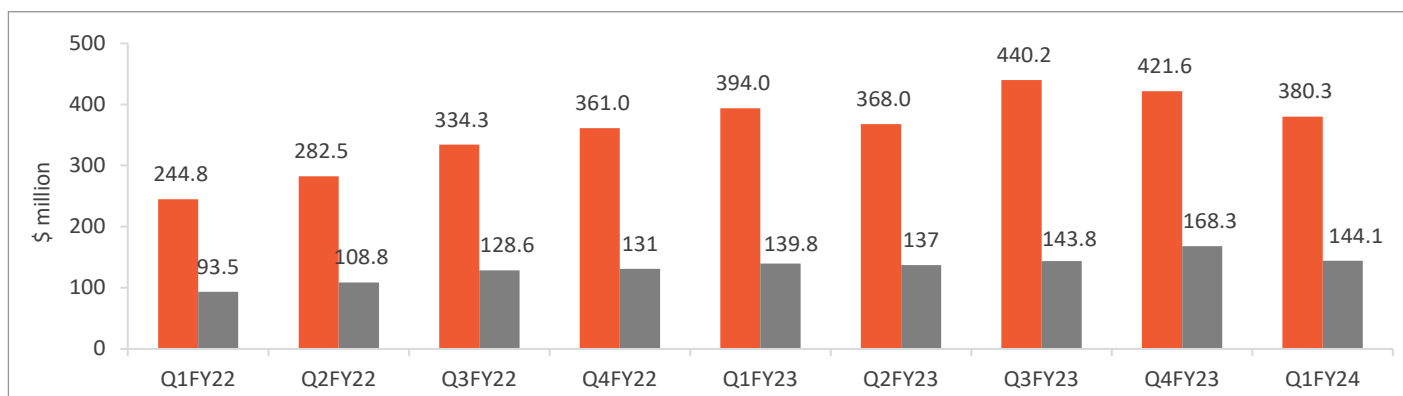
Source: Company, Sharekhan Research

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



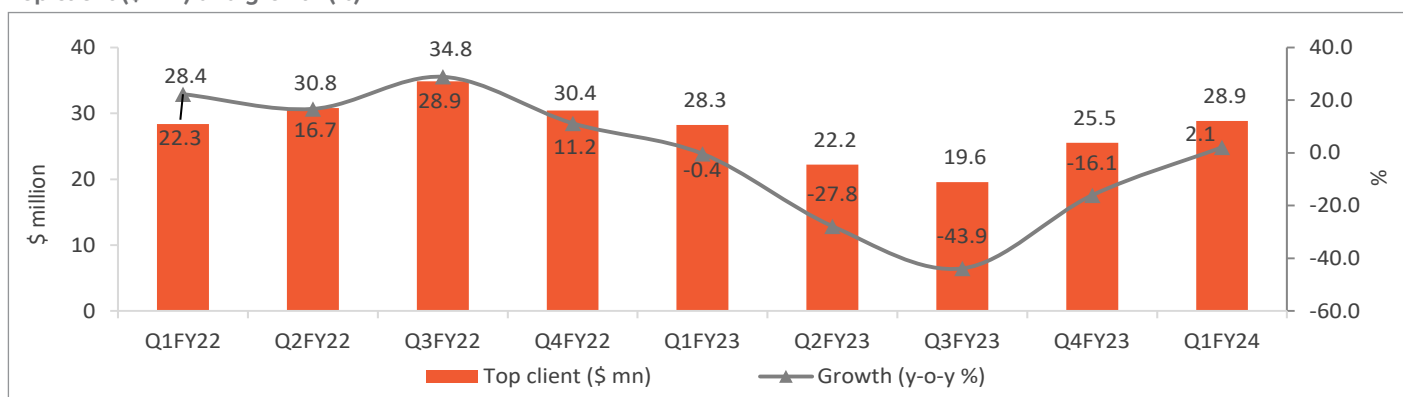
Source: Company, Sharekhan Research

### 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 booking, 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 - Decent Q1, Maintain Buy

Persistent delivered another quarter of industry-leading revenue growth on account of consistently decent order booking, strong contributions from top clients and broad-based demand across verticals. We expect 18%/25% Sales and PAT CAGR over FY23-25E. Hence, we maintain a Buy rating on Persistent Systems with a revised PT of 5,500. At the CMP, the stock trades at 30.1/24.4x its FY24/25E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

## About 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

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of banking crisis, macro headwinds and possible recession in the US are likely to moderate the pace of technology spends.

## 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

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Trustee Co	4.97
2	Kotak Mahindra Asset Management Co	4.4
3	Axis Asset Management Co Ltd/India	3.42
4	HDFC Asset Management Co Ltd	3.2
5	Motilal Oswal Asset Management Co	2.32
6	Vanguard Group Inc/The	2.14
7	PSPL ESOP Management Trust	2.05
8	Nippon Life India Asset Management	1.45
9	Fundrock Management Co Sa	1.36
10	Blackrock Inc	1.09

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 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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