



Persistent Systems has delivered strong topline growth, while margin improvement is expected to be delayed as the company focuses on growth.

- \$ revenue: \$310.9 Mn, +3.4% QoQ / +13.2% YoY and +0.2% vs our estimates
- INR revenue at 25,905 Mn, +3.7% QoQ / +14.9% YoY and +0.4% vs our estimates
- EBITDA: INR 4,544 Mn, +2.8% QoQ / +9.1% YoY and -4% vs our estimates
- EBITDA margins: 17.5%, vs 17.7% / 18.5% in Q3FY24 / Q4FY23 respectively
- EBIT: INR 3,744 Mn, +3.1% QoQ / +8.0% YoY and -4.5% vs our estimates
- EBIT margins: 14.5%, vs 14.5% / 15.4% in Q3FY24 / Q4FY23 respectively.
- PAT: INR 3,153 Mn, +10.2% QoQ / +25.4% YoY and +3.7% above our estimates
- EPS at INR 20.5 in Q4FY24 vs 18.6 / 16.5 in Q3FY24 / Q4FY23 respectively and versus our estimate of INR 19.8
- New TTM Deal wins TCV were at \$302 Mn vs \$277.4 Mn in Q3FY24.
- Total TCV now stands at \$447.7 Mn in Q4FY24 versus \$521.4 Mn in Q3FY24.

Segment-wise Performance

- **BFSI** (30.7% of revenue) reported +1.8% QoQ / +7.6% YoY.
- **Healthcare & Lifesciences** (24.2% of revenue) reported +14.8% QoQ / +39.1% YoY.
- **Software, Hi-Tech & Emerging Industries** (45.1% of revenue) reported -0.7% QoQ / +6.4% YoY.

Financial Summary

Y/E Mar (Rs mn)	FY 22	FY 23	FY 24	FY 25E	FY 26E
Net sales	57,107	83,506	98,216	1,14,043	1,30,896
EBITDA	9,582	15,191	16,757	20,548	26,499
Adjusted net profit	6,904	9,507	10,935	13,778	17,658
Free cash flow	4,169	10,016	11,408	12,372	16,432
EPS (Rs)	90	124	71	89	115
growth (%)	0.5	0.4	(0.4)	0.3	0.3
P/E (x)	39	29	49	39	31
P/B (x)	39	29	49	39	31
EV/EBITDA (x)	28	17	32	26	20
ROCE (%)	17.2	21.4	20.7	22.4	25.5
RoE (%)	22.4	25.9	25.5	27.4	29.6
Dividend yield (%)	0.6	0.9	1.4	0.7	0.9

Source: Dalal & Broacha Research, Company

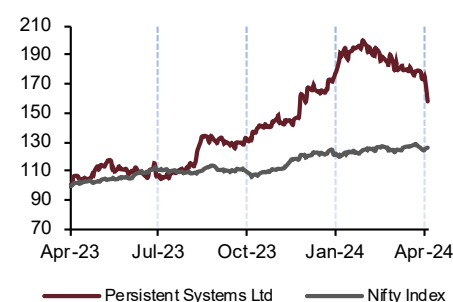
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	4,012	14

Market Data

Current price	Rs	3,509
Market Cap (Rs.Bn)	(Rs Bn)	540
Market Cap (US\$ Mn)	(US\$ Mn)	6,475
Face Value	Rs	10
52 Weeks High/Low	Rs	4490/2163
Average Daily Volume	('000)	368
BSE Code		533179

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-24	Dec-23
Promoters	31.02	31.06
Public	67.86	67.60
Total	100	100

Source: Bloomberg

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Concall Highlights

- Persistent delivered positive growth despite a challenging macro environment. The ramp-up in new deals led to higher onsite costs and transition costs, with a focus on client technology spend prioritization for cost optimization and transformation contributing to this success. Early green shoots in the recovery of discretionary spending and the BFSI vertical are also being observed.
- Geographically & by verticals: North America saw a healthy growth of 4% QoQ, Europe declined by -9.3% QoQ, India revenue grew 4.5% QoQ, and ROW revenue grew by +47.8% QoQ.
- Margin Walk: -8 bps compression in Q4 due to one-time transition costs for ramping up multiple deals (-110 bps), addition of lateral hires offshore (-50 bps), elevated travel costs due to planning and budgeting exercises for FY25 (-40 bps). Total headwinds of 200 bps were completely offset by a reduction in earnout liability in one of their acquisitions not performing as per the business plan. Management expects margins to remain flat in FY25 and anticipates margins to improve by 200-300 bps in the next 2 to 3 years through enhanced utilization, lower attrition, and an improved employee pyramid. This quarter also incurred an FX loss of Rs 15.5 million (vs Rs 80.9 million gain in Q3FY24).
- Headcount increased by 514 employees. The quarter's utilization rate declined to 80% from 81.5% in Q3FY24 due to lateral hires offshore and freshers onboarding. There is potential for enhancing fresher utilization and transitioning from onsite to offshore with improved lateral hiring, a key factor for margin improvement in the next few quarters.
- Attrition dropped to 11.5% (vs 11.9% in Q3FY24). Attrition has come down to a comfortable band over the past few quarters.
- Order book: TCV stood at \$447.7 million in Q4FY24 (-14.1% QoQ/6.2% YoY). On a TTM basis, TCV was \$1.829 billion, while the ACV stood at \$316.8 million (-19.2% QoQ/2.1%). On a TTM basis, ACV was \$1.297 billion. Sequential decline in the order book was due to usual seasonality.
- The DSO was reduced at 63 days (vs 66 days in Q3FY24) in this quarter.
- The customer count increased in the \$5mn-\$10 mn, \$10mn-\$20 mn & \$30mn+ buckets, which have the potential to scale up further in the coming quarters.
- The company aims to continue its M&A strategy in Healthcare & Lifesciences, BFSI, cybersecurity, and Generative AI sectors, while expanding its European presence in the upcoming quarters.
- Persistent declared a final dividend of Rs 10 per share on a face value of Rs 5 per share for FY24.

Outlook:

- Management aspires to improve margins by 200-300 bps over the next 2 to 3 years on account of improvement in utilization, a higher offshore mix, and an improved employee pyramid.
- The Management expects margin improvement to come from FY26 with the current focus and investments for growth.

Quarterly Deviation Sheet

YE March (Rs. Mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)	Q4 FY24E	Deviation (%)
Net Sales (US\$ Mn)	310.9	300.6	3.4%	274.6	13.2%	310.3	0.2%
Net Sales (INR Mn)	25,905	24,982	3.7%	22,545	14.9%	25,790	0.4%
Less:							
Employees Remuneration & Benefits	18,936	18,096	4.6%	15,787	19.9%	18,169	4.2%
SG&A Expenses	2,426	2,468	(1.7%)	2,595	(6.5%)	2,889	(16.0%)
Total Operating Expenditure	21,362	20,564	3.9%	18,382	16.2%	21,058	1.4%
EBITDA	4,544	4,418	2.8%	4,163	9.1%	4,733	(4.0%)
EBIT	3,744	3,631	3.1%	3,466	8.0%	3,920	(4.5%)
Less: Depreciation	799	787		697		813	
Less: Interest	97	121	(19.6%)	148	(34.4%)	121	(19.6%)
Add: Other income	308	383	(19.6%)	88	248.7%	309	(0.5%)
Extraordinary Income	0	0		0		0	
Profit Before Tax	3,955	3,893	1.6%	3,406	16.1%	4,108	(3.7%)
Adjusted Profit s	3,955	3,893	1.6%	3,406	16.1%	4,108	
Less: Total Tax	802	1,032		891		1,068	
PAT	3,153	2,861	10.2%	2,515	25.4%	3,040	3.7%
Adjusted PAT	3,153	2,861	10.2%	2,515	25.4%	3,040	3.7%
Reported Diluted EPS (Rs.)	20.5	18.6		16.5		19.8	3.6%
Adjusted Diluted EPS (Rs.)	20.5	18.6		16.5		19.8	
No of Shared Diluted (mn)	154	154		153		154	
Margin Analysis %	Q4FY24	Q3FY24	Change in bps	Q4FY23	Change in bps	Q4 FY24E	Deviation in bps
EBIT margin	14.5%	14.5%	(8)	15.4%	(92)	15.2%	(74)
EBIDTA Margin	17.5%	17.7%	(15)	18.5%	(93)	18.4%	(81)
NPM	12.2%	11.5%	72	11.2%	102	11.8%	38
Adjusted NPM	12.2%	11.5%	72	11.2%	102	11.8%	38
Effective Tax Rate %	20.3%	26.5%	(623)	26.2%	(588)	26.0%	(573)
Cost Analysis %	Q4FY24	Q3FY24	Change in bps	Q4FY23	Change in bps	Q4 FY24E	Deviation in bps
Employee Cost/Net Sales	73.1%	72.4%	66	70.0%	307	70.4%	265
SG&A/Net sales	9.4%	9.9%	(51)	11.5%	(214)	11.2%	(183)

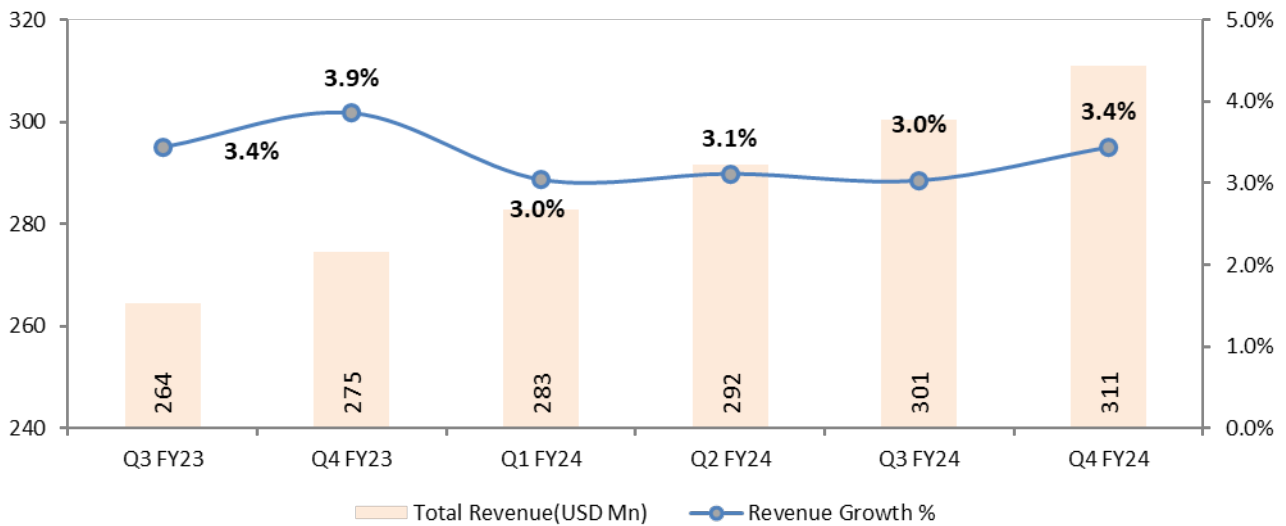
Source: Dalal & Broacha Research, Company

Valuation & Outlook

Persistent Systems has adjusted its margin improvement guidance of 200-300 bps (over the next 2 to 3 years), pushing it back by a year, with expectations that FY25 margins will remain at similar levels while continuing to focus on growth. The strategic focus on Generative AI and cloud technologies has yielded positive results in terms of new deal wins. The company remains committed to account mining and has observed early signs of recovery in discretionary spending. Healthcare and lifesciences are expected to lead the growth, followed by BFSI. Attrition has decreased to comfortable levels, and there is anticipation of improved utilization of freshers. Persistent Systems is poised to maintain its strong execution rate and secure healthy deal wins over the next two years. Persistent has delivered 3.4% QoQ growth in FY24, which is the industry average for larger IT companies have guided for FY25. In comparison, it achieved 14.5% growth in FY24, surpassing the industry average of 3-4% this year.

Persistent Systems is currently trading at 49.4x / 39.2x / 30.6x FY24e/FY25e/FY26e EPS respectively. Taking the above factors into consideration, we recommend a BUY ON DIPS rating and our target multiple of 35x FY26e EPS to arrive at TP of INR 4,012.

Exhibit 1: Total Revenue USD Growth



Source: : Dalal & Broacha Research, Company

Exhibit 2:

Rs Mn	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Total Revenue (Rs Mn)	21,694	22,545	23,212	24,117	24,982	25,905
Revenue Growth %	5.9	3.9	10.8	-3.5	3.6	3.7
EBITDA %	18.5	18.5	16.1	16.8	17.7	17.5
OPM %	15.4	15.4	12.8	13.7	14.5	14.5
NPM %	11.0	11.2	9.9	10.9	11.5	12.2

Exhibit 3: Change in Geographical Presence

	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
North America	204	214	224	231	240	249
N. America Growth Rate QoC	1.5%	4.9%	4.8%	3.1%	3.7%	4.0%
Europe	24	28	27	28	27	24
Europe Growth Rate QoQ (%)	12.2%	18.9%	-3.0%	1.0%	-3.5%	-9.3%
India	33	27	28	28	30	31
India Growth Rate QoQ (%)	10.6%	-15.6%	2.0%	1.0%	6.2%	4.5%
ROW	4	5	3	5	4	6
ROW Growth Rate QoQ (%)	3.4%	16.8%	-31.3%	37.5%	-9.8%	47.8%

Source: : Dalal & Broacha Research, Company

Financials

Profit & Loss A/c					
YE March (Rs. mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Net Sales	57,107	83,506	98,216	1,14,043	1,30,896
<i>Growth %</i>	36.4%	46.2%	17.6%	16.1%	14.8%
Total Revenue	57,107	83,506	98,216	1,14,043	1,30,896
Employee Cost & Related Expenses	42,567	60,122	71,102	82,647	92,616
Miscellaneous Expenses	4,958	8,193	10,357	10,848	11,781
Total Operating Expenditure	47,526	68,315	81,459	93,495	1,04,397
EBIDTA	9,582	15,191	16,757	20,548	26,499
<i>Growth %</i>	40.3%	58.5%	10.3%	22.6%	29.0%
Less: Depreciation	1,660	2,719	3,094	3,421	3,796
EBIT	7,922	12,472	13,663	17,127	22,703
<i>Growth %</i>	56.1%	57.4%	9.5%	25.4%	32.6%
Interest Paid	118	473	467	467	467
Non-operating Income	1,440	706	1,280	1,711	1,309
Profit Before tax	9,243	12,409	14,476	18,371	23,545
Tax	2,339	3,198	3,541	4,593	5,886
Net Profit	6,904	9,211	10,935	13,778	17,658
Adjusted Profit	6,904	9,507	10,935	13,778	17,658
Reported Diluted EPS Rs	90.3	120.5	71.0	89.4	114.6
<i>Growth %</i>	53.2%	33.4%	-41.1%	26.0%	28.2%
Adjusted Diluted EPS Rs	90.3	124.4	71.0	89.4	114.6
<i>Growth %</i>	53.2%	37.7%	-42.9%	26.0%	28.2%

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Liabilities					
Equity Capital	764	764	764	764	764
Reserves & Surplus	32,918	38,887	45,420	53,652	64,203
Equity	33,682	39,651	46,184	54,417	64,968
Net Worth	33,682	39,651	46,184	54,417	64,968
Total Loans	6,004	6,587	6,587	6,587	6,587
Capital Employed	39,931	46,610	53,184	61,539	72,241
Assets					
Gross Block	8,970	11,936	15,436	18,936	22,436
Less: Depreciation	6,052	7,076	10,170	13,591	17,387
Net Block	2,918	4,860	5,266	5,345	5,049
Investments	4,409	5,237	7,480	8,797	10,134
Intangible Assets	11,060	16,355	19,236	22,336	23,561
Current Assets					
Sundry Debtors	9,484	15,705	17,391	19,997	23,669
Current Investments	4,347	1,880	3,929	4,562	5,236
Cash and Bank Balance	9,145	9,033	8,885	10,479	14,954
Total Current Assets	32,202	36,251	40,075	46,498	57,537
Less:Current Liabilities & Provisions					
Sundry Creditors	5,823	7,917	8,481	9,478	10,011
Provisions	4,292	5,326	5,135	6,659	7,946
Other Current Liabilities	4,094	6,339	7,569	7,983	9,163
Total Current Liabilities & Provisions	14,210	19,581	21,184	24,120	27,120
Capital Applied	39,931	46,610	53,184	61,539	72,241

Source : Dalal & Broacha Research, Company

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Key Operating Ratios					
EBITDA Margin (%)	16.8%	18.2%	17.1%	18.0%	20.2%
Tax / PBT (%)	25.3%	25.8%	24.5%	25.0%	25.0%
Net Profit Margin (%)	12.1%	11.0%	11.1%	12.1%	13.5%
RoE (%)	22.4%	25.9%	25.5%	27.4%	29.6%
RoCE (%)	17.2%	21.4%	20.7%	22.4%	25.5%
Current Ratio (x)	2.3x	1.9x	1.9x	1.9x	2.1x
Dividend Payout (%)	39.4%	47.9%	40.3%	40.3%	40.3%
Book Value Per Share (Rs.)	440.7	518.8	299.8	353.2	421.7

Financial Leverage Ratios					
Debt/ Equity (x)	0.2x	0.2x	0.1x	0.1x	0.1x
Interest Coverage (x)	81.0x	32.1x	35.9x	44.0x	56.7x
Interest / Debt (%)	3.5%	7.5%	7.1%	7.1%	7.1%

Growth Indicators %					
Growth in Gross Block (%)	13.8%	33.1%	29.3%	22.7%	18.5%
Sales Growth (%)	36.4%	46.2%	17.6%	16.1%	14.8%
EBITDA Growth (%)	40.3%	58.5%	10.3%	22.6%	29.0%
Net Profit Growth (%)	53.2%	33.4%	18.7%	26.0%	28.2%
Diluted EPS Growth (%)	53.2%	33.4%	(41.1%)	26.0%	28.2%

Turnover Ratios					
Debtors Days	49	55	61	60	61
Creditors Days	55	58	56	54	52

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
PAT	6,904	9,211	10,935	13,778	17,658
Add: Depreciation	1,660	2,719	3,094	3,421	3,796
Add: Interest Paid	118	473	467	467	467
Operating Profit before WC Changes	7,243	11,994	13,216	15,956	20,613
(Inc)/Dec in Current Assets	-8,057	-6,628	-1,924	-4,196	-5,889
Inc/(Dec) in Current Liabilities	6,512	5,372	1,603	2,936	3,000
Net Cash Generated From Operations	5,699	10,737	12,895	14,696	17,723
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-1,085	-2,966	-3,500	-3,500	-3,500
Add: Non Operating Income	1,440	706	1,280	1,711	1,309
Cash Flow from Investing Activities	-10,746	-7,479	-8,364	-6,578	-5,150
Cash Flow from Financing Activities					
Dividend Paid	-2,368	-3,833	-3,827	-4,822	-6,180
Net Cash Flow from Financing Activities	2,860	-4,997	-4,828	-5,890	-7,424
Net Inc/Dec in cash equivalents	-2,187	-1,739	-297	2,227	5,149
Opening Balance	9,809	9,145	9,033	8,885	10,479
Closing Cash Balance	7,622	7,406	8,735	11,112	15,628

Free Cash Flow Analysis					
	FY 22	FY 23	FY 24E	FY 25E	FY 26E
EBITDA	9,582	15,191	16,757	20,548	26,499
Add: Depreciation Tax Shield	420	701	757	855	949
Working Capital Changes	-2,408	288	936	-940	-1,629
Less: Inc in FC Investment	1,085	2,966	3,500	3,500	3,500
Taxes Paid	2,339	3,198	3,541	4,593	5,886
Total Free Cash Flows	4,169	10,016	11,408	12,372	16,432

Source: Dalal & Broacha Research, Company

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