

India

HOLD (no change)

Consensus ratings*: Buy 18 Hold 12 Sell 9

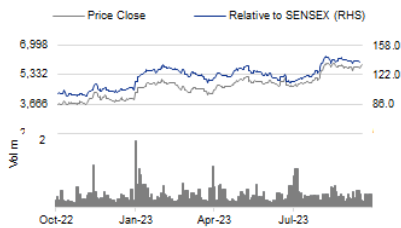
Current price: Rs5,907
 Target price: ▲ Rs6,282
 Previous target: Rs5,100
 Up/downside: 6.3%
 InCred Research / Consensus: 11.6%

Reuters: PERS.NS
 Bloomberg: PSYS IN
 Market cap: US\$5,467m
 Rs454,419m
 Average daily turnover: US\$23.3m
 Rs1933.8m
 Current shares o/s: 76.9m
 Free float: 69.0%

*Source: Bloomberg

Key changes in this note

- Expect 13.9% revenue CAGR over FY24F-26F.
- Expect 20.7% EBIT CAGR over FY24F-26F.
- Expect 23.9% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.1	17.1	59.7
Relative (%)	3.0	19.4	44.8

Major shareholders	% held
Kotak Emerging Equity Scheme	4.4
Axis Midcap Fund	3.4
HDFC Midcap opportunities fund	3.2

Analyst(s)



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Persistent Systems Ltd

But for valuation...

- Order bookings and utilization suggest excellent execution could continue.
- Margin expansion could limit downside risk to earnings if growth moderates.
- Retain HOLD rating for valuation, but with a higher target price of Rs6,282.

2QFY24 earnings summary

Persistent Systems' (PSYS IN) 2QFY24 constant currency (CC) revenue growth (3.2% qoq vs. 2.9% qoq in 1Q) was healthy, considering the material exposure to two verticals (FSI and hi-tech) which are witnessing the highest impact of macroeconomic uncertainty, decision-making delay, client-specific challenges and insourcing. Although the spillover from 1Q helped 2QFY24 bookings, a mix shift towards new and TCV bookings along with room to improve utilization implies the excellent execution could continue in the near- to medium-term. Client-specific challenges and higher furloughs in impacted verticals are key downside risks to this thesis.

Spillover likely helped deal win recovery

Total TCV was up 26% qoq and 30.3% yoy at US\$479.3m, with new deal wins up 32% qoq and 37.1% yoy at US\$313.1m and renewals up 16.1% qoq and 19.1% yoy at US\$166.2m. Total ACV was up 16.2% qoq and 16.5% yoy at US\$315.9m, with new wins up 27.8% qoq and 34.5% yoy at US\$184.2m and renewals up 3.1% qoq but down 1.9% yoy at US\$131.7m. TCV & ACV deal wins recovered (after declining for two consecutive quarters) likely aided by spillover while the healthy pipeline is driven by pro-active pursuits.

Reiterates long-term margin band; growth remains near-term priority

The EBIT margin was down 122bp qoq and 86bp yoy at 13.7% but still 27bp above our estimate. Headwinds from wage hike (-270bp) and continued SG&A investments were offset by the increase in utilization (up 230bp qoq at 80.6%), currency benefit and absence of visa costs. Deployment of freshers across projects, increase in the utilization rate and leverage from SG&A investments are likely to be key margin tailwinds in the medium term.

Retain HOLD with a higher target price of Rs6,282

We retain our HOLD rating on Persistent Systems with a higher target price of Rs6,282 (Rs5,100 earlier) as we roll forward to FY26F estimates and despite trimming our target PE/G to 1.20x (vs. 1.25x) to arrive at our target P/E multiple of 28.7x. The lower PE/G is to account for a longer time horizon. We model a 13.9% US\$ revenue CAGR over FY24F-26F and a 23.9% PAT (Rs) CAGR. Strong cash conversion (average OCF/EBITDA at 81% over FY19-23), improving dividend payout, healthy return ratios and net cash at Rs160/share are the anchors to valuation. M&A-led revenue growth upgrade is a key upside risk while moderation in deal velocity, client-specific ramp-down and senior leadership attrition are key downside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	57,107	83,506	97,482	113,399	131,746
Operating EBITDA (Rsm)	9,582	15,191	17,136	20,242	23,991
Net Profit (Rsm)	6,904	9,211	10,976	13,927	16,850
Core EPS (Rs)	90.3	120.5	149.5	181.0	219.0
Core EPS Growth	53.7%	33.4%	24.0%	21.1%	21.0%
FD Core P/E (x)	65.40	49.02	41.27	32.63	26.97
DPS (Rs)	31.0	50.0	55.0	68.8	87.6
Dividend Yield	0.52%	0.83%	0.91%	1.16%	1.48%
EV/EBITDA (x)	46.00	29.14	25.84	21.62	17.93
P/FCFE (x)	101.92	117.59	90.35	42.09	35.29
Net Gearing	(31.7%)	(22.3%)	(21.7%)	(30.3%)	(37.3%)
P/BV (x)	13.40	11.39	9.77	8.24	6.97
ROE	22.4%	25.1%	26.6%	27.4%	28.0%
% Change In Core EPS Estimates			(3.57%)	0.03%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	2QFY24F	Var. (%)
Revenue (US\$ m)	291.7	255.6	14.1	282.9	3.1	291.1	0.2
Revenue (Rs m)	24,117	20,486	17.7	23,212	3.9	24,071	0.2
US\$-Rs realization	82.7	80.2	3.2	82.0	0.8	82.7	(0.0)
EBITDA	4,052	3,680	10.1	4,229	(4.2)	4,020	0.8
EBITDA margin (%)	16.8	18.0	(116 bp)	18.2	(142 bp)	16.7	10 bp
EBIT	3,308	2,987	10.8	3,466	(4.6)	3,238	2.2
EBIT margin (%)	13.7	14.6	(86 bp)	14.9	(122 bp)	13.5	27 bp
Depreciation	744	693	7.3	763	(2.5)	782	(4.9)
Net other income	250	-31	(918.8)	90	176.3	265	(5.6)
PBT	3,558	2,956	20.4	3,557	0.0	3,502	1.6
Provision for tax	925	756	22.4	783	18.2	771	20.0
% tax rate	26.0	25.6	43 bp	22.0	399 bp	22.0	399 bp
Net profit	2,633	2,200	19.7	2,288	15.1	2,732	(3.6)
EPS (Rs)	34.2	28.8	18.9	29.8	15.0	35.5	(3.7)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Operating metric trend

Operating trends	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m)	182.3	199.1	217.3	241.5	255.6	264.4	274.6	282.9	291.7
Growth YoY (%)	34.0	36.2	42.2	44.8	40.2	32.8	26.4	17.1	14.1
Growth QoQ (%)	9.3	9.2	9.2	11.1	5.8	3.4	3.9	3.0	3.1
Revenue (Rs m)	13,512	14,917	16,379	18,781	20,486	21,694	22,545	23,212	24,117
Growth YoY (%)	34.1	38.7	47.1	52.7	51.6	45.4	37.6	23.6	17.7
Growth QoQ (%)	9.9	10.4	9.8	14.7	9.1	5.9	3.9	3.0	3.9
EBIT Margin (%)	13.9	14.0	14.0	14.3	14.6	15.4	15.4	14.9	13.7
US\$-INR realized rate	74.1	74.9	75.4	77.8	80.2	82.1	82.1	82.0	82.7
Headcount	15,879	16,989	18,599	21,638	22,476	22,598	22,889	23,130	22,842
Utilization - trainees (%)	82.8	83.0	80.6	79.5	79.9	77.6	77.3	78.3	80.6
LTM Attrition (%)	23.6	26.9	26.6	24.8	23.7	21.6	19.8	15.5	13.5
Geography (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	78.7	79.2	78.6	78.4	78.6	77.1	77.9	79.2	79.2
Europe	8.8	8.3	8.4	8.5	8.3	9.0	10.3	9.7	9.5
India	10.5	10.9	11	11.3	11.5	12.3	10	9.9	9.7
ROW	2.0	1.6	2.0	1.8	1.6	1.6	1.8	1.2	1.6
Geography (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	143.5	157.7	170.8	189.4	200.9	203.8	213.9	224.1	231.0
Europe	16.0	16.5	18.3	20.5	21.2	23.8	28.3	27.4	27.7
India	19.1	21.7	23.9	27.3	29.4	32.5	27.5	28.0	28.3
ROW	3.6	3.2	4.3	4.3	4.1	4.2	4.9	3.4	4.7
Geography YoY (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	27.2	33.0	41.1	43.9	40.0	29.3	25.2	18.3	15.0
Europe	55.1	28.5	19.5	29.6	32.2	44.0	54.9	33.7	30.6
India	73.7	72.7	75.8	67.0	53.5	49.8	14.9	2.6	-3.7
ROW	91.4	45.3	49.7	44.8	12.2	32.8	13.7	-21.9	14.1
Geography QoQ (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	9.0	9.9	8.3	10.9	6.1	1.4	5.0	4.7	3.1
Europe	1.3	3.0	10.5	12.5	3.3	12.1	18.9	-3.0	1.0
India	17.1	13.4	10.2	14.2	7.7	10.6	-15.5	2.0	1.0
ROW	21.4	-12.6	36.4	0.0	-5.9	3.4	16.9	-31.3	37.5
Incremental revenue (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	11.9	14.2	13.1	18.5	11.5	2.9	10.1	10.1	7.0
Europe	0.2	0.5	1.7	2.3	0.7	2.6	4.5	-0.8	0.3
India	2.8	2.6	2.2	3.4	2.1	3.1	-5.1	0.5	0.3
ROW	0.6	-0.5	1.2	0.0	-0.3	0.1	0.7	-1.5	1.3
Vertical (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	30.7	32.2	32.4	33.7	32.8	32.6	32.3	33.3	32.3
Healthcare & Lifescience	21.2	20.7	20.7	19.9	19.7	19.6	19.7	18.6	19.3
Software, Hitech & Emerging Industries	48.1	47.1	46.9	46.4	47.5	47.8	48.0	48.1	48.4
Business unit (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	56.0	64.1	70.4	81.4	83.8	86.2	88.7	94.2	94.2
Healthcare & Lifescience	38.7	41.2	45.0	48.1	50.4	51.8	54.1	52.6	56.3
Software, Hitech & Emerging Industries	87.7	93.8	101.9	112.1	121.4	126.4	131.8	136.1	141.2
Business unit YoY (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	28.9	48.7	53.1	58.4	49.8	34.4	26.0	15.7	12.4
Healthcare & Lifescience	47.2	47.6	52.5	40.6	30.3	25.7	20.3	9.5	11.8
Software, Hitech & Emerging Industries	32.0	24.8	31.8	38.0	38.4	34.7	29.3	21.4	16.3
Business unit QoQ (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	8.9	14.5	9.8	15.6	3.0	2.8	2.9	6.2	0.0
Healthcare & Lifescience	13.0	6.6	9.2	6.8	4.8	2.9	4.4	-2.7	7.0
Software, Hitech & Emerging Industries	8.0	6.9	8.7	10.0	8.3	4.1	4.3	3.2	3.8
Incremental revenue (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	4.6	8.1	6.3	11.0	2.4	2.3	2.5	5.5	0.0
Healthcare & Lifescience	4.5	2.6	3.8	3.1	2.3	1.5	2.3	-1.5	3.7
Software, Hitech & Emerging Industries	6.5	6.1	8.1	10.1	9.3	4.9	5.4	4.3	5.1
Clients (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top	16.9	17.5	14.0	11.7	8.7	7.4	9.3	10.2	10.2
Top 2-5	18.9	18.6	18.5	19.1	18.2	17.3	17.2	17.7	18.1
Top 6-10	9.6	8.9	9.6	9.9	9.8	10.3	10.9	11.7	11.2
Non-top 10	54.6	55	57.9	59.3	63.3	65.0	62.6	60.4	60.5

Clients (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top	30.8	34.8	30.4	28.3	22.2	19.6	25.5	28.9	29.8
Top 2-5	34.5	37.0	40.2	46.1	46.5	45.7	47.2	50.1	52.8
Top 6-10	17.5	17.7	20.9	23.9	25.0	27.2	29.9	33.1	32.7
Non-top 10	99.5	109.5	125.8	143.2	161.8	171.8	171.9	170.9	176.5
Clients YoY (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top	16.7	28.9	11.2	-0.3	-27.8	-43.9	-16.1	2.1	33.8
Top 2-5	14.1	31.3	42.2	41.8	35.0	23.5	17.5	8.5	13.5
Top 6-10	44.5	31.8	37.9	40.5	43.1	53.7	43.5	38.4	30.4
Non-top 10	47.8	41.4	53.3	61.1	62.5	56.9	36.6	19.3	9.1
Clients QoQ (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top	8.7	13.1	-12.7	-7.1	-21.3	-12.0	30.5	13.0	3.1
Top 2-5	5.9	7.5	8.6	14.7	0.8	-1.7	3.3	6.0	5.4
Top 6-10	2.9	1.2	17.7	14.6	4.8	8.7	9.9	10.6	-1.3
Non-top 10	12.0	10.0	14.9	13.8	13.0	6.2	0.0	-0.6	3.3
Incremental revenue (US\$ m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top	2.5	4.0	-4.4	-2.2	-6.0	-2.7	6.0	3.3	0.9
Top 2-5	1.9	2.6	3.2	5.9	0.4	-0.8	1.5	2.8	2.7
Top 6-10	0.5	0.2	3.1	3.0	1.1	2.2	2.7	3.2	-0.4
Non-top 10	10.6	10.0	16.3	17.4	18.6	10.0	0.1	-1.0	5.6
Client metrics	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
US\$30 m+	2	2	2	3	3	5	5	5	6
US\$20-30 m	2	2	2	1	3	2	4	5	3
US\$10-20 m	5	6	6	7	6	9	8	7	7
US\$5-10 m	13	14	15	15	18	18	17	21	23
US\$1-5 m	84	90	93	104	116	118	126	129	136
Per employee analysis	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m) - TTM	648.1	701.0	765.5	840.3	913.5	978.8	1036.1	1077.5	1113.6
Employees (Average TTM)	13,182	14,229	15,374	16,951	18,522	19,850	20,853	21,195	21,276
Revenue per employee (TTM)	49,162	49,266	49,796	49,569	49,321	49,309	49,684	50,835	52,340

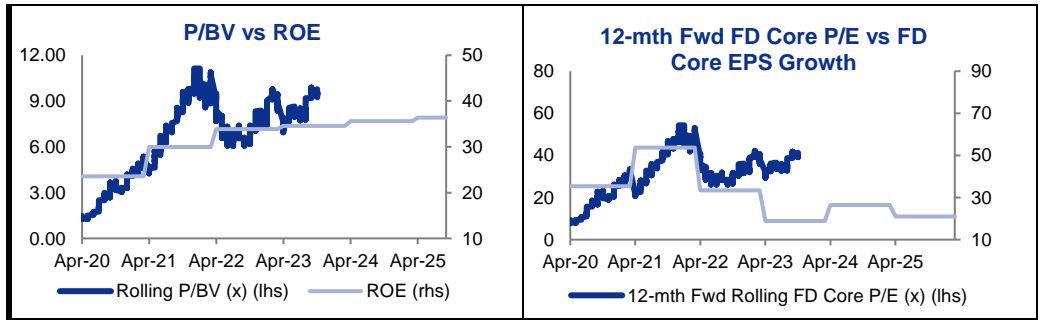
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F			FY26F
	New	Old	% change	New	Old	% change	New
US\$ revenue	1,181	1,183	-0.2	1,350	1,350	0.0	1,532
Revenue	97,482	98,212	-0.7	1,13,399	1,13,401	0.0	1,31,746
EBIT	14,036	14,800	-5.2	16,953	17,294	-2.0	20,434
EBIT Margin (%)	14.4	15.1	(67) bp	15.0	15.3	(30) bp	15.5
Net PAT	10,976	11,846	-7.3	13,927	13,832	0.7	16,850
EPS (Rs)	142.7	155.0	-7.3	181.0	181.0	0.7	219.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	57,107	83,506	97,482	113,399	131,746
Gross Profit	19,212	28,191	32,800	38,102	44,398
Operating EBITDA	9,582	15,191	17,136	20,242	23,991
Depreciation And Amortisation	(1,660)	(2,719)	(3,099)	(3,289)	(3,557)
Operating EBIT	7,921	12,472	14,036	16,953	20,434
Financial Income/(Expense)	1,321	(64)	842	1,134	1,449
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	9,243	12,409	14,878	18,087	21,883
Exceptional Items					
Pre-tax Profit	9,243	12,409	14,878	18,087	21,883
Taxation	(2,339)	(3,198)	(3,416)	(4,160)	(5,033)
Exceptional Income - post-tax			(486)		
Profit After Tax	6,904	9,211	10,976	13,927	16,850
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,904	9,211	10,976	13,927	16,850
Recurring Net Profit	6,904	9,211	11,462	13,927	16,850
Fully Diluted Recurring Net Profit	6,904	9,211	11,462	13,927	16,850

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	9,582	15,191	17,136	20,242	23,991
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(407)	(4,377)	(2,080)	(2,284)	(3,082)
(Incr)/Decr in Total Provisions	1,476	827			
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received		(64)			
Tax Paid	(2,367)	(3,405)	(3,416)	(4,160)	(5,033)
Cashflow From Operations	8,284	8,172	11,640	13,798	15,876
Capex	(3,854)	(4,333)	(6,627)	(3,000)	(3,000)
Disposals Of FAs/subsidiaries	46	12			
Acq. Of Subsidiaries/investments	(6,154)	(4,311)			
Other Investing Cashflow	189	4,418	842	1,134	1,449
Cash Flow From Investing	(9,773)	(4,213)	(5,785)	(1,866)	(1,551)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,987)	(2,981)	(4,137)	(5,292)	(6,740)
Preferred Dividends					
Other Financing Cashflow	3,810	(1,059)			
Cash Flow From Financing	1,823	(4,039)	(4,137)	(5,292)	(6,740)
Total Cash Generated	333	(80)	1,718	6,639	7,585
Free Cashflow To Equity	4,430	3,840	5,013	10,798	12,876
Free Cashflow To Firm	(1,490)	4,023	5,855	11,932	14,325

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	13,491	10,912	12,144	18,783	26,368
Total Debtors	12,615	20,376	22,908	26,649	30,960
Inventories					
Total Other Current Assets	2,233	3,891	3,891	3,891	3,891
Total Current Assets	28,339	35,179	38,943	49,323	61,219
Fixed Assets	5,347	7,220	10,747	10,458	9,901
Total Investments	3,878	4,516	4,516	4,516	4,516
Intangible Assets	11,060	16,355	16,355	16,355	16,355
Total Other Non-Current Assets	5,517	2,922	2,922	2,922	2,922
Total Non-current Assets	25,802	31,012	34,540	34,251	33,694
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	4,299	5,689	6,141	7,598	8,827
Other Current Liabilities	9,911	13,892	13,892	13,892	13,892
Total Current Liabilities	14,210	19,581	20,033	21,490	22,719
Total Long-term Debt	2,801	2,058	2,058	2,058	2,058
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,203	4,529	4,529	4,529	4,529
Total Non-current Liabilities	6,004	6,587	6,587	6,587	6,587
Total Provisions	246	373	373	373	373
Total Liabilities	20,459	26,541	26,993	28,449	29,679
Shareholders Equity	33,682	39,651	46,490	55,125	65,235
Minority Interests					
Total Equity	33,682	39,651	46,490	55,125	65,235

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	36.4%	46.2%	16.7%	16.3%	16.2%
Operating EBITDA Growth	40.3%	58.5%	12.8%	18.1%	18.5%
Operating EBITDA Margin	16.8%	18.2%	17.6%	17.8%	18.2%
Net Cash Per Share (Rs)	139.88	115.86	131.12	217.43	316.03
BVPS (Rs)	440.71	518.81	604.36	716.61	848.03
Gross Interest Cover		195.55			
Effective Tax Rate	25.3%	25.8%	23.0%	23.0%	23.0%
Net Dividend Payout Ratio	25.6%	30.1%	27.8%	29.3%	30.8%
Accounts Receivables Days	65.50	72.10	81.03	79.76	79.80
Inventory Days					
Accounts Payables Days	33.87	32.95	33.38	33.30	34.32
ROIC (%)	64.6%	41.0%	34.7%	35.5%	40.6%
ROCE (%)	18.4%	23.7%	24.0%	24.7%	25.3%
Return On Average Assets	18.2%	20.7%	20.4%	21.9%	23.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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