

**CMP: INR 5,716**

**Rating: Reduce**

**Target Price: INR 5,151**

**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)	6,035/3503
Avg Yearly Vol (in 000')	356

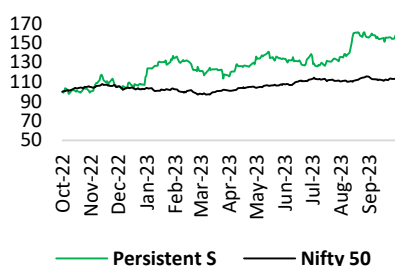
**Shareholding Pattern %**

(As on Jun, 2023)

Promoters	31.06
FII	20.50
DII	28.04
Public & Others	20.40

	1m	3m	12m
Persistent Systems	0.17	13.9	59.7
Nifty 50	2.3	-1.0	12.0

**Persistent Systems Vs Nifty 50**



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Persistent system reported Top line and margin are in line with our estimates. Reported revenue of USD 291.7 Mn (up 3.1% QoQ/14.1%YoY) against our estimate of \$292 Mn. Reported revenue of INR 24,117 Mn up 3.9% QoQ/ 17.7% YoY against our estimate of INR 24,070 Mn. The growth was led by Healthcare & Life Sciences was up (20.6%YoY/8.1% QoQ) followed by BFSI (up 17.4%YoY/0.7% QoQ) and software (16.8% YoY/4.5%QoQ). EBIT margin expansion by 88bps QoQ/ (down 86bps YoY) at 13.72% in in line with our estimates of 13.4%. Consolidated PAT stood at INR 2,632.68 Mn, down by 15.1% QoQ/19.7% YoY against our estimate of INR 2,730 Mn. The order booking for Q2FY24, was at \$479.3 mn in TCV (26% growth QoQ) and at \$315.9 mn in ACV terms (growth of 16% QoQ). DSO decreased by 1 Day to 66 Days. Effort mix, Global Delivery Centers revenue mix decreased by 40 bps QoQ to 12.7%. Client Engagement Size increased by 1 in \$30M+, 2 in \$20M – \$30M, 2 in \$5M – \$10M and 7 in \$1M – \$5M.

**Leveraging Generative AI for Diverse Projects and Enhanced Productivity:**

The company's significant investment in Generative AI has led to various projects, such as developing a biomechanics coach app, streamlining clinical study protocol creation, and automating legacy source code migration for technology firms, resulting in improved productivity and reduced migration time.

**Impact of Wage Hike on EBIT Margin and Offsetting Factors:** The EBIT margin saw a decline, mainly due to the wage hike initiated by the company, effective from July 1, 2023, with an average increase of 7% for offshore and 3% to 4% for onsite employees. This resulted in a total impact of approximately 2.7% on the margin, partially mitigated by improved utilization, currency benefits, and the elimination of visa costs.

**Challenges in ACV to Revenue Conversion and Delayed Ramping Up:** The conversion of ACV into revenues has faced delays this year, with conversion rates now ranging from 10% to 15% or occasionally higher, attributed to customer-related delays, resulting in a more protracted ramp-up period compared to previous experiences. The company's approach is to aim for an 85% conversion rate from an ACV of \$100 over the next 12m, with the remaining 15% accounting for potential leakage.

**Valuations**

Persistent aims to achieve \$2 billion in revenue within the next four years. To reach this target, they will invest in sales and marketing, improve execution with a utilization target of 83-84%, upskill their talent in areas like Generative AI and next-gen technologies, and provide the right incentives and compensation. The company recognizes the need for a 33% larger qualified pipeline to meet revenue goals and views reducing sales and marketing expenses as crucial for margin improvement when the business environment improves. They remain committed to enhancing margins by 200-300 basis points over the next 2-3 years. Hence, **we value the Persistent system at a PE of 27x to its FY26E EPS of 190.8, which yields a target price of INR 5,151 per share. We downgrade our rating to Reduce from Neutral earlier.**

**Exhibit 2: Q2FY24 - Quarterly Performance (Consolidated)**

INR Mn (consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	292	283	255.6	3.1%	14.1%
Net Revenue	24,117	23,212	20,486	3.9%	17.7%
Employee Cost	17,759	16,312	15,009	8.9%	18.3%
Other Expenses	2,306	3,156	1,798	-26.9%	28.3%
EBITDA	4,052	3,743	3,680	8.2%	10.1%
EBITDA Margin %	16.80%	16.13%	18.0%	67bps	-116bps
Depreciation	744	763	693	-2.5%	7.3%
EBIT	3,308	2,980	2,987	11.0%	10.8%
EBIT Margin %	13.72%	12.84%	14.6%	88bps	-86bps
Other Income	373	216	81	72.2%	362.8%
Finance Cost	123	126	111	-2.5%	10.6%
Exceptional Item	-	-	-	-	-
PBT	3,557.63	3,070	2,956	15.9%	20.4%
Tax Expense	924.95	783	756	18.2%	22.4%
Effective Tax Rate %	26.0%	25.5%	25.6%	50bps	43bps
PAT	2,632.68	2,288	2,200	15.1%	19.7%
MI & Associates	-	-	-	-	-
Consolidated PAT	2,632.68	2,287.68	2,200	15.1%	19.7%
PAT Margin %	10.9%	9.9%	10.7%	106bps	18bps
EPS (INR)	35.00	30.50	29.61	14.8%	18.2%
INR Mn (consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
- BFSI	7,791	7,737	6,636.10	0.7%	17.4%
Healthcare & Life Sciences	4,657.41	4,309.24	3,863	8.1%	20.6%
software	11668.11	11165.57	9987.76	4.5%	16.8%

Source: Arihant Research, Company Filings

**Q2FY24 Conference call Highlights:**

- Management acknowledges the challenging macroeconomic conditions but maintains a cautious yet optimistic outlook. On a quarterly basis, Persistent aims for revenue growth of 3-5% QoQ in favorable conditions and 2-4% QoQ growth in unfavorable conditions. Additionally, Persistent anticipates a margin improvement of 200-300 basis points over the next 2-3 years.
- The EBIT margin declined by 120 basis points QoQ due to a company-wide wage hike, partially offset by improved utilization, currency benefits, and the elimination of visa costs. The company will expand EBIT margins by 2% to 3%
- The company was able to partly mitigate impact of the wage hike and higher SG&A investments, through revenue growth leverage.
- Client engagement showed healthy growth, with top customers up 4.5% QoQ and the top 50 clients, delivering 3.7% QoQ, outpacing overall revenue growth, while PSL welcomed new clients in various segments, except the \$20 mn to \$30 mn category, which saw two customer movements.
- PSL onboarded 277 freshers in Q2 and will prioritize their deployment along with the existing bench, focusing on critical skills based on project needs over the coming quarters, while achieving substantially higher blended utilization for Q2FY24.
- Net employee reduction stood at 288 employees during the quarter to close at 22,842 employees. LTM attrition declined by 200 bps QoQ to 13.5%. Employee utilization improved by 230 bps QoQ to 80.6%.
- The company is reengaging in M&A activities and anticipates reporting notable advancements in the coming quarters.
- In the BFSI sector, they serve Tier-1, Tier-2, and regional BFS organizations, insurance companies, insurtech, and FinTech. As disruptors, they have won contracts against larger providers, gaining market share in both new and existing customer segments.
- Conversion delays in ACV to revenues, ranging from 10% to 15% or occasionally higher, are attributed to customer-related delays, prompting the company to target an 85% conversion rate from a \$100 ACV over the next 12 months, with the remaining 15% accounting for potential leakage.
- Aspirational utilization is set at 83% to 84%, and for every percentage of utilization, it creates an impact of 30bps on PAT.

## Exhibit 3: Business Matrix

Revenue	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24
Revenue from Operations, USD M	241.5	255.6	264.4	274.6	282.9	291.7
% Q - o -Q growth	11.1%	5.8%	3.4%	3.9%	3.0%	3.1%
% Y - o -Y growth	44.8%	40.2%	32.8%	26.4%	17.1%	14.1%
Revenue from Operations, INR M	18781	20486	21694	22545	23212	24117
% Q - o -Q growth	14.67%	9.08%	5.90%	3.92%	2.96%	3.90%
% Y - o -Y growth	52.70%	51.61%	45.43%	37.65%	23.59%	17.72%
Segment Revenue Mix	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24
BFSI	33.70%	32.80%	32.60%	32.30%	33.30%	32.30%
Healthcare & Life Sciences	19.90%	19.70%	19.60%	19.70%	18.60%	19.30%
Software, Hi -Tech & Emerging Industries	46.40%	47.50%	47.80%	48.00%	48.10%	48.40%
Total	100%	100%	100%	100%	100%	100%
Geography Revenue Mix	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24
North America	78.40%	78.60%	77.40%	77.90%	79.20%	79.20%
Europe	8.50%	8.30%	9.00%	10.30%	9.70%	9.50%
India	11%	12%	12.00%	10.00%	9.90%	9.70%
ROW	1.80%	1.60%	1.60%	1.80%	1.20%	1.60%
Total	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
Top 1	11.7%	8.7%	7.40%	9.30%	10.20%	10.20%
Top 5	30.8%	26.9%	24.70%	26.50%	27.90%	28.30%
Top 10	40.7%	36.7%	35.00%	37.40%	39.60%	39.50%
Top 20	51.2%	48.4%	47.80%	47.90%	50.40%	50.40%
Top 50	66.1%	64.0%	63.9%	64.4%	66.1%	66.1%
Revenue by Delivery Centers	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24
Global Development Centers	14.7%	14.4%	14%	13%	13%	13%
India	56.5%	57.4%	57%	60%	87%	87%
Client Billed	340	345	344	359	367	375
Client Engagement Size	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24
\$30M+	3	3	5	5	5	6
\$20M – \$30M	1	3	2	4	5	3
\$10M – \$20M	7	6	9	8	7	7
\$5M – \$10M	15	18	18	17	21	23
\$1M – \$5M	104	116	118	126	129	136
People Numbers	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24
Technical	20144	20941	21033	21295	21511	21236
Sales and Business Development	367	387	405	414	428	443
Others	1127	1148	1160	1180	1191	1136
Total	21638	22476	22598	22889	23130	22815
Attrition Rate	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24
TTM Basis	24.80%	23.70%	21.60%	19.80%	15.50%	13.50%
DSO	Q1-FY 23	Q2-FY 23	Q3-FY23	Q4-FY23	Q1-FY24	Q2-FY24
Days	60	60	67	68	67	66

Source: Arihant Research, Company Filings

Exhibit 4: In line top line

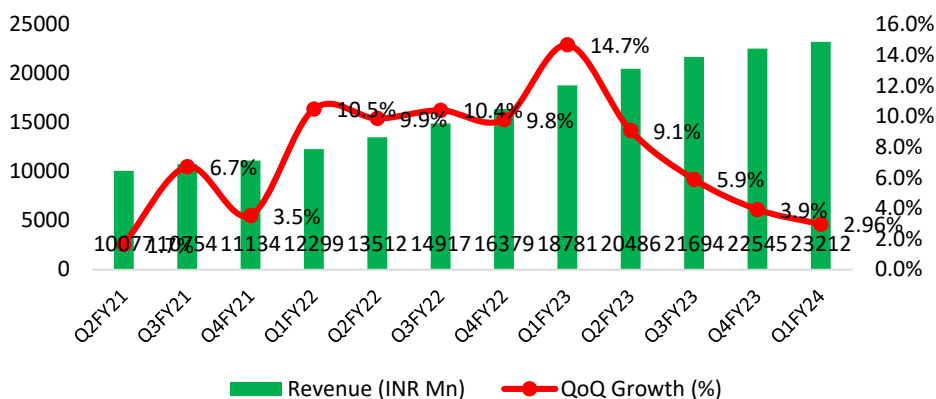


Exhibit 5: In line top line

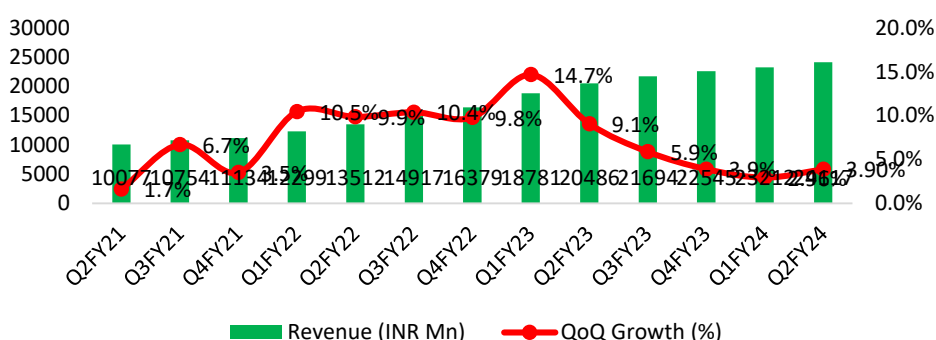


Exhibit 6: PSL remain committed to goal of improving EBIT margins by 150 to 200 bps over the next 2 to 3 years.

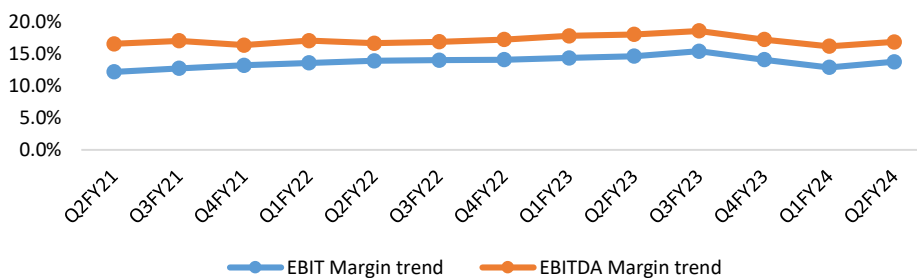
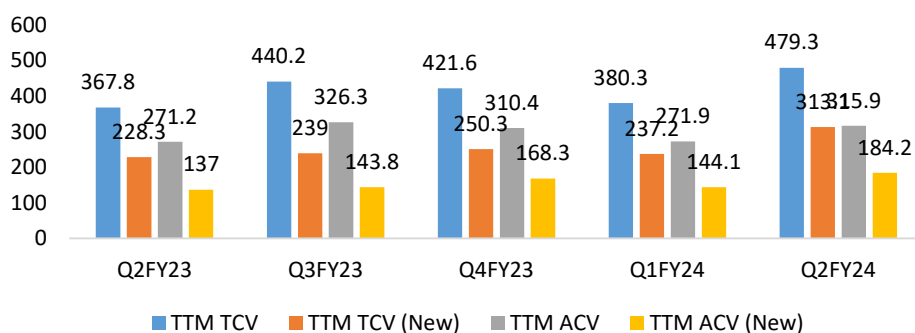


Exhibit 7: Strong deal wins



Source: Arianth Research, Company Filings

## Key Financials

Income Statement				
Income Statement (INR Mn)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	1036	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

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

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

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	46.2	39.8	33.9	30.0
P/CEPS	37.4	30.9	26.4	23.3
P/BV	11.5	9.7	8.1	6.4
EV/EBITDA	29.8	24.0	20.1	17.2
Dividend Yield (%)	0.9%	0.9%	1.0%	1.0%
Return Ratio (%)				
EBIDTA 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,

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Stock Rating Scale	Absolute Return
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HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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