



Persistent Systems' Growth Momentum Persists Amidst Macro Concerns with Strong Deal Wins.

- \$ revenue: \$291.7 Mn, +3.1% qoq / +14.1% yoy and +0.1% vs our estimates
- INR revenue at 24,117 Mn, +3.9% qoq / +17.7% yoy and +0.1% vs our estimates
- EBITDA: INR 4,052 Mn, +8.2% qoq / +10.1% yoy and -5.2%
- EBITDA margins: 16.8%, vs 16.1% / 18.0% in Q1FY24 / Q2FY23 respectively
- EBIT: INR 2,308 Mn, +11% qoq / +10.8% yoy
- EBIT margins: 13.7%, vs 12.8% / 14.6% in Q1FY24 / Q2FY23 respectively.
- PAT: INR 2,633 Mn, +15.1% qoq / +19.7% yoy and -1.3% below our estimates
- EPS at INR 34.2 in Q2FY24 vs 29.7 / 28.8 in Q1FY24 / Q2FY23 respectively and versus our estimate of INR 34.7
- New TTM Deal wins TCW were also encouraging at \$313.1 Mn vs \$237.2 Mn Q1FY24 .
- Total TCW now stands at \$479.3 Mn in Q1FY24 versus \$380.3 Mn in Q1FY24.

Segment-wise Performance

- **BFSI** (32.3% of services revenue) reported +0% QoQ / +12.4% YoY
- **Healthcare & Lifesciences** (19.3% of revenue) reported +7% QoQ / +11.8% YoY.
- **Tech Companies** (48.4% of revenue) reported +3.8% QoQ / +16.3% YoY.

Financial Summary

Y/E Mar (Rs mn)	FY 21	FY 22	FY 23	FY 24E	FY 24E
Net sales	41,879	57,107	83,506	98,081	1,13,932
EBITDA	6,830	9,582	15,191	17,713	21,703
Adjusted net profit	4,507	6,904	9,507	11,484	14,105
Free cash flow	5,670	4,169	10,016	12,946	13,597
EPS (Rs)	59	90	124	149	183
growth (%)	32.4	53.2	37.7	20.0	22.8
P/E (x)	98	64	48	39	32
P/B (x)	98	64	48	39	32
EV/EBITDA (x)	63	46	29	25	20
ROCE (%)	14.1	17.2	21.4	20.8	21.5
RoE (%)	17.4	22.4	25.9	26.4	27.0
Dividend yield (%)	0.2	0.3	0.5	0.6	0.7

Source: Dalal & Broacha Research, Company

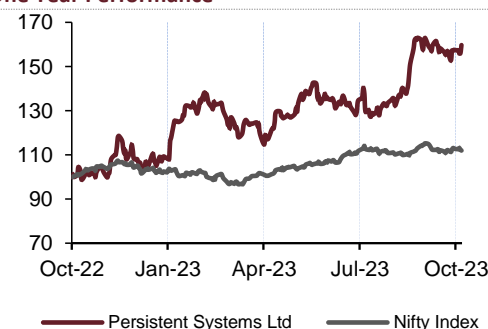
Rating	TP (Rs)	Up/Dn (%)
HOLD	5,317	-8

Market data

Current price	Rs	5,849
Market Cap (Rs.Bn)	(Rs Bn)	446
Market Cap (US\$ Mn)	(US\$ Mn)	5,404
Face Value	Rs	10
52 Weeks High/Low	Rs	4,986 / 2,813
Average Daily Volume	('000)	497
BSE Code		533179
Bloomberg		PSYS.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	31.06	31.26
Public	66.53	66.67
Others	2.00	2.00
Total	100	100

Source: Bloomberg

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Concall Highlights

- Persistent delivered positive growth despite a challenging macro environment, with record-breaking deal wins. The focus on client technology spend prioritization for cost optimization and transformation contributed to this success.
- Geographically & verticals: North America saw a healthy growth of 3.1% QoQ, Europe grew by 1% qoq & India revenue grew 1% QoQ. Healthcare saw good conversion in the scientific instruments and medical devices segments.
- Margin Walk: A -270 bps impact due to the regular wage hike cycle in Q2, partially offset by improved utilization, currency benefits, and the absence of Visa costs. This quarter, certain one-off marketing events and additional expenses for exited employees were offset by a one-off credit due to a reduction in liability towards performance-based earnouts in one of Persistent's acquisitions. 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 83.7 million (vs an Rs 64.09 million loss in Q1FY24).
- Headcount reduced by 288 employees. The quarter's utilization rate improved to 80.6% from 78.3% in Q1FY24. Gross hiring was lower than total employee exits in Q2, resulting in improved utilization. The company onboarded 277 freshers during this quarter. 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 83-84%.
- Attrition dropped to 13.5% (vs 15.5% in Q1FY24). The attrition has come down to a comfortable band.
- Order book: TCV stood at \$ 479.3 mn in Q2FY24 (+26% QoQ). On a TTM basis TCV was \$1.7214 bn, the order book includes some of the deal wins spilling over to this quarter. While the ACV stood at \$315.9 mn (+16.2% QoQ). On a TTM basis ACV was \$1.224.5 bn.
- The DSO improved by a day, to 66 days in this quarter.
- The customer count increased in all categories except the 20 mn to 30 mn bucket, which decreased by 2. This shift occurred as one customer moved to a higher category, while another moved to a lower category due to project ramp-ups and ramp-downs over the quarters.
- All of Persistent's acquisitions are fully integrated and achieving success in collaborative deal wins. 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 paid final dividend of Rs 22 per share during the quarter in July 2023.
- The management anticipates furloughs to be consistent with previous years, with some larger companies in the banking, BFSI, and tech sectors implementing them.

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)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)	Q2 FY24E	Deviation (%)
Net Sales (US\$ Mn)	291.7	282.9	3.1%	255.6	14.1%	291.3	0.1%
Net Sales (INR Mn)	24,117	23,212	3.9%	20,486	17.7%	24,086	0.1%
Less:							
Employees Remuneration & Benefits	17,759	16,312	8.9%	15,009	18.3%	17,163	3.5%
SG&A Expenses	2,306	3,156	(26.9%)	1,798	28.3%	2,649	(13.0%)
Total Operating Expenditure	20,065	19,468	3.1%	16,807	19.4%	19,813	1.3%
EBITDA	4,052	3,743	8.2%	3,680	10.1%	4,273	(5.2%)
EBIT	3,308	2,980	11.0%	2,987	10.8%	3,481	(5.0%)
Less: Depreciation	744	763		693		792	
Less: Interest	123	126	(2.5%)	111	10.6%	126	(2.5%)
Add: Other income	373	216	72.2%	81	362.8%	225	66.0%
Profit Before Tax	3,558	3,070	15.9%	2,956	20.4%	3,580	(0.6%)
Adjusted Profit s	3,558	3,070	15.9%	2,956	20.4%	3,580	
Less: Total Tax	925	783		756		913	
PAT	2,633	2,288	15.1%	2,200	19.7%	2,667	(1.3%)
Adjusted PAT	2,633	2,288		2,200		2,667	
Reported Diluted EPS (Rs.)	34.2	29.7		28.8		34.7	
Adjusted Diluted EPS (Rs.)	34.2	29.7		28.8		34.7	
No of Shared Diluted (mn)	77	77		76		77	
Margin Analysis %	Q2FY24	Q1FY24	Change in bps	Q2FY23	Change in bps	Q2 FY24E	Deviation in bps
EBIT margin	13.7%	12.8%	88	14.6%	(86)	14.5%	(74)
EBIDTA Margin	16.8%	16.1%	67	18.0%	(116)	17.7%	(94)
NPM	10.9%	9.9%	106	10.7%	18	11.1%	(16)
Adjusted NPM	10.9%	9.9%	106	10.7%	18	11.1%	(16)
Effective Tax Rate %	26.0%	25.5%	50	25.6%	43	25.5%	50
Cost Analysis %	Q2FY24	Q1FY24	Change in bps	Q2FY23	Change in bps	Q2 FY24E	Deviation in bps
Employee Cost/Net Sales	73.6%	70.3%	336	73.3%	37	71.3%	238
SG&A/Net sales	9.6%	13.6%	(404)	8.8%	79	11.0%	(144)

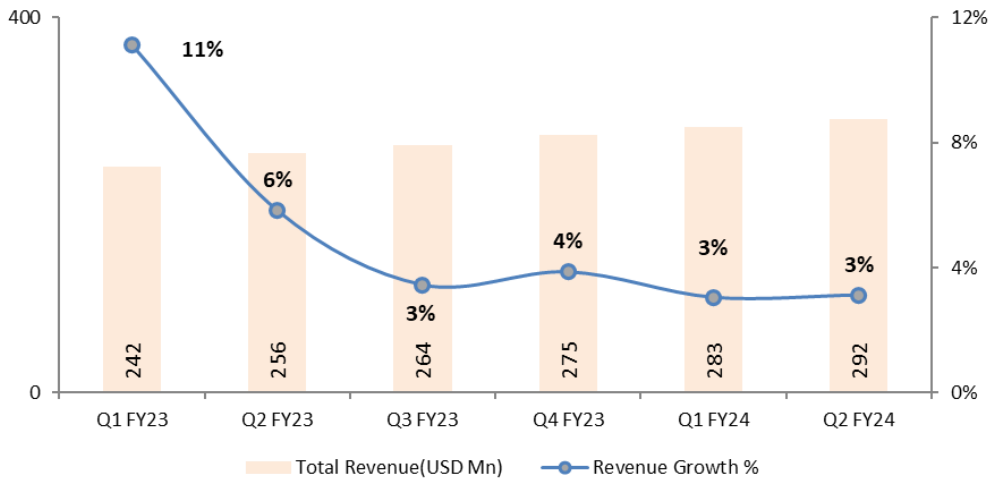
Source: Dalal & Broacha Research, Company

Valuation & Outlook

Persistent Systems sustains growth momentum, with expectations of further margin improvement by 200-300 bps over the next 2 to 3 years. The focus on Generative AI and cloud has resulted in encouraging new deal wins, despite macro concerns in North America. Attrition has decreased to comfortable levels, and fresher utilization is expected to improve. The company is anticipated to maintain its strong execution rate and healthy deal wins over the next 2 years.

Persistent Systems is currently trading at 38.8x / 31.6x FY24e/FY25e EPS respectively. Taking the above factors into consideration, we recommend a HOLD rating and our target multiple of 29x FY25e EPS to arrive at TP of INR 5,317.

Exhibit 1: Total Revenue USD Growth



Source: : Dalal & Broacha Research, Company

Exhibit 2:

Rs Mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Total Revenue (Rs Mn)	18,781	20,486	21,694	22,545	23,212	24,117
Revenue Growth %	14.7	9.1	5.9	3.9	3.0	3.9
EBITDA %	17.7	18.0	18.5	18.5	16.1	16.8
OPM %	14.3	14.6	15.4	15.4	12.8	13.7
NPM %	11.3	10.7	11.0	11.2	9.9	10.9

Exhibit 3: Change in Geographical Presence

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

Source: : Dalal & Broacha Research, Company

Financials

Profit & Loss A/c					
YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	41,879	57,107	83,506	98,081	1,13,932
<i>Growth %</i>	<i>17.4%</i>	<i>36.4%</i>	<i>46.2%</i>	<i>17.5%</i>	<i>16.2%</i>
Total Revenue	41,879	57,107	83,506	98,081	1,13,932
Employee Cost & Related Expense	30,722	42,567	60,122	69,701	78,557
Miscellaneous Expenses	4,327	4,958	8,193	10,666	13,672
Total Operating Expenditure	35,049	47,526	68,315	80,368	92,229
EBIDTA	6,830	9,582	15,191	17,713	21,703
<i>Growth %</i>	<i>38.8%</i>	<i>40.3%</i>	<i>58.5%</i>	<i>16.6%</i>	<i>22.5%</i>
Less: Depreciation	1,756	1,660	2,719	3,073	3,563
EBIT	5,075	7,922	12,472	14,640	18,141
<i>Growth %</i>	<i>55.5%</i>	<i>56.1%</i>	<i>57.4%</i>	<i>17.4%</i>	<i>23.9%</i>
Interest Paid	58	118	473	494	473
Non-operating Income	1,078	1,440	706	1,233	1,139
Profit Before tax	6,094	9,243	12,409	15,379	18,807
Tax	1,588	2,339	3,198	3,896	4,702
Net Profit	4,507	6,904	9,211	11,484	14,105
Adjusted Profit	4,507	6,904	9,507	11,484	14,105
Reported Diluted EPS Rs	59.0	90.3	120.5	149.3	183.4
<i>Growth %</i>	<i>32.4%</i>	<i>53.2%</i>	<i>33.4%</i>	<i>23.9%</i>	<i>22.8%</i>
Adjusted Diluted EPS Rs	59.0	90.3	124.4	149.3	183.4
<i>Growth %</i>	<i>32.4%</i>	<i>53.2%</i>	<i>37.7%</i>	<i>20.0%</i>	<i>22.8%</i>

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Liabilities					
Equity Capital	764	764	764	764	764
Reserves & Surplus	27,192	32,918	38,887	46,672	56,236
Equity	27,957	33,682	39,651	47,437	57,000
Net Worth	27,957	33,682	39,651	47,437	57,000
Total Loans	760	6,004	6,587	10,504	10,504
Capital Employed	28,958	39,931	46,610	58,349	67,997
Assets					
Gross Block	7,885	8,970	11,936	16,900	17,900
Less: Depreciation	5,483	6,052	7,076	10,149	13,712
Net Block	2,401	2,918	4,860	6,751	4,188
Investments	4,089	4,409	5,237	4,991	5,238
Intangible Assets	1,315	11,060	16,355	20,656	20,656
Current Assets					
Sundry Debtors	5,709	9,484	15,705	13,436	15,607
Current Investments	6,375	4,347	1,880	11,770	13,672
Cash and Bank Balance	9,809	9,145	9,033	6,715	14,929
Total Current Assets	26,838	32,202	36,251	41,777	55,658
Less: Current Liabilities & Provisions					
Sundry Creditors	2,733	5,823	7,917	6,385	7,328
Total Current Liabilities & Pro'	7,697	14,210	19,581	19,593	22,120
Capital Applied	28,958	39,931	46,610	58,349	67,997

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Key Operating Ratios					
EBITDA Margin (%)	16.3%	16.8%	18.2%	18.1%	19.0%
Tax / PBT (%)	26.1%	25.3%	25.8%	25.3%	25.0%
Net Profit Margin (%)	10.8%	12.1%	11.0%	11.7%	12.4%
RoE (%)	17.4%	22.4%	25.9%	26.4%	27.0%
RoCE (%)	14.1%	17.2%	21.4%	20.8%	21.5%
Current Ratio (x)	3.5x	2.3x	1.9x	2.1x	2.5x
Dividend Payout (%)	39.0%	39.4%	32.2%	32.2%	32.2%
Book Value Per Share (Rs.)	365.8	440.7	518.8	616.7	741.0

Growth Indicators %					
Growth in Gross Block (%)	7.0%	13.8%	33.1%	41.6%	5.9%
Sales Growth (%)	17.4%	36.4%	46.2%	17.5%	16.2%
EBITDA Growth (%)	38.8%	40.3%	58.5%	16.6%	22.5%
Net Profit Growth (%)	32.4%	53.2%	33.4%	24.7%	22.8%
Diluted EPS Growth (%)	32.4%	53.2%	33.4%	23.9%	22.8%

Cash Flows (Consolidated)					
YE March (Rs. Mn)	FY21	FY22	FY23	FY24E	FY25E
PAT	4,507	6,904	9,211	11,484	14,105
Add: Depreciation	1,756	1,660	2,719	3,073	3,563
Add: Interest Paid	58	118	473	494	473
Operating Profit before WC Ch	5,242	7,243	11,994	13,818	17,002
(Inc)/Dec in Current Assets	-359	-8,057	-6,628	2,045	-3,764
Inc/(Dec) in Current Liabilities	1,223	6,512	5,372	12	2,527
Net Cash Generated From Oper	6,107	5,699	10,737	15,875	15,764
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-515	-1,085	-2,966	-4,964	-1,000
Add: Non Operating Income Incon	1,078	1,440	706	1,233	1,139
Cash Flow from Investing Acti	2,098	-10,746	-7,479	-10,262	-717
Cash Flow from Financing Activities					
Dividend Paid	-1,529	-2,368	-2,579	-3,215	-3,949
Net Cash Flow from Financing	-1,472	2,860	-4,997	-239	-4,931
Net Inc/Dec in cash equivalent	6,733	-2,187	-1,739	5,374	10,117
Opening Balance	4,572	9,809	9,145	9,033	6,715
Closing Cash Balance	11,305	7,622	7,406	14,407	16,831

Free Cash Flow Analysis					
	FY21	FY22	FY23	FY24E	FY25E
EBITDA	6,830	9,582	15,191	17,713	21,703
Add: Depreciation Tax Shield	457	420	701	778	891
Working Capital Changes	485	-2,408	288	3,314	-3,295
Less: Inc in FC Investment	515	1,085	2,966	4,964	1,000
Taxes Paid	1,588	2,339	3,198	3,896	4,702
Total Free Cash Flows	5,670	4,169	10,016	12,946	13,597

Source: Dalal & Broacha Research, Company

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