

Persistent Systems

Estimate change	↔
TP change	↓
Rating change	↔

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Bloomberg	PSYS IN
Equity Shares (m)	76
M.Cap.(INRb)/(USD\$b)	365.4 / 4.5
52-Week Range (INR)	5267 / 3085
1, 6, 12 Rel. Per (%)	-8/0/14
12M Avg Val (INR M)	1598
Free float (%)	68.7

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	83.5	97.4	112.4
EBIT Margin (%)	14.9	15.5	16.1
Adj. PAT	9.5	11.7	14.2
Adj. EPS (INR)	124.4	152.2	184.0
PAT	9.2	11.2	14.2
EPS (INR)	120.5	145.8	184.0
EPS Gr. (%)	36.2	22.3	20.9
BV/Sh. (INR)	530.5	623.5	746.2

Ratios

RoE (%)	25.9	27.1	27.5
RoCE (%)	21.6	22.7	22.9
Payout (%)	35.0	35.0	35.0

Valuations

P/E (x)	38.2	31.2	25.8
P/BV (x)	9.0	7.6	6.4
EV/EBITDA (x)	23.0	18.8	15.6
Div Yield (%)	0.9	1.1	1.4

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	31.3	31.3	31.3
DII	27.6	26.4	26.8
FII	22.6	22.6	23.2
Others	18.5	19.8	18.8

FII Includes depository receipts

CMP: INR4,750 TP: INR4,600 (-3%) Neutral

Moderation in near-term growth to dampen valuation premium

Expect margins to remain range bound in FY24

- Persistent Systems (PSYS) delivered 1QFY24 revenue of USD282.9m, +2.9% QoQ in CC/+3.0% QoQ, in line with our estimates. Growth was led by IP business (up 8.0% QoQ), while Service business grew 2.7% QoQ. EBITDA margin was at 18.2% (down 30bp QoQ), a tad below our estimate of 18.4%, due to higher Visa cost (~40bp impact). PSYS added 241 employees in 1QFY24, while attrition moderated sharply (15.5%, down 430bp QoQ).
- PSYS' 1QFY24 revenue performance was positive, especially in the environment when execution remains a challenge. Despite BFS industry headwinds, it was up 6.2% QoQ, although management indicated softness in the near-term. Top accounts posted healthy growth with top 5/top 10 accounts increasing 13%/8% YoY in 1QFY24.
- However, the total deal TCV was disappointing and has declined for the second consecutive quarter at USD380m (-10% QoQ vs. -4% QoQ in 4QFY23) because of deal pushbacks and deferrals to the next quarter. Management indicated that PSYS is undergoing a stressed environment, where enterprise clients are maintaining caution in the near term. However, there was no deal cancellation or material ramp down in projects witnessed in 1QFY24. PSYS is confident of driving 2-4% QoQ growth over the next few quarters (though below its long-term aspiration of 3-5% QoQ growth). Given its in-line performance, we are broadly keeping our estimates unchanged, and expect the USD revenue to grow at a CAGR of 15% YoY over FY23-FY25.
- Despite the higher Visa cost, PSYS was able to absorb the incremental drag on margins. PSYS further reiterated its aspiration of 200-300bp EBITDA margin improvement over next few years, although FY24 margin should remain stable vs. last year. We expect EBIT margin at 15.5%/16.1% in FY24/FY25, which will lead to FY23-25E PAT CAGR of 22%.
- The stock is currently trading at 26x FY25E EPS – at the upper end of our IT services coverage – leaving little room for further upside despite the strong growth delivery. We believe PSYS' valuation appropriately factors in the favorable growth along with the adverse near-term demand environment. We value the stock at 25x FY25E EPS. Reiterate **Neutral** as we see limited upside from current levels.

In-line performance

- PSYS' USD revenue stood at 282.9m in 1QFY24, +2.9% in CC, in line with our estimates. Reported USD growth was at 3.0% QoQ.
- Growth was fueled by BFSI (+6.2% QoQ) and Hi-Tech (+3.2% QoQ) while healthcare declined 2.7% QoQ.

- Region wise, Europe declined 3% QoQ following 19% QoQ growth in 4QFY23, while North America was up 4.7% QoQ in 1QFY24.
- **TCV moderated to USD380m in 1QFY24, down 10% QoQ/up 4% YoY. Net new TCV moderated to USD237m vs. a record high of USD250m in 4QFY23. ACV was at USD272m vs. USD310m in 4QFY23.**
- Adj. PAT at INR2.7b (+10% QoQ) was in line with our estimate. Reported PAT was at INR2.3b due to a one-time cost of INR486m incurred on employee rewards to celebrate the USD1b revenue mark in FY23.

Key highlights from the management commentary

- Management indicated that, the company is undergoing a stressed environment. As a result, 1QFY24 marked a few instances of deal pushouts and deferrals, as enterprise clients are maintaining a cautious approach in the near-term.
- Management expects to deliver top-quartile growth on the face of macro uncertainties. However, it remains watchful of a slowdown in the key economies, while maintaining a close proximity to the customers, who are cost-focused and to drive efficiency.
- BFSI is expected to remain soft despite the healthy growth reported this quarter, while healthcare and Hi-Tech are likely to continue their growth momentum. Within healthcare vertical, the company won a five-year large deal of USD50m.
- Management expects the near-term slowdown to continue for 2-3 quarters more before the deal signing activities revert to the earlier level.

Positives already priced in; reiterate Neutral

- The growth momentum remained strong, which was evident from the Services segment's healthy and industry-leading performance over the past few quarters. We expect a higher emphasis on annuity revenue from the management, which will address the inconsistency issue to some extent.
- The company's: 1) strong performance in recent years, 2) healthy growth in top accounts, and 3) robust deal pipeline, are likely to sustain the growth.
- The stock is currently trading at 26x FY25E EPS. Our TP is based on 25x FY25E EPS. We reiterate our **Neutral** rating as we believe the positives have already been captured and the stock offers limited upside from current levels.

Quarterly performance (IFRS)

Y/E March (Consolidated)	FY23				FY24				FY23	FY24E	FY24E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%/bp)
Revenue (USD m)	241.5	255.6	264.4	274.6	282.9	292.9	301.4	311.0	1,036	1,188	284.4	-0.5
QoQ (%)	11.1	5.8	3.4	3.9	3.0	3.5	2.9	3.2	35.3	14.7	3.6	-54bp
Revenue (INR m)	18,781	20,486	21,694	22,545	23,212	24,014	24,719	25,503	83,506	97,448	23,377	-0.7
QoQ (%)	14.7	9.1	5.9	3.9	3.0	3.5	2.9	3.2			3.7	-73bp
YoY (%)	52.7	51.6	45.4	37.6	23.6	17.2	13.9	13.1	46.2	16.7	24.5	-88bp
GPM (%)	33.8	33.5	33.8	33.9	34.2	34.0	34.3	34.7	33.8	34.3	33.8	38bp
SGA (%)	16.1	15.5	15.3	15.5	16.0	15.5	15.5	15.5	15.6	15.6	15.4	56bp
EBITDA	3,333	3,680	4,016	4,163	4,229	4,443	4,647	4,897	15,191	18,216	4,301	-1.7
EBITDA Margin (%)	17.7	18.0	18.5	18.5	18.2	18.5	18.8	19.2	18.2	18.7	18.4	-18bp
EBIT	2,688	2,987	3,332	3,466	3,466	3,698	3,881	4,106	12,472	15,151	3,577	-3.1
EBIT Margin (%)	14.3	14.6	15.4	15.4	14.9	15.4	15.7	16.1	14.9	15.5	15.3	-37bp
Other income	131	-31	192	-60	90	96	99	102	233	387	187	-51.6
ETR (%)	24.9	25.6	24.1	26.2	22.0	25.5	25.5	25.5	25.2	24.7	25.5	
Adj. PAT	2,116	2,200	2,676	2,515	2,774	2,827	2,965	3,135	9,507	11,700	2,804	-1.1
QoQ (%)	5.3	4.0	21.6	-6.0	10.3	1.9	4.9	5.7			11.5	-120bp
YoY (%)	33.3	36.0	51.7	25.1	31.1	28.5	10.8	24.6	36.2	23.1	32.5	-142bp
Reported EPS (INR)	27.7	28.8	31.1	32.9	29.8	36.8	38.6	40.8	120.5	145.8	36.7	-18.9

Key performance indicators

Y/E March	FY23				FY24				FY22	FY23
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue growth (QoQ CC%)	12.0%	6.6%	3.5%	3.5%	2.9%					
Margins (%)										
Gross Margin	33.8	33.5	33.8	33.9	34.2	34.0	34.3	34.7	33.8	34.3
EBIT Margin	14.3	14.6	15.4	15.4	14.9	15.4	15.7	16.1	14.9	15.5
Net Margin	11.3	10.7	12.3	11.2	12.0	11.8	12.0	12.3	11.4	12.0
Operating metrics										
Headcount	21,638	22,476	22,598	22,889	23,130				22,889	
Utilization (%)	79.5	79.9	77.6	77.3	78.3				78.6	
LTM Attrition (%)	24.8	23.7	21.6	19.8	15.5				19.8	
Effort Mix (%)										
Global Delivery Centers	14.7%	14.4%	14.3%	13.1%	13.1%				14.1%	
India	85.3%	85.6%	85.7%	86.9%	86.9%				85.9%	



Highlights from the management commentary

Growth and demand outlook

- Management indicated that, the company is undergoing a stressed environment. As a result, 1QFY24 marked a few instances of deal pushouts and deferrals, as enterprise clients are maintaining a cautious approach in the near-term. Although, there was no deal cancellation or material ramp down in projects during the quarter.
- BFSI is expected to remain soft despite the healthy growth reported this quarter, while healthcare and Hi-Tech are likely to continue their growth momentum. Within healthcare vertical, the company won a five-year large deal of USD50m.
- On BFS vertical, the company has witnessed some deal pushbacks as the decision making has been delayed and projects are not seeing timely ramp ups. Management expects the near-term slowdown to continue for 2-3 quarters more before the deal signing activities revert to the earlier level.
- Management expects to deliver top-quartile growth on the face of macro uncertainties. However, it remains watchful of a slowdown in the key economies, while maintaining a close proximity to the customers, who are cost-focused and to drive efficiency.
- Management is confident of driving 2-4% growth in a tough economy despite some slippages it has witnessed in 1QFY24. However, those projects have not been lost completely and are expected to recover once the challenging macro situation subsides.
- The focus is on driving healthy and profitable growth with continued investments in S&M, AI, Cloud and Security. On lateral utilization, the company is currently at 78% and it is expected to improve even further to 83% as the fresher pool has been retrained and redeployed to the billable projects.
- The company has penetrated into the tier-2 and tier-3 cities in order to have better pyramid rationalization benefits, which would again be the incremental margin levers apart from deploying fresher talent pool.

Margin performance and outlook

- The EBIT margin impact was primarily attributed to: 1) visa cost (-40bp), 2) regulating work from office while keeping a close proximity to employees (-20bp), and 3) provision for doubtful debt (10bp).

- It continued to deploy freshers into projects, which are leading to underutilization of resources in the near term. However, the company remains quite comfortable to reclaim the earlier mark of utilization (80%+) in the medium term. It expects to onboard 800 additional freshers in 3Q/4QFY24.
- The company would rolled out a full-year wage hike in 2QFY24 with 7.5% hike in India and 3.5% outside India.
- It has maintained its long-term aspiration of improving operating margins by 200-300bp.

Exhibit 1: Growth led by BFS and Tech verticals

Verticals	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
BFSI	33.3	6.2	15.7
Healthcare and Life Science	18.6	-2.7	9.5
Tech., Cos., and Emerging Verticals	48.1	3.2	21.4

Source: Company, MOFSL

Exhibit 2: Strong growth in the Americas; Europe weak

Geographies	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
North America	79.2	4.7	18.3
Europe	9.7	-3.0	33.7
RoW	11.1	-3.1	-0.7

Source: Company, MOFSL

Exhibit 3: Top client recovered and clocked healthy growth

Client metrics	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
Top client	10.2	13.0	2.1
Top two-to-five clients	17.7	6.0	8.5
Top six-to-10 clients	11.7	10.6	38.4

Source: Company, MOFSL

Positives already priced in

- The growth momentum remained strong, which was evident from the Services segment's healthy and industry-leading performance over the past few quarters. We expect a higher emphasis on annuity revenue from the management, which will address the inconsistency issue to some extent.
- The company's: 1) strong performance in recent years, 2) healthy growth in top accounts, and 3) robust deal pipeline, are likely to sustain the growth.
- The stock is currently trading at 26x FY25E EPS. Our TP is based on 25x FY25E EPS. We reiterate our **Neutral** rating as we believe the positives have already been captured and the stock offers limited upside from current levels.

Exhibit 4: Revisions to our estimates

	Revised estimate		Earlier estimate		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
USD:INR	82.0	82.0	82.2	82.2	-0.2%	-0.2%
Revenue (USD m)	1,188	1,371	1,192	1,374	-0.4%	-0.3%
Growth (%)	14.7	15.4	15.1	15.2	-40bps	10bps
EBIT margin (%)	15.5	16.1	15.8	16.1	-20bps	0bps
PAT (INR m)	11,700	14,151	12,113	14,223	-3.4%	-0.5%
EPS	152.2	184.0	158.5	186.1	-4.0%	-1.1%

Source: MOFSL, Company

Exhibit 5: Operating metrics

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Geography (%)									
North America	78.9	78.7	79.2	78.6	78.4	78.6	77.1	77.9	79.2
Europe	9.5	8.8	8.3	8.4	8.5	8.3	9.0	10.3	9.7
RoW	11.6	12.5	12.5	13.0	13.1	13.0	13.9	11.8	11.1
Vertical Mix (%)									
BFSI	30.8	30.7	32.2	32.4	33.7	32.8	32.6	32.3	33.3
Healthcare & Life Science	20.5	21.2	20.7	20.7	19.9	19.7	19.6	19.7	18.6
Tech. Cos. & Emerging Verticals	48.7	48.1	47.1	46.9	46.4	47.5	47.8	48.0	48.1
Client Metrics (%)									
Top Client	17.0	16.9	17.5	14.0	11.7	8.7	7.4	9.3	10.2
Top 5 Clients	36.5	35.8	36.1	32.5	30.8	26.9	24.7	26.5	27.9
Top 10 Clients	46.7	45.4	45.0	42.1	40.7	36.7	35.0	37.4	39.6
Employee Metrics									
Technical People	13,833	14,657	15,721	17,283	20,144	20,941	21,033	21,295	21,511
Sales & BD	308	296	294	317	367	387	405	414	428
Others	763	926	974	999	1,127	1,148	1,160	1,180	1,191
Total	14,904	15,879	16,989	18,599	21,638	22,476	22,598	22,889	23,130
Effort Mix)									
- Global Delivery Centers	12.5%	12.2%	13.0%	13.9%	14.7%	14.4%	14.3%	13.1%	13.1%
- India	87.5%	87.8%	87.0%	86.1%	85.3%	85.6%	85.7%	86.9%	86.9%
Linear Utilization %	80.1	82.8	83.0	80.6	79.5	79.9	77.6	77.3	78.3
Attrition (%)	16.6	23.6	26.9	26.6	24.8	23.7	21.6	19.8	15.5

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	30,337	33,659	35,658	41,879	57,107	83,506	97,448	1,12,395
Change (%)	5.4	11.0	5.9	17.4	36.4	46.2	16.7	15.3
Cost of Goods Sold	19,704	21,378	23,494	27,650	37,895	55,315	64,022	73,619
Gross Profit	10,633	12,281	12,164	14,229	19,212	28,191	33,426	38,776
Selling Expenses	5,946	6,476	7,234	7,398	9,556	12,999	15,210	17,196
EBITDA	4,687	5,805	4,930	6,830	9,656	15,191	18,216	21,580
Depreciation	1,585	1,692	1,660	1,756	1,660	2,719	3,065	3,484
EBIT	3,102	4,113	3,270	5,075	7,996	12,472	15,151	18,096
Other Income	1,190	864	1,254	1,020	1,321	233	387	899
PBT	4,293	4,977	4,523	6,094	9,317	12,705	15,539	18,995
Tax	1,062	2,327	1,121	1,588	2,339	3,198	3,838	4,844
Net Profit	3,231	2,650	3,403	4,507	6,978	9,507	11,700	14,151
Change (%)	3.3	-18.0	28.4	32.4	54.8	36.2	23.1	20.9
Extraordinary Item	0	0	0	0	75	297	486	0
Net Income after EO	3,231	2,650	3,403	4,507	6,904	9,211	11,214	14,151

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	800	791	764	764	764	764	764	764
Other Reserves	20,472	22,656	23,093	27,192	32,918	38,887	46,006	55,204
Net Worth	21,272	23,447	23,858	27,957	33,682	39,651	46,770	55,968
Loans	17	12	46	44	4,889	4,947	4,947	4,947
Other liabilities	430	177	544	957	1,360	2,013	2,349	2,710
Capital Employed	21,719	23,636	24,448	28,958	39,931	46,610	54,066	63,624
Net Block	2,581	2,331	2,791	3,254	4,276	7,058	7,494	7,510
CWIP	8	12	166	122	1,071	161	161	161
Intangibles	2,585	1,980	1,661	1,315	11,060	16,355	16,355	16,355
Investments	2,881	4,346	4,621	3,621	3,878	4,516	4,516	4,516
Deferred Tax Assets	642	405	960	1,038	1,123	1,129	1,318	1,520
Other	272	577	866	602	4,394	1,792	2,092	2,413
Current Assets	17,620	18,905	19,856	26,703	28,339	35,179	44,856	55,681
Debtors	4,847	4,923	5,922	5,709	9,484	15,705	15,485	17,860
Investments	5,916	3,296	5,165	13,765	10,514	6,242	10,742	16,242
Cash and BB	2,414	6,729	4,572	2,419	2,978	4,670	7,458	8,764
Loans and Advances	7	8	14	71	16	-	-	-
Other Current Assets	4,436	3,950	4,183	4,739	5,347	8,562	11,171	12,815
Current Liab. and Prov.	4,870	4,920	6,474	7,697	14,210	19,581	22,727	24,532
Trade payables	1,673	1,517	2,247	2,733	4,299	5,689	8,009	8,930
Other Liabilities	1,597	1,639	2,616	2,486	5,961	9,243	9,292	9,345
Provisions	1,599	1,764	1,611	2,478	3,950	4,649	5,425	6,258
Net Current Assets	12,750	13,985	13,382	19,006	14,130	15,598	22,129	31,149
Application of Funds	21,719	23,636	24,448	28,958	39,931	46,610	54,065	63,624

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	40.4	33.1	44.5	59.0	91.3	124.4	152.2	184.0
Cash EPS	60.2	54.3	66.3	82.0	113.0	160.0	192.0	229.3
Book Value	265.9	293.2	312.2	365.9	440.7	530.5	623.5	746.2
DPS	0.0	11.0	12.0	20.0	31.0	43.5	53.3	64.4
Payout (%)	0.0	33.2	26.9	33.9	33.9	35.0	35.0	35.0
Valuation (x)								
P/E ratio	117.6	143.3	106.7	80.5	52.0	38.2	31.2	25.8
Cash P/E ratio	78.9	87.5	71.7	58.0	42.0	29.7	24.7	20.7
EV/EBITDA ratio	79.3	63.7	71.7	50.8	36.7	23.0	18.8	15.6
EV/Sales ratio	12.3	11.0	9.9	8.3	6.2	4.2	3.5	3.0
Price/Book Value	17.9	16.2	15.2	13.0	10.8	9.0	7.6	6.4
Dividend Yield (%)	0.0	0.2	0.3	0.4	0.7	0.9	1.1	1.4
Profitability Ratios (%)								
RoE	16.0	11.9	14.4	17.4	22.6	25.9	27.1	27.5
RoCE	11.4	9.7	10.2	14.1	17.4	21.6	22.7	22.9
Turnover Ratios								
Debtors (Days)	58	53	61	50	61	69	58	58
Asset Turnover (x)	11.3	13.7	13.9	13.9	15.2	14.7	13.4	15.0

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
CF from Operations	4,156	4,536	4,597	5,781	8,857	13,935	14,765	17,635
Chg. in Working Capital	56	-213	-1,369	1,578	-407	-4,377	605	-2,377
Net Operating CF	4,212	4,323	3,229	7,359	8,450	9,558	15,370	15,259
Net Purchase of FA	-651	-374	-746	-1,251	-3,808	-4,290	-3,500	-3,500
Free Cash Flow	3,560	3,949	2,483	6,108	4,642	5,268	11,870	11,759
Net Purchase of Invest.	-2,822	-1,885	597	-4,166	-5,965	76	-4,500	-5,500
Net Cash from Inv.	-3,474	-2,259	-148	-5,417	-9,773	-4,213	-8,000	-9,000
Issue of shares	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	1,016	3,913	-2,344	-3,044	3,810	-1,059	0	0
Dividend Payments	-950	-1,590	-2,978	-1,070	-1,987	-2,981	-4,095	-4,953
Net CF from Finan.	66	2,323	-5,321	-4,114	1,823	-4,039	-4,095	-4,953
Net Cash Flow	804	4,386	-2,241	-2,171	499	1,305	3,275	1,306
Exchange difference	101	-71	84	19	59	387	-487	0
Opening Cash Balance	1,510	2,414	6,729	4,572	2,420	2,979	4,671	7,459
Closing Cash Balance	2,414	6,729	4,572	2,420	2,979	4,671	7,459	8,765

E: MOFSL estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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