



## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	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 Aug 08, 2023

19.32

## Low Risk

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

Source: Morningstar

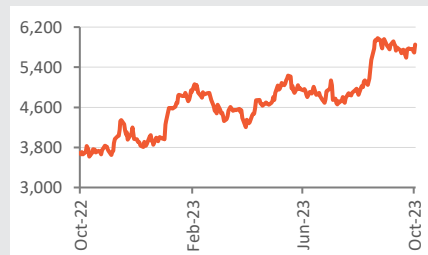
## Company details

Market cap:	Rs. 44,999 cr
52-week high/low:	Rs. 6,035 / 3,584
NSE volume: (No of shares)	3.6 lakh
BSE code:	533179
NSE code:	PERSISTENT
Free float: (No of shares)	5.3 cr

## Shareholding (%)

Promoters	31.1
FII	20.5
DII	28.0
Others	20.4

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	0.2	13.8	35.4	59.7
Relative to Sensex	3.2	16.0	25.3	48.6

Sharekhan Research, Bloomberg

## Persistent Systems Ltd

## Strong Q2; Maintain Buy

## IT &amp; ITES

## Sharekhan code: PERSISTENT

## Reco/View: Buy

CMP: Rs. 5,850

Price Target: Rs. 6,750



Upgrade



Maintain



Downgrade

## Summary

- Persistent reported revenues of \$291.7 million, up 3.2% q-o-q in constant currency (CC) terms, in line with our estimates of a 3.1% q-o-q growth. Sequential growth was led by Healthcare and Hi-tech verticals.
- EBIT margin fell by ~120bps q-o-q to 13.7% below our expectation of 14.1% primarily due to wage hikes.
- The company's total TCVs stood at \$479.3million, up 26%/30% q-o-q/y-o-y. Book-to-bill ratio stood at 1.6x in Q2FY24. New business TCVs stood at \$313.1 million versus \$237.2 million in Q1FY24, up 32% q-o-q.
- Persistent Systems delivered a fairly strong quarter with industry-leading revenue growth. We believe Persistent systems remains well placed to tide over the near-term uncertainty owing to strong order booking, decent contributions from top clients and broad-based demand across verticals. Hence, we maintain a Buy on Persistent Systems with revised PT of 6750 (increase in PT reflects the roll forward to FY26E EPS). At CMP, the stock trades at 32.2/26x its FY2025/26E EPS.

**Persistent reported constant currency (CC) revenue growth of 3.2% q-o-q in-line with our estimate of 3.2% q-o-q growth. In USD terms, revenue grew 3.1% q-o-q /14.1% y-o-y to \$291.7 million, led by Healthcare and Hi-tech verticals. In rupee terms, company reported revenue of Rs 2411.7 crore, up 3.9% and 17.7% respectively. EBIT margin declined ~120 bps q-o-q to 13.7% below our expectation of 14.1% primarily due to wage hike. Net profit was down 5.1% q-o-q and up ~20% y-o-y at Rs. 263.3 crore, nearly in-line with our estimates led by strong revenue and other income. Total TCVs stood at \$479.3million, up 26%/30% q-o-q/y-o-y. Book-to-bill ratio stood at 1.6x in Q2FY24. New business TCVs stood at \$313.1 million versus \$237.2 million in Q1FY24, up 32% q-o-q. New annual contract value stood at \$184.2 million, up 34% y-o-y. Company added one client in the \$30 million + revenue category, q-o-q, while number of clients grew by two in \$20-30 million revenue bracket. Persistent Systems delivered a fairly strong quarter with industry-leading revenue growth despite challenging macro environment. We believe Persistent Systems remains well placed to tide over the near-term uncertainty owing to strong order booking, decent contributions from top clients and broad-based demand across verticals. Hence, we maintain a Buy rating on Persistent Systems with revised PT of 6750 (increase in PT reflects the roll forward to FY26E EPS). At CMP, the stock trades at 32.2/26x its FY25/26E EPS.**

## Key positives

- The company's total TCVs stood at \$479.3million, up 26%/30% q-o-q/y-o-y. Book-to-bill ratio stood at 1.6x in Q2FY24
- LTM attrition dropped to 13.5%, down 200 bps q-o-q
- Utilisation improved 230 bps q-o-q to 80.6%

## Key negatives

- Net additions declined by 288 taking overall headcount to 22,842.

## Management Commentary

- Company remains committed to improving EBIT margins by 150-200 basis points over the next 2-3 years.
- Company is witnessing good traction in healthcare and are seeing good conversion in Scientific instruments and medical devices.

**Revision in estimates** – We have fine-tuned our estimates to factor the persisting macro-overhang.

## Our Call

**Valuation – Maintain Buy with revised PT of Rs. 6750:** Persistent Systems delivered fairly strong quarter with industry-leading revenue growth despite challenging macro environment. We believe Persistent Systems remains well placed to tide over the near-term uncertainty owing to strong order booking, decent contributions from top clients and broad-based demand across verticals. We expect Sales/PAT CAGR of 17%/21% over FY23-26E. Hence, we maintain a Buy rating on Persistent Systems with revised PT of 6750 (increase in PT reflects the roll forward to FY26E EPS). At CMP, the stock trades at 32.2/26x its FY25/26E EPS.

## Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of the banking crisis, macro headwinds, and possible recession in the U.S., which may moderate the pace of technology spends.

## Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,710.7	8,350.6	9,870.8	11,531.0	13,334.4
OPM (%)	16.8	18.2	17.8	18.6	19.9
Adjusted PAT	690.4	950.7	1,132.9	1,365.3	1,693.6
% YoY growth	53.2	37.7	19.2	20.5	24.1
Adjusted EPS (Rs.)	90.3	127.2	150.6	181.5	225.2
P/E (x)	64.8	46.0	38.8	32.2	26.0
P/B (x)	13.3	11.3	9.6	8.1	6.9
EV/EBITDA (x)	48.5	30.7	25.7	20.5	17.7
RoNW (%)	22.4	25.9	26.3	26.9	28.2
RoCE (%)	26.0	27.8	28.5	30.4	32.6

Source: Company; Sharekhan estimates

## Key Highlights

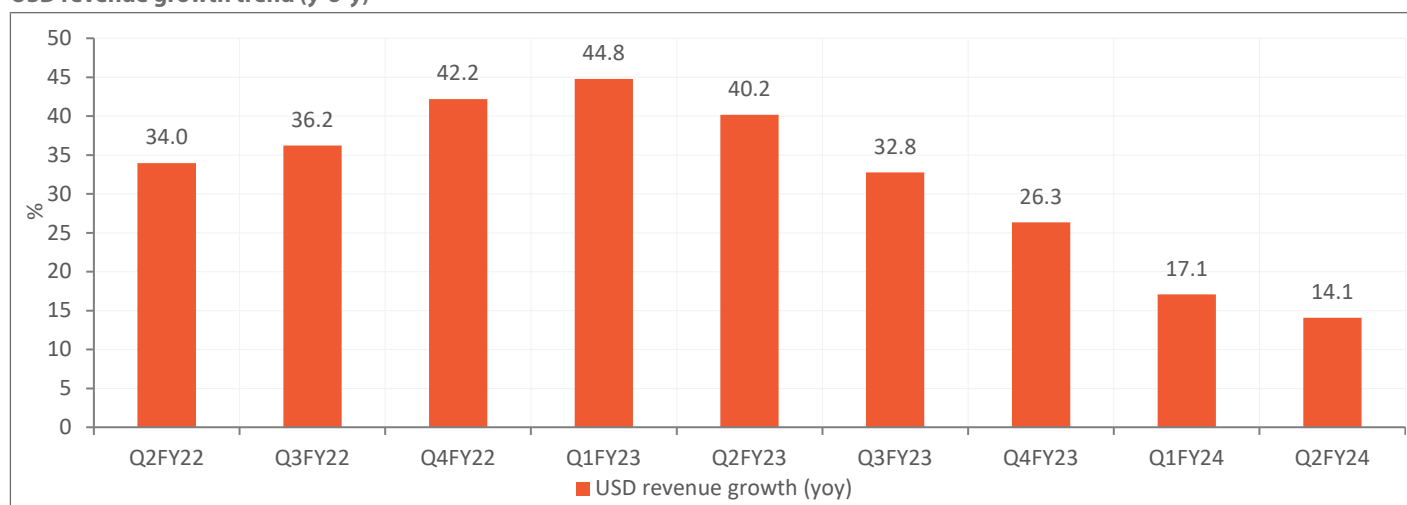
- ♦ **Revenue growth:** Persistent reported constant currency (CC) revenue growth of 3.2% q-o-q in-line with our estimate of 3.2% q-o-q growth. In USD terms, revenues grew 3.1% q-o-q /14.1% y-o-y to \$291.7 million, led by Healthcare & Life sciences and Software, Hi-tech & Emerging Industries verticals which grew 7%/3.8% q-o-q, respectively.
- ♦ **EBIT Margin:** EBIT margins declined ~120bps q-o-q to 13.7% below our expectation of 14.1% primarily due to wage hike. The company was able to partly mitigate impact of the wage hike and higher SG&A investments, through revenue growth leverage, higher utilization and absence of visa costs.
- ♦ **Order bookings:** Total TCVs stood at \$479.3 million, down 26%q-o-q/30 %y-o-y. Book-to-bill ratio stood at 1.6x in Q2F24. New business TCVs stood at \$313.1 as compared to \$250.3 million in Q1FY24. Strong New business ACV at \$184.2 million down 28% q-o-q/ up 34% y-o-y.
- ♦ **Sequential growth across verticals:** In terms of verticals, growth was led by Health & Life Sciences and Software, Hitech & Emerging Industries which grew 7%/3.8% q-o-q, respectively while BFSI vertical was flat q-o-q.
- ♦ **Growth across geographies:** In terms of geographies, growth was led by North America/Rest of the World, which grew 3.1%/ 2.0% q-o-q respectively while Europe and India grew 1% each q-o-q.
- ♦ **Strong sequential growth in top clients:** Revenues from the top client grew 3.1% q-o-q. Revenue from the top-5 clients grew by 4.6% q-o-q, while revenues from top-10 clients grew by 2.9% q-o-q. Revenue from the top-20 clients grew 3.5% q-o-q.
- ♦ **Client addition:** The company added 1 client in its \$30 million + revenue category on a sequential basis, while number of clients grew by 7 in \$1 million+ revenue category.
- ♦ **Utilisation improves, attrition moderates:** Utilisation improved by 230 bps q-o-q to 80.6%. Attrition rate moderated by 200 bps to 13.5%.Net employee additions declined by 288 taking total headcount to 22,842. The gross hiring overall was a little lower than the total exit of employees in Q2, which led to the decline in headcount.
- ♦ **Cash generation and DSO:** Cash & investments stood at Rs. 1568.3 crore at the end of Q2FY24 versus Rs. 1,409.3 crore at the end of Q1FY24. DSO declined by one day sequentially to 66.

## Results (Consolidated)

Particulars	Rs cr				
	Q2FY24	Q2FY23	Q1FY24	Y-o-Y %	Q-o-Q %
Revenues In USD (mn)	291.7	255.6	282.9	14.1	3.1
Revenues In INR	2,411.7	2,048.6	2,321.2	17.7	3.9
Direct Costs	1,612.7	1,362.8	1,527.8	18.3	5.6
SG&A	393.8	317.8	370.4	23.9	6.3
EBITDA	405.2	368.0	422.9	10.1	-4.2
Depreciation & amortization	74.4	69.3	76.3	7.3	-2.5
EBIT	330.8	298.7	346.6	10.8	-4.6
Forex gain/(loss)	8.4	-9.1	-6.4	191.7	230.6
Other Income	16.6	6.1	15.5	173.5	7.6
PBT	355.8	295.6	355.7	20.4	0.0
Tax Provision	92.5	75.6	78.3	22.4	18.2
PAT	263.3	220.0	277.4	19.7	-5.1
Minority interest	0.0	0.0	0.0		
Net profit	263.3	220.0	228.8	19.7	15.1
Exceptional items (IL&FS)	0.0	0.0	-48.6		
Adjusted net profit	263.3	220.0	277.4	19.7	-5.1
EPS (Rs)	35.0	29.6	29.8	18.2	17.6
Margin (%)					
EBITDA	16.8	18.0	18.2	-116	-142
EBIT	13.7	14.6	14.9	-86	-122
NPM	10.9	10.7	12.0	18	-103
Tax rate	26.0	25.6	22.0	43	399

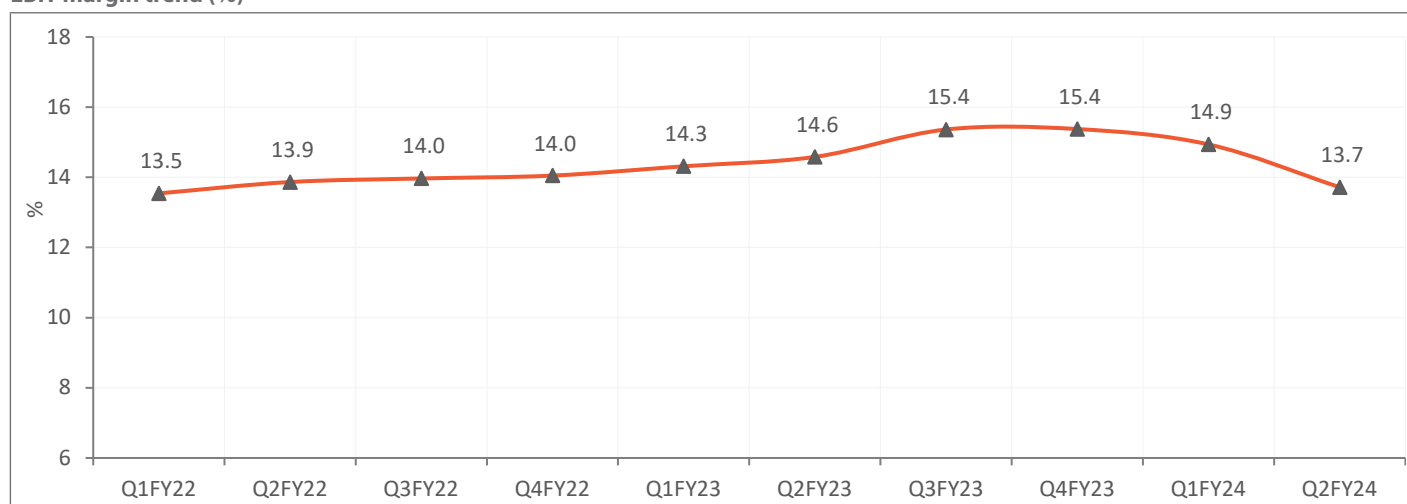
Source: Company; Sharekhan Research

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



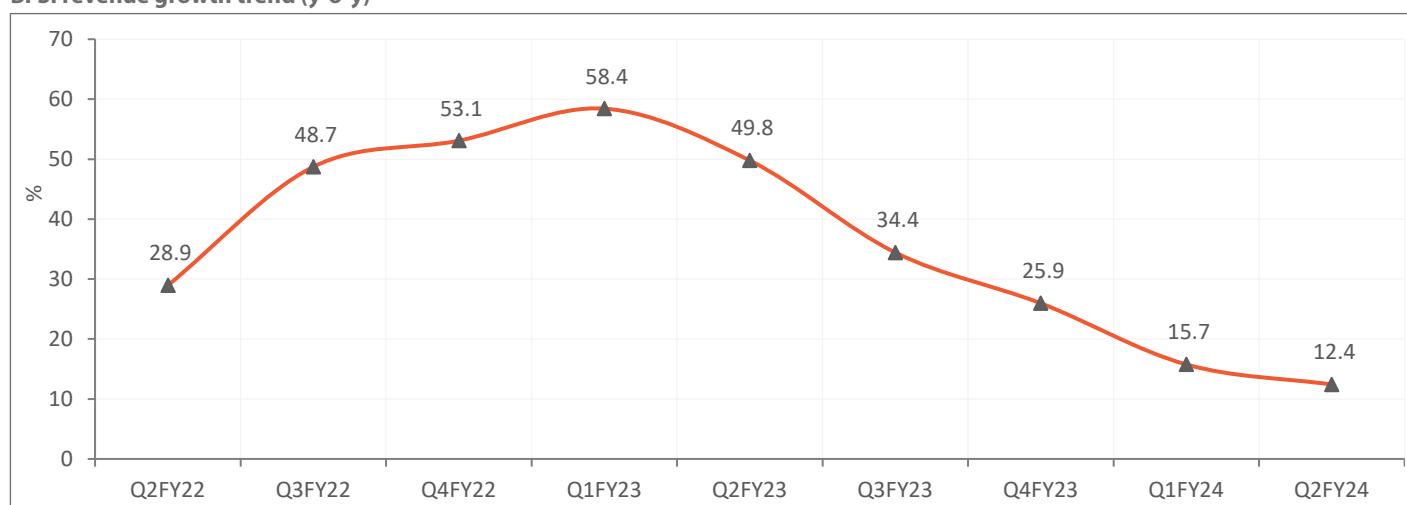
Source: Sharekhan Research

### EBIT margin trend (%)



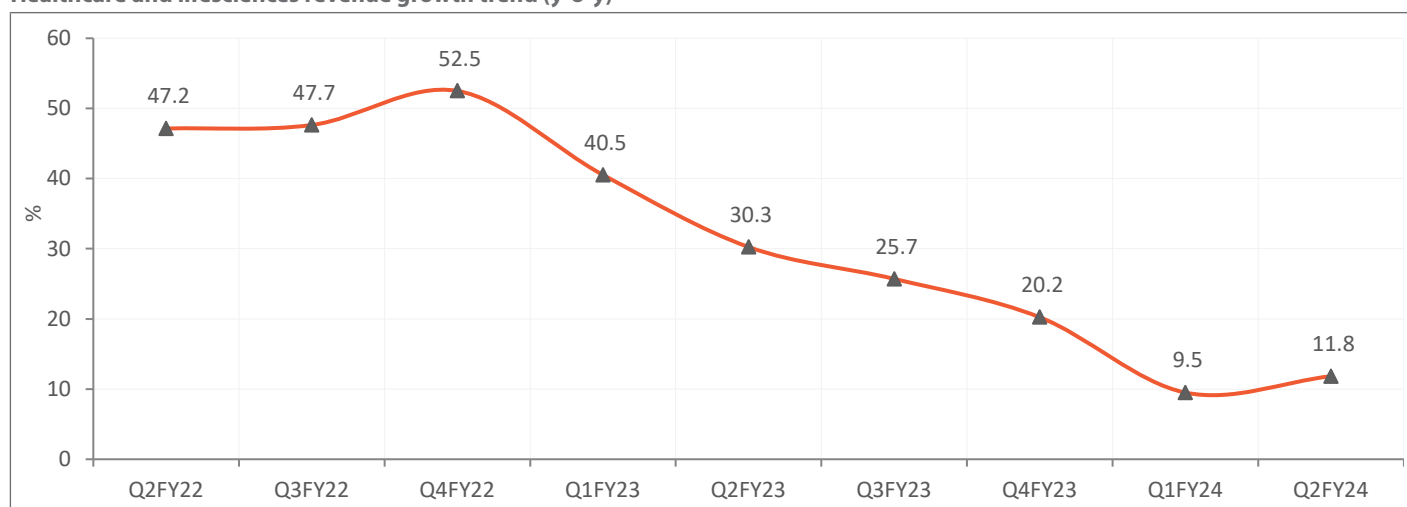
Source: Sharekhan Research

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



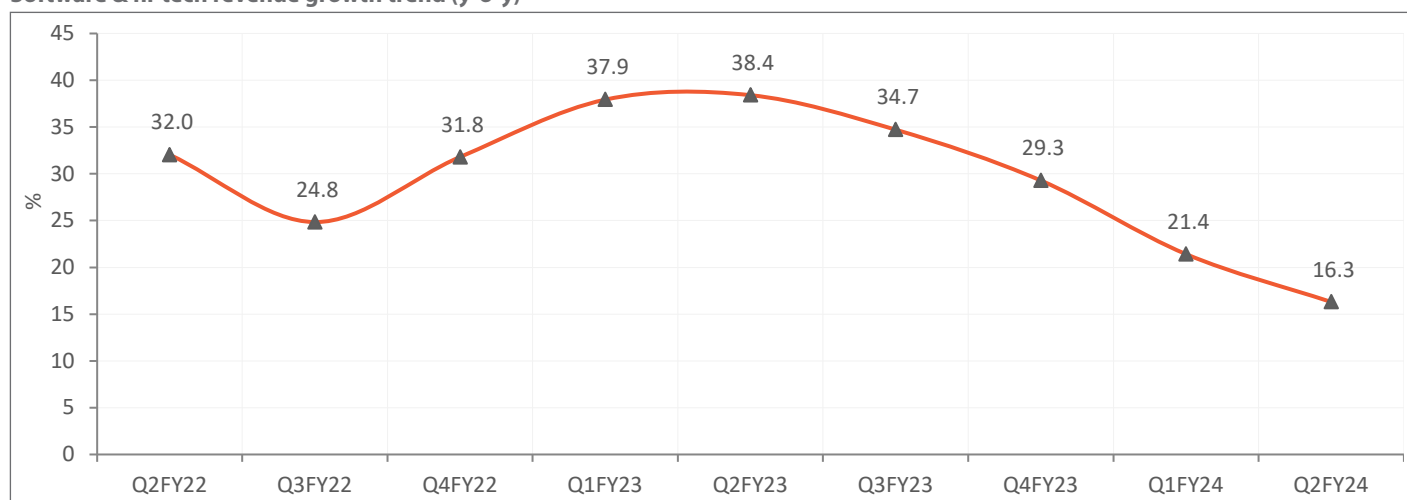
Source: Sharekhan Research

### Healthcare and lifesciences revenue growth trend (y-o-y)



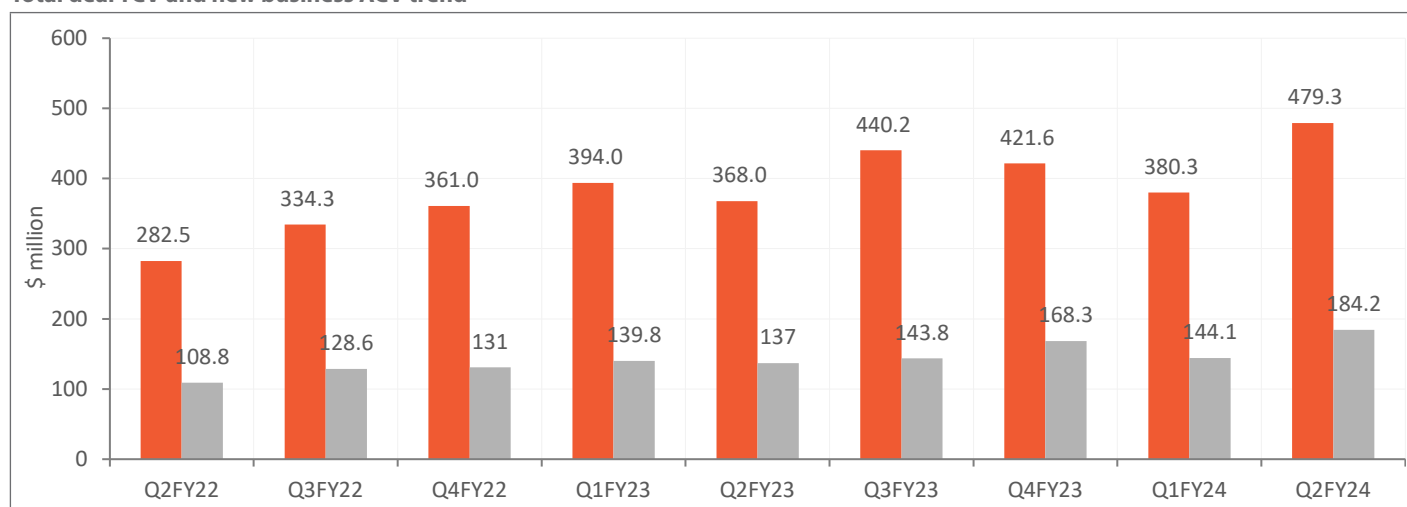
Source: Sharekhan Research

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



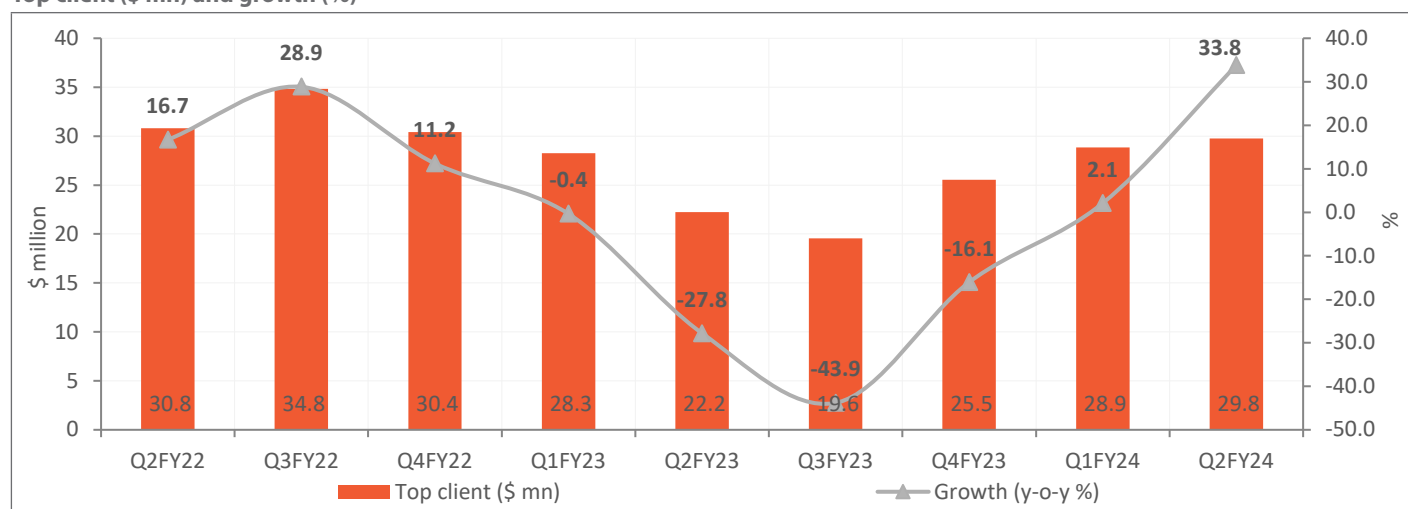
Source: Sharekhan Research

### Total deal TCV and new business ACV trend



Source: Sharekhan Research

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



Source: Sharekhan Research

## Outlook and Valuation

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

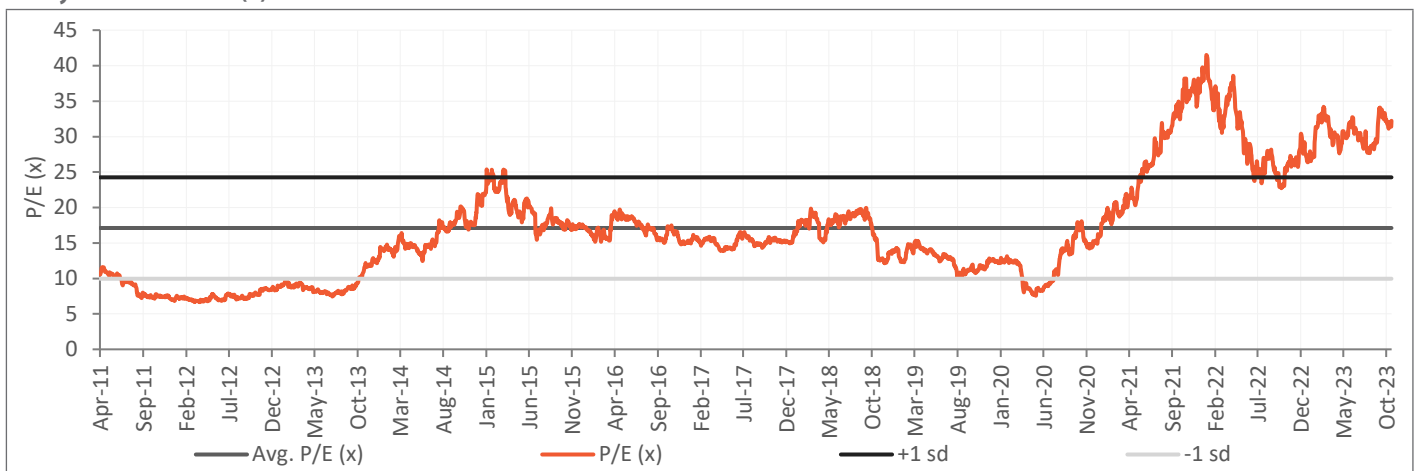
Owing to multiple global headwinds, the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence concerns relating to macro headwinds are unlikely to abate anytime soon, thus restricting any material outperformance for Indian IT companies.

### ■ 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 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 – Maintain Buy with revised PT of Rs. 6750:** Persistent Systems delivered fairly strong quarter with industry-leading revenue growth despite challenging macro environment. We believe Persistent Systems remains well placed to tide over the near-term uncertainty owing to strong order booking, decent contributions from top clients and broad-based demand across verticals. We expect Sales/PAT CAGR of 17%/21% over FY23-26E. Hence, we maintain a Buy rating on Persistent Systems with revised PT of 6750 (increase in PT reflects the roll forward to FY26E EPS). At CMP, the stock trades at 32.2/26x its FY25/26E 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

1) Rupee appreciation and/or adverse cross-currency movements 2) Contagion effect of banking crisis, macro headwinds and possible recession in the US that may 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 Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	KOTAK MAHINDRA TRUSTEE CO	4.97
2	Kotak Mahindra Asset Management Co	4.46
3	Axis Asset Management Co Ltd/India	3.77
4	HDFC Asset Management Co Ltd	3.15
5	Vanguard Group Inc/The	2.57
6	PSPL ESOP MANAGEMENT TRUST	2.41
7	Motilal Oswal Asset Management Co	2.39
8	Nippon Life India Asset Management	1.52
9	FundRock Management Co SA	1.39
10	ICICI Prudential Life Insurance Co	1.32

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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