

**Consecutive strong quarter; Goal of \$1 bn.**

Arihant Capital values your support in the Asiamoney Brokers Poll 2022 for Institutional Team. We request your ballot

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**CMP: INR 3,633**

**Rating: Hold**

**Target Price: INR 3,910**

**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)	3,28,971
52w H/L (INR)	4,988/2,813
Avg Yearly Vol (in 000')	314

**Shareholding Pattern %**

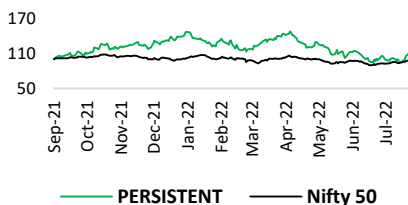
(As on June, 2022)

Promoters	31.26
FII	20.45
DII	25.94
Public & Others	22.35

**Stock Performance (%)**

	1m	3m	12m
Persistent Systems	1.9	-9.8	28.4
Nifty 50	8.4	-2.6	5.6

**Persistent Systems Vs Nifty 50**



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**Strong sequentially for the fifth consecutive quarter:** Persistent System (PSL) reported revenue of \$241.5Mn (up 11.1% QoQ/44.8%YoY in USD terms) against our estimate of \$235 Mn. Reported revenue of INR 18,781 up 14.7% QoQ/ 52.7% YoY against our estimate of INR 18,737mn. The growth was led by BFSI (up 19.2%QOQ/67.3%YoY), Software, Hi-tech and Emerging Industries ( 13.4%QoQ/ 45.4% YoY) and Healthcare &Life science ( 10.4%QoQ/ 47.8% YoY).

**Expansion in margin front:** EBIT margin was up 27bps QoQ/+77bpsYoY at 14.3% above our estimates of 13.5%. Despite various headwinds, including continued supply side challenges, higher travel costs, higher amortization and Visa cost which happens once in a year in the Q1 for the company. Healthy revenue growth and currency with the key tailwinds that aided margins.

**Robust order booking:** The order booking for the Q1FY23, was at \$394 mn in Total Contract Value (TCV) and at \$263 mn off with the new bookings ACV contributed \$239.8 mn.

**Geography front-Europe** Among major markets, North America led with +78.4% QoQ; Continental Europe slightly below from Q1FY22 by +8.5%QoQ and ROW in-line with Q1FY22 by +1.8%QoQ.

**Strong Headcount:** Added new employee of 3,039 including 545 from the acquisition of media agility and total strength stood at 21,638 at the end of Q1FY23 +45.2% YoY. This is the first quarter where Persistent employee count has crossed 20k. Out of the total net hiring the company added 1,950 fresh graduates in line with the strategy to expand sources of talent, for a profitable growth going forward. These fresh graduates are undergoing training in various technology and business areas. And will be deployed over the next three to six months.

**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. Persistent continuously delivering strong sequential growth in fifth consecutive quarters and we expect, it will deliver 34.6% YoY USD growth in FY23E led by robust deal-wins across focus industry segments a healthy pipeline, stable profitability, despite increasing amortization on account of acquisitions. However, The company will continue its aggressive hiring of employees, which will help in overcoming project delivery challenges going ahead. Management's priority will be to focus on growth while sustaining margins. **This coupled with the recent correction in prices prompt us to upgrade the stock from Neutral to Hold with a revised target price of INR 3,910 per share (PE of 30x on FY24E EPS).**

Particulars (INR Mn)	Revenues (US\$ mn)	Net Sales	EBIT	PAT	EPS (INR)	EBIT Margin %	RoE (%)	P/E (x)
FY21	566	41,879	5,075	4,507	59.0	12.1%	16.1%	61.6
FY22	766	57,107	7,922	6,904	90.3	13.9%	20.5%	40.2
FY23E	1031	76,269	10,868	9,145	114.3	14.3%	24.4%	31.8
FY24E	1152	85,222	12,528	10,426	130.3	14.7%	24.0%	27.9

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

## Q1FY23 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Revenue (Mn USD)	241.5	217.3	166.8	11.1%	44.8%
<b>Net Revenue</b>	<b>18,781</b>	<b>16,379</b>	<b>12,299</b>	<b>14.7%</b>	<b>52.7%</b>
Employee Cost	13,710	12,213	9,128	12.3%	50.2%
Other Expenses	1,739	1,354	1,156	28.4%	50.4%
<b>EBITDA</b>	<b>3,333</b>	<b>2,812</b>	<b>2,015</b>	<b>18.5%</b>	<b>65.4%</b>
<i>EBITDA Margin %</i>	<i>17.7%</i>	<i>17.2%</i>	<i>17.0%</i>	<i>58bps</i>	<i>75bps</i>
Depreciation	645	511	350	26.2%	22.0%
<b>EBIT</b>	<b>2,688</b>	<b>2,300</b>	<b>1,665</b>	<b>16.8%</b>	<b>61.4%</b>
<i>EBIT Margin %</i>	<i>14.3%</i>	<i>14.0%</i>	<i>13.5%</i>	<i>27bps</i>	<i>77bps</i>
Other Income	210	421	388	-50.1%	5.1%
Finance Cost	79	49	23	59.9%	248.5%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>2,819</b>	<b>2,672</b>	<b>2,031</b>	<b>5.5%</b>	<b>38.8%</b>
Tax Expense	703	662	518	6.1%	40.5%
Effective Tax Rate %	24.9%	24.8%	25.5%	15bps	-59bps
<b>PAT</b>	<b>2,116.12</b>	<b>2,009.9</b>	<b>1,512.5</b>	<b>5.3%</b>	<b>45.9%</b>
MI & Associates	-	-	-	-	-
<b>Consolidated PAT</b>	<b>2,116.12</b>	<b>2,009.9</b>	<b>1,512.5</b>	<b>5.3%</b>	<b>39.9%</b>
<i>PAT Margin %</i>	<i>11.3%</i>	<i>12.3%</i>	<i>12.3%</i>	<i>-100bps</i>	<i>-103bps</i>
<b>EPS (INR)</b>	<b>28.50</b>	<b>26.30</b>	<b>19.79</b>	<b>8.4%</b>	<b>44.0%</b>

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

**Q1FY23 Conference call Highlights:**

- **Head Counts:** It was another good quarter in terms of employee addition, The company expect to add another 1,350 fresh graduates in Q2 In this financial year as a part of fresher hiring program. utilization for the quarter came in at 79.5% of 1.1% decline from 80.6% for Q4.
- **Utilization:** This utilization is excluding the freshers added during the quarter. Both fresher addition and increased utilization over time will be key operational levers for the company to absorb the impact of wage hikes in Q2 and other margin headwinds going forward, while giving the cushion to grow in the way the company bookings.
- **Segment:** The segmental growth for the quarter, registering healthy growth, BFSI grew by 15.6% technology companies segment grew at 10.1%.Some of the inorganic growth came in the segment, which is the technology company segment. While healthcare grew by 6.7%.
- **Offshore:** In terms of nature of revenue Offshore linear revenue grew by 11.1% primarily on account of volume growth of 9.3% while billing rate increased by 1.6%. On site linear revenue grew by 17.4% comprising of volume growth of 17.2%.While billing rate increased by 0.2%.
- **Margin:** During the quarter, currency movement was favorable and had 90bps positive impact on margin. The higher travel expenses included H1 the filing this quarter, which is a seasonal future. Persistent could collect some of the receivables, which were provided for earlier losing some bps to the margin.
- **Acquisition:** During the quarter amortization was higher on account of the new acquisitions. During the quarter the company provide Media agility while data glove was acquired in March, 22 does this quarter has the full quarter impact of the data glove acquisition and about 2 months impact of media Agility acquisition. The company spend INR 400 cr fund the acquisition over the last few quarters.
- **Demand:** Overall, the demand environment for the company stays very healthy. The company like to reiterate that thus far the company has not seen any material delays to any client decision making and pipeline and deal wins reflect the same.
- **Deal wins:** Starting with the Software, Hi-Tech & Emerging Industries, chosen by an as an engineering partner to enhance the roadmap of a select a suite of products. For one of the leading European software companies. This is an enterprise software company and the deal is a 7 year deal in excess of \$50 mn and it is the largest single deal by far for the company from the European continent. Persistent chosen by one of the largest technology companies to provide mutual support in domain, such as net working performance high reliability device deployment, directly services and user experience. On the BFSI in insurance side chosen by largest listed third party administrator of insurance services to modernize its datacenter and provide cloud transformation and infrastructure services.

In terms of nature of revenue Offshore linear revenue grew by 11.1% primarily on account of volume growth of 9.3% while billing rate increased by 1.6%. Don site linear revenue grew by 17.4% comprising of volume growth of 17.2%.

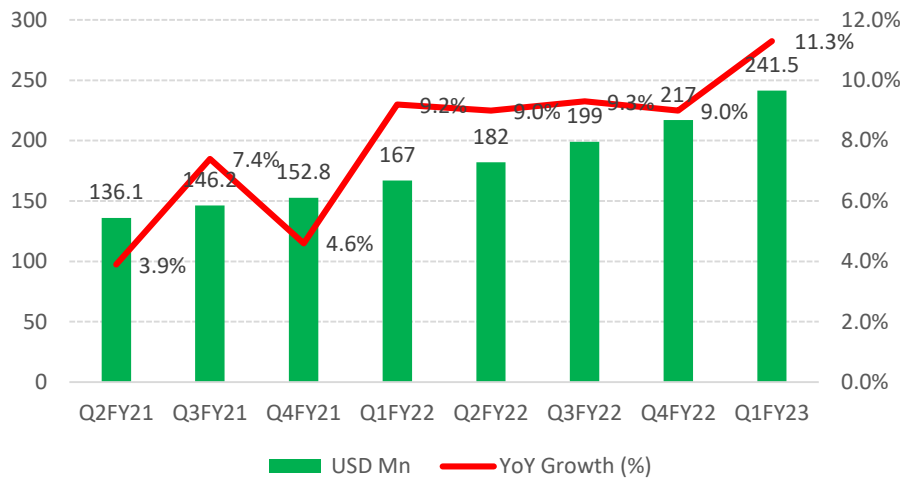
Billing rate increased by 0.2%. Now to give you a little more color on the movement of customer segments.

DSO came in at 60 days as against 59 days in the previous quarter marginal increase in DSO was due to certain collections spilling over to the first week of July.

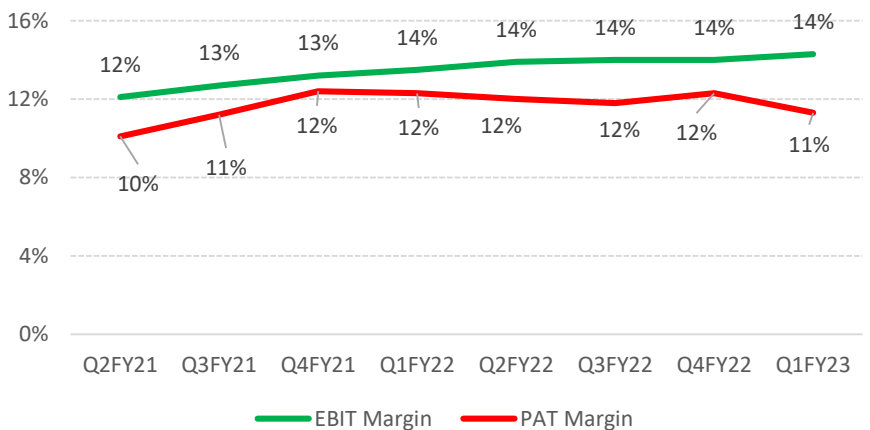
Business Offerings Revenue Mix	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
Services	86.90%	87.50%	86.70%	91.10%	93.00%
IP Led	13.10%	12.50%	13.30%	8.90%	7.00%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Segment Revenue Mix	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
BFSI	30.8%	30.70%	32.20%	32.40%	33.70%
Healthcare & Life Sciences	20.5%	21.20%	20.70%	20.70%	19.90%
Software, Hi -Tech & Emerging Industries	48.7%	48.10%	47.10%	46.90%	46.40%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100%</b>	<b>100%</b>
Geography Revenue Mix	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
North America	78.9%	78.7%	79.20%	78.60%	78.40%
Europe	9.5%	8.8%	8.30%	8.40%	8.50%
India	9.8%	10.5%	10.90%	11%	11%
ROW	1.8%	2.0%	1.60%	2.00%	1.80%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Client Contribution	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
Top 1	17.0%	16.9%	17.5%	14.0%	11.7%
Top 5	36.5%	35.8%	36.1%	32.5%	30.8%
Top 10	46.7%	45.4%	45.0%	42.1%	40.7%
Top 20	56.7%	55.3%	54.1%	52.1%	51.2%
Revenue by Delivery Centers	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
Global Development Centers	31.4%	30.4%	31.4%	34.5%	36.5%
India	55.5%	57.1%	55.3%	56.6%	56.5%
IP Led	13.1%	12.5%	13.3%	8.9%	7.0%
Client Billed	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
Services	568	596	625	678	735
IP Led	132	130	122	125	129
Client Engagement Size	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
\$30M+	2	2	2	2	3
\$20M – \$30M	2	2	2	2	1
\$10M – \$20M	5	5	6	6	7
\$5M – \$10M	12	13	14	15	15
\$1M – \$5M	76	84	90	93	104
People Numbers	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
Technical	13833	14657	15721	17283	20144
Sales and Business Development	308	296	294	317	367
Others	763	926	974	999	1127
<b>Total</b>	<b>14904</b>	<b>15879</b>	<b>16989</b>	<b>18599</b>	<b>21638</b>
Linear Revenue Per Billed PM*	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
Global Delivery Centers	17004	16544	16043	16383	16423
India	4286	4307	4252	4317	4387
Attrition Rate	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
TTM Basis	16.6%	23.6%	26.90%	26.60%	24.80%
IP Led	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
IP Led Person Months	3918	4000	3911	3225	3278
DSO	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
Days	54	55	58	59	60
Efforts and Utilization Mix – Linear	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
<b>Billable Person Months</b>	<b>30807</b>	<b>33212</b>	<b>35938</b>	<b>41026</b>	<b>45900</b>
Global Delivery Centers	3480	3840	4519	5260	6336
India	27327	29372	31419	35766	39564
<b>Billed Person Months</b>	<b>24676</b>	<b>27503</b>	<b>29819</b>	<b>33050</b>	<b>36487</b>
Global Delivery Centers	3080	3354	3891	4578	5364
India	21596	24149	25928	28472	31123
Linear Utilization	Q1-FY 22	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23
<b>Blended</b>	<b>80.1%</b>	<b>82.8%</b>	<b>83.0%</b>	<b>80.6%</b>	<b>79.5%</b>
Global Delivery Centers	88.5%	87.3%	86.1%	87.0%	84.6%
India	79.0%	82.2%	82.5%	79.6%	78.7%

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

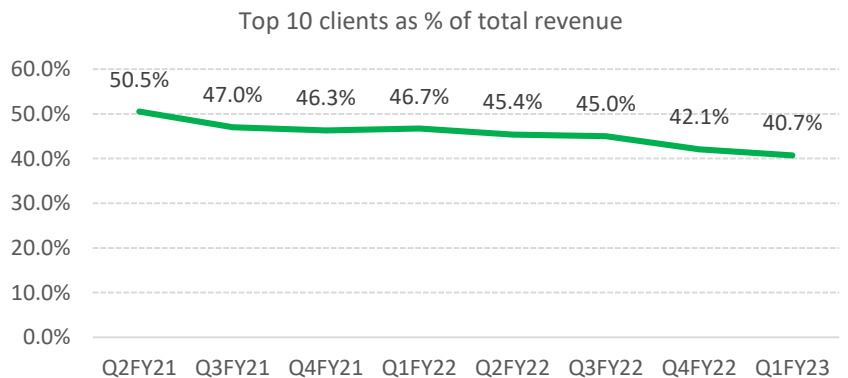
**Exhibit 1: robust growth comes on the back of four successive quarters of 9% plus sequential growth, most of which was organic**



**Exhibit 2: Delivered consistent growth in margins Despite various headwinds, including continued supply side challenges, higher travel costs, higher amortization and Visa cost which happens once in a year in the Q1.**



**Exhibit 3: Leading to lower client concentration, broad-based growth and for the quarter gone by customer count in greater than \$30 million bucket cross to, three from two the last quarter.**



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

## Key Financials

Income Statement				
Income Statement (INR Mn)	FY21	FY22	FY23E	FY24E
<b>Revenues (US\$ mn)</b>	<b>566</b>	<b>766</b>	<b>1031</b>	<b>1152</b>
Change (%)	12.9%	35.2%	34.6%	11.7%
<b>Revenues</b>	<b>41,879</b>	<b>57,107</b>	<b>76,269</b>	<b>85,222</b>
Change (%)	17.4%	36.4%	33.6%	11.7%
<b>Total Expenses</b>	<b>35,049</b>	<b>47,526</b>	<b>63,265</b>	<b>70,308</b>
<b>EBITDA</b>	<b>6,830</b>	<b>9,582</b>	<b>13,004</b>	<b>14,914</b>
Other Income	1,020	1,321	1,374	1,429
Depreciation	1,756	1,660	2,136	2,386
Interest	-	-	-	-
<b>PBT</b>	<b>6,094</b>	<b>9,243</b>	<b>12,242</b>	<b>13,957</b>
Extra-ordinary	-	-	-	-
<b>PBT after ext-ord.</b>	<b>6,094</b>	<b>9,243</b>	<b>12,242</b>	<b>13,957</b>
Tax	1,588	2,339	3,097	3,531
Rate (%)	26.1%	25.3%	25.3%	25.3%
<b>PAT</b>	<b>4,507</b>	<b>6,904</b>	<b>9,145</b>	<b>10,426</b>
MI & Associates	-	-	-	-
<b>Consolidated PAT</b>	<b>4,507</b>	<b>6,904</b>	<b>9,145</b>	<b>10,426</b>
Change (%)	32.4%	53.2%	32.5%	14.0%

Balance Sheet				
Balance Sheet (INR Mn)	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>				
Share Capital	764	764	764	764
Reserves & Surplus	27,192	32,918	36,660	42,724
<b>Net Worth</b>	<b>27,957</b>	<b>33,682</b>	<b>37,425</b>	<b>43,488</b>
<b>Loan Funds</b>	<b>44</b>	<b>4,325</b>	<b>4,325</b>	<b>4,325</b>
MI, Deferred Tax & other Liabilities	-	-	-	-
<b>Capital Employed</b>	<b>28,001</b>	<b>38,008</b>	<b>41,750</b>	<b>47,813</b>
<b>Application of Funds</b>				
Net Block	3,476	7,284	11,084	14,884
CWIP	122	1,071	1,071	1,071
Other Non-current Assets	1,783	11,591	11,591	11,591
Deferred Tax Assets	1,038	1,123	1,123	1,123
<b>Net Fixed Assets</b>	<b>6,418</b>	<b>21,069</b>	<b>24,869</b>	<b>28,669</b>
<b>Investments</b>	<b>9,996</b>	<b>8,225</b>	<b>8,225</b>	<b>8,225</b>
Debtors	5,709	9,484	12,537	14,009
Inventories	-	-	-	-
Cash & Bank Balance	9,809	9,145	10,169	13,168
Loans & Advances & other CA	4,945	8,706	8,706	8,706
<b>Total Current Assets</b>	<b>20,463</b>	<b>28,693</b>	<b>31,412</b>	<b>35,883</b>
Current Liabilities	6,157	16,029	18,806	21,014
Provisions	2,719	3,950	3,950	3,950
<b>Net Current Assets</b>	<b>11,587</b>	<b>8,714</b>	<b>8,656</b>	<b>10,920</b>
<b>Total Assets</b>	<b>28,001</b>	<b>38,008</b>	<b>41,750</b>	<b>47,813</b>

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY21	FY22	FY23E	FY24E
<b>PBT</b>	<b>6,094</b>	<b>9,243</b>	<b>12,242</b>	<b>13,957</b>
Depreciation	1,756	1,660	2,136	2,386
Interest & others	-1,020	-1,321	-1,374	-1,429
Cash flow before WC changes	6,830	9,582	13,004	14,914
<b>(Inc)/dec in working capital</b>	<b>1,876</b>	<b>6,899</b>	<b>-276</b>	<b>736</b>
Operating CF after WC changes	8,707	16,481	12,728	15,650
Less: Taxes	-1,588	-2,339	-3,097	-3,531
<b>Operating Cash Flow</b>	<b>7,119</b>	<b>14,142</b>	<b>9,630</b>	<b>12,119</b>
(Inc)/dec in F.A + CWIP	-897	-13,702	-3,800	-3,800
(Pur)/sale of investment	-210	1,772	-	-
<b>Cash Flow from Investing</b>	<b>-1,108</b>	<b>-11,930</b>	<b>-3,800</b>	<b>-3,800</b>
<b>Free Cash Flow (FCF)</b>	<b>5,868</b>	<b>10,334</b>	<b>5,830</b>	<b>8,319</b>
Loan raised/(repaid)	-2	4,281	-	-
Equity raised	-	-	-	-
Interest & others	297	-6,087	-3,736	-4,250
Dividend	-1,070	-1,070	-1,070	-1,070
<b>Cash Flow from Financing Activities</b>	<b>-774</b>	<b>-2,876</b>	<b>-4,806</b>	<b>-5,320</b>
<b>Net inc / (dec) in cash</b>	<b>5,237</b>	<b>-664</b>	<b>1,024</b>	<b>2,999</b>
Opening balance of cash	4,572	9,809	9,145	10,169
Closing balance of cash	9,809	9,145	10,169	13,168

Key Ratios				
Key Ratios (INR Mn)	FY21	FY22	FY23E	FY24E
<b>Per share (Rs)</b>				
EPS	59.0	90.3	114.3	130.3
CEPS	81.9	108.2	141.0	160.1
BVPS	365.8	425.7	467.8	543.6
DPS	10.0	11.0	11.0	11.0
Div. Payout (%)	17.0%	12.6%	9.6%	8.4%
<b>Valuation (x)</b>				
P/E	61.6	40.2	31.8	27.9
P/CEPS	44.3	33.6	25.8	22.7
P/BV	9.9	8.5	7.8	6.7
EV/EBITDA	39.2	29.5	21.9	18.9
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
<b>Return Ratio (%)</b>				
EBIDTA Margin	16.3%	16.8%	17.1%	17.5%
EBIT Margin	12.1%	13.9%	14.3%	14.7%
PAT Margin	10.8%	12.1%	12.0%	12.2%
ROE	16.1%	20.5%	24.4%	24.0%
ROCE	18.1%	20.8%	26.0%	26.2%
<b>Leverage Ratio (x)</b>				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.1	-0.2	-0.2
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.5	1.5	1.8	0.0
Receivable Days	50	61	60	60
Payable days	77	128	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%

Research Analyst Registration No.	Contact	Website	Email Id
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