

Persistent Systems

Strong show despite soft demand

All-round beat led by superlative Q3

Diverging from soft growth posted by top Indian IT players in a seasonally weak Q3, Persistent Systems (PSYS IN) continued to see an all-round beat on Street/our estimates. Revenues at USD 300.6mn were slightly ahead of both our/Street estimates by 0.4% each. CC revenue growth at 3.1% QoQ was 40bps ahead of our estimates. Growth was led by Medical vertical, with 16.4% QoQ growth, though offset by flat growth from Hi-Tech and a 0.5% drop in BFSI. Geographically, Europe saw a revenue decline by 3.5% though offset by growth in the US (+3.7% QoQ) and India + APAC (+3.9% QoQ). Top account declined ~6% QoQ but was offset by top 2-5 accounts with 6.4% sequential growth. Growth was steady in top-10/top-20 and non-top 20 accounts.

Excellent margin execution in furlough-led Q3

Q3 EBIT margin rose 80bps sequentially to 14.5%, 70bps ahead of our estimate of 13.8% and 30bps ahead of streets estimate. This was due to higher utilization and SG&A optimization. Even in furlough-led Q3, PSYS added 494 employees QoQ. This is in contrast with industry leaders which pared headcount. Thus, demand certainty for PSYS was visible.

Vendor consolidation deals back robust orderbook

Orderbook continues to be robust, propelled by vendor consolidation deals and product engineering services, supporting overall demand for PSYS. Q3 net new ACV of USD 183mn declined 1% QoQ but overall ACV at USD 392mn rose 24% QoQ. This was supported by 59% sequential growth in renewals. Led by strong renewals, TCV too expanded 9% QoQ to USD 521.4mn.

Valuations: Maintain Accumulate; TP raised to INR 8,300

Even in a seasonally weak Q3, PSYS was able to lead industry growth. This was enabled by better demand and certainty of topline growth for PSYS versus industry's cautionary demand status. We factor in Q3 performance and roll forward to Dec-25E ending EPS. We raise FY25E/26E EPS 4.5%/ 7%, respectively. Expect USD sales CAGR of 14.4%, an EBIT CAGR of 20% and EPS CAGR of 23% in FY23-26E. We maintain Accumulate with raised TP of INR 8,300 (from INR 6,180), on 36.9x target Dec-2024E earnings (5 years average P/E + 1SD).

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue (USD mn)	300.6	264.4	13.7	291.7	3.0
Revenue (INR mn)	24,982	21,694	15.2	24,117	3.6
Operating expenditure	20,564	17,678	16.3	20,065	2.5
EBITDA	4,418	4,016	10.0	4,052	9.0
Depreciation	787	684	15.2	744	5.8
EBIT	3,631	3,332	9.0	3,308	9.8
Other income	262	192		250	
PBT	3,893	3,228	20.6	3,558	9.4
Total tax	1,032	848	21.6	925	11.5
Adjusted PAT	2,861	2,380	20.2	2,633	8.7
Reported EPS	37.4	31.1	20.2	34.4	8.7

Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA Margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	83,506	35.3	15,192	18.2	9,211.4	33.4	123.2	23.2	24.1	64.3	40.2
FY24E	97,881	14.4	17,404	17.8	11,224.2	21.9	148.4	23.4	25.5	53.4	34.8
FY25E	111,710	14.2	21,812	19.5	14,218.8	26.7	189.0	24.2	32.2	41.9	27.2
FY26E	128,047	14.6	25,283	19.7	17,422.2	22.5	230.3	24.3	39.1	34.4	22.9

Note: Pricing as on 20 January 2024; Source: Company, Elara Securities Estimate

Rating: Accumulate

Target Price: INR 8,300

Upside: 5%

CMP: INR 7,922 (as on 20 January 2024)

Key data*

Bloomberg /Reuters Code	PSYS IN/PERS.BO
Current /Dil. Shares O/S (mn)	77/76
Mkt Cap (INR bn/USD mn)	609/7,333
Daily Volume (3M NSE Avg)	488,686
Face Value (INR)	10

1 USD = INR 83.1

Note: *as on 20 January 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	31.3	31.1	31.1	31.1
Institutional Investors	48.2	48.5	50.0	50.7
Other Investors	5.5	5.6	5.0	4.6
General Public	15.1	14.8	13.9	13.6

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	10.4	9.3	19.7
Persistent Systems	34.1	57.1	83.6
LTIMindtree	4.4	13.5	32.5
Coforge	25.6	30.3	53.0

Source: Bloomberg

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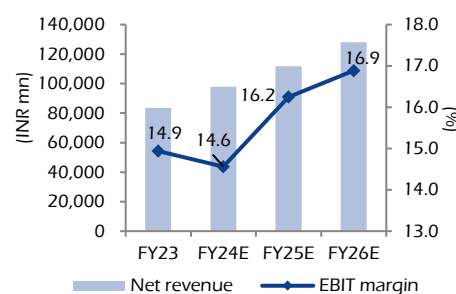
Elara Securities (India) Private Limited

Consolidated Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	83,506	97,881	111,710	128,047
EBITDA	15,192	17,404	21,812	25,283
Less :- Depreciation & Amortization	2,719	3,151	3,662	3,662
EBIT	12,473	14,253	18,150	21,621
Add:- Non operating Income	366	676	823	1,537
PBT	12,409	15,030	18,973	23,158
Less :- Taxes	3,198	3,806	4,754	5,736
Adjusted PAT	9,211	11,224	14,219	17,422
Reported PAT	9,211	11,224	14,219	17,422
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	764	764	764	764
Reserves	38,887	47,305	57,969	71,035
Borrowings	6,539	6,539	6,539	6,539
Total Liabilities	46,189	54,608	65,272	78,330
Gross Block	23,306	24,956	26,606	28,256
Less:- Accumulated Depreciation	7,076	10,228	13,889	17,551
Net Block	16,230	14,728	12,716	10,705
Investments	11,830	11,830	11,830	11,830
Cash & cash equivalents	4,670	11,169	22,657	36,332
Net Working Capital	4,985	8,407	9,594	10,997
Other Assets	8,474	8,474	8,474	8,474
Total Assets	46,189	54,608	65,272	78,339
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Cash profit adjusted for non-cash items	11,684	13,599	17,058	19,547
Add/Less : Working Capital Changes	(4,377)	(3,422)	(1,188)	(1,403)
Operating Cash Flow	9,556	10,177	15,870	18,144
Less:- Capex	(4,321)	(1,650)	(1,650)	(1,650)
Free Cash Flow to Firm	5,235	8,527	14,220	16,494
Financing Cash Flow	(4,039)	(2,806)	(3,555)	(4,356)
Investing Cash Flow	(4,213)	(873)	(827)	(113)
Net change in Cash	1,690	6,498	11,488	13,675
Ratio Analysis	FY23	FY24E	FY25E	FY26E
Income Statement Ratios (%)				
Revenue Growth	35.3	14.4	14.2	14.6
EBITDA Growth	58.5	14.6	25.3	15.9
PAT Growth	33.4	21.9	26.7	22.5
EBITDA Margin	18.2	17.8	19.5	19.7
Net Margin	11.0	11.5	12.7	13.6
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.0	(0.1)	(0.3)	(0.4)
ROE (%)	23.2	23.4	24.2	24.3
ROCE (%)	24.1	25.5	32.2	39.1
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	123.2	148.4	189.0	230.3
EPS Growth (%)	36.4	20.4	27.4	21.9
Book Value	530.5	635.5	780.8	949.3
DPS (INR/Share)	31.7	37.1	47.3	57.6
P/E Ratio (x)	64.3	53.4	41.9	34.4
EV/EBITDA (x)	40.2	34.8	27.2	22.9
Price/Book (x)	14.9	12.5	10.1	8.3
Dividend Yield (%)	0.4	0.5	0.6	0.7

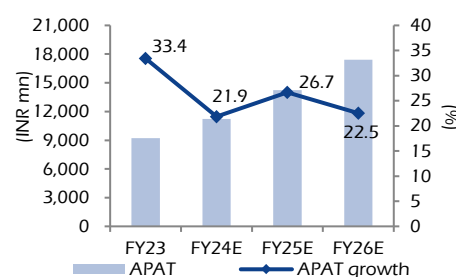
Note: Pricing as on 20 January 2024; Source: Company, Elara Securities Estimate

Revenue & EBIT margin growth trend



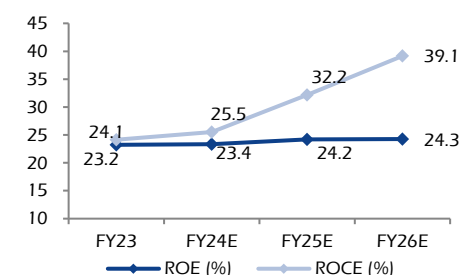
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Conference Call – Takeaways

Demand environment

- Discretionary spending is seeing some green shoots but the demand environment is not yet materially different from the past few quarters.
- PSYS is seeing increased benefits from vendor consolidation.
- PSYS expects margin to increase 200-300bps in the next three years.

Q3 review – Vertical-/ Geography-wise commentary

- Quarterly revenue rose 3% QoQ USD, crossing USD 300mn for the first time.
- A sequential contraction of 0.7% QoQ in BFSI was due to furloughs. PSYS is seeing increased traction in private equity component within BFSI. There is increased traction in cyber security and AI-led deals too. BFSI saw a deal win worth USD 50mn, which is also a vendor consolidation deal.
- North America saw 3.6% QoQ USD growth. PSYS is one of the few companies to post a QoQ growth in North America, whereas the rest of the peers have reported a sequential decline.
- PSYS’ new office has been set up in New Jersey in the US and Kochi, Kerala, in an effort to spread across location.

Order book commentary

- TCV was at USD 521mn, with USD 277.4mn from new deal wins. ACV stood at USD 392.1mn.
- PSYS saw healthy growth in top customers. New customers have entered 1-5mn and USD 20-30mn bracket. Top client declined 6.1% QoQ, while top-10 clients saw 2.5% QoQ USD growth.

Margin levers and employee metrics

- PSYS saw 60bps impact from increased subcontracting cost given increased onsite effort mix (due to deal ramp-up). This was offset by: 1) 80bps tailwinds from higher utilization and 2) 60bps tailwinds from SG&A rationalization.
- Gross margin has been steady. PSYS is aiming towards EBIT margin expansion of 2-3% in the next 2-3 years.
- Utilization was at 81.5%. For every 1% increase in utilization, PSYS sees 30bps tailwind for PAT margin.

Exciting gAI developments across-the-board

- PSYS announced partnership with AWS to accelerate gAI adoption.

- PSYS launched gAI innovation hubs at the US, the UK and India.
- Currently, 3,000 employees have received training in AI. PSYS initiated its AI journey in the 1990s in partnership with IBM. A Center of Excellence was established in the early 2000s, focusing on niche projects in Healthcare and Life Sciences through collaboration with major hyperscalers.
- In the past 12 months, there has been a swift embrace of gAI within the organization. PSYS is now observing promising opportunities emerging at the intersection of gAI, automation, and cloud. Currently, there are 75 proof of concepts (POCs) underway for gAI. The management expressed confidence that gAI will pave the way for new opportunities.

Miscellaneous

- PSYS added new faces to its top management – 1) Dhanashree Bhat (ex-TECHM; Chief of staff) and 2) Bharat Narayanan (ex- Wipro).
- Headcount rose by 494 QoQ – 75% was from lateral hiring. Utilization was higher at 81.5%, as PSYS aims to increase its utilization.
- TTM attrition was 11.9% in Q3 from 13.5% in Q2. Attrition is now in comfortable range for the management. This is in line with lower hiring and attrition across the sector.
- DSO saw flat QoQ at 66 days.
- The Board has declared an interim dividend of INR 32/share.
- The split is in the ratio of 1:2, resulting in shares with face value of INR 5 versus INR 10 earlier.
- PSYS has also launched gAI-powered maintenance of open-source software.

Exhibit 1: Valuations

(INR)	
Current trailing twelve months (TTM) EPS	137.1
Current market price (CMP)	7,922
Target EPS	224.9
Target EPS period	Dec-24E to Sep-25E
Target multiple (x)	36.9
Target price	8,300
Upside (%)	5

Note: Pricing as on 20 January 2024; Source: Elara Securities Estimate

Exhibit 2: Change in estimates

(INR mn)	Old			New			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	1,181	1,336	1,534	1,184	1,352	1,550	0.3	1.2	1.1
YoY growth (%)	14.0	13.1	14.8	14.4	14.2	14.6			
Revenues	97,439	1,10,366	1,26,715	97,881	1,11,710	1,28,047	0.5	1.2	1.1
EBITDA	17,381	21,257	24,409	17,404	21,812	25,283	0.1	2.6	3.6
EBITDA margin (%)	17.8	19.3	19.3	17.8	19.5	19.7			
Net profits	11,169	13,601	16,280	11,224	14,219	17,422	0.5	4.5	7.0
EPS (diluted)	146.1	178.0	213.0	146.9	186.1	228.0	0.5	4.5	7.0
TP (INR)			6,180			8,300			34.3

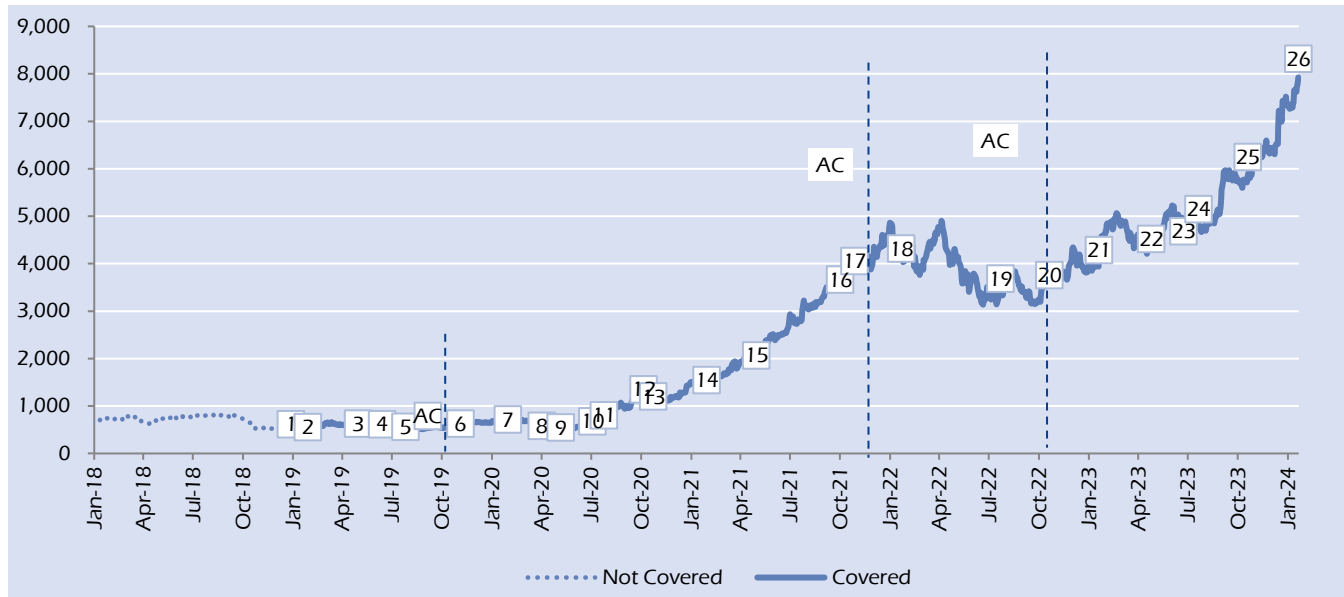
Source: Elara Securities Estimate

Exhibit 3: Peer financials

	Ticker	Currency	Mcap	Rating	Price	TP	Upside	Turnover ²³	FY23-26E		EV/sales		P/E		Div. yield (%)		ROE (%)	
									Sales CAGR %	EPS CAGR %	FY24E (x)	FY25E (x)	FY24E (x)	FY25E (x)	FY24E	FY25E	FY24E	FY25E
Large Indian IT services cos.			USD bn		INR	INR	(%)	USD mn										
TCS	TCS IN	INR	170	Buy	3,861	4,430	15	27,927	5.8	9.4	5.7	5.3	30.5	28.1	1.3	1.4	47.9	42
Infosys	INFO IN	INR	82	Sell	1,649	1,260	(24)	18,212	4.7	6.3	4.2	4.0	27.8	26.5	1.8	1.9	29.4	29
Wipro	WPRO IN	INR	30	Reduce	478	450	(6)	11,232	1.9	6.8	2.4	2.3	22.3	20.5	0.4	0.5	12.7	12
HCL Technologies	HCLT IN	INR	50	Sell	1,544	1,430	(7)	12,586	8.1	9.2	3.6	3.3	26.6	23.5	2.8	3.2	23.6	25
Tech Mahindra	TECHM IN	INR	16	Buy	1,386	1,360	(2)	6,607	2.8	11.4	2.5	2.3	44.2	21.8	0.8	1.7	9.4	17
Tier-1 IT AVG								15,313	4.6	8.6	3.7	3.4	30.3	24.1	1.4	1.7	24.6	25
Tier-1 IT Median								12,586	4.7	9.2	3.6	3.3	27.8	23.5	1.3	1.7	23.6	25
Mid-sized Indian IT services cos.																		
LTIMindtree	LTIM IN	INR	20	Buy	5,657	6,570	16	4,106	10.4	16.8	4.4	4.0	34.0	26.0	1.2	1.5	27.6	31
Mphasis	MPHL IN	INR	6	Accumulate	2,587	2,380	(8)	1,712	4.6	6.3	3.4	3.1	29.8	27.5	1.8	2.0	19.5	19
Persistent	PSYS IN	INR	7	Accumulate	7,922	8,300	5	1,036	14.4	23.2	6.0	5.1	53.4	41.9	0.7	0.8	23.4	24
Coforge	COFORGE IN	INR	5	Buy	6,283	6,230	(1)	1,002	14.0	29.6	4.1	3.5	41.6	29.8	2.3	3.3	25.9	30
eclerx	ECLX IN	INR	2	Accumulate	2,660	2,500	(6)	333	11.3	18.9	4.2	3.6	24.1	18.6	0.7	0.9	28.3	32
Sonata Software	SSOF IN	INR	3	NR	761	NA	-	897	20.3	20.3	2.3	2.0	40.3	32.2	1.3	1.6	36.7	38
Happiest Minds	HAPPSTMN IN	INR	2	NR	884	NA	-	172	16.6	11.2	7.8	6.6	55.6	44.4	0.0	0.0	23.3	23
Firstsource solutions	FSOL IN	INR	2	NR	202	NA	-	721	8.0	10.6	2.4	2.2	26.5	21.7	2.1	2.4	15.7	17
Birlasoft	BSOFT IN	INR	3	NR	804	NA	-	578	11.4	44.6	4.0	3.5	38.5	32.0	0.8	0.9	21.8	22
Zensar Tech	ZENT IN	INR	2	NR	562	NA	-	584	5.9	38.0	2.3	2.1	20.7	20.3	1.4	1.5	19.0	16
Intellect design arena	INDA IN	INR	2	NR	941	NA	-	269	14.3	27.8	4.9	4.4	37.6	29.0	0.3	0.4	16.1	17
Mastek	MAST IN	INR	1	NR	2,801	NA	-	309	17.7	14.9	2.9	2.5	29.3	21.8	1.1	0.9	16.5	19
Mid-size IT AVG								977	12.4	21.8	4.1	3.5	36.0	28.8	1.1	1.4	22.8	24
Mid-size IT Median								653	12.7	19.6	4.0	3.5	35.8	28.2	1.1	1.2	22.6	22
Indian IT ER&D cos.																		
L&T Tech	LTTS IN	INR	7	Sell	5,416	4,240	(22)	990	14.3	11.9	5.5	5.0	44.0	39.0	0.8	0.9	25.5	24
Cyient	CYL IN	INR	3	Buy	2,243	2,500	11	746	14.1	27.0	3.4	2.9	27.7	23.9	1.8	2.1	24.1	24
Tata Elxsi	TELX IN	INR	6	Accumulate	8,290	8,490	2	390	15.4	14.4	13.8	11.5	63.2	53.8	0.6	0.7	40.3	33
KPIT Tech	KPIT IN	INR	5	Buy	1,524	1,480	(3)	418	24.6	37.1	8.5	7.1	71.9	56.5	0.5	0.6	31.4	32
Tata technologies	NA	INR	6	NR	1,153	NA	-	532	10.7	13.7	11.0	9.8	83.2	72.6	1.0	1.1	21.0	23
Mid-tier IT AVG								615.1	15.8	20.8	8.5	7.3	58.0	49.2	0.9	1.1	28.5	27
Mid-tier IT Median								532	14.3	14.4	8.5	7.1	63.2	53.8	0.8	0.9	25.5	24
Global peers																		
IBM	IBM US	USD	157	NA	171	NA		60,530	2.5	122.5	3.3	3.2	18.1	17.3	3.9	4.0	36.2	32
Accenture	ACN US	USD	243	NA	364	NA		61,594	7.3	10.4	3.6	3.4	29.8	27.2	1.4	1.5	28.2	28
Cognizant	CTSH US	USD	39	NA	77	NA		19,428	0.9	7.2	1.9	1.9	17.5	16.7	1.5	1.6	17.0	16
Capgemini	CAP FP	EUR	37	NA	197	NA		23,167	4.5	14.5	1.7	1.6	15.6	15.0	1.9	2.0	18.5	18
Endava	DAVA US	USD	5	NA	79	NA		871	16.2	20.4	4.4	3.8	37.6	27.2	-	-	14.5	18
EPAM	EPAM US	USD	17	NA	300	NA		4,825	0.6	23.1	3.3	3.2	29.1	28.3	-	-	19.0	16
Globant	GLOB US	USD	10	NA	232	NA		1,780	17.8	28.5	4.7	4.0	40.6	35.1	-	-	14.1	14
NAGARRO SE	NA9 GY	USD	1	NA	92	NA		902	10.4	-5.1	1.6	1.5	20.8	17.0	-	-	32.0	30
Global IT AVG								24,599	7.1	32.4	3.3	3.0	26.9	23.8	2.2	2.3	21.1	20
Global IT Median								19,428	4.5	20.4	3.3	3.2	29.1	27.2	1.7	1.8	18.5	18

Note: Pricing as on 20 January 2024; Source: Elara Securities Estimate

Coverage History



AC= Analyst change

	Date	Rating	Target Price	Closing Price
7	30-Jan-2020	Accumulate	INR 763	INR 689
8	1-Apr-2020	Accumulate	INR 570	INR 543
9	6-May-2020	Accumulate	INR 530	INR 505
10	3-Jul-2020	Buy	INR 749	INR 641
11	24-Jul-2020	Buy	INR 928	INR 771
12	5-Oct-2020	Accumulate	INR 1,498	INR 1,330
13	23-Oct-2020	Buy	INR 1,498	INR 1,172
14	29-Jan-2021	Buy	INR 1,871	INR 1,524
15	30-Apr-2021	Buy	INR 2,450	INR 2,038
16	1-Oct-2021	Buy	INR 4,710	INR 3,643
17	27-Oct-2021	Buy	INR 4,760	INR 4,038
18	21-Jan-2022	Buy	INR 5,225	INR 4,302
19	22-July-2022	Buy	INR 4,370	INR 3,633
20	20-Oct-2022	Buy	INR 4,580	INR 3,707
21	19-Jan-2023	Buy	INR 5,200	INR 4,258
22	25-Apr-2023	Buy	INR 5,460	INR 4,472
23	23-Jun-2023	Buy	INR 5,880	INR 4,805
24	21-July-2023	Accumulate	INR 5,290	INR 4,750
25	19-Oct-2023	Accumulate	INR 6,180	INR 5,849
26	22-Jan-2024	Accumulate	INR 8,300	INR 7,922

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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