Persistent Systems

Cruising ahead

Persistent Systems (PSYS) posted industry-leading sequential growth and its highest-ever deal TCV (both new and renewal). PSYS' consistency in its deal velocity provides high visibility for growth ahead (factored 14/17% growth in FY24/25E in USD terms). PSYS' strong revenue growth of 3.1% QoQ and 14.1% YoY in Q2FY24 and 15.6% growth in H1FY24 coupled with strong bookings trajectory will take PSYS' growth premium to tier-1 IT to 10pp in FY24E. PSYS' positives include consistency in winning large deals (vs. tier-1 competition), large client mining progression (USD 5mn+ accounts 2.5x in three years), growth in T50, sequential improvement in cash generation (>70% OCF/EBITDA targeted for FY24E). PSYS's (1) strong digital prowess enabled by a high certification pool (>14.7k certifications in Microsoft, AWS, Google Cloud, Salesforce, IBM), (2) focused vertical approach, and (3) recent leadership additions will support its growth ahead as the company targets doubling revenue in the next four years. Margin upside to accrue from utilisation improvement (~100bps scope for margin improvement), margin improvement in H-Tech vertical and operational efficiencies aggregating to 150bps potential for margin improvement in two years. Maintain BUY on PSYS (top pick in mid-tier IT), with TP of INR 6,705, based on 32x Sep-25E EPS, factoring 24% EPS CAGR over FY23-26E.

- **Q2FY24 highlights:** (1) PSYS posted revenue of USD 292mn, +3.1% QoQ and 14.1% YoY (USD 291mn HSIE est.). (2) T5 grew 4.6% QoQ and T50 grew 3.7% QoQ ahead of company average; T1 client grew 3.1% QoQ over two successive quarters of high growth on ramp-up of large deal. (3) Within verticals, growth was led by Healthcare & Lifesciences vertical and Hi-Tech vertical. (4) Deal wins were robust with TCV at USD 479mn, 30% YoY and ACV at USD 316mn, 16% YoY as deal duration (both renewal and new) inched higher. (5) EBITM declined to 13.7%, -122bps QoQ impacted by wage hike (-270bps impact), offset by higher utilisation and absence of visa cost sequentially leading to flat QoQ and 20% YoY in APAT; management maintained medium term outlook of 150-200bps margin expansion.
- **Outlook:** We have factored USD revenue growth of 14.4/17.2/17.4% (15% CAGR in total ACV over FY23-26E) and EBITM of 14.4/16.0/16.5% for FY24/25/26E respectively translating to 24% EPS CAGR over FY23-26E. PSYS trades at valuation of 31x and 25x FY25E and FY26E (5Y average at 26x).

Quarterly Financial summary

YE March (INR bn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	292	256	*14.1*	283	*3.1*	766	1,036	1,186	1,390	1,631
Net Sales	24.12	20.49	*17.7*	23.21	*3.9*	57.11	83.51	98.04	116.72	138.62
EBIT	3.31	2.99	*10.8*	3.47	*(4.6)*	7.92	12.47	14.14	18.71	22.82
APAT	2.63	2.20	*19.7*	2.65	*(0.6)*	6.90	9.43	11.04	14.60	17.97
Diluted EPS (INR)	34.2	28.6	*19.7*	34.4	*(0.6)*	89.7	122.6	143.5	189.7	233.7
P/E (x)						65.2	47.7	40.8	30.8	25.0
EV / EBITDA (x)						44.8	28.4	24.9	18.9	15.2
RoE (%)						22.4	25.1	25.9	28.5	29.2

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	1,187	1,186	*(0.1)*	1,376	1,390	*1.0*	1,590	1,631	*2.6*
Revenue	98.13	98.04	*(0.1)*	115.58	116.72	*1.0*	135.14	138.62	*2.6*
EBIT	14.55	14.14	*(2.9)*	18.52	18.71	*1.0*	22.25	22.82	*2.5*
EBIT margin (%)	14.8	14.4	-41bps	16.0	16.0	*1bps*	16.5	16.5	*-1bps*
APAT	11.35	11.04	*(2.7)*	14.45	14.60	*1.0*	17.33	17.97	*3.7*
EPS (INR)	148.5	143.5	*(3.4)*	189.1	189.7	*0.4*	226.7	233.7	*3.1*

Source: Company, HSIE Research

BUY

CMP *(as on 19 Oct 2023)*	**INR 5,849**
Target Price	**INR 6,705**
NIFTY	**19,625**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 6,660	INR 6,705
EPS %	FY24E	FY25E
	-3.4	+0.4

KEY STOCK DATA	
Bloomberg code	PSYS IN
No. of Shares (mn)	77
MCap (INR bn) / ($ mn)	450/5,502
6m avg traded value (INR mn)	1,919
52 Week high / low	INR 6,035/3,576

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	13.8	35.8	60.0
Relative (%)	16.0	25.6	49.0

SHAREHOLDING PATTERN (%)	**Mar-23**	**Jun-23**
Promoters	31.26	31.06
FIs & Local MFs	27.61	28.04
FPIs	21.78	21.92
Public & Others	19.35	18.98
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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