

Demand environment remain stable

CMP: INR 5,044

Rating: Neutral

Target Price: INR 4,770

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)	3,65,390
52w H/L (INR)	5279/3092
Avg Yearly Vol (in 000')	406

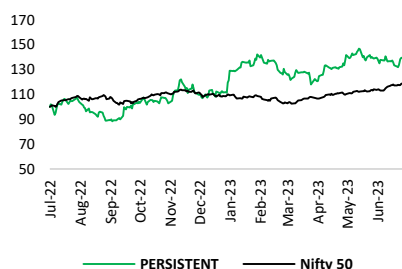
Shareholding Pattern %

(As on Jun, 2023)

Promoters	31.06
FII	20.50
DII	28.04
Public & Others	20.40

	1m	3m	12m
Persistent Systems	-3.3	10.9	33.8
Nifty 50	4.8	12.1	19.0

Persistent Systems Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Persistent system reported revenue in-line with our estimates led by Top client: Reported revenue of \$ 274.6Mn (up 3.9% QoQ/26.4%YoY in USD terms) against our estimate of \$273 Mn. Reported revenue of INR 22,544.7 up 3.9% QoQ/ 37.6% YoY against our estimate of INR 22,477mn. Top client led beat on revenue, TCV at record high in Q4. Top client grew 30.5% QoQ after declining for the last 4Q. Revenue ex top client was a modest 1.7% QoQ. On the segment front, Software was up (40.1%YoY/2.1% QoQ) followed by BFSI (up 37%YoY/4.7% QoQ) and Healthcare & Life science (31.6% YoY/7.2%QoQ). EBIT margin contracted by 147bps YoY/254bps QoQ at 12.84% in below our estimates of 15.1%. Consolidated PAT stood at INR 2,288 Mn, down by 9% QoQ/25% YoY against our estimate of INR 2,730 Mn.

Strong growth from North America on the geography front (Revenue Mix): The geography side, North America grew 4.9% QoQ in USG terms while India revenue grew by 1.5% QoQ. Europe revenue declined 2.8% QoQ on a smaller rates.

Decent order book with growth in Top client: The order booking for Q1FY24, was at \$380.3 Mn vs \$421.6 mn in Q4FY23. Total Contract Value (TCV) new \$237.2 Mn vs \$250.3 Mn in Q4FY23 and at \$271.9 mn in ACV against \$310.4 mn in Q4FY23. ACV New \$144.1 Mn against \$168.3 mn in Q4FY23. Top customer revenue showed a strong 13.4% QoQ growth in USD dollars, following a 30%+ growth in the previous quarter, indicating a successful digital transformation partnership. The overall portfolio of top 50 customers grew by a robust 5.7% in Q1, with portfolio expansion driven by new clients in the \$20 to \$30 mn bracket.

Valuations

We believe that in the future, the company's margin will expand by increasing the size of current accounts and concentrating on newer areas where AI technology is being utilized. The company's expertise in cloud-based services is continuously growing and this allows them to achieve better pricing compared to other areas. The company stated that they anticipate in a good economy, the growth rate will range from 3%-5%, and in a bad economy, it may be ~2% to 4%. Despite challenges in the current macro environment, the company has persevered and achieved 3% growth. Our belief is that the present valuations reflect the potential gains, but fail to account for the risks associated with uncertain macroeconomic factors. Hence, **we value the Persistent system at a PE of 25x to its FY26E EPS of 190.8, which yields a target price of INR 4,770 per share (Earlier target price of INR 4,716 per share). We downgrade our rating to Neutral from Hold earlier.**

Exhibit 1: Financial Performance

Particulars (INR Mn)	Revenues (US\$ mn)	Net Sales	EBIT	PAT	EPS (INR)	EBIT Margin %	RoE (%)	P/E (x)
FY23	1036	83,506	12,472	9,212	123.7	14.9%	24.0%	40.8
FY24E	1220	1,00,259	15,139	11,496	143.7	15.1%	24.4%	35.1
FY25E	1417	1,16,887	17,767	13,474	168.4	15.2%	23.9%	29.9
FY26E	1606	1,32,509	20,141	15,263	190.8	15.2%	21.3%	26.4

Source: Arihant Research, Company Filings,

Exhibit 2: Q1FY24 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q1 FY24	Q4 FY23	Q1FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	283	275	242	3.0%	17.1%
Net Revenue	23,212	22,545	18,781	3.0%	23.6%
Employee Cost	16,312	15,787	13,710	3.3%	29.3%
Other Expenses	3,156	2,595	1,739	21.6%	91.6%
EBITDA	3,743	4,163	3,333	-10.1%	48.1%
EBITDA Margin %	16.13%	18.47%	17.75%	-234bps	-162bps
Depreciation	763	697	645	9.5%	36.4%
EBIT	2,980	3,466	2,688	-14.0%	50.7%
EBIT Margin %	12.84%	15.37%	14.31%	-254bps	-147bps
Other Income	216	88	210	145.2%	-79.0%
Finance Cost	126	148	79	-15.0%	200.5%
Exceptional Item	-	-	-	-	-
PBT	3,070	3,406.03	2,818.75	-9.9%	27.5%
Tax Expense	783	891	703	-12.1%	34.6%
Effective Tax Rate %	25.5%	26.2%	24.9%	-66bps	57bps
PAT	2,288	2,515	2,116	-9.0%	8.1%
MI & Associates	-	-	-	-	-
Consolidated PAT	2,287.68	2,515.31	2,116.12	-9.0%	25.1%
PAT Margin %	9.9%	11.2%	11.3%	-130bps	-141bps
EPS (INR)	30.50	33.65	28.50	-9.4%	27.9%

Source: Arianth Research, Company Filings

Q1FY24 Conference call Highlights:

In a good economy, the growth rate will range from 3% to 5%, and in a bad economy, it may be around 2% to 4%. Despite challenges in the current macro environment, the company has persevered and achieved 3% growth, striving to deliver the best possible results and focusing on their bookings and objectives going forward.

- **EBIT Margin:** 50bps, as the tailwind of revenue growth was offset by higher costs, higher amortization costs, and doubtful debt provision, expect to offset most of the margin headwinds, due to the wage increase to cost rationalization measures, which have been set in motion from Q2 onwards. Also, 40 bps came in this quarter from H1B visa filing.
- **Demand:** The demand environment remains stable, there were a few instances of delays, in customers this isn't making going to wait some deals got pushed out to subsequent quarters, and they are hopeful of closing these deals in Q2 and subsequent quarters.
- **Client:** Top customer revenue, saw a healthy growth of 13.4% QoQ in USD dollars. This was on the back of 30%+ growth in the previous quarter. Continue to partner closely with top customer to help them achieve their digital transformation objectives while also exploring meaningful opportunities for long-term collaboration. Overall portfolio of top 50 customers grew the robust 5.7% during in Q1. Top 50 customers drove portfolio expansion, and \$20 to \$30 mn bracket gained new clients.
- **Geography:** North America up 4.9%, India up 1.5% in revenue QoQ. In Q1, Europe revenue declined by 2.8% QoQ, influenced by smaller rates.
- **Headcount:** The company added 241 new employees, bringing the total headcount to 23,130. Efforts to deploy more freshers on customer projects are ongoing, aiming to improve utilization in the coming quarters. Blended utilization for the quarter was 78.3%, with attrition reduced to 15.5% compared to 19.8% in Q4.
- **Generative AI:** The company has been actively involved in generative AI developments, forming partnerships with leading hyperscalers like AWS, Microsoft, and Google. They plan to train 16k employees in AI-related competencies. Various discussions with over 50 clients are in progress for generative AI projects, indicating a promising adoption trend in the coming quarters and years.
- **M&A:** Previous acquisitions have been successfully integrated, resulting in joint capabilities and winning deals. The company remains active in pursuing new M&A opportunities. Dr. Ajit Ranade has joined the Board of Directors, contributing his 32+ years of experience to guide the company's strategy and growth.
- **Administratively,** new offices have been established in Jaipur, Krakow, and Poland, and further expansion plans include locations like Kolkata, Kochi, and Chennai.
- Due to increased complexity in pricing and service deals, the breakdown of services and IP revenue has become <10%, leading to the discontinuation of this disclosure.

Exhibit 3: Business Matrix

Unbilled revenue increased due to delayed payments from some customers, and cash conversion was impacted by higher software spend, increased unbilled revenue, and collections bunching together.

Forex loss reduced to INR 64.1 mn from INR 189.1 mn in the previous quarter. PBT for this quarter was INR 3070.5 mn at 13.2%, with a one-time expense for the dollar \$1 celebration of expenses, resulting in a PBT of 15.3% compared to 15.1% in the previous quarter. The BTR (tax rate) decreased to 25.5% from 26.2% in the previous quarter.

DSO came in at 67 days as against 68 days in the previous quarter. Due to long weekend in the US, coinciding with the quarter end collections amounting to \$9.8 mn spillover to first week of July.

Revenue	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
Revenue from Operations, USD M	241.5	255.6	264.4	274.6	282.9
% Q - o -Q growth	11.1%	5.8%	3.4%	3.9%	3.0%
% Y - o -Y growth	44.8%	40.2%	32.8%	26.4%	17.1%
Revenue from Operations, INR M	18781	20486	21694	22545	23212
% Q - o -Q growth	14.67%	9.08%	5.90%	3.92%	2.96%
% Y - o -Y growth	52.70%	51.61%	45.43%	37.65%	23.59%
Segment Revenue Mix	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
BFSI	33.70%	32.80%	32.60%	32.30%	33.30%
Healthcare & Life Sciences	19.90%	19.70%	19.60%	19.70%	18.60%
Software, Hi -Tech & Emerging Industries	46.40%	47.50%	47.80%	48.00%	48.10%
Total	100%	100%	100%	100%	100%
Geography Revenue Mix	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
North America	78.40%	78.60%	77.40%	77.90%	79.20%
Europe	8.50%	8.30%	9.00%	10.30%	9.70%
India	11%	12%	12.00%	10.00%	9.90%
ROW	1.80%	1.60%	1.60%	1.80%	1.20%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Client Contribution	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
Top 1	11.7%	8.7%	7.40%	9.30%	10.20%
Top 5	30.8%	26.9%	24.70%	26.50%	27.90%
Top 10	40.7%	36.7%	35.00%	37.40%	39.60%
Top 20	51.2%	48.4%	47.80%	47.90%	50.40%
Top 50	66.1%	64.0%	63.9%	64.4%	66.1%
Revenue by Delivery Centers	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
Global Development Centers	14.7%	14.4%	14%	13%	13%
India	56.5%	57.4%	57%	60%	87%
Client Billed	340	345	344	359	367
Client Engagement Size	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
\$30M+	3	3	5	5	5
\$20M – \$30M	1	3	2	4	5
\$10M – \$20M	7	6	9	8	7
\$5M – \$10M	15	18	18	17	21
\$1M – \$5M	104	116	118	126	129
People Numbers	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
Technical	20144	20941	21033	21295	21511
Sales and Business Development	367	387	405	414	428
Others	1127	1148	1160	1180	1191
Total	21638	22476	22598	22889	23130
Attrition Rate	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
TTM Basis	24.80%	23.70%	21.60%	19.80%	15.50%
DSO	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24
Days	60	60	67	68	67

Source: Arihant Research, Company Filings

Exhibit 4: Revenue decline led by macroeconomic concerns

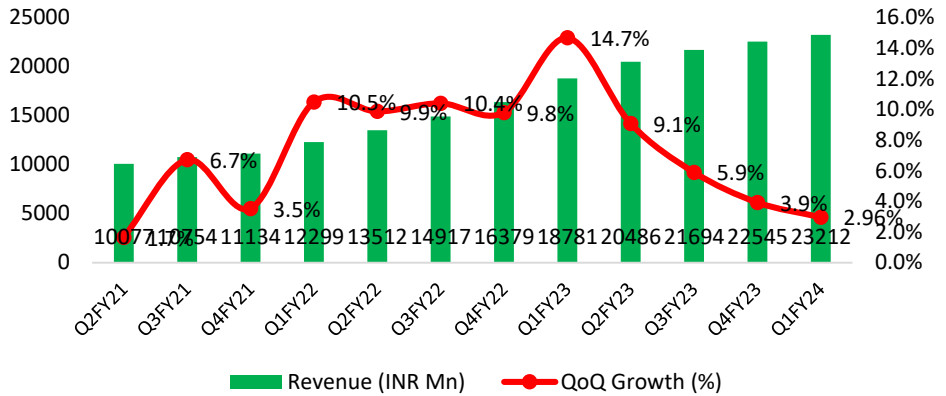


Exhibit 5: Revenue decline led by macroeconomic concerns

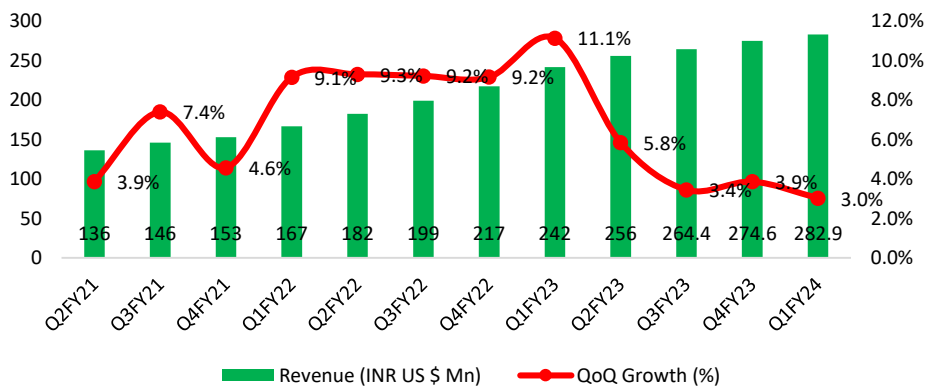


Exhibit 6: Margin impacted related to one time cost

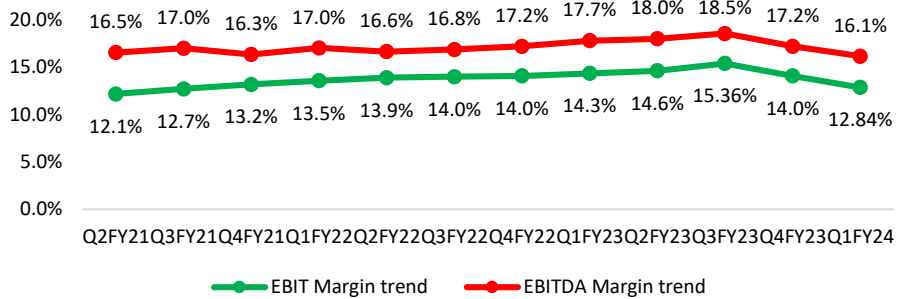
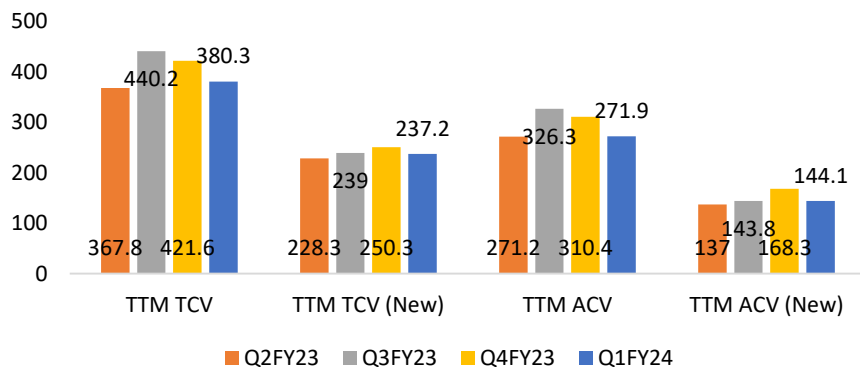


Exhibit 7: Strong deal wins



Source: Arianth Research, Company Filings

Key Financials

Income Statement				
Income Statement (INR Mn)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	1036	1220	1417	1606
Change (%)	35.3%	17.7%	16.2%	13.4%
Revenues	83,506	1,00,259	1,16,887	1,32,509
Change (%)	46.2%	20.1%	16.6%	13.4%
Total Expenses	68,315	81,812	95,263	1,07,995
EBITDA	15,191	18,448	21,624	24,514
EBITDA Margin (%)	18.2%	18.4%	18.5%	18.5%
Depreciation	2,719	3,309	3,857	4,373
EBIT	12,472	15,139	17,767	20,141
EBIT Margin (%)	14.9%	15.1%	15.2%	15.2%
Other Income	233	251	270	290
Interest	-	-	-	-
PBT	12,705	15,390	18,037	20,432
Extra-ordinary Provision for export incentives	296.55	-	-	-
PBT after ext-ord.	12,409	15,390	18,037	20,432
Tax	3,197	3,894	4,563	5,169
Rate (%)	25.8%	25.3%	25.3%	25.3%
PAT	9,212	11,496	13,474	15,263
MI & Associates	-	-	-	-
Consolidated PAT	9,212	11,496	13,474	15,263

Balance Sheet				
Balance Sheet (INR Mn)	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Share Capital	764	764	764	764
Reserves & Surplus	38,887	46,447	55,542	70,804
Net Worth	39,651	47,211	56,306	71,569
Loan Funds	4,285	4,285	4,285	4,285
MI, Deferred Tax & other Liabilities	-	-	-	-
Capital Employed	43,936	51,496	60,591	75,854
Application of Funds				
Net Block	11,605	15,405	19,204	23,002
CWIP	161	161	161	161
Other Non-current Assets	17,076	17,076	17,076	17,076
Deferred Tax Assets	1,129	1,129	1,129	1,129
Net Fixed Assets	29,971	33,771	37,570	41,368
Investments	6,396	6,396	6,396	6,396
Debtors	15,830	18,404	21,456	24,324
Inventories	-	-	-	-
Cash & Bank Balance	9,033	19,601	26,856	40,161
Loans & Advances & other CA	8,562	8,562	8,562	8,562
Total Current Assets	36,569	46,567	56,874	73,046
Current Liabilities	23,978	30,215	35,226	39,934
Provisions	5,022	5,022	5,022	5,022
Net Current Assets	7,569	11,330	16,625	28,090
Total Assets	43,936	51,496	60,591	75,854

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY23	FY24E	FY25E	FY26E
PBT	12,409	15,390	18,037	20,432
Depreciation	2,719	3,309	3,857	4,373
Interest & others	-233	-251	-270	-290
Cash flow before WC changes	14,895	18,448	21,624	24,514
(Inc)/dec in working capital	-267	3,664	1,959	1,840
Operating CF after WC changes	14,628	22,111	23,583	26,354
Less: Taxes	-3,197	-3,894	-4,563	-5,169
Operating Cash Flow	11,431	18,218	19,020	21,185
(Inc)/dec in F.A + CWIP	-8,123	-6,504	-6,503	-6,502
(Pur)/sale of investment	1,828.97	-	-	-
Cash Flow from Investing	-10,604	-10,815	-10,814	-10,813
Free Cash Flow (FCF)	7,110	14,418	15,221	17,387
Loan raised/(repaid)	(40.25)	-	-	-
Equity raised	-	-	-	-
Interest & others	2,083	6,146	2,029	5,913
Dividend	-2,981	-2,981	-2,981	-2,981
Cash Flow from Financing Activities	-938	3,166	-951	2,933
Net inc /(dec) in cash	-112	10,569	7,255	13,305
Opening balance of cash	9,145	9,033	19,601	26,856
Closing balance of cash	9,033	19,601	26,856	40,161

Key Ratios				
Key Ratios (INR Mn)	FY23	FY24E	FY25E	FY26E
Per share (Rs)				
EPS	123.7	143.7	168.4	190.8
CEPS	152.8	185.1	216.6	245.4
BVPS	495.6	590.1	703.8	894.6
DPS	50.0	51.5	57.3	58.3
Div. Payout (%)	42.1%	35.8%	34.0%	30.6%
Valuation (x)				
P/E	40.8	35.1	29.9	26.4
P/CEPS	33.0	27.3	23.3	20.6
P/BV	10.2	8.5	7.2	5.6
EV/EBITDA	26.2	21.0	17.6	15.0
Dividend Yield (%)	1.0%	1.0%	1.1%	1.2%
Return Ratio (%)				
EBITDA Margin	18.2%	18.4%	18.5%	18.5%
EBIT Margin	14.9%	15.1%	15.2%	15.2%
PAT Margin	11.4%	11.5%	11.5%	11.5%
ROE	24.0%	24.4%	23.9%	21.3%
ROCE	28.4%	29.4%	29.3%	26.6%
Leverage Ratio (x)				
Total D/E	0.002	0.002	0.002	0.002
Net D/E	-0.1	-0.3	-0.4	-0.5
Turnover Ratios				
Asset Turnover (x)	1.9	1.9	1.9	1.7
Receivable Days	69	67	67	67
Payable days	127	110	110	110

Source: Arianth Research, Company Filings,

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880