

Persistent Systems

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	PSYS IN
Equity Shares (m)	76
M.Cap.(INRb)/(USD\$)	449.9 / 5.4
52-Week Range (INR)	6035 / 3576
1, 6, 12 Rel. Per (%)	3/24/48
12M Avg Val (INR M)	1765
Free float (%)	68.9

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	83.5	97.9	113.7
EBIT Margin (%)	14.9	14.9	16.1
Adj. PAT	9.5	11.4	14.4
Adj. EPS (INR)	124.4	148.7	187.1
PAT	9.2	11.0	14.4
EPS (INR)	120.5	142.4	187.1
EPS Gr. (%)	36.2	19.5	25.8
BV/Sh. (INR)	530.5	619.5	743.9

Ratios

RoE (%)	25.9	26.5	28.1
RoCE (%)	21.6	22.0	23.3
Payout (%)	35.0	35.0	35.0

Valuations

P/E (x)	47.0	39.3	31.3
P/BV (x)	11.0	9.4	7.9
EV/EBITDA (x)	28.4	24.1	19.3
Div Yield (%)	0.7	0.9	1.1

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	31.1	31.3	31.3
DII	28.0	27.6	25.9
FII	22.9	22.6	23.3
Others	18.0	18.5	19.5

FII Includes depository receipts

CMP: INR5,850 TP: INR5,430 (-7%) Neutral

Rich valuation factors in the robust growth outlook

Expect margins to recover in 2HFY24; reiterate NEUTRAL

- Persistent Systems (PSYS) delivered 2QFY24 revenue of USD291.7m, up 3.2% QoQ in CC terms, ahead of our estimate of +2.9%. Deal win TCV was at a record high of USD479m. EBITDA margin stood at 16.8% (-140bp QoQ) because of wage hikes; it came in 90bp below our estimate of 17.7%.
- PSYS' 2QFY24 revenue performance was positive, especially in an environment where execution remains a challenge. PSYS continues to win market share from Tier-1 names, which is encouraging. Management suggested that 3QFY24 furloughs would be in line with the past trends.
- Deal wins in 2QFY24 were at a record high of USD479m; up 26% QoQ and 30% YoY (1.6x book-to-bill), as certain deals were pushed out to 2QFY24 from 1Q. The macro environment remained soft, leading to a higher revenue leakage. Management indicated that though the deal momentum has been strong, revenue conversion has remained low. Therefore, PSYS needs to win more deals to maintain the growth trend. Despite macro headwinds, PSYS is confident of delivering strong growth in the medium term aided by strong deal wins and healthy pipeline. We expect PSYS to report a USD revenue CAGR of 17% YoY over FY23-FY25.
- PSYS' margin dipped 140bp led by wage hikes. Margin was 90bp below our estimate, partly on account of higher SG&A expenses to support growth. Despite weak margin performance in 2Q, management is confident of maintaining the margin in FY24 on YoY basis. PSYS further reiterated its aspiration of 200-300bp EBITDA margin improvement over the next few years. We expect an EBIT margin of 14.9%/16.1% in FY24/FY25, which will lead to FY23-25E PAT CAGR of 23%.
- The stock is currently trading at a rich valuation of 31x FY25E EPS, leaving little room for further upside despite the strong growth delivery. We believe PSYS' valuation appropriately factors in the favorable growth story, along with the adverse macro environment. We value the stock at 29x FY25E EPS. Reiterate **Neutral** as we see limited upside from current levels.

Strong revenue and robust deal-win performance; margin misses

- PSYS' USD revenue rose 3.2% QoQ in CC terms to USD291.7m, ahead of our estimate of 2.9% QoQ CC. In reported USD figures, the growth was 3.1% QoQ during the quarter.
- Growth was led by healthcare (up 7.0% QoQ) and Hi-Tech (up 3.8% QoQ), while BFSI was flat QoQ.
- In terms of regional performance, North America grew 3.1% QoQ, while Europe saw a 1% QoQ increase.
- PSYS witnessed the highest ever deal TCV of USD479m, up 26% QoQ and 30% YoY (1.6x book-to-bill). Net new TCV was also at a record high of USD313m. Similarly, ACV recorded an all-time high of USD316m.

- EBITDA margin stood at 16.8%, down 140bp QoQ, on account of wage hikes. Margin was 90bp below our estimate of 17.7%, due to higher SG&A expenses.
- Adj. PAT stood below our estimate at INR2.6b (down 5% QoQ), due to the miss on margin.

Key highlights from the management commentary

- The Technology vertical is likely to sustain its growth momentum as PSYS is one of the strongest firms among its peers on the engineering side. PSYS has created a niche in carve-out deals, which will continue to drive growth for this vertical.
- Given the weak macro, there is a higher leakage from the deals won; therefore, PSYS needs to win more deals to maintain its growth trend. Furloughs in 3QFY24, in BFSI and Technology, are expected to be in line with the past trend.
- Management is reasonably confident of recovering its margins to FY23 level in FY24.
- It has maintained its aspiration of improving operating margins by 200-300bp over the next few years.

Positives already priced in; reiterate Neutral

- The growth momentum remained strong, which is evident from the 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 trajectory.
- The stock is currently trading at 31x FY25E EPS. Our TP is based on 29x 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	(INR m)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var. (%/bp)
Revenue (USD m)	241.5	255.6	264.4	274.6	282.9	291.7	299.5	309.9	1,036	1,184	291.5	0.1
QoQ (%)	11.1	5.8	3.4	3.9	3.0	3.1	2.7	3.5	35.3	14.3	3.0	8bp
Revenue (INR m)	18,781	20,486	21,694	22,545	23,212	24,117	24,857	25,720	83,506	97,906	24,091	0.1
QoQ (%)	14.7	9.1	5.9	3.9	3.0	3.9	3.1	3.5			3.8	11bp
YoY (%)	52.7	51.6	45.4	37.6	23.6	17.7	14.6	14.1	46.2	17.2	17.6	12bp
GPM (%)	33.8	33.5	33.8	33.9	34.2	33.1	34.0	34.7	33.8	34.0	33.5	-37bp
SGA (%)	16.1	15.5	15.3	15.5	16.0	16.3	16.0	15.5	15.6	15.9	15.8	53bp
EBITDA	3,333	3,680	4,016	4,163	4,229	4,052	4,474	4,938	15,191	17,694	4,264	-5.0
EBITDA Margin (%)	17.7	18.0	18.5	18.5	18.2	16.8	18.0	19.2	18.2	18.1	17.7	-90bp
EBIT	2,688	2,987	3,332	3,466	3,466	3,308	3,704	4,141	12,472	14,618	3,517	-6.0
EBIT Margin (%)	14.3	14.6	15.4	15.4	14.9	13.7	14.9	16.1	14.9	14.9	14.6	-88bp
Other income	131	-31	192	-60	90	250	99	103	233	543	193	29.7
ETR (%)	24.9	25.6	24.1	26.2	22.0	26.0	25.0	25.0	25.2	24.5	25.0	
Adj. PAT	2,116	2,200	2,676	2,515	2,774	2,633	2,852	3,183	9,507	11,442	2,783	-5.4
QoQ (%)	5.3	4.0	21.6	-6.0	10.3	-5.1	8.3	11.6			0.3	-540bp
YoY (%)	33.3	36.0	51.7	25.1	31.1	19.7	6.6	26.5	36.2	20.3	26.5	-681bp
Reported EPS (INR)	27.7	28.8	31.1	32.9	29.8	34.2	37.1	41.4	120.5	142.4	36.2	-5.4

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue growth (QoQ CC%)	12.0%	6.6%	3.5%	3.5%	2.9%	3.2%				
Margins (%)										
Gross Margin	33.8	33.5	33.8	33.9	34.2	33.1	34.0	34.7	33.8	34.0
EBIT Margin	14.3	14.6	15.4	15.4	14.9	13.7	14.9	16.1	14.9	14.9
Net Margin	11.3	10.7	12.3	11.2	12.0	10.9	11.5	12.4	11.4	11.7
Operating metrics										
Headcount	21,638	22,476	22,598	22,889	23,130	22,842			22,889	
Utilization (%)	79.5	79.9	77.6	77.3	78.3	80.6			78.6	
LTM Attrition (%)	24.8	23.7	21.6	19.8	15.5	13.5			19.8	
Effort Mix (%)										
Global Delivery Centers	14.7%	14.4%	14.3%	13.1%	13.1%	12.7			14.1%	
India	85.3%	85.6%	85.7%	86.9%	86.9%	87.3%			85.9%	



Highlights from the management commentary

Growth and demand outlook

- Deal booking activity was at a record high as some deals were delayed to 2QFY24 from 1QFY24.
- The deal pipeline remains healthy owing to the company's proactive efforts rather than going through the RFQ route. New deals consist of a higher number of long-tenure deals.
- The Technology vertical is likely to sustain its growth momentum as PSYS is one of the strongest firms among its peers on the engineering side. PSYS has created a niche in carve-out deals, which will continue to drive growth for this vertical.
- There is good traction in BFSI and PSYS has won against many Tier-1 companies as clients seemed to be unhappy with Tier 1 names. As a result, PSYS is gaining market share.
- Similarly, in healthcare, there is strong traction and PSYS continues to win against large peers.
- Given weak macro, there is higher leakage from the deals won; therefore, PSYS needs to win a higher number of deals to maintain growth.
- PSYS is experimenting with GenAI tools in-house, which can then be replicable at scale and offered to clients.
- Many hyperscalers have embarked on the GenAI journey. This presents a good opportunity for players like PSYS, who participate in their growth journey.
- PSYS is pleased with the relationship with its Top client. It no longer has a revenue-sharing arrangement with the client, which will improve stability. Therefore, a typical 3Q seasonality trend with the top client will be absent.
- Given the strong ACV, the management remains confident of strong growth despite a weak macro environment.
- The management will continue to prioritize growth before margins as there is a lot of demand to capture.
- The management has suggested that it has enough strength to execute the strong deal won.
- After the successful integration of past acquisitions, PSYS is now ready to pursue new M&A opportunities.
- 3QFY24 furloughs in BFSI and Tech are expected in line with the past trend.

Margin performance and outlook

- PSYS rolled out industry-leading wage hikes, averaging 7% offshore and 3% onsite. This had 270bp impact on margins. This was partly offset by higher utilization, the absence of visa costs, favorable forex and operating leverage.
- Utilization was high in 2QFY24 due to higher volumes and lower headcount.
- PSYS will not throttle hiring to bring down utilization. It is comfortable with the 82-84% utilization range. The management has also suggested that every 1% improvement in utilization will yield a 30bp improvement in PAT.
- Given strong demand opportunities, PSYS is still carrying inefficiencies in its operating structure to tap growth, which leaves a lot of room for margin improvement.
- The management is reasonably confident of recovering its margins to FY23 level in FY24.
- It has maintained its aspiration of improving operating margins by 200-300bp over the next few years.

Exhibit 1: Sequential growth was led by Healthcare and Life Sciences

Verticals	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
BFSI	32.3	0.0	12.4
Healthcare and Life Science	19.3	7.0	11.8
Tech., Cos., and Emerging Verticals	48.4	3.8	16.3

Source: Company, MOFSL

Exhibit 2: Strong growth in the Americas; Europe weak

Geographies	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
North America	79.2	3.1	15.0
Europe	9.5	1.0	30.6
RoW	11.3	5.0	-0.8

Source: Company, MOFSL

Exhibit 3: Top two to five clients clocked healthy growth

Client metrics	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
Top client	10.2	3.1	33.8
Top two-to-five clients	18.1	5.4	13.5
Top six-to-10 clients	11.2	-1.3	30.4

Source: Company, MOFSL

Positives already priced in

- The growth momentum remained strong, which is evident from the 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 trajectory.
- The stock is currently trading at 31x FY25E EPS. Our TP is based on 29x 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	82.7	83.0	82.7	83.0	0.0%	0.0%
Revenue (USD m)	1,184	1,370	1,182	1,358	0.1%	0.9%
Growth (%)	14.3	15.7	14.1	14.8	20bps	80bps
EBIT margin (%)	14.9	16.1	15.2	15.9	-20bps	20bps
PAT (INR m)	11,442	14,396	11,595	14,079	-1.3%	2.2%
EPS	148.7	187.1	150.8	183.1	-1.4%	2.2%

Source: MOFSL, Company

Exhibit 5: Operating metrics

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Geography (%)									
North America	78.7	79.2	78.6	78.4	78.6	77.1	77.9	79.2	79.2
Europe	8.8	8.3	8.4	8.5	8.3	9.0	10.3	9.7	9.5
RoW	12.5	12.5	13.0	13.1	13.0	13.9	11.8	11.1	11.3
Vertical Mix (%)									
BFSI	30.7	32.2	32.4	33.7	32.8	32.6	32.3	33.3	32.3
Healthcare & Life Science	21.2	20.7	20.7	19.9	19.7	19.6	19.7	18.6	19.3
Tech. Cos. & Emerging Verticals	48.1	47.1	46.9	46.4	47.5	47.8	48.0	48.1	48.4
Client Metrics (%)									
Top Client	16.9	17.5	14.0	11.7	8.7	7.4	9.3	10.2	10.2
Top 5 Clients	35.8	36.1	32.5	30.8	26.9	24.7	26.5	27.9	28.3
Top 10 Clients	45.4	45.0	42.1	40.7	36.7	35.0	37.4	39.6	39.5
Employee Metrics									
Technical People	14,657	15,721	17,283	20,144	20,941	21,033	21,295	21,511	21,263
Sales & BD	296	294	317	367	387	405	414	428	443
Others	926	974	999	1,127	1,148	1,160	1,180	1,191	1,136
Total	15,879	16,989	18,599	21,638	22,476	22,598	22,889	23,130	22,842
Effort Mix)									
- Global Delivery Centers	12.2%	13.0%	13.9%	14.7%	14.4%	14.3%	13.1%	13.1%	12.7%
- India	87.8%	87.0%	86.1%	85.3%	85.6%	85.7%	86.9%	86.9%	87.3%
Linear Utilization %	82.8	83.0	80.6	79.5	79.9	77.6	77.3	78.3	80.6
Attrition (%)	23.6	26.9	26.6	24.8	23.7	21.6	19.8	15.5	13.5

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	97,906	1,13,675
Change (%)	5.4	11.0	5.9	17.4	36.4	46.2	17.2	16.1
Cost of Goods Sold	19,704	21,378	23,494	27,650	37,895	55,315	64,607	74,447
Gross Profit	10,633	12,281	12,164	14,229	19,212	28,191	33,299	39,228
Selling Expenses	5,946	6,476	7,234	7,398	9,556	12,999	15,605	17,419
EBITDA	4,687	5,805	4,930	6,830	9,656	15,191	17,694	21,809
Depreciation	1,585	1,692	1,660	1,756	1,660	2,719	3,075	3,524
EBIT	3,102	4,113	3,270	5,075	7,996	12,472	14,618	18,285
Other Income	1,190	864	1,254	1,020	1,321	233	543	909
PBT	4,293	4,977	4,523	6,094	9,317	12,705	15,161	19,195
Tax	1,062	2,327	1,121	1,588	2,339	3,198	3,720	4,799
Net Profit	3,231	2,650	3,403	4,507	6,978	9,507	11,442	14,396
Change (%)	3.3	-18.0	28.4	32.4	54.8	36.2	20.3	25.8
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	10,956	14,396

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	45,838	55,195
Net Worth	21,272	23,447	23,858	27,957	33,682	39,651	46,602	55,959
Loans	17	12	46	44	4,889	4,947	4,947	4,947
Other liabilities	430	177	544	957	1,360	2,013	2,360	2,740
Capital Employed	21,719	23,636	24,448	28,958	39,931	46,610	53,908	63,646
Net Block	2,581	2,331	2,791	3,254	4,276	7,058	7,483	7,460
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	1,324	1,537
Other	272	577	866	602	4,394	1,792	2,102	2,440
Current Assets	17,620	18,905	19,856	26,703	28,339	35,179	44,758	55,886
Debtors	4,847	4,923	5,922	5,709	9,484	15,705	15,558	18,063
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	7,237	8,624
Loans and Advances	7	8	14	71	16	-	-	-
Other Current Assets	4,436	3,950	4,183	4,739	5,347	8,562	11,221	12,956
Current Liab. and Prov.	4,870	4,920	6,474	7,697	14,210	19,581	22,791	24,710
Trade payables	1,673	1,517	2,247	2,733	4,299	5,689	8,047	9,032
Other Liabilities	1,597	1,639	2,616	2,486	5,961	9,243	9,293	9,349
Provisions	1,599	1,764	1,611	2,478	3,950	4,649	5,451	6,329
Net Current Assets	12,750	13,985	13,382	19,006	14,130	15,598	21,967	31,176
Application of Funds	21,719	23,636	24,448	28,958	39,931	46,610	53,908	63,646

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	148.7	187.1
Cash EPS	60.2	54.3	66.3	82.0	113.0	160.0	188.7	232.9
Book Value	265.9	293.2	312.2	365.9	440.7	530.5	619.5	743.9
DPS	0.0	11.0	12.0	20.0	31.0	43.5	52.1	65.5
Payout (%)	0.0	33.2	26.9	33.9	33.9	35.0	35.0	35.0
Valuation (x)								
P/E ratio	144.9	176.5	131.4	99.2	64.1	47.0	39.3	31.3
Cash P/E ratio	97.2	107.7	88.3	71.4	51.8	36.6	31.0	25.1
EV/EBITDA ratio	98.1	78.9	88.7	63.1	45.4	28.4	24.1	19.3
EV/Sales ratio	15.2	13.6	12.3	10.3	7.7	5.2	4.4	3.7
Price/Book Value	22.0	20.0	18.7	16.0	13.3	11.0	9.4	7.9
Dividend Yield (%)	0.0	0.2	0.2	0.3	0.5	0.7	0.9	1.1
Profitability Ratios (%)								
RoE	16.0	11.9	14.4	17.4	22.6	25.9	26.5	28.1
RoCE	11.4	9.7	10.2	14.1	17.4	21.6	22.0	23.3
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	13.5	15.2

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	14,517	17,920
Chg. in Working Capital	56	-213	-1,369	1,578	-407	-4,377	541	-2,494
Net Operating CF	4,212	4,323	3,229	7,359	8,450	9,558	15,058	15,426
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	11,558	11,926
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	-4,005	-5,039
Net CF from Finan.	66	2,323	-5,321	-4,114	1,823	-4,039	-4,005	-5,039
Net Cash Flow	804	4,386	-2,241	-2,171	499	1,305	3,054	1,387
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	7,238
Closing Cash Balance	2,414	6,729	4,572	2,420	2,979	4,671	7,238	8,625

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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