

CMP: INR 4,472

Rating: Hold

Target Price: INR 4,716

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)	3,39,620
52w H/L (INR)	4884/3996
Avg Yearly Vol (in 000')	406

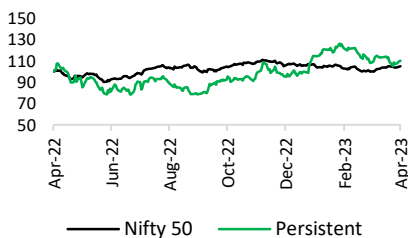
Shareholding Pattern %

(As on Dec, 2022)

Promoters	31.26
FII	20.55
DII	27.6
Public & Others	20.59

	1m	3m	12m
Persistent Systems	2.08	-3.9	10.17
Nifty 50	4.8	-0.75	4.74

Persistent Systems Vs Nifty 50



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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).

Margin mixed bag: The company EBITDA stood at INR 4,163 Mn against our estimates of INR 4,201. EBITDA margin was expanded by 130bps YoY/-4bps QoQ at 18.47% against our estimates of 18.7%. EBIT margin expanded by 133bps YoY/1bps QoQ at 15.37% in line with our estimates of 15.49%.

Strong growth from North America on the geography front (Revenue Mix): Among major markets, North America stood at +77.9% in Q4FY23 (Pleasant surprise in North America growth 25% YoY with 5% QoQ when large peers struggled) vs 78.6% in Q4FY22; Continental Europe +10.3% in Q4FY23 against 8.4% in Q4FY22, India stood at 10% in Q4FY23 vs 11% in Q4FY22 and ROW stood at 1.8% against Q4FY22 by +2%.

Decent order book with growth in Top client: The order booking for Q4FY23, was at \$421.6 mn in Total Contract Value (TCV) vs \$440.2 mn in Q3FY23 and at \$310.4 mn in ACV against \$326.3mn in Q3FY23. Revenue from top client has shown strong growth for the quarter and, hence, decline could be from non-top clients.

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. Management stated that they anticipate a margin increase of 200 to 300 basis points over the next two to three years due to these factors. 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 28x to its FY25E EPS of 168.4, which yields a target price of INR 4,716 per share (Earlier target price of INR 4,619 per share). We assign a Hold rating on the stock.**

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%	49.5
FY23	1036	83,506	12,472	9,212	123.7	14.9%	24.0%	36.1
FY24E	1220	100,259	15,139	11,496	143.7	15.1%	24.4%	31.1
FY25E	1417	116,887	17,767	13,474	168.4	15.2%	23.9%	26.6

Source: Arihant Research, Company Filings,

Exhibit 2: Q4FY23 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q4 FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Revenue (Mn USD)	275	264.4	217.3	3.9%	26.4%
Net Revenue	22,545	21,694	16,379	3.9%	37.6%
Employee Cost	15,787	15,616	12,213	1.1%	29.3%
Other Expenses	2,595	2,062	1,354	25.8%	91.6%
EBITDA	4,163	4,016	2,812	3.7%	48.1%
EBITDA Margin %	18.47%	18.51%	17.2%	-4bps	130bps
Depreciation	697	684	511	2.0%	36.4%
EBIT	3,466	3,332	2,300	4.0%	50.7%
EBIT Margin %	15.37%	15.36%	14.0%	1bps	133bps
Other Income	88	328	421	-73.1%	-79.0%
Finance Cost	148	135.18	49	9.6%	200.5%
Exceptional Item	-	297	-	-	-
PBT	3,406.03	3,227.88	2,672	5.5%	27.5%
Tax Expense	891	848	662	5.0%	34.6%
Effective Tax Rate %	26.2%	26.3%	24.8%	-13bps	138bps
PAT	2,515	2,380	2,009.9	5.7%	25.1%
MI & Associates	-	-	-	-	-
Consolidated PAT	2,515.31	2,379.54	2,009.9	5.7%	25.1%
PAT Margin %	11.2%	11.0%	12.3%	19bps	-111bps
EPS (INR)	33.65	31.90	26.30	5.5%	27.9%

Source: Arianth Research, Company Filings

Q4FY23 Conference call Highlights:

- Second largest customer (Wells Fargo) had seen some ramp downs in Q3FY23 which recovered in Q4.
- The company is seeing ramp-down in hyperscaler partner due to macro demand weakness – impact of \$3m for the quarter and \$10mn on annualized basis.
- Growth in North America led by top 1 customer.
- In India revenue declined due to decline in IP revenue.
- Deal wins and Demand outlook: Won large deal with TCv of 100mn\$ over 5-year period in hi-tech vertical regarding preparing product roadmap.
- Won another Large double digit mn dollar 5-year deal in hi-tech vertical.
- TTM ACV bookings are healthy.
- Aspire to grow at 3-5% or 4-6% CQGR.
- Demand expected to be weak in next 1-2 quarters and improve from thereon. Pipeline to TCv conversion delayed.
- The management expect industry growth to be 7-10% and Persistent to grow much higher than industry in FY24.
- Hired 3000 freshers at start of FY23, now all are billable from Q4FY23, this is seen in increase in billable person month and will be a margin tailwind going forward as utilization increases. Deployed fresher's in IP led business also.
- Purchase and Royalty cost increased this quarter because it is part of a large deal involving licenses. Absolute amount of purchase royalty may decline slightly; as % of revenue it will moderate.
- Attrition will moderate further and 19.8% in Q4FY23.
- Wage hike in July looking at 8-9% increment offshore, 3-5% increment offsite.
- Target to increase margins by 200-300bps over the next three years.
- Acquisitions: All past acquisitions integrated. The company is looking for new acquisitions in consumer technology, Cyber security, Generative AI, and an expanded presence in Europe.
- ETR was at 26.2% in Q4 and will remain in this range.
- DSO days increased by 9 QoQ- SVB was banker for Persistent and after SVB crisis, some customers who were paying via SVB account had to shift to new banks, this took time, customer payments slipped to first week of Q1.

Exhibit 3: Business Matrix

Revenue from the top-5 clients increased by 7.3 % QoQ, while revenue from the top-10 clients increased by 6.8% 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 \$30 million+ bucket remained constant in Q4FY23

DSO days increased by 9 QoQ- SVB was banker for Persistent and after SVB crisis, some customers who were paying via SVB account had to shift to new banks, this took time, customer payments slipped to first week of Q1.

Revenue	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Revenue from Operations, USD M	182.3	199.1	217.3	241.5	255.6	264.4	274.6
% Q - o -Q growth	9.3%	9.2%	9.1%	11.1%	5.8%	3.4%	3.9%
% Y - o -Y growth	34.0%	36.2%	42.2%	44.8%	40.2%	32.8%	26.4%
Revenue from Operations, INR M	13512	14917	16379	18781	20486	21694	22545
% Q - o -Q growth	9.90%	10.40%	9.80%	14.67%	9.08%	5.90%	3.92%
% Y - o -Y growth	34.10%	38.70%	47.10%	52.70%	51.61%	45.43%	37.65%
Business Offerings Revenue Mix	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Services	87.50%	86.70%	91.10%	93.00%	92.20%	91.80%	93.20%
IP Led	12.50%	13.30%	8.90%	7.00%	7.80%	8.20%	6.80%
Total	100%	100%	100%	100%	100%	100%	100%
Segment Revenue Mix	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
BFSI	30.70%	32.20%	32.40%	33.70%	32.80%	32.60%	32.30%
Healthcare & Life Sciences	21.20%	20.70%	20.70%	19.90%	19.70%	19.60%	19.70%
Software, Hi -Tech & Emerging Industries	48.10%	47.10%	46.90%	46.40%	47.50%	47.80%	48.00%
Total	100%	100%	100%	100%	100%	100%	100%
Geography Revenue Mix	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
North America	78.7%	79.20%	78.60%	78.40%	78.60%	77.40%	77.90%
Europe	8.8%	8.30%	8.40%	8.50%	8.30%	9.00%	10.30%
India	10.5%	10.90%	11%	11%	12%	12.00%	10.00%
ROW	2.0%	1.60%	2.00%	1.80%	1.60%	1.60%	1.80%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Client Contribution	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Top 1	16.9%	17.5%	14.0%	11.7%	8.7%	7.40%	9.30%
Top 5	35.8%	36.1%	32.5%	30.8%	26.9%	24.70%	26.50%
Top 10	45.4%	45.0%	42.1%	40.7%	36.7%	35.00%	37.40%
Top 20	55.3%	54.1%	52.1%	51.2%	48.4%	47.80%	47.90%
Revenue by Delivery Centers	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Global Development Centers	30.4%	31.4%	34.5%	36.5%	34.8%	35%	33%
India	57.1%	55.3%	56.6%	56.5%	57.4%	57%	60%
IP Led	12.5%	13.3%	8.9%	7.0%	7.8%	8%	7%
Client Billed	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Services	596	625	678	735	767	770	743
IP Led	130	122	125	129	134	134	133
Client Engagement Size	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
\$30M+	2	2	2	3	3	5	5
\$20M – \$30M	2	2	2	1	3	2	4
\$10M – \$20M	5	6	6	7	6	9	8
\$5M – \$10M	13	14	15	15	18	18	17
\$1M – \$5M	84	90	93	104	116	118	126
People Numbers	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Technical	14657	15721	17283	20144	20941	21033	21295
Sales and Business Development	296	294	317	367	387	405	414
Others	926	974	999	1127	1148	1160	1180
Total	15879	16989	18599	21638	22476	22598	22889
Linear Revenue Per Billed PM*	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Global Delivery Centers	16544	16043	16383	16423	16181	15962	15972
India	4307	4252	4317	4387	4498	4424	4434
Attrition Rate	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
TTM Basis	23.6%	26.90%	26.60%	24.80%	23.70%	22%	20%
IP Led	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
IP Led Person Months	4000	3911	3225	3278	3036	3286	3986
DSO	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Days	55	58	59	60	60	67	68
Efforts and Utilization Mix — Linear	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Billable Person Months	33212	35938	41026	45900	47704	51465	55732
Global Delivery Centers	3840	4519	5260	6336	6438	6578	6417
India	29372	31419	35766	39564	41266	44887	49315
Billed Person Months	27503	29819	33050	36487	38098	39949	43067
Global Delivery Centers	3354	3891	4578	5364	5495	5712	5639
India	24149	25928	28472	31123	32603	34237	37428
Linear Utilization	Q2-FY 22	Q3-FY 22	Q4-FY 22	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23
Blended	82.8%	83.0%	80.6%	79.5%	79.9%	78%	77%
Global Delivery Centers	87.3%	86.1%	87.0%	84.6%	85.4%	87%	88%
India	82.2%	82.5%	79.6%	78.7%	79.0%	76%	76%

Source: Arihant Research, Company Filings

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

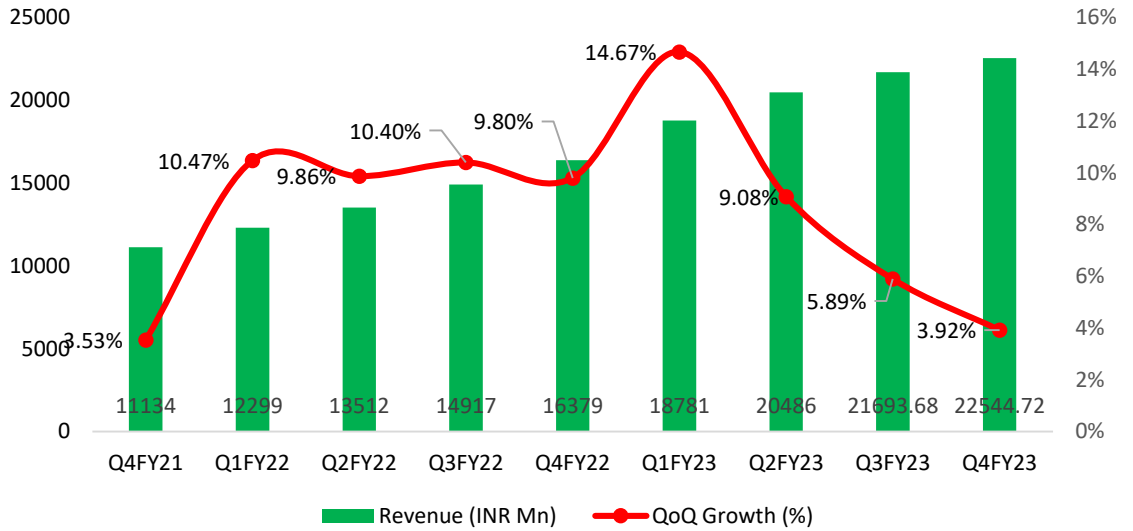


Exhibit 5: Revenue trend (In INR)

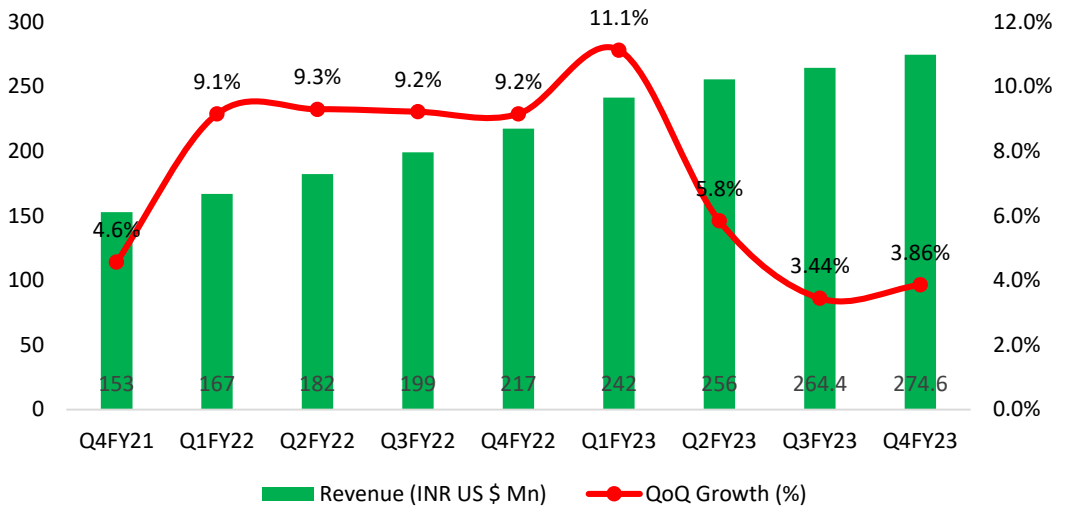
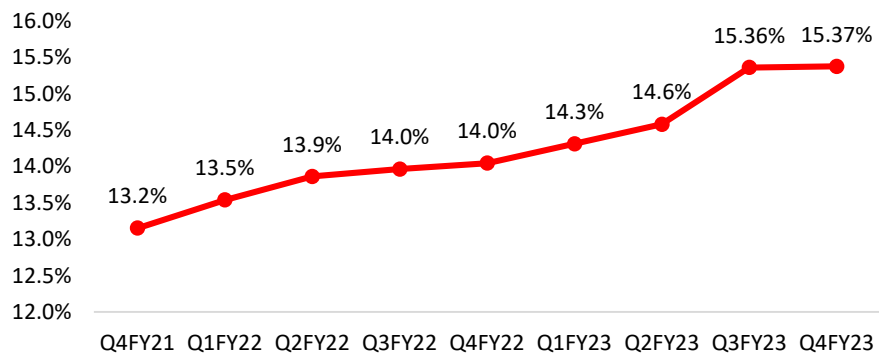


Exhibit 6: Margin improvement led by currency benefits



Source: Arianth Research, Company Filings

Key Financials

Income Statement				
Income Statement (INR Mn)	FY22	FY23	FY24E	FY25E
Revenues (US\$ mn)	766	1036	1220	1417
Change (%)	35.2%	35.3%	17.7%	16.2%
Revenues	57,107	83,506	100,259	116,887
Change (%)	36.4%	46.2%	20.1%	16.6%
Total Expenses	47,526	68,315	81,812	95,263
EBITDA	9,582	15,191	18,448	21,624
EBITDA Margin (%)	16.8%	18.2%	18.4%	18.5%
Depreciation	1,660	2,719	3,309	3,857
EBIT	7,922	12,472	15,139	17,767
EBIT Margin (%)	13.9%	14.9%	15.1%	15.2%
Other Income	1,321	233	251	270
Interest	-	-	-	-
PBT	9,243	12,705	15,390	18,037
Extra-ordinary Provision for export incentives	-	296.55	-	-
PBT after ext-ord.	9,243	12,409	15,390	18,037
Tax	2,339	3,197	3,894	4,563
Rate (%)	25.3%	25.8%	25.3%	25.3%
PAT	6,904	9,212	11,496	13,474
MI & Associates	-	-	-	-
Consolidated PAT	6,904	9,212	11,496	13,474

Balance Sheet				
Balance Sheet (INR Mn)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Share Capital	764	764	764	764
Reserves & Surplus	32,918	38,887	46,447	55,542
Net Worth	33,682	39,651	47,211	56,306
Loan Funds	4,325	4,285	4,285	4,285
MI, Deferred Tax & other Liabilities	-	-	-	-
Capital Employed	38,008	43,936	51,496	60,591
Application of Funds				
Net Block	7,284	11,605	15,405	19,204
CWIP	1,071	161	161	161
Other Non-current Assets	11,591	17,076	17,076	17,076
Deferred Tax Assets	1,123	1,129	1,129	1,129
Net Fixed Assets	21,069	29,971	33,771	37,570
Investments	8,225	6,396	6,396	6,396
Debtors	9,484	15,830	18,404	21,456
Inventories	-	-	-	-
Cash & Bank Balance	9,145	9,033	19,601	26,856
Loans & Advances & other CA	8,706	8,562	8,562	8,562
Total Current Assets	28,693	36,569	46,567	56,874
Current Liabilities	16,029	23,978	30,215	35,226
Provisions	3,950	5,022	5,022	5,022
Net Current Assets	8,714	7,569	11,330	16,625
Total Assets	38,008	43,936	51,496	60,591

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY22	FY23	FY24E	FY25E
PBT	9,243	12,409	15,390	18,037
Depreciation	1,660	2,719	3,309	3,857
Interest & others	(1,321)	(233)	(251)	(270)
Cash flow before WC changes	9,582	14,895	18,448	21,624
(Inc)/dec in working capital	6,899	(267)	3,664	1,959
Operating CF after WC changes	16,481	14,628	22,111	23,583
Less: Taxes	(2,339)	(3,197)	(3,894)	(4,563)
Operating Cash Flow	14,142	11,431	18,218	19,020
(Inc)/dec in F.A + CWIP	(13,702)	(8,123)	(6,504)	(6,503)
(Pur)/sale of investment	1,772	1,828.97	-	-
Cash Flow from Investing	(11,930)	(10,604)	(10,815)	(10,814)
Free Cash Flow (FCF)	10,334	7,110	14,418	15,221
Loan raised/(repaid)	4,281	(40.25)	-	-
Equity raised	-	-	-	-
Interest & others	(5,170)	2,083	6,146	2,029
Dividend	(1,987)	(2,981)	(2,981)	(2,981)
Cash Flow from Financing Activities	(2,876)	(938)	3,166	(951)
Net inc/(dec) in cash	(664)	(112)	10,569	7,255
Opening balance of cash	9,809	9,145	9,033	19,601
Closing balance of cash	9,145	9,033	19,601	26,856

Key Ratios				
Key Ratios (INR Mn)	FY22	FY23	FY24E	FY25E
Per share (Rs)				
EPS	90.3	123.7	143.7	168.4
CEPS	108.2	152.8	185.1	216.6
BVPS	425.7	495.6	590.1	703.8
DPS	31.0	50.0	51.5	57.3
Div. Payout (%)	35.5%	42.1%	35.8%	34.0%
Valuation (x)				
P/E	49.5	36.1	31.1	26.6
P/CEPS	41.3	29.3	24.2	20.6
P/BV	10.5	9.0	7.6	6.4
EV/EBITDA	36.4	23.2	18.6	15.5
Dividend Yield (%)	0.7%	1.1%	1.2%	1.3%
Return Ratio (%)				
EBITDA Margin	16.8%	18.2%	18.4%	18.5%
EBIT Margin	13.9%	14.9%	15.1%	15.2%
PAT Margin	12.1%	11.4%	11.5%	11.5%
ROE	20.5%	24.0%	24.4%	23.9%
ROCE	20.8%	28.4%	29.4%	29.3%
Leverage Ratio (x)				
Total D/E	0.002	0.002	0.002	0.002
Net D/E	-0.1	-0.1	-0.3	-0.4
Turnover Ratios				
Asset Turnover (x)	1.5	1.9	1.9	1.9
Receivable Days	61	69	67	67
Payable days	128	127	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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