

India

ADD (no change)

Consensus ratings*: Buy 18 Hold 8 Sell 3

Current price:	Rs4,258
Target price: ▲	Rs5,144
Previous target:	Rs4,457
Up/downside:	20.8%
InCred Research / Consensus:	15.7%
Reuters:	PERS.NS
Bloomberg:	PSYS IN
Market cap:	US\$4,000m Rs325,429m
Average daily turnover:	US\$17.0m Rs1380.7m
Current shares o/s:	76.4m
Free float:	69.0%

*Source: Bloomberg

Key changes in this note

- Expect 14.2% US\$ revenue CAGR over FY23F-25F.
- Expect 18.2% EBIT CAGR over FY23F-25F.
- Expect 22.4% PAT CAGR over FY23F-25F.



Price performance	1M	3M	12M
Absolute (%)	8.8	14.9	0.3
Relative (%)	10.4	11.8	(2.0)

Major shareholders	% held
Kotak Emerging Equity Scheme	4.7
Axis Midcap Fund	3.3
HDFC Midcap opportunities fund	3.2

Analyst(s)



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Persistent Systems Ltd

EPS, TP upgrade on margin commentary

- Consistent execution despite the current macroeconomic uncertainty.
- Margin expansion based on operational efficiency commentary drives material upgrade in our EPS estimates and target price to Rs5,144 from Rs4,457.
- 9MFY23 operating cash flow (OCF) was down 0.3% yoy at Rs6,663m.

Resilient execution despite macroeconomic headwinds

Persistent Systems' (PSYS IN) 3QFY23 US\$ revenue was 0.4% above our estimate while EBIT beat was 36bp. Services business growth (3% qoq) was impacted due to seasonal furloughs, lower working days and planned ramp-down in top client (down 12% qoq) partly offset by growth in other accounts. Annual contract value (ACV) booking growth moderated to 12% yoy but book-to-bill remains healthy and supports our FY24F growth assumption while the EBIT margin commentary drives EPS and target price higher, despite applying a higher discount (37.5% vs. 34% earlier) to Tata Consultancy Services' (TCS IN) PE/G to derive PSYS IN's target multiple. Higher discount is to account for a longer time horizon.

Deal wins were healthy

Better TCV deal wins (up 19.7% qoq and 31.7% yoy) were aided by renewals (up 44.2% qoq and 13.9% yoy) while better new wins qoq (up 4.7%) and healthy yoy (51.6%) imply robust deal conversion. ACV wins were healthy (up 20.3% qoq) but yoy growth moderated to 12% vs. an average ~30% in 3QFY22-2QFY23. TTM TCV at US\$1,563m was up 7.3% qoq while TTM ACV was up 3.2% qoq. Commentary on healthy pipeline, 3Q bookings and book-to-bill support our current 14.2% US\$ revenue CAGR assumption over FY23F-25F.

Aims to improve EBIT margin by ~200-300bp over the next 2-3 years

EBIT margin was up 78bp qoq and 140bp yoy at 15.4% (40bp above our 15% estimate) while absolute EBIT was up 11.6% qoq and 60% yoy at Rs3,332m (2.7% beat). Margins were aided by growth leverage, operational efficiency, currency tailwind (60bp) lower amortization and provision for doubtful debts & CSR cost while the offsets were higher furloughs, and an increase in travel expenses and sub-contractor expenses. Management highlighted that improvement in utilization, employee pyramid and sub-contractor cost optimization could help sustain and expand EBIT margin going ahead. Hence, we increase our average EBIT margin estimate to 15.3% over FY24F-25F vs. ~14.2% earlier.

Retain ADD rating with a higher target price of Rs5,144

We retain ADD rating on PSYS but the increase in EPS and roll-forward to FY25F raises our target price to Rs5,144 (Rs4,457 earlier), despite a cut in target PE/G multiple. We model 14.2% US\$ revenue CAGR over FY23F-25F and 22.4% PAT (Rs) CAGR and revise our target PE/G multiple to 1.25x (1.32x earlier) to arrive at the target P/E of ~28x. Strong cash conversion (avg. OCF/EBITDA at 85% over FY19-22), improving payout ratio and net cash (Rs152/share) provide a cushion. Moderation in deal velocity, and senior leadership attrition are downside risks to our revenue EBIT margin assumption.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	41,879	57,107	83,422	98,192	113,390
Operating EBITDA (Rsm)	6,830	9,582	15,206	18,126	21,033
Net Profit (Rsm)	4,507	6,904	9,394	11,996	14,064
Core EPS (Rs)	58.8	90.3	122.9	157.0	184.0
Core EPS Growth	35.3%	53.7%	36.1%	27.7%	17.2%
FD Core P/E (x)	67.69	44.04	32.36	25.34	21.62
DPS (Rs)	20.0	31.0	41.0	50.0	60.7
Dividend Yield	0.50%	0.78%	1.00%	1.22%	1.53%
EV/EBITDA (x)	42.30	30.62	19.45	16.06	13.38
P/FCFE (x)	55.01	68.63	654.52	41.88	23.75
Net Gearing	(57.7%)	(31.7%)	(20.6%)	(26.6%)	(39.0%)
P/BV (x)	10.88	9.03	7.59	6.29	5.27
ROE	17.4%	22.4%	25.5%	27.2%	26.5%
% Change In Core EPS Estimates			4.22%	12.49%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

YE Mar (Rs m)	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ (%)	3QFY23E	Var. (%)
Revenue (US\$ m)	264.4	199.1	32.8	255.6	3.4	263.2	0.4
Revenue (Rs m)	21,694	14,917	45.4	20,486	5.9	21,634	0.3
US\$-Rs realization	82.1	74.9	9.5	80.2	2.4	82.2	(0.2)
EBITDA	4,016	2,511	59.9	3,680	9.1	3,981	0.9
EBITDA margin (%)	18.5	16.8	168 bp	18.0	55 bp	18.4	11 bp
EBIT	3,332	2,083	60.0	2,987	11.6	3,245	2.7
EBIT margin (%)	15.4	14.0	140 bp	14.6	78 bp	15.0	36 bp
Depreciation	684	428	59.8	693	(1.4)	736	(7.1)
Net other income	-104	281	(137.0)	-31	241.2	132	(178.9)
PBT	3,228	2,364	36.5	2,956	9.2	3,377	(4.4)
Provision for tax	848	600	41.3	756	12.2	844	0.5
% tax rate	26.3	25.4	89 bp	25.6	71 bp	25.0	128 bp
Net profit	2,380	1,764	34.9	2,200	8.2	2,533	(6.1)
EPS (Rs)	31.1	23.1	34.9	28.8	8.2	33.1	(6.0)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Operating metrics trend

Operating trends	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Revenue (US\$ m)	146.2	152.8	166.8	182.3	199.1	217.3	241.5	255.6	264.4
Growth YoY (%)	12.9	20.3	27.3	34.0	36.2	42.2	44.8	40.2	32.8
Growth QoQ (%)	7.4	4.6	9.2	9.3	9.2	9.2	11.1	5.8	3.4
Revenue (Rs m)	10,754	11,134	12,299	13,512	14,917	16,379	18,781	20,486	21,694
Growth YoY (%)	16.5	20.2	24.1	34.1	38.7	47.1	52.7	51.6	45.4
Growth QoQ (%)	6.7	3.5	10.5	9.9	10.4	9.8	14.7	9.1	5.9
EBIT Margin (%)	12.7	13.2	13.5	13.9	14.0	14.0	14.3	14.6	15.4
US\$-INR Realized Rate	73.6	72.9	73.7	74.1	74.9	75.4	77.8	80.2	82.1
Headcount	12,438	13,680	14,904	15,879	16,989	18,599	21,638	22,476	22,598
Utilization - Trainees (%)	81.0	79.1	80.1	82.8	83.0	80.6	79.5	79.9	77.6
LTM Attrition (%)	10.3	11.7	16.6	23.6	26.9	26.6	24.8	23.7	21.6
Geography (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
North America	81.1	79.2	78.9	78.7	79.2	78.6	78.4	78.6	77.1
Europe	8.8	10	9.5	8.8	8.3	8.4	8.5	8.3	9.0
India	8.6	8.9	9.8	10.5	10.9	11	11.3	11.5	12.3
ROW	1.5	1.9	1.8	2.0	1.6	2.0	1.8	1.6	1.6
Geography (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
North America	118.5	121.0	131.6	143.5	157.7	170.8	189.4	200.9	203.8
Europe	12.9	15.3	15.8	16.0	16.5	18.3	20.5	21.2	23.8
India	12.6	13.6	16.3	19.1	21.7	23.9	27.3	29.4	32.5
ROW	2.2	2.9	3.0	3.6	3.2	4.3	4.3	4.1	4.2
Geography YoY (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
North America	14.3	18.8	24.9	27.2	33.0	41.1	43.9	40.0	29.3
Europe	-6.3	36.7	18.6	55.1	28.5	19.5	29.6	32.2	44.0
India	31.2	18.9	57.9	73.7	72.7	75.8	67.0	53.5	49.8
ROW	-10.9	14.3	52.8	91.4	45.3	49.7	44.8	12.2	32.8
Geography QoQ (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
North America	5.1	2.1	8.7	9.0	9.9	8.3	10.9	6.1	1.4
Europe	24.3	18.8	3.7	1.3	3.0	10.5	12.5	3.3	12.1
India	14.0	8.2	20.2	17.1	13.4	10.2	14.2	7.7	10.6
ROW	15.1	32.4	3.4	21.4	-12.6	36.4	0.0	-5.9	3.4
Incremental revenue (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
North America	5.7	2.5	10.6	11.9	14.2	13.1	18.5	11.5	2.9
Europe	2.5	2.4	0.6	0.2	0.5	1.7	2.3	0.7	2.6
India	1.5	1.0	2.7	2.8	2.6	2.2	3.4	2.1	3.1
ROW	0.3	0.7	0.1	0.6	-0.5	1.2	0.0	-0.3	0.1
Business unit (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Services	81.9	85.1	86.9	87.5	86.7	91.1	93.0	92.2	91.8
IP-led	18.1	14.9	13.1	12.5	13.3	8.9	7.0	7.8	8.2
Business unit (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Services	119.7	130.0	144.9	159.5	172.6	198.0	224.6	235.7	242.7
IP-led	26.5	22.8	21.9	22.8	26.5	19.3	16.9	19.9	21.7
Business unit YoY (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Services	17.4	22.3	33.9	39.9	44.2	52.3	55.0	47.7	40.6
IP-led	-3.6	9.9	-4.2	3.4	0.1	-15.0	-22.6	-12.5	-18.1
Business unit QoQ (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Services	5.0	8.6	11.5	10.1	8.2	14.7	13.5	4.9	3.0
IP-led	20.0	-13.9	-4.0	4.3	16.2	-27.0	-12.6	17.9	8.7
Incremental revenue (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Services	5.7	10.3	14.9	14.6	13.1	25.4	26.6	11.0	7.0
IP-led	4.4	-3.7	-0.9	0.9	3.7	-7.1	-2.4	3.0	1.7
Clients (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top	18.5	17.9	17.0	16.9	17.5	14.0	11.7	8.7	7.4
Top 2-5	19.3	18.5	19.5	18.9	18.6	18.5	19.1	18.2	17.3
Top 6-10	9.2	9.9	10.2	9.6	8.9	9.6	9.9	9.8	10.3
Non-top 10	53	53.7	53.3	54.6	55	57.9	59.3	63.3	65.0
Clients (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top	27.0	27.4	28.4	30.8	34.8	30.4	28.3	22.2	19.6
Top 2-5	28.2	28.3	32.5	34.5	37.0	40.2	46.1	46.5	45.7
Top 6-10	13.4	15.1	17.0	17.5	17.7	20.9	23.9	25.0	27.2
Non-top 10	77.5	82.1	88.9	99.5	109.5	125.8	143.2	161.8	171.8

Clients YoY (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top	-2.8	12.1	22.3	16.7	28.9	11.2	-0.3	-27.8	-43.9
Top 2-5	4.8	-0.2	7.5	14.1	31.3	42.2	41.8	35.0	23.5
Top 6-10	18.1	41.7	58.4	44.5	31.8	37.9	40.5	43.1	53.7
Non-top 10	22.4	28.9	33.1	47.8	41.4	53.3	61.1	62.5	56.9
Clients QoQ (%)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top	2.4	1.2	3.7	8.7	13.1	-12.7	-7.1	-21.3	-12.0
Top 2-5	-6.6	0.2	15.1	5.9	7.5	8.6	14.7	0.8	-1.7
Top 6-10	11.0	12.5	12.5	2.9	1.2	17.7	14.6	4.8	8.7
Non-top 10	15.0	5.9	8.3	12.0	10.0	14.9	13.8	13.0	6.2
Incremental revenue (US\$ m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Top	0.6	0.3	1.0	2.5	4.0	-4.4	-2.2	-6.0	-2.7
Top 2-5	-2.0	0.1	4.3	1.9	2.6	3.2	5.9	0.4	-0.8
Top 6-10	1.3	1.7	1.9	0.5	0.2	3.1	3.0	1.1	2.2
Non-top 10	10.1	4.6	6.9	10.6	10.0	16.3	17.4	18.6	10.0
Client metrics	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
US\$ 30 mn+	NA	2	2	2	2	2	3	3	5
US\$ 20-30 m	NA	1	2	2	2	2	1	3	2
US\$ 10-20 m	NA	4	5	5	6	6	7	6	9
US\$ 5-10 m	NA	10	12	13	14	15	15	18	18
US\$ 1-5 m	NA	66	76	84	90	93	104	116	118
Services client billed	530	558	568	596	625	678	735	767	770
Revenue per services client (TTM)	0.85	0.85	0.90	0.93	0.97	1.00	1.03	1.08	1.17
IP client billed	142	140	132	130	122	125	129	134	134
Revenue per IP client (TTM)	0.65	0.67	0.71	0.72	0.77	0.72	0.66	0.62	0.58
Per employee analysis	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Revenue (US\$ m) - TTM	540.3	566.1	601.8	648.1	701.0	765.5	840.3	913.5	978.8
Employees (Average TTM)	10,349	11,067	12,018	13,182	14,229	15,374	16,951	18,522	19,850
Revenue per employee (TTM)	52,209	51,150	50,077	49,162	49,266	49,796	49,569	49,321	49,309

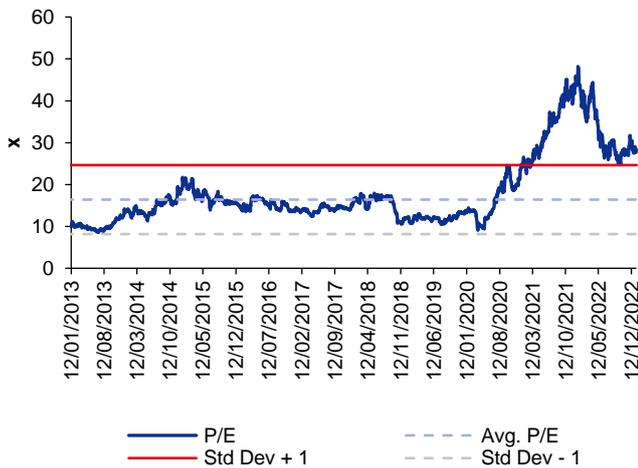
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimates

Y/E, Mar (Rs m)	FY23F			FY24F			FY25F
	New	Old	% change	New	Old	% change	New
US\$ revenue	1,035	1,029	0.6	1,183	1,163	1.7	1,350
Revenue	83,422	82,423	1.2	98,192	94,221	4.2	1,13,390
EBIT	12,465	11,673	6.8	15,021	13,191	13.9	17,404
EBIT Margin (%)	14.9	14.2	78 bp	15.3	14.0	130 bp	15.3
Net PAT	9,394	9,014	4.2	11,996	10,664	12.5	14,064
EPS (Rs)	122.9	118.0	4.2	157.0	139.5	12.5	184.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: One-year forward P/E at ~28x



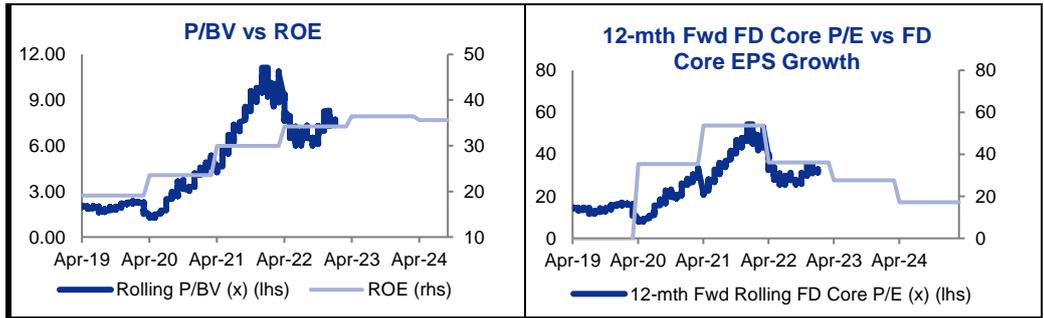
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 5: One-year forward EV/EBITDA at ~17x



SOURCE: BLOOMBERG, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	41,879	57,107	83,422	98,192	113,390
Gross Profit	14,229	19,212	28,154	33,046	38,268
Operating EBITDA	6,830	9,582	15,206	18,126	21,033
Depreciation And Amortisation	(1,756)	(1,660)	(2,740)	(3,105)	(3,628)
Operating EBIT	5,075	7,921	12,465	15,021	17,404
Financial Income/(Expense)	986	1,321	136	1,080	1,474
Pre-tax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	34				
Profit Before Tax (pre-EI)	6,094	9,243	12,601	16,102	18,878
Exceptional Items					
Pre-tax Profit	6,094	9,243	12,601	16,102	18,878
Taxation	(1,588)	(2,339)	(3,206)	(4,106)	(4,814)
Exceptional Income - post-tax					
Profit After Tax	4,507	6,904	9,394	11,996	14,064
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,507	6,904	9,394	11,996	14,064
Recurring Net Profit	4,507	6,904	9,394	11,996	14,064
Fully Diluted Recurring Net Profit	4,507	6,904	9,394	11,996	14,064

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	6,830	9,582	15,206	18,126	21,033
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,578	(407)	(2,198)	(1,861)	(1,915)
(Incr)/Decr in Total Provisions		1,476			
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,582)	(2,367)	(3,206)	(4,106)	(4,814)
Cashflow From Operations	6,826	8,284	9,802	12,159	14,303
Capex	(1,281)	(3,854)	(9,337)	(4,901)	(1,500)
Disposals Of FAs/subsidiaries	30	46			
Acq. Of Subsidiaries/investments	(448)	(6,154)			
Other Investing Cashflow	(3,717)	189	136	1,080	1,474
Cash Flow From Investing	(5,417)	(9,773)	(9,202)	(3,820)	(26)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,070)	(1,987)	(3,046)	(3,715)	(4,641)
Preferred Dividends					
Other Financing Cashflow	(373)	3,810	265		
Cash Flow From Financing	(1,443)	1,823	(2,781)	(3,715)	(4,641)
Total Cash Generated	(33)	333	(2,181)	4,623	9,636
Free Cashflow To Equity	5,545	4,430	465	7,258	12,803
Free Cashflow To Firm	1,410	(1,490)	600	8,338	14,277

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	16,184	13,491	11,310	15,934	25,570
Total Debtors	7,882	12,615	15,770	18,562	21,435
Inventories					
Total Other Current Assets	2,637	2,233	2,233	2,233	2,233
Total Current Assets	26,703	28,339	29,314	36,729	49,238
Fixed Assets	3,376	5,347	11,944	13,740	11,611
Total Investments	3,621	3,878	3,878	3,878	3,878
Intangible Assets	1,315	11,060	11,060	11,060	11,060
Total Other Non-Current Assets	1,640	5,517	5,517	5,517	5,517
Total Non-current Assets	9,952	25,802	32,399	34,194	32,066
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	2,733	4,299	5,257	6,187	7,145
Other Current Liabilities	4,964	9,911	9,911	9,911	9,911
Total Current Liabilities	7,697	14,210	15,168	16,098	17,056
Total Long-term Debt	44	2,801	3,066	3,066	3,066
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	716	3,203	3,203	3,203	3,203
Total Non-current Liabilities	760	6,004	6,269	6,269	6,269
Total Provisions	241	246	246	246	246
Total Liabilities	8,699	20,459	21,682	22,613	23,571
Shareholders' Equity	27,957	33,682	40,030	48,311	57,734
Minority Interests					
Total Equity	27,957	33,682	40,030	48,311	57,734

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	17.4%	36.4%	46.1%	17.7%	15.5%
Operating EBITDA Growth	38.6%	40.3%	58.7%	19.2%	16.0%
Operating EBITDA Margin	16.3%	16.8%	18.2%	18.5%	18.5%
Net Cash Per Share (Rs)	211.18	139.88	107.88	168.38	294.47
BVPS (Rs)	365.80	440.71	523.81	632.17	755.47
Gross Interest Cover					
Effective Tax Rate	26.1%	25.3%	25.4%	25.5%	25.5%
Net Dividend Payout Ratio	25.1%	25.6%	24.2%	23.1%	24.6%
Accounts Receivables Days	69.17	65.50	62.10	63.81	64.38
Inventory Days					
Accounts Payables Days	32.87	33.87	31.55	32.06	32.39
ROIC (%)	37.2%	64.6%	41.2%	35.7%	37.0%
ROCE (%)	14.5%	18.4%	23.4%	23.7%	23.1%
Return On Average Assets	15.9%	18.2%	21.6%	23.1%	23.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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