



Persistence is the Key in a Soft quarter...

Persistent Systems growth momentum slows in Q1FY24 amidst tough macro situation.

- \$ revenue: \$282.9 Mn, +3% qoq / +17.1% yoy and -0.2% vs our estimates
- INR revenue at 23,212 Mn, +3% qoq / +23.6% yoy and -0.3% vs our estimates
- EBITDA: INR 3,743 Mn, -10.1% qoq / +12.3% yoy and -11.7%
- EBITDA margins: 16.1%, vs 18.5% / 17.7% in Q4FY23 / Q1FY23 respectively
- EBIT: INR 2,980 Mn, -14% qoq / +10.9% yoy
- EBIT margins: 12.8%, vs 15.4% / 14.3% in Q4FY23 / Q1FY23 respectively, the margins are including the 1bn dollar celebration expenses (INR 486.16 Mn).
- PAT: INR 2,288 Mn, -9% qoq / +8.1% yoy and 14.7% below our estimates
- EPS at INR 29.9 in Q4FY23 vs 32.9 / 27.7 in Q4FY23 / Q1FY23 respectively and versus our estimate of INR 35.1
- New TTM Deal wins TCV were also encouraging at \$237.2 Mn vs \$250.3 Mn Q4FY23
- Total TCV now stands at \$380.3 Mn in Q1FY24 versus \$421.6 Mn in Q4FY23

Segment-wise Performance

- **BFSI** (33.30% of services revenue) reported +6.2% qoq / +15.8% yoy
- **Healthcare & Lifesciences** (18.6% of revenue) reported -2.7% qoq / +9.5% yoy
- **Tech Companies** (48.1% of revenue) reported +3.3% qoq / +21.4% yoy

Financial Summary

Y/E Mar (Rs mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
Net sales	41,879	57,107	83,506	96,647	1,12,360
EBITDA	6,830	9,582	15,191	18,228	21,936
Adjusted net profit	4,507	6,904	9,507	11,598	14,298
Free cash flow	5,670	4,169	10,016	13,581	13,735
EPS (Rs)	59.0	90.3	124.4	151.8	187.1
growth (%)	32%	53%	38%	22%	23%
P/E (x)	81.3	53.0	39.8	31.6	25.6
P/B (x)	81.3	53.0	39.8	31.6	25.6
EV/EBITDA (x)	52.3	37.9	23.9	20.3	16.4
ROCE (%)	14.1	17.2	21.4	21.5	21.5
RoE (%)	17.4	22.4	25.9	26.6	27.3
Dividend yield (%)	0.3	0.4	0.6	0.7	0.9

Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
HOLD	4,864	2

Market data

Current price	Rs	4,750
Market Cap (Rs.Bn)	(Rs Bn)	365
Market Cap (US\$ Mn)	(US\$ Mn)	4,456
Face Value	Rs	10
52 Weeks High/Low	Rs	4,986 / 2,813
Average Daily Volume	('000)	336
BSE Code		533179
Bloomberg		PSYS.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-23	Mar-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

- The Next 2 quarters the management expect market to remain tough with projects getting delayed and growth resuming post that. They have been working on strengthening their partnerships with leading Hyperscallers in Generative AI. They target to train 16k of their employees over the next several quarters in Gen AI.
- Geographically & verticals: North America saw a healthy growth of 4.9% qoq, Europe declined 2.8% qoq & India revenue grew 1.5% qoq. BFSI have done well this quarter but the management expect this vertical to remain soft over the next couple of quarters. Health care and life sciences was weak this quarter but they expect this vertical to do well going forward.
- *Margin Walk*: -210 bps impact due to 1Bn dollar celebrations, -40 bps impact from H1B visa costs & -20 bps impact due to opening up of offices & -10 bps impact due to slight increase of doubtful debts, overall the margins declined by 30 bps excluding the 1 bn dollar celebration costs. 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 64.09 mn (vs 189.09 mn loss in Q4).
- Headcount: addition of 241 employees. Utilization for the quarter was 78.3% (vs 77.3% in Q3FY23). There is still room to improve fresher Utilization which remains a key lever to improve the margins in the next few quarters.
- Attrition dropped to 15.5% (drop of 430 bps qoq) it has come down to a comfortable band.
- ETR for the quarter was 26.2 is expected to be in the range of 25.5-26.5%.
- Order book with TCV at \$ 380.3 mn in Q1FY24 (-9.8% YoY). On a TTM basis was \$1.609.9 bn, due to uncertain macro environment some deals were delayed.
- The DSO improved by a day, but due to long weekend in the US coinciding with the end of the quarter the collections spilled (USD 9.8 mn) over to July which could have brought done the DSO and helped the cashflows.
- All their acquisitions are fully integrated and they are winning deals jointly. The company is looking for M&A in the consumer technology, Cyber security, Generative AI space and expand their presence in Europe.

Outlook:

- The management endeavors to deliver 2-4,3-5% CQGR in the uncertain macros in FY24.
- Management aspires to improve the margins by 200-300 bps on account of improvement in utilization, lower attrition and improved employee pyramid.

Quarterly Deviation Sheet

YE March (Rs. Mn)	Q1 FY24	Q4 FY23	Q-o-Q change %	Q1 FY23	Y-o-Y change %	Q1 FY24 estimates	Deviation %
Net Sales (US\$ Mn)	282.9	274.6	3.0%	241.5	17.1%	283.4	(0.2%)
Net Sales (INR Mn)	23,212	22,545	3.0%	18,781	23.6%	23,292	(0.3%)
Less:							
Employees Remuneration & Benefits	16,312	15,787	3.3%	13,710	19.0%	16,492	(1.1%)
SG&A Expenses	3,156	2,595	21.6%	1,739	81.5%	2,562	23.2%
Total Operating Expenditure	19,468	18,382	5.9%	15,448	26.0%	19,055	2.2%
EBITDA	3,743	4,163	(10.1%)	3,333	12.3%	4,238	(11.7%)
EBIT	2,980	3,466	(14.0%)	2,688	10.9%	3,509	(15.1%)
Less: Depreciation	763	697		645		729	
Less: Interest	126	148	(15.1%)	79	59.8%	69	82.7%
Add: Other income	216	88	145.2%	210	3.2%	186	16.2%
Extraordinary Income	0	0		0		0	
Profit Before Tax	3,070	3,406	(9.8%)	2,819	8.9%	3,626	(15.3%)
Adjusted Profit s	3,070	3,406	(9.8%)	2,819	8.9%	3,626	
Less: Total Tax	783	891		703		943	
PAT	2,288	2,515	(9.0%)	2,116	8.1%	2,683	(14.7%)
Adjusted PAT	2,288	2,515		2,116		2,683	
Reported Diluted EPS (Rs.)	29.9	32.9		27.7		35.1	
Adjusted Diluted EPS (Rs.)	29.9	32.9		27.7		35.1	
No of Shares Diluted (mn)	76	76		76		76	
Margin Analysis %	Q1 FY24	Q4 FY23	Change in bps	Q1 FY23	Change in bps	Q1 FY24 estimates	Deviation in bps
EBIT margin	12.8%	15.4%	(254)	14.3%	(147)	15.1%	(223)
EBIDTA Margin	16.1%	18.5%	(234)	17.7%	(162)	18.2%	(207)
NPM	9.9%	11.2%	(130)	11.3%	(141)	11.5%	(166)
Adjusted NPM	9.9%	11.2%	(130)	11.3%	(141)	11.5%	(166)
Effective Tax Rate %	25.5%	26.2%	(66)	24.9%	57	26.0%	(51)
Cost Analysis %	Q1 FY24	Q4 FY23	Change in bps	Q1 FY23	Change in bps	Q1 FY24 estimates	Deviation in bps
Employee Cost/Net Sales	70.3%	70.0%	25	73.0%	(272)	70.8%	(53)
SG&A/Net sales	13.6%	11.5%	209	9.3%	434	11.0%	260

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Persistent Systems growth momentum continues, margins to improve further by 200-300 bps in the future. With focus on Generative Ai, cloud new deal wins are encouraging despite the macro concerns in North America. Attrition has come down to comfortable levels and improvement of fresher’s Utilizations should 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 31.6x / 25.6x FY24e/FY25e EPS respectively. Taking the above factors into consideration, we recommend a HOLD rating and our target multiple of 26x FY25e EPS to arrive at TP of INR 4,864.

Financials

Profit & Loss A/c					
YE March (Rs. mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
Net Sales	41,879	57,107	83,506	96,647	1,12,360
<i>Growth %</i>	<i>17.4%</i>	<i>36.4%</i>	<i>46.2%</i>	<i>15.7%</i>	<i>16.3%</i>
Total Revenue	41,879	57,107	83,506	96,647	1,12,360
Employee Cost & Rel	30,722	42,567	60,122	67,184	77,235
Miscellaneous Exper	4,327	4,958	8,193	11,234	13,189
Total Operating E	35,049	47,526	68,315	78,418	90,424
EBIDTA	6,830	9,582	15,191	18,228	21,936
<i>Growth %</i>	<i>38.8%</i>	<i>40.3%</i>	<i>58.5%</i>	<i>20.0%</i>	<i>20.3%</i>
Less: Depreciation	1,756	1,660	2,719	3,059	3,513
EBIT	5,075	7,922	12,472	15,170	18,423
<i>Growth %</i>	<i>55.5%</i>	<i>56.1%</i>	<i>57.4%</i>	<i>21.6%</i>	<i>21.4%</i>
Interest Paid	58	118	473	504	0
Non-operating Incon	1,078	1,440	706	901	899
Profit Before tax	6,094	9,243	12,409	15,567	19,322
Tax	1,588	2,339	3,198	3,969	5,024
Net Profit	4,507	6,904	9,211	11,598	14,298
Adjusted Profit	4,507	6,904	9,507	11,598	14,298
Reported Diluted EPS Rs	59.0	90.3	120.5	151.8	187.1
<i>Growth %</i>	<i>32.4%</i>	<i>53.2%</i>	<i>33.4%</i>	<i>25.9%</i>	<i>23.3%</i>
Adjusted Diluted EPS Rs	59.0	90.3	124.4	151.8	187.1
<i>Growth %</i>	<i>32.4%</i>	<i>53.2%</i>	<i>37.7%</i>	<i>22.0%</i>	<i>23.3%</i>

Free Cash Flow Analysis					
	FY 21	FY 22	FY 23	FY 24E	FY 25E
EBITDA	6,830	9,582	15,191	18,228	21,936
Add: Depreciation	457	420	701	780	913
Working Capital C	485	-2,408	288	3,505	-3,091
Less: Inc in FC Inv	515	1,085	2,966	4,964	1,000
Taxes Paid	1,588	2,339	3,198	3,969	5,024
Total Free Cash Fl	5,670	4,169	10,016	13,581	13,735

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
Liabilities					
Equity Capital	764	764	764	764	764
Reserves & Surplus	27,192	32,918	38,887	46,750	56,444
Equity	27,957	33,682	39,651	47,514	57,208
Net Worth	27,957	33,682	39,651	47,514	57,208
Total Loans	760	6,004	6,587	10,504	10,504
Capital Employed	28,958	39,931	46,610	58,435	68,239
Assets					
Gross Block	7,885	8,970	11,936	16,900	17,900
Less: Depreciation	5,483	6,052	7,076	10,135	13,648
Net Block	2,401	2,918	4,860	6,765	4,251
Investments	4,089	4,409	5,237	4,977	5,224
Intangible Assets	1,315	11,060	16,355	20,656	20,656
Current Assets					
Sundry Debtors	5,709	9,484	15,705	13,239	15,392
Current Investments	6,375	4,347	1,880	11,598	13,483
Cash and Bank Balan	9,809	9,145	9,033	7,218	15,959
Total Current Asse	26,838	32,202	36,251	41,768	56,126
Less: Current Liabilities & Provisions					
Sundry Creditors	2,733	5,823	7,917	6,230	7,184
Total Current Liab	7,697	14,210	19,581	19,444	22,334
Capital Applied	28,958	39,931	46,610	58,435	68,239

Key Ratios (Consolidated)

YE March (Rs. mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
Key Operating Ratios					
EBITDA Margin (%)	16.3%	16.8%	18.2%	18.9%	19.5%
Tax / PBT (%)	26.1%	25.3%	25.8%	25.5%	26.0%
Net Profit Margin (%)	10.8%	12.1%	11.0%	12.0%	12.7%
RoE (%)	17.4%	22.4%	25.9%	26.6%	27.3%
RoCE (%)	14.1%	17.2%	21.4%	21.5%	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	365.8	440.7	518.8	621.7	748.6

Growth Indicators %

Growth in Gross Bloc	7.0%	13.8%	33.1%	41.6%	5.9%
Sales Growth (%)	17.4%	36.4%	46.2%	15.7%	16.3%
EBITDA Growth (%)	38.8%	40.3%	58.5%	20.0%	20.3%
Net Profit Growth (%)	32.4%	53.2%	33.4%	25.9%	23.3%
Diluted EPS Growth (%)	32.4%	53.2%	33.4%	25.9%	23.3%

Cash Flows (Consolidated)

YE March (Rs. Mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
PAT	4,507	6,904	9,211	11,598	14,298
Add: Depreciation	1,756	1,660	2,719	3,059	3,513
Add: Interest Paid	58	118	473	504	0
Operating Profit b	5,242	7,243	11,994	14,260	16,913
(Inc)/Dec in Current	-359	-8,057	-6,628	2,386	-3,732
Inc/(Dec) in Current	1,223	6,512	5,372	-137	2,890
Net Cash Generate	6,107	5,699	10,737	16,509	16,070
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed As	-515	-1,085	-2,966	-4,964	-1,000
Add: Non Operating I	1,078	1,440	706	901	899
Cash Flow from Im	2,098	-10,746	-7,479	-10,526	-951
Cash Flow from Financing Activities					
Dividend Paid	-1,529	-2,368	-2,579	-3,248	-4,003
Net Cash Flow froi	-1,472	2,860	-4,997	-278	-4,493
Net Inc/Dec in cas	6,733	-2,187	-1,739	5,705	10,626
Opening Balance	4,572	9,809	9,145	9,033	7,218
Closing Cash Balar	11,305	7,622	7,406	14,738	17,844

Source: Dalal & Broacha Research, Company

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