



Persistent Systems' Growth Momentum Persists with signs of margin improvement despite the macro headwinds.

- \$ revenue: \$300.6 Mn, +3.0% QoQ / +13.7% YoY and -0.2% vs our estimates
- INR revenue at 24,982 Mn, +3.6% QoQ / +15.2% YoY and -0.1% vs our estimates
- EBITDA: INR 4,418 Mn, +9.1% QoQ / +10.0% YoY and -1.9% vs our estimates
- EBITDA margins: 17.7%, vs 16.8% / 18.5% in Q2FY24 / Q3FY23 respectively
- EBIT: INR 3,631 Mn, +9.8% QoQ / +9.0% YoY and -2.7% vs our estimates
- EBIT margins: 14.5%, vs 13.7% / 15.4% in Q2FY24 / Q3FY23 respectively.
- PAT: INR 2,861 Mn, +8.7% QoQ / +20.2% YoY and -1.1% below our estimates
- EPS at INR 37.2 in Q3FY24 vs 34.2 / 31.1 in Q2FY24 / Q3FY23 respectively and versus our estimate of INR 37.6
- New TTM Deal wins TCV were at \$277.4 Mn vs \$313.1 Mn Q2FY24.
- Total TCV now stands at \$521.4 Mn in Q3FY24 versus \$479.3 Mn in Q2FY24.

Segment-wise Performance

- **BFSI** (31.2% of revenue) reported -0.5% QoQ / +8.8% YoY.
- **Healthcare & Lifesciences** (21.8% of revenue) reported +16.4% QoQ / +26.5% YoY.
- **Software, Hi-Tech & Emerging Industries** (47% of revenue) reported +0.1% QoQ / +11.8% YoY.

Financial Summary

Y/E Mar (Rs mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Net sales	57,107	83,506	98,186	1,14,032	1,30,280
EBITDA	9,582	15,191	16,980	20,815	25,033
Adjusted net profit	6,904	9,507	10,787	13,533	16,550
Free cash flow	4,169	10,016	11,795	11,798	15,724
EPS (Rs)	90.3	124.4	140.2	175.9	215.1
growth (%)	53%	38%	13%	25%	22%
P/E (x)	91.7	68.7	59.0	47.1	38.5
P/B (x)	91.7	68.7	59.0	47.1	38.5
EV/EBITDA (x)	65.7	41.5	37.4	30.4	25.2
ROCE (%)	17.2	21.4	20.5	22.8	24.0
RoE (%)	22.4	25.9	25.2	27.0	28.0
Dividend yield (%)	0.2	0.4	0.6	0.6	0.7

Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
HOLD	7,530	-9

Market data

Current price	Rs	8,280
Market Cap (Rs.Bn)	(Rs Bn)	640
Market Cap (US\$ Mn)	(US\$ Mn)	7,707
Face Value	Rs	10
52 Weeks High/Low	Rs	4,986 / 2,813
Average Daily Volume	('000)	141
BSE Code		533179
Bloomberg		PSYS.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-23	Sep-23
Promoters	31.06	31.06
Public	67.6	66.97
Others	1.34	1.97
Total	100.00	100.00

Source: Bloomberg

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Concall Highlights

- Persistent delivered positive growth despite the impact of furloughs. The focus on client technology spend prioritization for cost optimization and transformation contributed to this success. Early green shoots in the recovery of discretionary spends are also being observed.
- Geographically & verticals: North America saw a healthy growth of 3.7% QoQ, Europe de grew by -3.5% qoq, India revenue grew 6.2% QoQ & ROW revenue de grew by -9.8% QoQ. Healthcare saw good conversion in the scientific instruments and medical devices segments.
- Margin Walk: +82 bps expansion Q3 despite the impact of furloughs (-60 bps) and higher Subcon expenses (-60 bps) on account of the initial phase of deal ramp-ups, offset by margin accretive composition of IP revenue (+80 bps), higher utilization (+30 bps), lower travel costs (+30 bps) and cost optimization measures taken in Q2. Management anticipates margins to improve by 200-300 bps through enhanced utilization, lower attrition, and an improved employee pyramid. This quarter also yielded an FX gain of Rs 80.9 million (vs an Rs 83.7 million gain in Q2FY24).
- Headcount increased by 494 employees. The quarter's utilization rate improved to 81.5% from 80.6% in Q2FY24. The company onboarded 400 freshers during Q3 and Q2 of FY24. There is still potential for enhancing fresher utilization, a key factor for margin improvement in the next few quarters. Management aims for utilization to reach the range of 84-85%.
- Attrition dropped to 11.9% (vs 13.5% in Q2FY24). The attrition has come down to a comfortable band over the past few quarters.
- Order book: TCV stood at \$ 521.4 mn in Q3FY24 (+8.8% QoQ). On a TTM basis TCV was \$1.80 bn. While the ACV stood at \$392.1 mn (+24.1% QoQ). On a TTM basis ACV was \$1.29 bn.
- The DSO was stable at 66 days in this quarter.
- The customer count increased in the \$1mn-\$5 mn and \$20mn-\$30 mn buckets which has the potential to scale up further in the coming quarters.
- The company aims to continue its M&A strategy in consumer technology, cybersecurity, and Generative AI sectors, while expanding its European presence in the upcoming quarters.
- Persistent declared interim dividend of Rs 32 per share for FY24.
- The management is considering splitting the face value of shares from Rs 10 per share to Rs 5 per share, subject to shareholder's approval.

Outlook:

- Management aspires to improve the margins by 200-300 bps over the next 2 to 3 years on account of improvement in utilization, lower attrition and improved employee pyramid.

Quarterly Deviation Sheet

YE March (Rs. Mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)	Q3 FY24E	Deviation (%)
Net Sales (US\$ Mn)	300.6	291.7	3.0%	264.4	13.7%	301.2	(0.2%)
Net Sales (INR Mn)	24,982	24,117	3.6%	21,694	15.2%	25,003	(0.1%)
Less:							
Employees Remuneration & Benefits	18,096	17,759	1.9%	15,616	15.9%	17,974	0.7%
SG&A Expenses	2,468	2,306	7.0%	2,062	19.7%	2,525	(2.3%)
Total Operating Expenditure	20,564	20,065	2.5%	17,678	16.3%	20,500	0.3%
EBITDA	4,418	4,052	9.1%	4,016	10.0%	4,503	(1.9%)
EBIT	3,631	3,308	9.8%	3,332	9.0%	3,732	(2.7%)
Less: Depreciation	787	744		684		771	
Less: Interest	121	123	(1.4%)	135	(10.4%)	123	(1.4%)
Add: Other income	383	373	2.8%	328	17.0%	250	53.2%
Extraordinary Income	0	0		-297		0	
Profit Before Tax	3,893	3,558	9.4%	3,524	10.5%	3,859	0.9%
Adjusted Profit s	3,893	3,558	9.4%	3,228	20.6%	3,859	
Less: Total Tax	1,032	925		848		965	
PAT	2,861	2,633	8.7%	2,676	6.9%	2,894	(1.1%)
Adjusted PAT	2,861	2,633	8.7%	2,380	20.2%	2,894	(1.1%)
Reported Diluted EPS (Rs.)	37.2	34.2		35.0		37.6	
Adjusted Diluted EPS (Rs.)	37.2	34.2		31.1		37.6	
No of Shared Diluted (mn)	77	77		76		77	
Margin Analysis %	Q3FY24	Q2FY24	Change in bps	Q3FY23	Change in bps	Q3 FY24E	Deviation in bps
EBIT margin	14.5%	13.7%	82	15.4%	(83)	14.9%	(39)
EBIDTA Margin	17.7%	16.8%	89	18.5%	(82)	18.0%	(32)
NPM	11.5%	10.9%	54	12.3%	(88)	11.6%	(12)
Adjusted NPM	11.5%	10.9%	54	11.0%	48	11.6%	(12)
Effective Tax Rate %	26.5%	26.0%	50	24.1%	243	25.0%	150
Cost Analysis %	Q3FY24	Q2FY24	Change in bps	Q3FY23	Change in bps	Q3 FY24E	Deviation in bps
Employee Cost/Net Sales	72.4%	73.6%	(120)	72.0%	45	71.9%	54
SG&A/Net sales	9.9%	9.6%	32	9.5%	37	10.1%	(22)

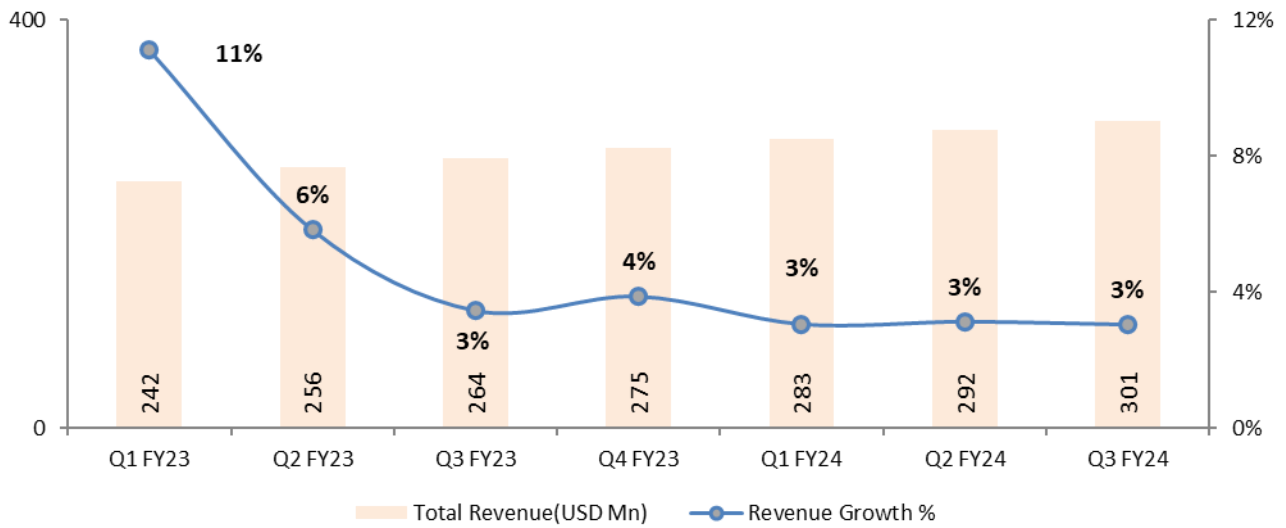
Source: Dalal & Broacha Research, Company

Valuation & Outlook

Persistent Systems continues to sustain its growth momentum, with expectations of further margin improvement by 200-300 basis points over the next 2 to 3 years. 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 spends. Attrition has decreased to comfortable levels, and there is an anticipation of improved utilization of fresher’s. Persistent Systems is poised to maintain its strong execution rate and secure healthy deal wins over the next two years.

Persistent Systems is currently trading at 59.0x / 47.1x / 38.5x FY24e/FY25e/FY26e EPS respectively. Taking the above factors into consideration, we recommend a HOLD rating and our target multiple of 35x FY26E EPS to arrive at TP of INR 7,530.

Exhibit 1: Total Revenue USD Growth



Source: : Dalal & Broacha Research, Company

Rs Mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Total Revenue (Rs Mn)	18,781	20,486	21,694	22,545	23,212	24,117	24,982
Revenue Growth %	14.7	9.1	5.9	3.9	10.8	-3.5	3.6
EBITDA %	17.7	18.0	18.5	18.5	16.1	16.8	17.7
OPM %	14.3	14.6	15.4	15.4	12.8	13.7	14.5
NPM %	11.3	10.7	11.0	11.2	9.9	10.9	11.5

Exhibit 2: Change in Geographical Presence

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
North America	189	201	204	214	224	231	240
N. America Growth Rate QoQ (%)		6.1	1.5	4.9	4.8	3.1	3.7
Europe	20.5	21.2	23.8	28.3	27.4	27.7	26.7
Europe Growth Rate QoQ (%)		3.3	12.2	18.9	-3.0	1.0	-3.5
India	27.3	29.4	32.5	27.5	28.0	28.3	30.1
India Growth Rate QoQ (%)		7.7	10.6	-15.6	2.0	1.0	6.2
ROW	4.3	4.1	4.2	4.9	3.4	4.7	4.2
ROW Growth Rate QoQ (%)		-5.9	3.4	16.8	-31.3	37.5	-9.8

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	98,186	1,14,032	1,30,280
<i>Growth %</i>	36.4%	46.2%	17.6%	16.1%	14.2%
Total Revenue	57,107	83,506	98,186	1,14,032	1,30,280
Employee Cost & Related Expenses	42,567	60,122	70,300	79,805	89,614
Miscellaneous Expenses	4,958	8,193	10,906	13,413	15,634
Total Operating Expenditure	47,526	68,315	81,206	93,217	1,05,247
EBIDTA	9,582	15,191	16,980	20,815	25,033
<i>Growth %</i>	40.3%	58.5%	11.8%	22.6%	20.3%
Less: Depreciation	1,660	2,719	3,110	3,421	3,778
EBIT	7,922	12,472	13,870	17,394	21,254
<i>Growth %</i>	56.1%	57.4%	11.2%	25.4%	22.2%
Interest Paid	118	473	491	491	491
Non-operating Income	1,440	706	1,231	1,140	1,303
Profit Before tax	9,243	12,409	14,610	18,043	22,066
Tax	2,339	3,198	3,823	4,511	5,517
Net Profit	6,904	9,211	10,787	13,533	16,550
Adjusted Profit	6,904	9,507	10,787	13,533	16,550
Reported Diluted EPS Rs	90.3	120.5	140.2	175.9	215.1
<i>Growth %</i>	53.2%	33.4%	16.4%	25.4%	22.3%
Adjusted Diluted EPS Rs	90.3	124.4	140.2	175.9	215.1
<i>Growth %</i>	53.2%	37.7%	12.7%	25.4%	22.3%

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	45,332	53,418	63,306
Equity	33,682	39,651	46,096	54,182	64,070
Net Worth	33,682	39,651	46,096	54,182	64,070
Total Loans	6,004	6,587	6,587	6,587	6,587
Capital Employed	39,931	46,610	53,129	61,295	71,300
Assets					
Gross Block	8,970	11,936	15,436	18,936	22,436
Less: Depreciation	6,052	7,076	10,186	13,607	17,385
Net Block	2,918	4,860	5,250	5,329	5,051
Investments	4,409	5,237	7,480	8,797	10,122
Intangible Assets	11,060	16,355	19,230	22,334	23,450
Current Assets					
Sundry Debtors	9,484	15,705	17,386	19,995	23,557
Current Investments	4,347	1,880	3,927	4,561	5,211
Cash and Bank Balance	9,145	9,033	9,242	10,109	13,889
Total Current Assets	32,202	36,251	40,424	46,125	56,272
Less: Current Liabilities & Provisions					
Sundry Creditors	5,823	7,917	8,454	9,449	10,092
Provisions	4,292	5,326	5,544	6,541	7,447
Other Current Liabilities	4,094	6,339	7,567	7,982	9,120
Total Current Liabilities & Provisions	14,210	19,581	21,565	23,972	26,659
Capital Applied	39,931	46,610	53,129	61,295	71,300

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY22	FY23	FY24E	FY25E	FY26E
Key Operating Ratios					
EBITDA Margin (%)	16.8%	18.2%	17.3%	18.3%	19.2%
Tax / PBT (%)	25.3%	25.8%	26.2%	25.0%	25.0%
Net Profit Margin (%)	12.1%	11.0%	11.0%	11.9%	12.7%
RoE (%)	22.4%	25.9%	25.2%	27.0%	28.0%
RoCE (%)	17.2%	21.4%	20.5%	22.8%	24.0%
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	599.2	704.3	832.9

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%	14.2%
EBITDA Growth (%)	40.3%	58.5%	11.8%	22.6%	20.3%
Net Profit Growth (%)	53.2%	33.4%	17.1%	25.4%	22.3%
Diluted EPS Growth (%)	53.2%	33.4%	16.4%	25.4%	22.3%

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	6,904	9,211	10,787	13,533	16,550
Add: Depreciation	1,660	2,719	3,110	3,421	3,778
Add: Interest Paid	118	473	491	491	491
Operating Profit before WC Changes	7,243	11,994	13,157	16,304	19,516
(Inc)/Dec in Current Assets	-8,057	-6,628	-1,916	-4,201	-5,717
Inc/(Dec) in Current Liabilities	6,512	5,372	1,984	2,408	2,687
Net Cash Generated From Operations	5,699	10,737	13,225	14,511	16,486
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	1,231	1,140	1,303
Cash Flow from Investing Activities	-10,746	-7,479	-8,406	-7,153	-5,021
Cash Flow from Financing Activities					
Dividend Paid	-2,368	-3,833	-3,776	-4,736	-5,792
Net Cash Flow from Financing Activities	2,860	-4,997	-4,760	-5,858	-7,035
Net Inc/Dec in cash equivalents	-2,187	-1,739	59	1,500	4,430
Opening Balance	9,809	9,145	9,033	9,242	10,109
Closing Cash Balance	7,622	7,406	9,092	10,743	14,539

Free Cash Flow Analysis					
	FY22	FY23	FY24E	FY25E	FY26E
EBITDA	9,582	15,191	16,980	20,815	25,033
Add: Depreciation Tax Shield	420	701	814	855	945
Working Capital Changes	-2,408	288	1,324	-1,861	-1,237
Less: Inc in FC Investment	1,085	2,966	3,500	3,500	3,500
Taxes Paid	2,339	3,198	3,823	4,511	5,517
Total Free Cash Flows	4,169	10,016	11,795	11,798	15,724

Source: Dalal & Broacha Research, Company

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