



Persistent Systems reported solid numbers in Q4FY23 amidst tough macro situation.

- \$ revenue: \$274.6 Mn, +3.9% qoq / +26.3% yoy and in line with our estimates
- Services (93.2% of revenue) grew at 5.4% qoq / +29.2% yoy while IP led business (6.8% of revenue) down -13.9% qoq / -3.5% yoy
- INR revenue at 22,545 Mn, +3.9% qoq / +37.6% yoy and in line with our estimates
- EBITDA: INR 4,163 Mn, +3.7% qoq / +48.1% yoy and -0.5% vs our estimates
- EBITDA margins: 18.5%, vs 18.5% / 17.2% in Q3FY23 / Q4FY22 respectively and _12 bps below our estimates_
- EBIT: INR 3,465.9 Mn, +4% qoq / +50.7% yoy and -0.4% below our estimates
- EBIT margins: 15.4%, vs 15.4% / 14% in Q3FY23 / Q4FY22 respectively and 8 bps below our estimates
- PAT: INR 2,515 Mn, +5.7% qoq / +25.1% yoy and 5% below our estimates
- EPS at INR 32.9 in Q4FY23 vs 31.1 / 26.3 in Q3FY23 / Q4FY22 respectively and versus our estimate of INR 34.6
- New TTM Deal wins TCV were also encouraging and highest ever at \$250.3 Mn vs \$239 Mn Q3FY23
- Total TCV now stands at \$421.6 Mn in Q4FY23 versus \$440.2 Mn in Q3FY23

Segment-wise Performance

- **BFSI** (32.30% of services revenue) reported +2.9% qoq / +25.9% yoy
- **Healthcare & Lifesciences** (19.7% of revenue) reported +4.4% qoq / +20.% yoy
- **Tech Companies** (48% of revenue) reported +4.3% qoq / +29.3% yoy

Financial Summary

Y/E Mar (Rs mn)	FY 20	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Net sales	35,658	41,879	57,107	83,506	97,985	1,13,957
EBITDA	4,923	6,830	9,582	15,191	19,026	22,797
Adjusted net profit	3,403	4,507	6,904	9,507	11,635	14,220
Free cash flow	1,630	5,670	4,169	8,582	13,174	16,933
EPS (Rs)	44.5	59.0	90.3	124.4	152.2	186.1
growth (%)	1%	32%	53%	38%	22%	22%
P/E (x)	100.7	76.0	49.6	37.2	29.4	24.1
P/B (x)	100.7	76.0	49.6	37.2	29.4	24.1
EV/EBITDA (x)	68.7	48.8	35.4	23.0	18.1	14.7
ROCE (%)	10.2	14.1	17.2	20.4	21.6	22.4
RoE (%)	14.4	17.4	22.4	25.8	26.5	27.0
Dividend yield (%)	0.2	0.3	0.4	0.7	0.8	1.0

Source: Company

Rating	TP (Rs)	Up/Dn (%)
HOLD	4,766	7

Market data

Current price	Rs	4,472
Market Cap (Rs.Bn)	(Rs Bn)	344
Market Cap (US\$ Mn)	(US\$ Mn)	4,200
Face Value	Rs	10
52 Weeks High/Low	Rs	4,986 / 2,813
Average Daily Volume	('000)	788
BSE Code		533179
Bloomberg		PSYS.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	31.26	31.26
Public	66.67	66.47
Others	2	2.27
Total	100	100

Source: Bloomberg

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Concall Highlights

- Offshore Linear Growth of 9.6% qoq; Billing Rate: +0.3% qoq | Volumes: +9.3% qoq
- Onsite Linear Revenue declined by -1.2%; Billing Rate: +0.1% qoq | Volumes: -1.3% qoq
- Top customer which had ramped down in the previous 2 quarters recovered to grow by 30.5% qoq in USD terms in line with the expectations shared in the last quarter. The revenue from their second largest customer also recovered from the furlough impact last quarter seeing a sequential growth of 7.6%.
- The growth was partially impacted by a ramp down in one of their hyperscaler customer due to macro concerns which had a ramp down of ~\$3 mn for the quarter and ~\$10 mn on annualized basis. The hyperscaler account is expected to resume growth over the next several quarters.
- Geographically: North America saw a healthy growth of 4.8% qoq aided by growth in their top 5 customers. Europe grew 19.7% qoq on account of ramp up of multiple large deals signed in the earlier quarter. India revenue declined by 15.6% qoq on account of decline in IP revenue.
- *Margin Walk*: -30 bps impact from the annual planning event benefit while the currency remained flat, overall the margins remained flat. The management expects margins to improve by 200-300 bps on account of improvement in utilization, lower attrition and improved employee pyramid. This quarter saw a FX loss of Rs 189.1 mn (vs 105.4 mn gain in Q3) essentially due to dollar weakness in Jan & Feb.
- IP revenues saw a drop of -14.6% during the quarter due to seasonality in this business. The IP revenue for last year included royalty revenue from one of the contracts that was restructured, which is not included this year which is partly the reason for the decline in the IP revenue.
- Headcount: addition of 291 employees. Utilization for the quarter was 77.3% (vs 77.6% in Q3FY23). All fresher's are now part of the billable talent pool which should help them achieve 82 to 83% utilization level in the medium term.
- Attrition dropped to 19.8% (drop of 180 bps qoq) it should continue to moderate going ahead in FY24.
- ETR for the quarter was 26.2 is expected to be in the range of 25.5-26.5%.
- Healthy order book with TCV at \$ 421.6 mn in Q4FY23 (+16.8% YoY). On a TTM basis was \$1.6 bn (up 32.8% YoY).
- The DSO saw a rise as SVB was a banker for them and some customers who were paying via SVB took some time to shift to other US banks which led to a slippage of 2 days. They aspire to reduce the DSO by 2-3 days in FY24.
- All the recently acquired business are fully integrated. The company is looking for M&A in the consumer technology, Cyber security, Generative AI space and expand their presence in Europe.
- Persistent declared a final dividend of Rs 12 per share and a special dividend of Rs 10 per share on account of achieving \$ 1 billion in annual revenue.

Outlook:

- The management endeavors to deliver 3.5-5.5% CQGR in FY24. They aspire to deliver industry leading growth in FY24 where industry is expected to grow 7-10% in FY24.
- Management expects the margins to improve by 200-300 bps on account of improvement in utilization, lower attrition and improved employee pyramid.
- The softness due to macro concerns in North America should last for a couple of quarters, and is expected to recover in the second half of FY24.

Quarterly Deviation Sheet

YE March (Rs. Mn)	Q4 FY23	Q3 FY23	Q-o-Q change %	Q4 FY22	Y-o-Y change %	Q4 FY23 estimates	Deviation %
Net Sales (US\$ Mn)	274.6	264.4	3.9%	217	26.3%	274.4	0.07%
Net Sales (INR Mn)	22,545	21,694	3.9%	16,379	37.6%	22,515	0.13%
Less:							
Employees Remuneration & Benefits	15,787	15,616	1.1%	12,213	29.3%	16,080	(1.8%)
SG&A Expenses	2,595	2,062	25.8%	1,354	91.6%	2,252	15.2%
Total Operating Expenditure	18,382	17,678	4.0%	13,567	35.5%	18,331	0.3%
EBITDA	4,163	4,016	3.7%	2,812	48.1%	4,184	(0.5%)
EBIT	3,465.9	3,332.0	4.0%	2,300	50.7%	3,478	(0.4%)
Less: Depreciation	697	684		511		706	
Less: Interest	148	135	9.7%	49	200.9%	135	9.7%
Add: Other income	88	328	(73.1%)	421	(100.2%)	248	(64.4%)
Extraordinary Income	0	-297		0		0	
Profit Before Tax	3,406	3,228	5.5%	2,672	27.5%	3,591	(5.2%)
Adjusted Profits	3,406	3,524	(3.4%)	2,672	27.5%	3,591	
Less: Total Tax	891	848		662		944	
PAT	2,515	2,380	5.7%	2,010	25.1%	2,647	(5.0%)
Adjusted PAT	2,515	2,676	(6.0%)	2,010	25.1%	2,647	(5.0%)
Reported Diluted EPS (Rs.)	32.9	31.1		26.3		34.6	
Adjusted Diluted EPS (Rs.)	32.9	35.0		26		34.6	
No of Shared Diluted (mn)	76	76		76		76	
Margin Analysis %	Q4 FY23	Q3 FY23	Change in bps	Q4FY22	Change in bps	Q4 FY23 estimates	Deviation in bps
EBIT margin	15.4%	15.4%	1	14.0%	133	15.4%	(8)
EBIDTA Margin	18.5%	18.5%	(4)	17.2%	130	18.6%	(12)
NPM	11.2%	11.0%	19	12.3%	(112)	11.8%	(60)
Adjusted NPM	11.2%	12.3%	(118)	12.3%	(112)	11.8%	(60)
Effective Tax Rate %	26.2%	26.3%	(13)	24.8%	138	26.3%	(13)
Cost Analysis %	Q4 FY23	Q3 FY23	Change in bps	Q4FY22	Change in bps	Q4 FY23 estimates	Deviation in bps
Employee Cost/Net Sales	70.0%	72.0%	(196)	74.6%	(454)	71.4%	(139)
SG&A/Net sales	11.5%	9.5%	200	8.3%	324	10.0%	151

Valuation & Outlook

Persistent Systems has consistently delivered growth with significant improvement in margins over the last 5 quarters. New deal wins are at an all-time high and extremely encouraging despite the macro concerns in North America where it should bounce back resiliently in H2 of FY24. Attrition has been controlled and is expected to improve going further. We expect the company to continue its strong execution rate coupled with healthy momentum in deal wins over the next 2 years.

Persistent Systems is currently trading at 28.8x / 23.5x FY24e/FY25e EPS respectively. Taking the above factors into consideration, we recommend a HOLD rating and our target multiple of 25x FY25e EPS to arrive at TP of INR 4,766.

Financials

Profit & Loss A/c						
YE March (Rs. mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	35,658	41,879	57,107	83,506	97,985	1,13,957
<i>Growth %</i>	5.9%	17.4%	36.4%	46.2%	17.3%	16.3%
Total Revenue	35,658	41,879	57,107	83,506	97,985	1,13,957
Less:						
Employee Cost & Related Expenses	25,475	30,722	42,567	60,122	68,654	78,625
Miscellaneous Expenses	5,260	4,327	4,958	8,193	10,304	12,535
Total Operating Expenditure	30,735	35,049	47,526	68,315	78,958	91,160
EBIDTA	4,923	6,830	9,582	15,191	19,026	22,797
<i>Growth %</i>	-10.6%	38.8%	40.3%	58.5%	25.2%	19.8%
Less: Depreciation	1,660	1,756	1,660	2,719	3,064	3,563
EBIT	3,263	5,075	7,922	12,472	15,962	19,234
<i>Growth %</i>	-17.1%	55.5%	56.1%	57.4%	28.0%	20.5%
Interest Paid	63	58	118	473	631	473
Non-operating Income	1,324	1,078	1,440	706	392	456
Profit Before tax	4,523	6,094	9,243	12,409	15,723	19,216
Tax	1,121	1,588	2,339	3,198	4,088	4,996
Net Profit before Minority	3,403	4,507	6,904	9,211	11,635	14,220
Net Profit	3,403	4,507	6,904	9,211	11,635	14,220
Adjusted Profit	3,403	4,507	6,904	9,507	11,635	14,220
Reported Diluted EPS Rs	44.5	59.0	90.3	120.5	152.2	186.1
<i>Growth %</i>	1.3%	32.4%	53.2%	33.4%	26.3%	22.2%
Adjusted Diluted EPS Rs	44.5	59.0	90.3	124.4	152.2	186.1
<i>Growth %</i>	1.3%	32.4%	53.2%	37.7%	22.4%	22.2%

Free Cash Flow Analysis						
	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA	4,923	6,830	9,582	15,191	19,026	22,797
Add: Depreciation Tax Shield	411	457	420	701	797	926
Working Capital Changes	-2,604	485	-2,408	2,817	-1,561	-795
Less: Inc in FC Investment	-20	515	1,085	6,930	1,000	1,000
Taxes Paid	1,121	1,588	2,339	3,198	4,088	4,996
Total Free Cash Flows	1,630	5,670	4,169	8,582	13,174	16,933

Balance Sheet (Consolidated)

YE March(Rs. mn)	FY 20	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Liabilities						
Equity Capital	764	764	764	764	764	764
Reserves & Surplus	23,093	27,192	32,918	39,163	47,052	56,693
Equity	23,858	27,957	33,682	39,927	47,816	57,457
Preference Share Capital						
Net Worth	23,858	27,957	33,682	39,927	47,816	57,457
Net Deferred tax liab	183	241	246	336	429	525
Total Loans	407	760	6,004	10,504	10,504	10,504
Capital Employed	24,448	28,958	39,931	50,767	58,749	68,485
Assets						
Gross Block	7,370	7,885	8,970	15,900	16,900	17,900
Less: Depreciation	5,145	5,483	6,052	8,771	11,835	15,399
Net Block	2,225	2,401	2,918	7,128	5,065	2,501
Capital WIP	166	122	1,071	1,566	1,838	2,138
Investments	5,311	4,089	4,409	4,755	4,990	5,239
Intangible Assets	1,661	1,315	11,060	20,656	20,656	20,656
Others Assets	960	1,038	1,123	1,642	1,926	2,240
Current Assets						
Sundry Debtors	5,922	5,709	9,484	11,439	13,423	15,611
Current Investments	5,165	6,375	4,347	8,351	11,758	13,675
Cash and Bank Balan	4,572	9,809	9,145	3,440	9,000	17,438
Loans and Advances	190	206	3,879	877	1,029	1,197
Other Current Asset:	4,183	4,739	5,347	7,516	8,819	10,256
Total Current Asse	20,032	26,838	32,202	31,623	44,028	58,176
Less:Current Liabilities & Provisions						
Sundry Creditors	2,247	2,733	5,823	5,428	6,273	7,243
Provisions	1,611	2,700	4,292	4,637	5,928	7,245
Other Current Liabili	2,616	2,264	4,094	6,539	7,553	7,977
Total Current Liab	6,474	7,697	14,210	16,603	19,754	22,464
Capital Applied	24,448	28,958	39,931	50,767	58,749	68,485

Key Ratios (Consolidated)

YE March (Rs. mn)	FY 20	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Key Operating Ratios						
EBITDA Margin (%)	13.8%	16.3%	16.8%	18.2%	19.4%	20.0%
Tax / PBT (%)	24.8%	26.1%	25.3%	25.8%	26.0%	26.0%
Net Profit Margin (%)	9.5%	10.8%	12.1%	11.0%	12.1%	12.8%
RoE (%)	14.4%	17.4%	22.4%	25.8%	27.1%	27.5%
RoCE (%)	10.2%	14.1%	17.2%	20.4%	21.5%	22.3%
Current Ratio (x)	3.1x	3.5x	2.3x	1.9x	2.2x	2.6x
Dividend Payout (%)	30.1%	39.0%	39.4%	32.2%	32.2%	32.2%
Book Value Per Share (Rs.)	312.2	365.8	440.7	522.4	628.0	757.2
Growth Indicators %						
Growth in Gross Block (%)	(0.3%)	7.0%	13.8%	77.3%	6.3%	5.9%
Sales Growth (%)	5.9%	17.4%	36.4%	46.2%	17.3%	16.3%
EBITDA Growth (%)	(10.6%)	38.8%	40.3%	58.5%	25.2%	19.8%
Net Profit Growth (%)	(3.2%)	32.4%	53.2%	33.4%	29.2%	22.5%
Diluted EPS Growth (%)	1.3%	32.4%	53.2%	33.4%	29.2%	22.5%

Cash Flows (Consolidated)						
YE March (Rs. Mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
PAT	3,403	4,507	6,904	9,211	11,635	14,220
Add: Depreciation	1,660	1,756	1,660	2,719	3,064	3,563
Add: Interest Paid	63	58	118	473	631	473
Operating Profit before WC Changes	3,802	5,242	7,243	11,994	14,938	17,801
(Inc)/Dec in Current Assets	-1,250	-359	-8,057	-1,121	-3,438	-3,793
Inc/(Dec) in Current Liabilities	1,629	1,223	6,512	2,394	3,150	2,711
Net Cash Generated From Operations	4,181	6,107	5,699	13,267	14,650	16,718
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	20	-515	-1,085	-6,930	-1,000	-1,000
(Inc)/Dec in Capital Work In Progress	-154	44	-949	-495	-272	-300
(Inc)/Dec in Investment (Strategic)	-275	1,000	-256	-100	-100	-100
(Inc)/Dec in Investment (Others)	-273	223	-64	-246	-135	-149
Add: Non Operating Income	1,324	1,078	1,440	706	392	456
(Inc)/Dec in Intangible Assets	-236	268	-9,830	-10,115	-285	-314
Cash Flow from Investing Activities	406	2,098	-10,746	-17,179	-1,399	-1,406
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	325	411	5,248	4,590	93	95
Inc/(Dec) in Reserves & Surplus	-1,942	1,350	1,545	0	0	0
Inc/(Dec) in Equity	-27	0	0	0	0	0
Dividend Paid	-917	-1,529	-2,368	-2,579	-3,258	-3,982
Tax Paid on Dividend	-106	-229	-355	-387	-489	-597
Less: Interest Paid	-63	-58	-118	-473	-631	-473
Net Cash Flow from Financing Activities	-4,303	-1,472	2,860	854	-4,284	-4,957
Net Inc/Dec in cash equivalents	284	6,733	-2,187	-3,059	8,967	10,355
Opening Balance	6,724	4,572	9,809	9,145	3,440	9,000
Closing Cash Balance	7,008	11,305	7,622	6,086	12,407	19,355

Source: Dalal & Broacha Research, Company

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