

Consecutive strong quarter; Goal of \$2 bn.

CMP: INR 3,829

Rating: Neutral

Target Price: INR 3,845

Stock Info

BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Computers-Software
Face Value (INR)	10
Equity Capital (INR mn)	764
Mkt Cap (INR mn)	2,92,363
52w H/L (INR)	4,986/3091
Avg Yearly Vol (in 000')	314

Shareholding Pattern %

(As on June, 2022)

Promoters	31.26
FII	20.45
DII	25.94
Public & Others	22.35

	1m	3m	12m
Persistent Systems	16.9	16.5	-10.6
Nifty 50	-0.77	7.42	-5.06

Persistent Systems Vs Nifty 50



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Strong revenue growth: Persistent System (PSL) reported revenue of \$255.6Mn (up 5.8% QoQ/40.2%YoY in USD terms) against our estimate of \$253 Mn. Reported revenue of INR 20,486 Mn up 9.1% QoQ/ 51.6% YoY against our estimate of INR 20,269 Mn. The growth was driven by IP-led and services business.

Expansion in margin front: EBIT margin was up 27bps QoQ/+72bpsYoY at 14.6% above our estimates of 13.7%. The company's margin improved as the increase in IP revenues +80 bps, currency benefit +90 bps and lower travel & subcontractor costs + 120 bps mitigated by the following headwinds: wage hike -230 bps, provision for doubtful debts -20 bps and CSR spend -10 bps.

Robust order booking: The order booking for the Q1FY23, was at \$367.8 Mn in Total Contract Value (TCV) included a large deal TCV of \$80 mn to be executed over five years and at \$271.2 Mn in Annual Contract Value (ACV). The company tried to alleviate fears on low Book to Bill, citing not to read too much into the numbers as deal TCVs and ACVs continue to remain healthy. The company indicated that some softness in Europe in Q2FY23 was led by vacations and that the clarity on the impact of furloughs would be known by mid-November. Growth in the medium-term would be supported by healthy bookings, revenue synergies in the acquired business, new logo additions and rising cost optimization and transformation opportunities.

Higher utilization, attrition rate moderates: The company's utilization during the quarter improved by 40 bps QoQ to 79.9% in Q2FY2023. Offshoring revenue mix improved sequentially to 57.4% in Q2FY2023. Attrition rate moderated by 110 bps to 23.7% in Q2FY2023 compared to 24.8% in Q2FY2022.

Valuations

We believe, Persistent Systems has a resilient business structure from a long-term perspective and multiple long-term contracts with the world's leading brands. The company has achieved US\$1 bn revenue on a quarterly annualized basis and is now aiming at US\$2 bn annual revenue in the medium term. It acquired five companies in FY22 building capabilities in payments, cloud, etc. Persistent is not shying away from acquisitions in coming years as well. Strong deal win momentum will help improve its revenue growth. We expect dollar revenue to grow at 24% CAGR in FY22-25E along with EBIT margin expansion to 14.9%/15.5%/15.2% over FY22-25E.

We value, Persistent system at a PE of 25x to its FY25E EPS of 168, which yields a target price of INR 3,845 per share (Earlier target price of INR 3,910 per share). We downgrade our rating from Hold to Neutral.

Exhibit 1: Financial Performance

Particulars (INR Mn)	Revenues (US\$ mn)	Net Sales	EBIT	PATEPS (INR)	EBIT Margin %	RoE (%)	P/E (x)
FY22	766	57,107	7,922	6,904	90.3	13.9%	20.5%
FY23E	1046	81,625	12,121	10,104	126.3	14.9%	24.9%
FY24E	1309	96,846	15,011	12,306	153.8	15.5%	24.9%
FY25E	1463	108,270	16,457	13,430	167.9	15.2%	22.8%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Exhibit 2: Q2FY23 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Revenue (\$ Mn)	255.6	241.5	182.3	5.8%	40.2%
Net Revenue	20,486	18,781	13,512	9.1%	51.6%
Employee Cost	15,009	13,710	10,092	9.5%	48.7%
Other Expenses	1,798	1,739	1,177	3.4%	52.8%
EBITDA	3,680	3,333	2,244	10.4%	64.0%
<i>EBITDA Margin %</i>	<i>18.0%</i>	<i>17.7%</i>	<i>16.6%</i>	<i>22bps</i>	<i>135bps</i>
Depreciation	693	645	371	7.4%	86.9%
EBIT	2,987	2,688	1,873	11.1%	59.4%
<i>EBIT Margin %</i>	<i>14.6%</i>	<i>14.3%</i>	<i>13.9%</i>	<i>27bps</i>	<i>72bps</i>
Other Income	81	210	324	-61.6%	-75.2%
Finance Cost	111	79	21	40.9%	430.5%
Exceptional Item	-	-	-	-	-
PBT	2,956	2,819	2,176	4.9%	35.8%
Tax Expense	756	703	559	7.6%	35.3%
Effective Tax Rate %	25.6%	24.9%	25.7%	64bps	-10bps
PAT	2,200	2,116	1,618	4.0%	36.0%
MI & Associates	-	-	-	-	-
Consolidated PAT	2,200	2,116	1,618	4.0%	36.0%
<i>PAT Margin %</i>	<i>10.7%</i>	<i>11.3%</i>	<i>12.0%</i>	<i>-53bps</i>	<i>-123bps</i>
EPS (INR)	29.61	28.50	21.16	3.9%	39.9%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q2FY23 Conference call Highlights:

- The software, hi-tech, and emerging industries vertical grew by 8.3% QoQ and 38.4% YoY, The BFSI vertical grew by 3% QoQ and 49.8% YoY.
- Moderation in growth was seen in all key geographies Q2FY2023. North America business grew by 6.1% in Q2Y2023 compared to 10.9% growth in Q1FY2023, while business growth in Europe growth moderated to 3.3% QoQ. India business reported revenue growth of 7.7% QoQ. Rest of world (RoW) business had a revenue growth of 5.9% QoQ.
- As far as top customer (which is a global major tech company) is concerned, revenue mix for the same is coming down as a result of continued revenue decline. Persistent mentioned that quarterly variations are a reflection of certain decision making at its end pertaining to prioritization of certain tech spends. The company further said it is working with this client for the last 18 years and is also a part of their certain future programs. There is no risk to this revenue mix. Persistent also reiterated that there were certain contract changes (for five-year deal) that it did with this client, a few quarters back, wherein time and material contract has been converted into fixed price contract to scale up margins. It may reflect in future company margins. Persistent expects around US\$2 mn impact of these developments on its revenue.
- On M&A aspiration, the company said that all its historical acquisitions are largely integrated as integration of recently acquired data glove and media agility is in final stages. Persistent indicated that it is now actively looking for acquisitions, especially in the Europe regions where significant valuation correction is visible and will not shy away from the deal if it is a strategic fit for them.
- The company's LTM attrition declined 110 bps QoQ to 23.7%. This the third consecutive quarter wherein the attrition has declined. Persistent further indicated that it expects attrition to moderate further in H2FY23.
- As far as weak BFSI revenues for the quarter are concerned, the company mentioned that quarterly variations are possible in this vertical. It also mentioned that banks and insurance businesses are prioritizing their tech spends. Hence, some moderation is possible but long term growth is intact. Persistent also said that its BFSI is largely in the US, India geography while it has minimal exposure to mortgage business clients in BFSI segment. Hence, it is not expecting any impact of weak macros on its banking business.

Exhibit 3: Business Matrix

Revenue from the top clients fell 21.3% QoQ. Revenue from the top-5 clients fell by 7.6% QoQ, while revenue from the top-10 clients fell by 4.6% QoQ.

Revenues from the top 2-5 clients decelerated by 16.6% QoQ. Revenue from the top-20 clients was constant QoQ, while revenue from the non-top-20 clients grew by 11.9% QoQ.

The number of clients under the \$20 million+ bucket increased by two in Q2FY23

DSO days remained constant at 60 days.

Revenue	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Revenue from Operations, USD M	166.8	182.3	199.1	217.3	241.5	255.6
% Q - o -Q growth	9.2%	9.3%	9.2%	9.1%	11.1%	5.8%
% Y - o -Y growth	27.3%	34.0%	36.2%	42.2%	44.8%	40.2%
Revenue from Operations, INR M	12299	13512	14917	16379	18781	20486
% Q - o -Q growth	10.50%	9.90%	10.40%	9.80%	14.67%	9.08%
% Y - o -Y growth	24.10%	34.10%	38.70%	47.10%	52.70%	51.61%
Business Offerings Revenue Mix	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Services	86.90%	87.50%	86.70%	91.10%	93.00%	92.20%
IP Led	13.10%	12.50%	13.30%	8.90%	7.00%	7.80%
Total	100%	100%	100%	100%	100%	100%
Segment Revenue Mix	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
BFSI	30.8%	30.70%	32.20%	32.40%	33.70%	32.80%
Healthcare & Life Sciences	20.5%	21.20%	20.70%	20.70%	19.90%	19.70%
Software, Hi -Tech & Emerging Industries	48.7%	48.10%	47.10%	46.90%	46.40%	47.50%
Total	100.00%	100.00%	100.00%	100%	100%	100%
Geography Revenue Mix	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
North America	78.9%	78.7%	79.20%	78.60%	78.40%	78.60%
Europe	9.5%	8.8%	8.30%	8.40%	8.50%	8.30%
India	9.8%	10.5%	10.90%	11%	11%	12%
ROW	1.8%	2.0%	1.60%	2.00%	1.80%	1.60%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Client Contribution	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Top 1	17.0%	16.9%	17.5%	14.0%	11.7%	8.7%
Top 5	36.5%	35.8%	36.1%	32.5%	30.8%	26.9%
Top 10	46.7%	45.4%	45.0%	42.1%	40.7%	36.7%
Top 20	56.7%	55.3%	54.1%	52.1%	51.2%	48.4%
Revenue by Delivery Centers	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Global Development Centers	31.4%	30.4%	31.4%	34.5%	36.5%	34.8%
India	55.5%	57.1%	55.3%	56.6%	56.5%	57.4%
IP Led	13.1%	12.5%	13.3%	8.9%	7.0%	7.8%
Client Billed	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Services	568	596	625	678	735	767
IP Led	132	130	122	125	129	134
Client Engagement Size	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
\$30M+	2	2	2	2	3	3
\$20M – \$30M	2	2	2	2	1	3
\$10M – \$20M	5	5	6	6	7	6
\$5M – \$10M	12	13	14	15	15	18
\$1M – \$5M	76	84	90	93	104	116
People Numbers	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Technical	13833	14657	15721	17283	20144	20941
Sales and Business Development	308	296	294	317	367	387
Others	763	926	974	999	1127	1148
Total	14904	15879	16989	18599	21638	22476
Linear Revenue Per Billed PM*	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Global Delivery Centers	17004	16544	16043	16383	16423	16181
India	4286	4307	4252	4317	4387	4498
Attrition Rate	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
TTM Basis	16.6%	23.6%	26.90%	26.60%	24.80%	23.70%
IP Led	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
IP Led Person Months	3918	4000	3911	3225	3278	3036
DSO	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Days	54	55	58	59	60	60
Efforts and Utilization Mix — Linear	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Billable Person Months	30807	33212	35938	41026	45900	47704
Global Delivery Centers	3480	3840	4519	5260	6336	6438
India	27327	29372	31419	35766	39564	41266
Billed Person Months	24676	27503	29819	33050	36487	38098
Global Delivery Centers	3080	3354	3891	4578	5364	5495
India	21596	24149	25928	28472	31123	32603
Linear Utilization	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23
Blended	80.1%	82.8%	83.0%	80.6%	79.5%	79.9%
Global Delivery Centers	88.5%	87.3%	86.1%	87.0%	84.6%	85.4%
India	79.0%	82.2%	82.5%	79.6%	78.7%	79.0%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Exhibit 4: Robust growth led by IP-led and services business.

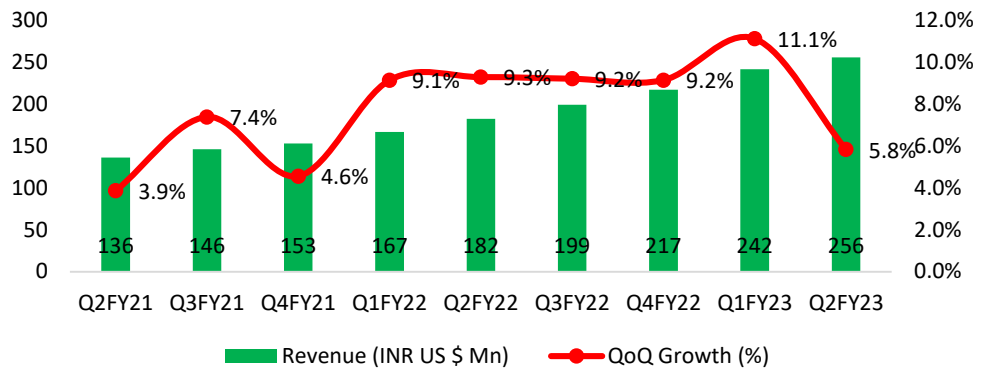


Exhibit 5: Revenue trend (In INR)

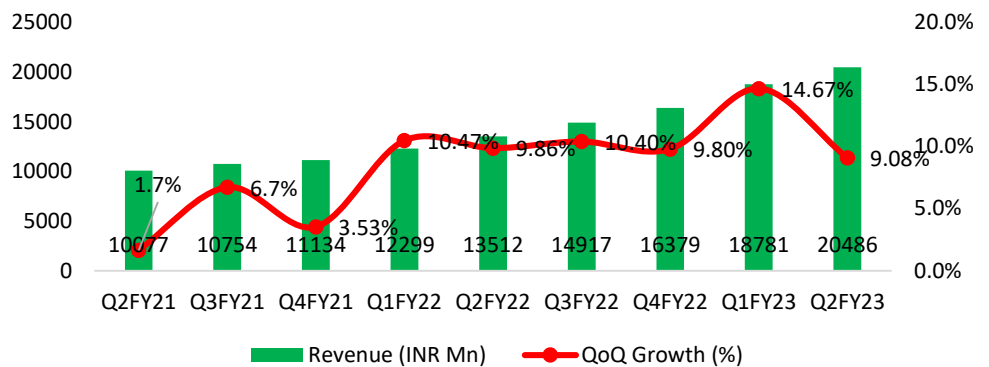


Exhibit 6: Margin improvement led by currency benefits

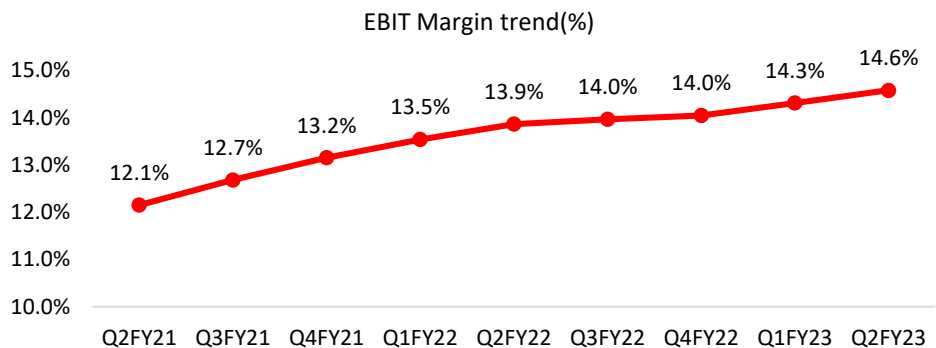
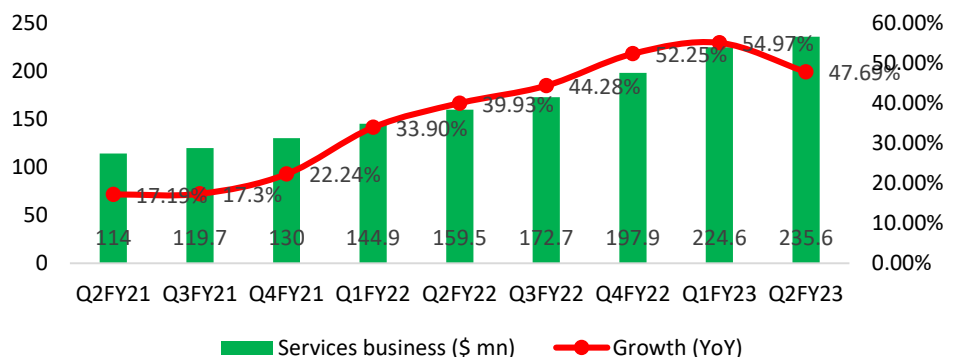


Exhibit 7: Services business trend



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement				
Income Statement (INR Mn)	FY22	FY23E	FY24E	FY25E
Revenues (US\$ mn)	766	1046	1309	1463
Change (%)	35.2%	36.7%	25.1%	11.8%
Revenues	57,107	81,625	96,846	108,270
Change (%)	36.4%	42.9%	18.6%	11.8%
Total Expenses	47,526	66,810	78,639	88,240
EBITDA	9,582	14,815	18,207	20,030
EBITDA Margin (%)	16.8%	18.2%	18.8%	18.5%
Depreciation	1,660	2,694	3,196	3,573
EBIT	7,922	12,121	15,011	16,457
EBIT Margin (%)	13.9%	14.9%	15.5%	15.2%
Other Income	1,321	1,405	1,462	1,522
Interest	-	-	-	-
PBT	9,243	13,527	16,473	17,979
Extra-ordinary	-	-	-	-
PBT after ext-ord.	9,243	13,527	16,473	17,979
Tax	2,339	3,422	4,168	4,549
Rate (%)	25.3%	25.3%	25.3%	25.3%
PAT	6,904	10,104	12,306	13,430
MI & Associates	-	-	-	-
Consolidated PAT	6,904	10,104	12,306	13,430

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY22	FY23E	FY24E	FY25E
PBT	9,243	13,527	16,473	17,979
Depreciation	1,660	2,694	3,196	3,573
Interest & others	(1,321)	(1,405)	(1,462)	(1,522)
Cash flow before WC changes	9,582	14,815	18,207	20,030
(Inc)/dec in working capital	6,899	(60)	1,209	908
Operating CF after WC changes	16,481	14,755	19,417	20,938
Less: Taxes	(2,339)	(3,422)	(4,168)	(4,549)
Operating Cash Flow	14,142	11,333	15,249	16,389
(Inc)/dec in F.A + CWIP	(13,702)	(6,504)	(6,504)	(6,503)
(Pur)/sale of investment	1,772	-	-	-
Cash Flow from Investing	(11,930)	(12,658)	(12,658)	(12,657)
Free Cash Flow (FCF)	10,334	7,533	11,449	12,590
Loan raised/(repaid)	4,281	-	-	-
Equity raised	-	-	-	-
Interest & others	(5,170)	7,667	5,176	4,415
Dividend	(1,987)	(1,987)	(1,987)	(1,987)
Cash Flow from Financing Activities	(2,876)	5,680	3,189	2,428
Net inc/(dec) in cash	(664)	4,355	5,779	6,160
Opening balance of cash	9,809	9,145	13,499	19,278
Closing balance of cash	9,145	13,499	19,278	25,438

Balance Sheet				
Balance Sheet (INR Mn)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	764	764	764	764
Reserves & Surplus	32,918	39,774	48,144	57,195
Net Worth	33,682	40,539	48,908	57,959
Loan Funds	4,325	4,325	4,325	4,325
MI, Deferred Tax & other Liabilities	-	-	-	-
Capital Employed	38,008	44,864	53,234	62,285
Application of Funds				
Net Block	7,284	11,084	14,884	18,683
CWIP	1,071	1,071	1,071	1,071
Other Non-current Assets	11,591	11,591	11,591	11,591
Deferred Tax Assets	1,123	1,123	1,123	1,123
Net Fixed Assets	21,069	24,869	28,669	32,468
Investments	8,225	8,225	8,225	8,225
Debtors	9,484	13,641	16,185	18,094
Inventories	-	-	-	-
Cash & Bank Balance	9,145	13,499	19,278	25,438
Loans & Advances & other CA	8,706	8,706	8,706	8,706
Total Current Assets	28,693	35,847	44,170	52,238
Current Liabilities	16,029	20,127	23,880	26,697
Provisions	3,950	3,950	3,950	3,950
Net Current Assets	8,714	11,770	16,340	21,592
Total Assets	38,008	44,864	53,234	62,285

Key Ratios				
Key Ratios (INR Mn)	FY22	FY23E	FY24E	FY25E
Per share (Rs)				
EPS	90.3	126.3	153.8	167.9
CEPS	108.2	160.0	193.8	212.5
BVPS	425.7	506.7	611.4	724.5
DPS	31.0	42.5	51.5	57.3
Div. Payout (%)	35.5%	33.6%	33.5%	34.1%
Valuation (x)				
P/E	42.4	30.3	24.9	22.8
P/CEPS	35.4	23.9	19.8	18.0
P/BV	9.0	7.6	6.3	5.3
EV/EBITDA	31.1	20.1	16.0	14.2
Dividend Yield (%)	0.8%	1.1%	1.3%	1.5%
Return Ratio (%)				
EBITDA Margin	16.8%	18.2%	18.8%	18.5%
EBIT Margin	13.9%	14.9%	15.5%	15.2%
PAT Margin	12.1%	12.4%	12.7%	12.4%
ROE	20.5%	24.9%	25.2%	23.2%
ROCE	20.8%	27.0%	28.2%	26.4%
Leverage Ratio (x)				
Total D/E	0.00	0.00	0.00	0.00
Net D/E	-0.1	-0.2	-0.3	-0.4
Turnover Ratios				
Asset Turnover (x)	1.5	1.8	1.8	1.7
Receivable Days	61	61	61	61
Payable days	128	90	90	90

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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