

Robust revenue growth continues with margin improvement

CMP: INR 7,922

Rating: Hold

Target Price: INR 8,785

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)	609,038
52w H/L (INR)	7,965/3,907
Avg Yearly Vol (in 000')	405

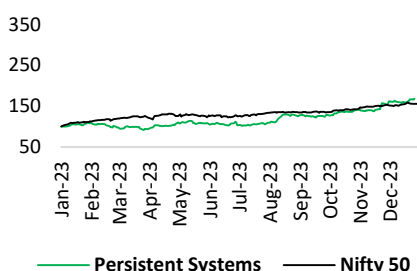
Shareholding Pattern %

(As on Dec, 2023)

Promoters	31.06
FII	24.55
DII	26.13
Public & Others	18.26

	1m	3m	12m
Persistent Systems	13.3	34.1	83.2
Nifty 50	1.9	10.3	19.6

Persistent Systems Vs Nifty 50



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Persistent System Ltd reported good set of numbers, revenue of USD 301 Mn (up 3% QoQ/13.7%YoY) in-line with our estimate of \$300 Mn. Reported revenue of INR 24,982 Mn up 3.6% QoQ/ 15.2% YoY in line with our estimate of INR 24,952 Mn. The growth was led by Healthcare & Life Sciences was up (31.6%YoY/17% QoQ) followed by BFSI (up 11.9%YoY/-0.1% QoQ) and software (10.9% YoY/0.7%QoQ). EBIT margin expansion by 82bps QoQ/ (down 83bps YoY) at 14.5% above with our estimates of 14%. Consolidated PAT stood at INR 2,861.3 Mn, up by 8.7% QoQ/20.2% YoY above with our estimate of INR 2,716 Mn. The order booking for Q3FY24 was at \$521M vs in Q2FY24, was at \$479.3 mn in TCV (~9% growth QoQ) and at \$392.1 vs \$315.9 mn in ACV terms (growth of 24.1% QoQ). DSO flat to 66 Days. Effort mix: Global Delivery Centers revenue mix increased by 110 bps QoQ to 13.8%. Client Engagement Size decreased by 1 in \$30M+, increased by 3 in \$20M – \$30M, decreased by 2 in \$10M – \$20M, decreased by 1 \$5M – \$10M and increased by 1 in \$1M – \$5M. Net employee increased by 521 employees during the quarter to close at 23,336 employees. LTM attrition declined by 160 bps QoQ to 11.9%. Employee utilization improved by 90 bps QoQ to 81.5%. The company EPS stood at INR 32 vs INR 35 in Q2FY24 (INR 31.9 in Q3FY23). Split: The company announced share split in 2:1 ratio (earlier face value INR 10 now it will be INR 5).

Strong client based: In Q3 FY24, active clients billed over \$250K annually remained at 375. As of December 31, 2023, the \$30 million+ band decreased from 6 to 5 clients, with the top 1 client contributing 9.3% and the top 50 clients accounting for 66.7% of revenue. Notably, QoQ growth percentages for the top 5, top 10, top 20, and top 50 clients were 2.1%, 2.4%, 4.7%, and 3.4%, respectively.

Expanded EBIT Margin despite higher furloughs: The EBIT margin was up by ~80 bps QoQ. Higher seasonality and furloughs had an impact of ~60 bps on the margins; ~60 bps impact was due to higher onsite mix which led to higher sub-contracting expense due to a large deal ramp up. These were offset by positive impacts of strong IP revenue by ~80 bps, lower traveling costs as well as higher utilization led to ~30 bps impact each, followed by ~60 bps impact due to headcount as well as SG&A optimization.

Valuations

Persistent delivered robust financial results in Q3FY24, driven by impressive performance across its diverse segments. The company reiterated to raise their EBIT margins by ~200 bps-300 bps by the next 2-3 years. A focus on improving the onsite against offshore mix, decrease in SG&A would aid in margin improvement. Due to the strong Q3 performance and emerging green shoots in demand and observes signs of pent-up demand in specific verticals our growth estimates for FY23-FY26E 15.8% in USD terms in CAGR and a margin of 14.4%/16.5%/16.8% for FY24E/FY25E/FY26E. Hence, we value the Persistent system at a PE of 40x to its FY26E EPS of 219.6, which yields a target price of INR 8,785 per share (Earlier TP INR 5,151). We upgrade our rating to Hold from Reduce earlier.

Exhibit 2: Q3FY24 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	301	292	264.4	3.0%	13.7%
Net Revenue	24,982	24,117	21,694	3.6%	15.2%
Employee Cost	18,096	17,759	15,616	1.9%	15.9%
Other Expenses	2,468	2,306	2,062	7.0%	19.7%
EBITDA	4,418	4,052	4,016	9.1%	10.0%
EBITDA Margin %	17.69%	16.80%	18.51%	89bps	-82bps
Depreciation	787	744	684	5.8%	15.2%
EBIT	3,631	3,308	3,332	9.8%	9.0%
EBIT Margin %	14.53%	13.72%	15.36%	82bps	-83bps
Other Income	383	373	328	2.8%	17.0%
Finance Cost	121	123	135.18	-1.4%	-10.4%
Exceptional Item	-	-	297		
PBT	3,893.01	3,557.63	3,227.88	9.4%	20.6%
Tax Expense	1,031.67	924.95	848	11.5%	21.6%
Effective Tax Rate %	26.5%	26.0%	26.3%	50bps	22bps
PAT	2,861.34	2,632.68	2,380	8.7%	20.2%
MI & Associates	-	-	-		
Consolidated PAT	2,861.34	2,632.68	2,379.54	8.7%	20.2%
PAT Margin %	11.5%	10.9%	11.0%	54bps	48bps
EPS (INR)	32.00	35.00	31.90	-8.6%	0.3%

Source: Arianth Research, Company Filings

Q3FY24 Conference call Highlights

Outlook

The company reiterated to raise their EBIT margins by ~200 bps-300 bps by the next 2-3 years. A focus on improving the onsite v/s offshore mix would aid in margin improvement. Despite the management's cautiously optimistic outlook on the overall macro environment, they are confident in terms of growth moving forward on account of a robust deal pipeline, client revenue growth as well as higher utilization. In terms of segments, moving ahead, they expect majority growth from the healthcare space followed by hi-tech and BFSI.

- The operational capex during the quarter stood at INR 321 Mn. The forex gain in Q3FY24 stood at INR 81 Mn as compared to INR 84 Mn in Q2FY24.
- **Software, Hi-tech & Emerging Industries:** The management implements greenfield IT for a private equity-led carve-out publisher and develops/supports connectors for next-gen tools, including Gen-AI, for two leading hyperscalers.
- **BFS:** Enhancing and supporting the new cloud-based core banking platform for a leading provider of financial technology to credit unions.
- **Healthcare & Life Sciences:** The company would engineer key product suite, including building data analytics capabilities for chromatography, instrument support, and microarray image algorithms for a leading analytical instrument company. It would develop an AI-led drug discovery platform to enable quick decision-making for synthesis and biological evaluation for a leading contract research, development, and manufacturing organization.
- **Utilization:** Employee utilization rose by 90 bps QoQ reaching 81.5%, as the company persistently concentrated on enhancing the efficiency of existing staff and supplemented their workforce with lateral hires to address critical workloads.
- **Mix:** The effort mix between India and Global delivery centers as a percentage of revenue stood at 86.2% and 13.8% respectively.
- **Client Matrix:** The total active clients billed (clients with annualized revenue of more than \$250K) stood at 375 in Q3 FY24 similar on a QoQ basis.

Exhibit 3: Business Matrix							
Revenue	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
Revenue from Operations, USD M	241.5	255.6	264.4	274.6	282.9	291.7	300.6
% Q - o -Q growth	11.1%	5.8%	3.4%	3.9%	3.0%	3.1%	3.1%
% Y - o -Y growth	44.8%	40.2%	32.8%	26.4%	17.1%	14.1%	13.7%
Revenue from Operations, INR M	18781	20486	21694	22545	23212	24117	24982
% Q - o -Q growth	14.67%	9.08%	5.90%	3.92%	2.96%	3.90%	3.59%
% Y - o -Y growth	52.70%	51.61%	45.43%	37.65%	23.59%	17.72%	15.16%
Segment Revenue Mix	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
BFSI	33.70%	32.80%	32.60%	32.30%	33.30%	32.30%	31.20%
Healthcare & Life Sciences	19.90%	19.70%	19.60%	19.70%	18.60%	19.30%	21.80%
Software, Hi -Tech & Emerging Industries	46.40%	47.50%	47.80%	48.00%	48.10%	48.40%	47.00%
Total	100%	100%	100%	100%	100%	100%	100%
Geography Revenue Mix	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
North America	78.40%	78.60%	77.40%	77.90%	79.20%	79.20%	79.70%
Europe	8.50%	8.30%	9.00%	10.30%	9.70%	9.50%	8.90%
India	11%	12%	12.00%	10.00%	9.90%	9.70%	10.00%
ROW	1.80%	1.60%	1.60%	1.80%	1.20%	1.60%	1.40%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Client Contribution	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
Top 1	11.7%	8.7%	7.40%	9.30%	10.20%	10.20%	9.30%
Top 5	30.8%	26.9%	24.70%	26.50%	27.90%	28.30%	28.00%
Top 10	40.7%	36.7%	35.00%	37.40%	39.60%	39.50%	39.30%
Top 20	51.2%	48.4%	47.80%	47.90%	50.40%	50.40%	51.40%
Top 50	66.1%	64.0%	63.9%	64.4%	66.1%	66.1%	66.7%
Revenue by Delivery Centers	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
Global Development Centers	14.7%	14.4%	14%	13%	13%	12.7%	13.8%
India	56.5%	57.4%	57.3%	60.4%	86.9%	87.3%	86.2%
Client Billed	340	345	344	359	367	375	375
Client Engagement Size	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
\$30M+	3	3	5	5	5	6	5
\$20M – \$30M	1	3	2	4	5	3	6
\$10M – \$20M	7	6	9	8	7	7	5
\$5M – \$10M	15	18	18	17	21	23	22
\$1M – \$5M	104	116	118	126	129	136	138
People Numbers	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
Technical	20144	20941	21033	21295	21511	21236	21738
Sales and Business Development	367	387	405	414	428	443	465
Others	1127	1148	1160	1180	1191	1136	1133
Total	21638	22476	22598	22889	23130	22815	23336
Attrition Rate	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
TTM Basis	24.80%	23.70%	21.60%	19.80%	15.50%	13.50%	11.90%
DSO	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24
Days	60	60	67	68	67	66	66

Source: Arianth Research, Company Filings

Exhibit 4: In line top line

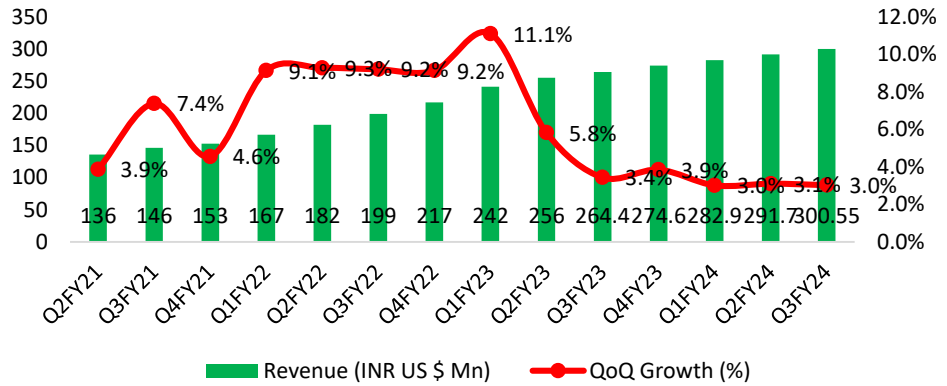


Exhibit 5: In line top line

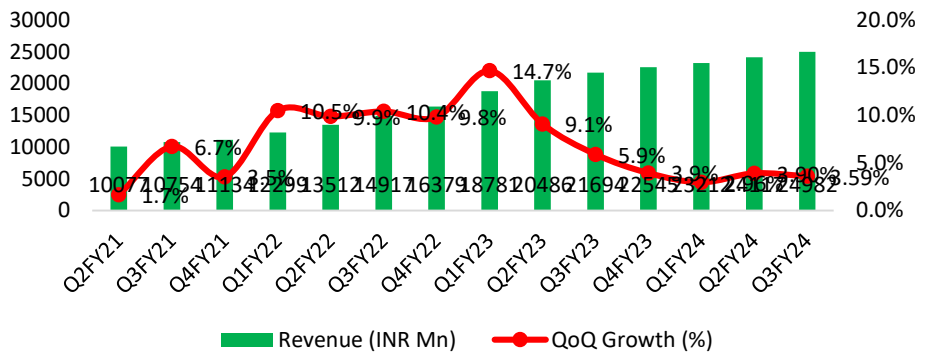


Exhibit 6: PSL remain committed to goal of improving EBIT margins by ~200 bps-300 bps by the next 2-3 years

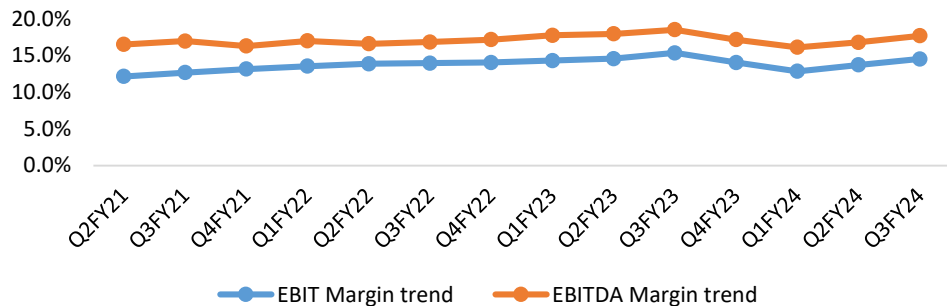
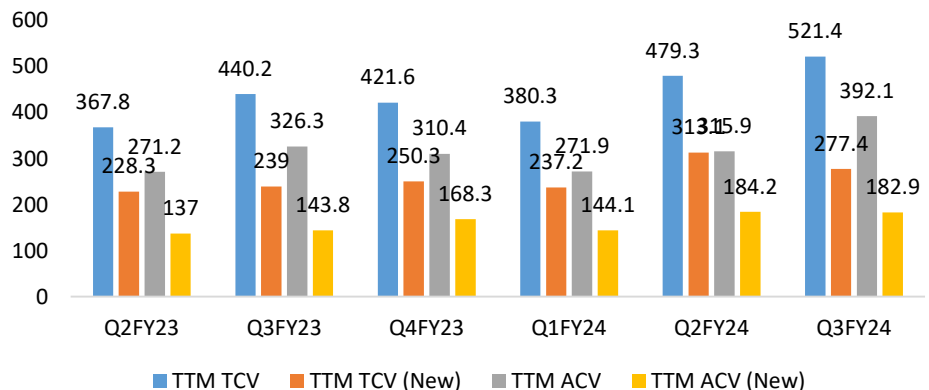


Exhibit 7: Strong deal wins



Source: Arianth Research, Company Filings

Key Financials

Income Statement				
Income Statement (INR Mn)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	1036	1191	1383	1607
Change (%)	35.3%	15.0%	16.1%	16.2%
Revenues	83,506	98,848	1,14,802	1,33,368
Change (%)	46.2%	18.4%	16.1%	16.2%
Total Expenses	68,315	81,253	92,416	1,06,961
EBITDA	15,191	17,595	22,386	26,407
EBITDA Margin (%)	18.2%	17.8%	19.5%	19.8%
Depreciation	2,719	3,361	3,444	4,001
EBIT	12,472	14,234	18,942	22,406
EBIT Margin (%)	14.9%	14.4%	16.5%	16.8%
Other Income	1,003	1,038	1,075	1,114
Interest	-	-	-	-
PBT	12,882	15,272	20,018	23,520
Extra-ordinary Provision for export incentives	473.40	-	-	-
PBT after ext-ord.	12,409	15,272	20,018	23,520
Tax	3,198	3,864	5,064	5,951
Rate (%)	25.8%	25.3%	25.3%	25.3%
PAT	9,210.9	11,408	14,953	17,569
MI & Associates	-	-	-	-
Consolidated PAT	9,210.9	11,408	14,953	17,569

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY23	FY24E	FY25E	FY26E
PBT	12,409	15,272	20,018	23,520
Depreciation	2,719	3,361	3,444	4,001
Interest & others	-1,003	-1,038	-1,075	-1,114
Cash flow before WC changes	14,125	17,595	22,386	26,407
(Inc)/dec in working capital	-267	3,497	1,880	2,187
Operating CF after WC changes	13,858	21,092	24,266	28,594
Less: Taxes	-3,198	-3,864	-5,064	-5,951
Operating Cash Flow	10,660	17,228	19,202	22,643
(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)	6,339	13,428	15,403	18,845
Loan raised/(repaid)	(40.25)	-	-	-
Equity raised	-	-	-	-
Interest & others	2,083	6,881	3,247	7,108
Dividend	-2,981	-2,981	-2,981	-2,981
Cash Flow from Financing Activities	-938	3,901	267	4,128
Net inc / (dec) in cash	-882	10,314	8,655	15,958
Opening balance of cash	9,145	9,033	19,347	28,001
Closing balance of cash	8,262	19,347	28,001	43,960

Balance Sheet				
Balance Sheet (INR Mn)	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Share Capital	764	764	764	764
Reserves & Surplus	38,887	46,359	56,933	74,502
Net Worth	39,651	47,123	57,697	75,266
Loan Funds	4,285	4,285	4,285	4,285
MI, Deferred Tax & other Liabilities	-	-	-	-
Capital Employed	43,936	51,408	61,982	79,551
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	18,145	21,073	24,481
Inventories	-	-	-	-
Cash & Bank Balance	9,033	19,347	28,001	43,960
Loans & Advances & other CA	8,562	8,562	8,562	8,562
Total Current Assets	36,569	46,053	57,637	77,003
Current Liabilities	23,978	29,790	34,598	40,193
Provisions	5,022	5,022	5,022	5,022
Net Current Assets	7,569	11,241	18,016	31,788
Total Assets	43,936	51,408	61,982	79,551

Key Ratios				
Key Ratios (INR Mn)	FY23	FY24E	FY25E	FY26E
Per share (INR)				
EPS	123.7	142.6	186.9	219.6
CEPS	162.5	184.6	230.0	269.6
BVPS	495.6	589.0	721.2	940.8
DPS	50.0	51.5	57.3	58.3
Div. Payout (%)	38.9%	36.1%	30.7%	26.5%
Valuation (x)				
P/E	64.0	55.6	42.4	36.1
P/CEPS	48.8	42.9	34.4	29.4
P/BV	16.0	13.4	11.0	8.4
EV/EBITDA	41.4	35.2	27.3	22.5
Dividend Yield (%)	0.6%	0.7%	0.7%	0.7%
Return Ratio (%)				
EBITDA Margin	18.2%	17.8%	19.5%	19.8%
EBIT Margin	14.9%	14.4%	16.5%	16.8%
PAT Margin	12.3%	11.5%	13.0%	13.2%
ROE	25.9%	24.2%	25.9%	23.3%
ROCE	28.4%	27.7%	30.6%	28.2%
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,

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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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