

Persistent Systems Limited

BUY

Choice

GenAI led deals to spur growth; Margin expansion program postponed

April 22, 2024

Persistent Systems delivered healthy Q4FY24 revenues at \$310.9mn (+3.4% QoQ in cc), up 3.4% sequentially and 13.2% YoY in USD terms led by higher on-site ramp ups in some of the large customers driven by vendor consolidation. In INR terms, revenue came at INR25.9bn, up 3.7% sequentially and 14.9% YoY. For FY24, Persistent Systems reported revenues at \$1,186mn (+14.5% YoY) while in INR terms, it reported revenues of INR98.2bn (+17.6% YoY). PAT for the quarter stood at INR2,861mn (+20.2% YoY).

- **Outlook for FY25E:** The management expects to maintain top quartile growth around similar levels as FY24 amidst the challenging micro environment. Growth to be driven by Healthcare and Life Sciences sector followed by BFSI sector and lastly Hi-tech sector. The Healthcare sector is broken into pharma/biopharma, scientific instruments, medical devices, payer and providers etc. where they are working on building AI/ML solutions. It is focussed on things like the payer-provider ecosystem within Healthcare and Life Sciences space. Similarly within BFSI space, focus is on certain micro segments and gaining market share from large peers. In terms of geography, they are looking at a combination of Western Europe from a business perspective and Eastern Europe from a delivery perspective.
- **Secular adoption of GenAI:** Company continues to deliver transformative solutions for its customers, leveraging generative AI and AI at broader level. AI is opening up significant opportunities for Persistent in two broad areas, AI for product engineering and AI for the enterprises. On the engineering front, it is focusing on delivering value to its customers through productivity gains using AI and automation tools across the product development lifecycle. On the enterprise side, to accelerate GenAI powered enterprise transformation, it continues to invest and strengthen its GenAI hub so that the customers can create faster, more efficient, and secure GenAI experiences at scale, anchored by the basic principles of responsible AI.
- **Margins to remain at similar levels:** Operating Margins for the year came at 13.9% (-100bps YoY). Majority of EBIT decline was attributable to the investment made in building sales and marketing capacity as well as building next-gen technology assets, including in the AI domain. These investments are critical from the perspective of driving future growth. Management expects margins to remain at similar levels in FY25E. It shall work towards improving utilization, on-site/offshore mix, and other operational efficiencies to keep moving towards their medium-term target of improving margins by 200-300bps over the next three years.

Valuation: Persistent is committed to proactively staying closer to their clients and aiding them in prioritizing their technology spend towards cost optimization and transformation. They are cognizant of the need to drive operational efficiency to continue its growth journey in future and march towards the goal of expanding its margins. We maintain our rating to **BUY** and arrive at a revised target price of INR3,970 implying a PE of 37x on FY26E EPS of INR107.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD Mn.)	766	1,036	1,186	1,356	1,614
Revenue (INR Mn.)	57,107	83,506	98,216	1,13,018	1,34,478
Gross Profit (INR Mn.)	14,540	23,384	27,113	31,290	38,158
EBIT (INR Mn.)	7,922	12,472	13,663	16,371	20,477
EBIT Margin (%)	13.9	14.9	13.9	14.5	15.2
EPS (INR)	46.4	61.9	72.4	85.2	107.3

Source: Company, CEBPL

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CMP (Rs.)	3,511
Target Price (Rs.)	3,970
Potential Upside (%)	12.9

Company Info

BB Code	PSYS IN EQUITY
ISIN	INE262H01021
Face Value (Rs.)	5.0
52 Week High (Rs.)	4,489.9
52 Week Low (Rs.)	2,113.3
Mkt Cap (Rs bn.)	541.7
Mkt Cap (\$ bn.)	6.5
Shares o/s (Mn.)/Float(%)	77.0/67
FY24 EPS (Rs.)	72.4
FY26E EPS (Rs.)	107.3

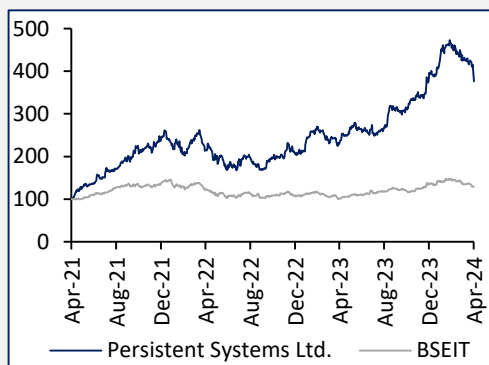
Shareholding Pattern (%)

	Mar-24	Dec-23	Sep-23
Promoters	31.02	31.06	31.06
FII's	24.96	24.55	21.34
DII's	25.88	26.13	28.67
Public	18.14	18.24	18.93

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	29.3	4.6	28.2
PSYS	276.1	74.6	64.0

Rebased Price Performance



CA Vatsal Vinchhi, Analyst

Email: vatsal.vinchhi@choiceindia.com
Ph: +91 22 6707 9224

Ashutosh Murarka, Associate

Email: ashutosh.murarka@choiceindia.com
Ph: +91 22 6707 9442

Sequential Operating Performance

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Income Statement						
Revenues (USD Mn.)	264	275	283	292	301	311
Revenues (INR Mn.)	21,694	22,545	23,212	24,117	24,982	25,905
Gross Profit (INR mn.)	6,078	6,758	6,900	6,358	6,887	6,970
<i>Gross Margin (%)</i>	28.0	30.0	29.7	26.4	27.6	26.9
EBIT (INR mn.)	3,332	3,466	2,980	3,308	3,631	3,744
<i>EBIT Margin (%)</i>	15.4	15.4	12.8	13.7	14.5	14.5
PAT (INR mn.)	2,380	2,515	2,288	2,633	2,861	3,153
Basic EPS (INR)	15.9	16.8	15.1	17.4	18.9	20.7
Operating Metrics						
Revenue - Geography (%)						
North America	77.1	77.9	79.2	79.2	79.7	80.1
Europe	9.0	10.3	9.7	9.5	8.9	7.8
India	12.3	10.0	9.9	9.7	10.0	10.1
Rest of the world	1.6	1.8	1.2	1.6	1.4	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue - Industry (%)						
BFSI	32.6	32.3	33.3	32.3	31.2	30.7
Healthcare & Life Sciences	19.6	19.7	18.6	19.3	21.8	24.2
Software, Hi-Tech & Emerging	47.8	48.0	48.1	48.4	47.0	45.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Employee Metrics						
Technical	21,033	21,295	21,511	21,263	21,738	22,224
Sales & Business Development	405	414	428	443	465	484
Others	1,160	1,180	1,191	1,136	1,133	1,142
Total Headcount	22,598	22,889	23,130	22,842	23,336	23,850
Blended Utilization (%)	77.6	77.3	-	-	-	-
India Utilization (%)	76.3	75.9	-	-	-	-
Attrition Rate LTM (%)	21.6	19.8	15.5	13.5	11.9	11.5

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q4FY24

Persistent (INR Mn.)	Q4FY24	Q4FY23	YoY(%)	Q3FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Revenue USD	311	275	13.2	301	3.4	307	1.1
Revenues (INR mn.)	25,905	22,545	14.9	24,982	3.7	25,551	1.4
Employee Cost	18,936	15,787	19.9	18,096	4.6		
Gross Profit (INR mn.)	6,970	6,758	3.1	6,887	1.2	7,103	(1.9)
Gross Margin (%)	26.9	30.0	(307) bps	27.6	(66) bps	27.8	(90) bps
Other costs	2,426	2,595	(6.5)	2,468	(1.7)		
Depreciation	799	697	14.6	787	1.5		
EBIT (INR mn.)	3,744	3,466	8.0	3,631	3.1	3,730	0.4
EBIT Margin (%)	14.5	15.4	(92) bps	14.5	(8.0) bps	14.6	(15) bps
Other Income	308	88	248.7	383	(19.6)		
Interest	97	148	(34.4)	121	(19.6)		
PBT (INR mn.)	3,955	3,406	16.1	3,893	1.6		
Tax	802	891	(10.0)	1,032	(22.3)		
Adj. PAT (INR mn.)	3,153	2,515	25.4	2,861	10.2	2,882	9.4
Basic EPS (INR)	20.7	16.8	23.2	18.9	9.6	19.1	8.8

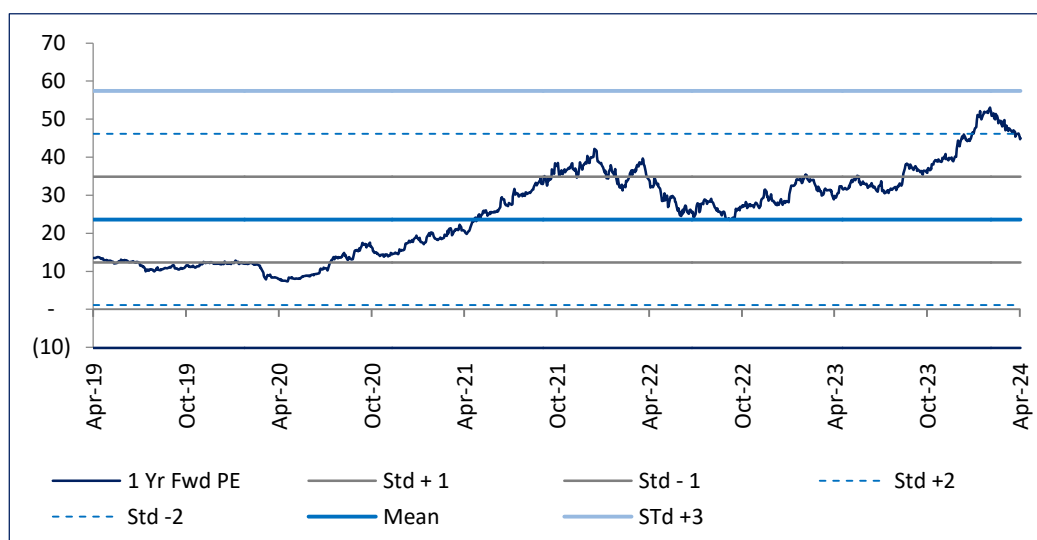
Source: Company, CEBPL

Changes in Estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues (USD Mn.)	1,352	1,356	0.3	1,641	1,614	(1.6)
Revenues	1,12,374	1,13,018	0.6	1,36,380	1,34,478	(1.4)
Gross Profit Margin (%)	28.5	27.7	(85.3) bps	29.2	28.4	(78.3) bps
EBIT	17,798	16,371	(8.0)	22,517	20,477	(9.1)
EBIT Margin (%)	15.8	14.5	(135.3) bps	16.5	15.2	(128.3) bps
EPS	90.7	85.2	(6.1)	114.6	107.3	(6.4)

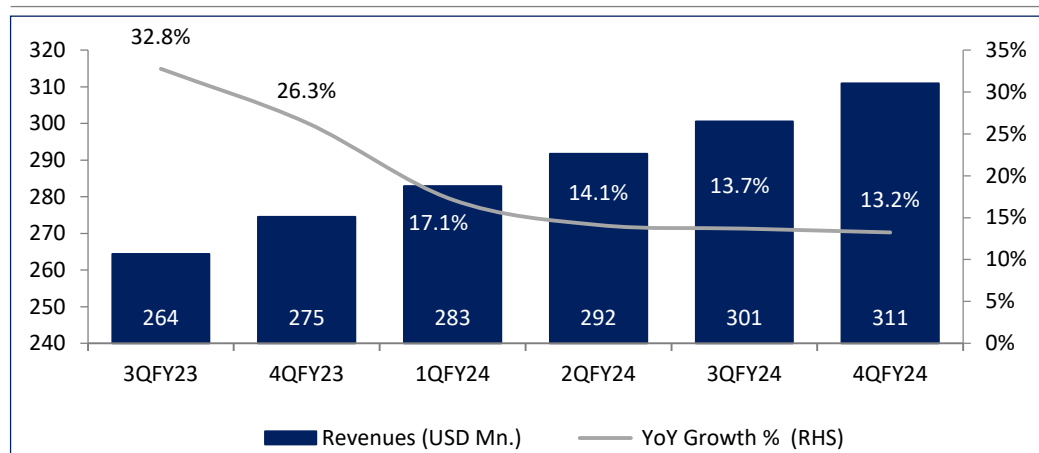
Source: Company, CEBPL

Historical 1 Yr Fwd PE Band



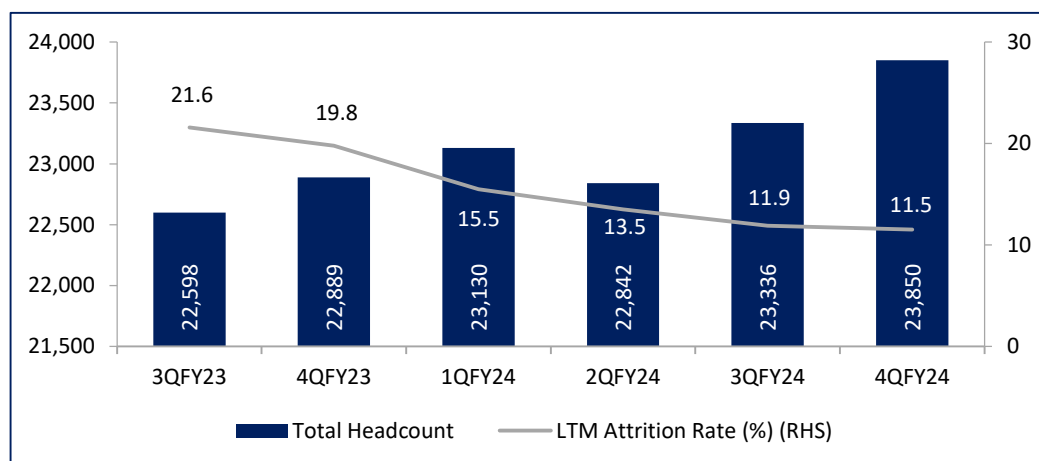
Source: Company, CEBPL

Quarterly Revenues on upward trend



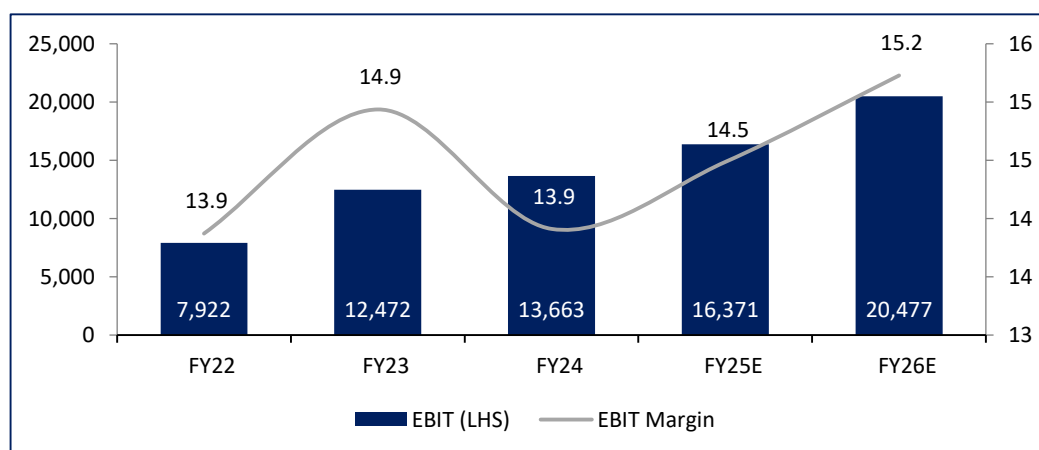
Source: Company, CEBPL

Slight increase in headcount; Attrition dipped



Source: Company, CEBPL

EBIT Margins expected to remain at similar levels



Source: Company, CEBPL

Management Concall Highlights

- The TCV for the quarter came in at \$447.7mn, with TCV of new bookings being \$302mn. The annual contract component of this TCV is \$316.8mn, of which ACV from new bookings contributed to \$184.5mn.
- The top 1 customer, which typically holds the top position, experienced a decline of \$3.2mn QoQ. This decline aligns with the anticipated partial reduction in activity as part of a significant five-year agreement announced by the company in FY23. Nonetheless, the company observed robust expansion across diverse client segments, with revenue from the top 5 customers increasing by 7.9% QoQ, the top 10 customers by 5.4% QoQ, and the top 20 customers by 2.9% QoQ.
- In Q4, the company reported a total of 178 customers generating trailing 12-month revenues surpassing \$1mn. The new customers are segmented into brackets of \$30mn+, \$20mn+, \$10mn+, and \$5mn+. Each of these new customer categories possesses the potential for further scalability in the upcoming quarters.
- During FY24, revenue from North America exhibited robust growth of 16.8% YoY in U.S. dollar terms, surpassing the company's average growth rate. Europe experienced a YoY growth of 13.4%, while the rest of the world saw an increase of 4.3%. Meanwhile, India's growth stood at 0.6% YoY.
- SASVA incorporates theme-based releases, encompassing comprehensive planning and execution of software updates, including tasks like porting and modernization. It features a multidimensional knowledge base offering insights into complex code, delving into intricate interdependencies. Additionally, it includes a digital twin that mirrors key resource capabilities, facilitating use cases such as de-risked knowledge transition. To tackle the challenge of higher costs associated with GenAI, SASVA utilizes finely-tuned small language models that deliver results comparable to large language models (LLM) while being hosted on a relatively more cost-effective infrastructure.
- For Q4Y24, employee headcount stands at 23,850, up 514 employees from previous quarter. LTM attrition rate dipped to 11.5% compared to 11.9% last quarter.
- On the enterprise front, Persistent secured a three-year contract to develop and design a GenAI-based straight-through processing platform for a publicly listed insurance distribution corporation in the U.S. This corporation specializes in advisory, underwriting, and tailored insurance solutions. As part of this agreement, the company will be tasked with delivering improved end-user customer experiences and optimizing the straight-through processing of the code, bind, and issue process, as well as managing its operations.
- The DSO for the current quarter decreased to 63 days from 66 days in the previous quarter. Additionally, the forward contracts outstanding at the end of March'24 amounted to INR260mn, with an average rate of 84.16 per dollar.
- Company recommended a final dividend of INR10 per share for FY24 to be approved by shareholders.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD Mn.)	766	1,036	1,186	1,356	1,614
Revenue	57,107	83,506	98,216	1,13,018	1,34,478
Gross profit	14,540	23,384	27,113	31,290	38,158
EBITDA	9,582	15,191	16,757	19,988	24,710
Depreciation	1,660	2,719	3,094	3,617	4,233
EBIT	7,922	12,472	13,663	16,371	20,477
Other income	1,440	706	1,280	1,356	1,684
Interest expense	118	473	467	565	538
PAT	6,904	9,211	10,935	12,958	16,325
EPS (Rs)	46.4	61.9	72.4	85.2	107.3

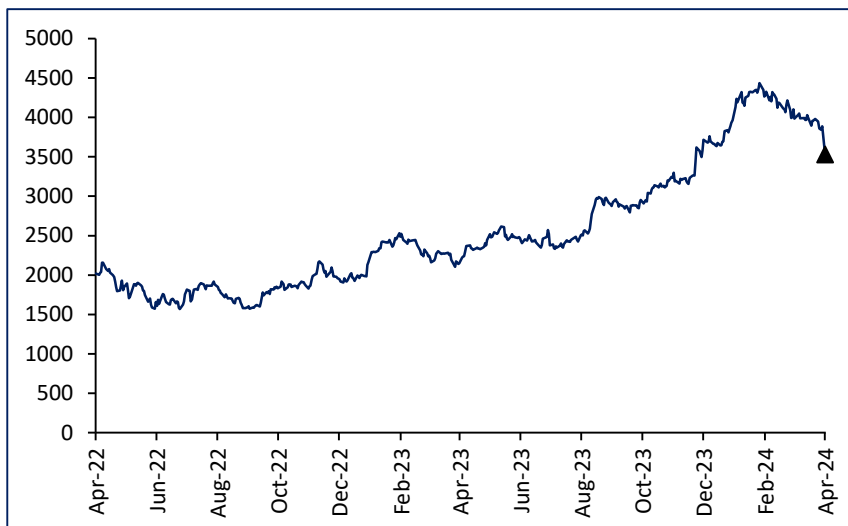
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	3,989	5,021	4,755	4,976	5,208
Goodwill & intangible assets	12,950	19,274	19,208	20,151	21,184
Investments	8,225	6,396	8,266	9,919	11,903
Cash & Cash equivalents	2,978	4,670	6,625	7,132	8,629
Other non-current assets	4,985	2,201	1,885	2,058	2,255
Other current assets	21,014	28,629	32,997	37,596	42,862
Total assets	54,141	66,191	73,736	81,832	92,042
Shareholder's funds	33,682	39,651	49,577	57,352	67,147
Minority interest	-	-	-	-	-
Borrowings	4,325	4,285	2,073	1,876	1,698
Lease liabilities	1,457	2,269	2,438	2,599	2,776
Other non-current liabilities	810	1,082	-1,364	-1,048	-729
Other current liabilities	13,867	18,905	21,012	21,054	21,150
Total equity & liabilities	54,141	66,191	73,736	81,832	92,042

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	8,450	9,558	12,213	12,757	16,024
Cash flows from Investing	(9,773)	(4,213)	(4,695)	(2,481)	(2,781)
Cash flows from financing	1,823	(4,039)	(5,937)	(6,220)	(8,163)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	36.4	46.2	17.6	15.1	19.0
Gross Profit	30.3	60.8	15.9	15.4	22.0
EBITDA	40.3	58.5	10.3	19.3	23.6
EBIT	56.1	57.4	9.5	19.8	25.1
Margin Ratios (%)					
Gross Profit Margin	25.5	28.0	27.6	27.7	28.4
EBITDA Margin	16.8	18.2	17.1	17.7	18.4
EBIT Margin	13.9	14.9	13.9	14.5	15.2
Profitability (%)					
Return on equity	22.4	25.1	24.5	24.2	26.2
Return on invested capital	22.6	32.2	30.3	31.6	33.9
Return on capital employed	30.1	38.7	35.7	37.4	40.3
Valuation					
OCF / Net profit (%)	122.4	103.8	111.7	98.5	98.2
EV / EBITDA (x)	15.4	22.6	19.0	18.0	18.0
Book Value per share (x)	226.2	266.3	328.4	377.0	441.4
Free Cash flow Yield	(0.6)	0.3	1.6	1.5	2.0

Source: Company, CEBPL

Historical recommendations and target price: Persistent Systems Limited



Persistent Systems Ltd.

1. 07-04-2022	Reduce,	Target Price 4,286
2. 29-04-2022	Neutral,	Target Price 4,440
3. 25-07-2022	Add,	Target Price 3,851
4. 27-10-2022	Add,	Target Price 4,146
5. 20-01-2023	Outperform,	Target Price 5,193
6. 26-04-2023	Add,	Target Price 5,109
7. 24-07-2023	Add,	Target Price 5,160
8. 25-09-2023	Neutral,	Target Price 5,735
9. 20-10-2023	Add,	Target Price 6,175
10. 23-01-2024	Add,	Target Price 8,610
11. 18-03-2024	Buy,	Target Price 8,610
12. 22-04-2024	Buy,	Target Price 3,970

Institutional Research Team

Kripashankar Maurya	AVP - Institutional Research – Automobiles/Defence/Healthcare	kripashankar.maurya@choiceindia.com	+91 22 6707 9949
CA Vatsal Vinchhi	Analyst - Information Technology	vatsal.vinchhi@choiceindia.com	+91 22 6767 9224
Deepika Murarka	Analyst - Pharmaceuticals	deepika.murarka@choiceindia.com	+91 22 6707 9513
Vijay Singh Gaur	Analyst - BFSI	vijay.gour@choiceindia.com	+91 22 6707 9422
Ashutosh Murarka	Associate – Cement / Building Material	ashutosh.murarka@choiceindia.com	+91 22 6707 9442
Putta Ravi Kumar	Associate - Goods & Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Aayush saboo	Associate – Real Estate	aayush.saboo@choiceindia.com	+91 22 6707 9811
Maitri Sheth	Associate – Pharmaceuticals	maitri.sheth@choiceindia.com	+91 22 6707 9811
Bharat Kumar Kudikyala	Associate – Cement / Building Material	bharat.kudikyala@choiceindia.com	+91 22 6707 9798
CA Sheetal Murarka	Vice President - Institutional Sales	sheetal.murarka@choiceindia.com	+91 22 6707 9857
Nitesh Jalan	AVP – Institutional Sales	nitesh.jalan@choiceindia.com	+91 22 6707 9877 /878 /879

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Compliance Officer--Prashant Salian, Email Id – Prashant.salain@choiceindia.com Contact no. 022- 67079999- Ext-2310

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