

Persistent reported mixed performance in Q4 – revenue grew 3.4% QoQ CC, in line with our estimate, while margin of 14.5% (flat QoQ) missed it. Revenue growth still lopsided with HLS contributing ~94% of incremental revenue sequentially. Top client growth was impacted by a planned ramp down for the second consecutive quarter, while other large client growth was healthy. Deal wins TCV was USD447.7mn (1.4x book-to-bill), showing moderation with Q4 and TTM TCV up 6% and 12.6% YoY, respectively. Amid the challenging macros, the management aims for top-quartile growth in FY25E, while maintaining EBITM at FY24 levels. Company reiterated their medium-term target of improving EBITM by 200-300bps over the next 3 years. However, progress has been slow and target is shifted by a year; which is disappointing. Moderation in deal intake, Q4 performance, and slow progress on margin trajectory led to EPS cut of 5-6% for FY25-26E. Valuation remains rich even after today's ~10% price correction. We retain REDUCE with a TP of Rs3,700/sh at 34x Mar-25E EPS.

Persistent Systems: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	57,107	83,506	98,216	113,610	133,367
EBITDA	9,730	15,191	16,757	19,938	24,573
Adj. PAT	6,904	9,211	10,935	13,178	16,650
Adj. EPS (Rs)	45.2	60.3	71.0	85.5	108.1
EBITDA margin (%)	17.0	18.2	17.1	17.5	18.4
EBITDA growth (%)	41.9	56.1	10.3	19.0	23.2
Adj. EPS growth (%)	53.2	33.4	17.8	20.5	26.3
RoE (%)	22.4	25.9	24.5	24.5	26.3
RoIC (%)	45.2	39.8	34.9	37.9	44.4
P/E (x)	77.7	58.2	49.4	41.0	32.5
EV/EBITDA (x)	53.8	34.6	31.3	26.0	20.7
P/B (x)	15.9	13.5	10.9	9.3	7.9
FCFF yield (%)	1.8	2.0	1.8	1.9	2.5

Source: Company, Emkay Research

Results Summary

Persistent's revenue grew 3.4% QoQ (similar in CC) to USD310.9mn, broadly in line with our estimates. EBITM came in at 14.5% (flat QoQ), lower than our estimate of 15%. EBITM was flat sequentially due to one-time transition costs related to ramp up in large vendor consolidation deals (-110bps), addition of lateral hires at offshore (-50bps), and higher travel costs for planning and budgeting exercise for FY25 (-40bps). These were negated by reduction in earn out liability related to an acquisition (where performance did not meet expectations) and reversal of provisions (+200bps). Revenue growth was led by HLS (14.8% QoQ) and BFSI (1.8%), while Software, Hi-Tech, and Emerging Industries (SHTE) saw a decline of 0.7% QoQ (ex-top client: grew 1.8%). Top-client revenue declined 11% QoQ due to planned ramp downs. Top 2-10 clients saw a growth of 10.3% QoQ. Among geographies, North America, India, and ROW reported growth of 4%, 4.5%, and 47.8% QoQ, while Europe saw a decline of 9.3% QoQ. The company has announced a final dividend of Rs10/sh. **What we liked:** Steady revenue growth, healthy cash conversion (OCF/EBITDA: 76.9%). **What we did not like:** Margin miss.

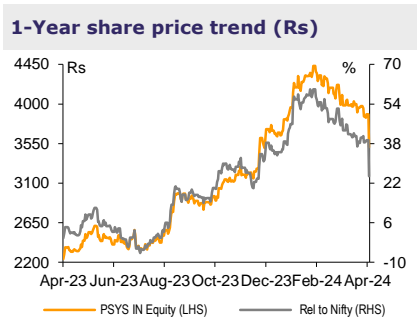
Earnings Call KTAs

1) Demand environment has remained largely unchanged over the last few quarters and is not expected to improve materially anytime soon. 2) Company recently won large deals (including vendor consolidation), which have higher onsite proportion at the start, and have seen an increase in contractor spending along with lower utilization and higher travel costs. 3) HLS growth was driven by a large deal ramp up and well supported by multiple mid-sized deals. Overall environment has been difficult in BFSI, but the company has delivered growth aided by new deals. Hi-Tech is facing headwinds due to enterprise customers facing their own challenges and is likely to remain under pressure for the next few quarters. 4) FY25 growth is likely to be led by HLS followed by BFSI and SHTE. 5) Management aims to turn around performance in Europe, driven by both team reinforcements and M&A activities. 6) For M&A, Persistent is looking for tuck-in acquisitions in HLS and BFSI, which are at the cusp of data/AI. Within Healthcare, the company is targeting areas like Payer-Provider ecosystem, while in BFSI, it is focused on certain micro segments. In terms of geography, it is looking at a combination of Western Europe from a business perspective and Eastern Europe from a delivery perspective.

Target Price – 12M	Mar-25
Change in TP (%)	(5.1)
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	5.5
CMP (22-Apr-24) (Rs)	3,508.5

Stock Data	Ticker
52-week High (Rs)	4,490
52-week Low (Rs)	2,163
Shares outstanding (mn)	154.1
Market-cap (Rs bn)	540
Market-cap (USD mn)	6,483
Net-debt, FY25E (Rs mn)	-22,492
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	2,357.7
ADTV-3M (USD mn)	28.3
Free float (%)	66.0
Nifty-50	22,336
INR/USD	83.4
Shareholding, Mar-24	
Promoters (%)	31.0
FPIs/MFs (%)	25.0/25.9

Price Performance			
(%)	1M	3M	12M
Absolute	(12.0)	(11.4)	63.5
Rel. to Nifty	(12.9)	(14.5)	29.0



Dipesh Mehta
dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Ayush Bansal
ayush.bansal@emkayglobal.com
+91 22 6612 1344

Pulkit Chawla
pulkit.chawla@emkayglobal.com
+91 22 6642 4258

Exhibit 1: Quarterly snapshot

(Rs mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Net sales (USD mn)	310.9	300.6	3.4	274.6	13.2
Net sales	25,905	24,982	3.7	22,545	14.9
Operating expenses	21,362	20,564	3.9	18,382	
EBITDA	4,544	4,418	2.8	4,163	9.1
Margins (%)	17.5	17.7	-10	18.5	-90
Depreciation	799	787		697	
EBIT	3,744	3,631	3.1	3,466	8.0
Margins (%)	14.5	14.5	-10	15.4	-90
Other income	210	262		-60	
Pre-tax profit	3,955	3,893	1.6	3,406	16.1
Tax provided	802	1032		891	
Profit after tax	3,153	2,861	10.2	2,515	
Emkay Net profit	3,153	2,861	10.2	2,515	25.4
EPS (Rs/sh)	20.5	18.6	10.1	16.5	24.4

Source: Company, Emkay Research

Exhibit 2: Actuals vs. estimates

(Rs mn)	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (USD mn)	310.9	310.8	308.8	0.0%	0.7%	Revenue came in line with our expectations
Sales	25,905	25,794	25,629	0.4%	1.1%	
EBIT	3,744	3,868	3,848	-3.2%	-2.7%	
EBIT, margin	14.5%	15.0%	15.0%	-50 bps	-60 bps	EBITM missed our expectations
PAT	3,153	3,034	3,031	3.9%	4.0%	Profit was better than expectations due to lower ETR (tax credit on account of ESOP perquisite income reported by US employees)

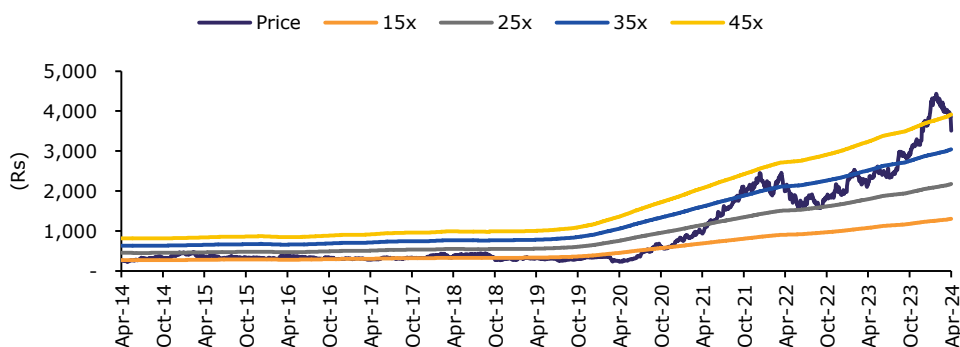
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenues (USD mn)	1,363.8	1,352.5	-0.8%	1,595.9	1,569.0	-1.7%
YoY growth	15.0%	14.0%		17.0%	16.0%	
Revenues	114,563	113,610	-0.8%	135,655	133,367	-1.7%
EBIT	17,902	16,785	-6.2%	22,215	21,136	-4.9%
EBIT margins (%)	15.6	14.8		16.4	15.8	
Net profits	14,014	13,178	-6.0%	17,481	16,650	-4.8%
EPS (Rs/sh)	91.1	85.5	-6.1%	113.6	108.1	-4.9%

Source: Company, Emkay Research

Exhibit 4: PSYS – one-year forward P/E



Source: Company, Emkay Research

Persistent Systems: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	57,107	83,506	98,216	113,610	133,367
Revenue growth (%)	36.4	46.2	17.6	15.7	17.4
EBITDA	9,730	15,191	16,757	19,938	24,573
EBITDA growth (%)	41.9	56.1	10.3	19.0	23.2
Depreciation & Amortization	1,660	2,719	3,094	3,153	3,437
EBIT	8,070	12,472	13,663	16,785	21,136
EBIT growth (%)	58.2	54.6	9.5	22.8	25.9
Other operating income	0	0	0	0	0
Other income	1,291	706	1,280	1,307	1,588
Financial expense	118	473	467	403	375
PBT	9,243	12,705	14,476	17,689	22,349
Extraordinary items	0	(297)	0	0	0
Taxes	2,339	3,198	3,541	4,511	5,699
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,904	9,211	10,935	13,178	16,650
PAT growth (%)	53.2	33.4	18.7	20.5	26.3
Adjusted PAT	6,904	9,211	10,935	13,178	16,650
Diluted EPS (Rs)	45.2	60.3	71.0	85.5	108.1
Diluted EPS growth (%)	53.2	33.4	17.8	20.5	26.3
DPS (Rs)	15.5	25.0	26.0	31.0	38.5
Dividend payout (%)	34.3	41.5	36.6	36.2	35.6
EBITDA margin (%)	17.0	18.2	17.1	17.5	18.4
EBIT margin (%)	14.1	14.9	13.9	14.8	15.8
Effective tax rate (%)	25.3	25.2	24.5	25.5	25.5
NOPLAT (pre-IndAS)	6,028	9,333	10,321	12,505	15,746
Shares outstanding (mn)	76.4	76.4	154.1	154.1	154.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	9,243	12,705	14,476	17,689	22,349
Others (non-cash items)	1,981	4,635	3,202	2,101	2,073
Taxes paid	(2,367)	(3,405)	(3,414)	(4,511)	(5,699)
Change in NWC	(407)	(4,377)	(2,052)	(2,176)	(2,735)
Operating cash flow	8,450	9,558	12,213	13,104	15,988
Capital expenditure	(3,808)	(4,321)	(2,791)	(3,309)	(3,280)
Acquisition of business	(6,154)	(4,311)	(2,074)	0	0
Interest & dividend income	719	539	597	1,051	1,364
Investing cash flow	(9,773)	(4,213)	(4,695)	(11,930)	4,084
Equity raised/(repaid)	0	0	1,608	0	0
Debt raised/(repaid)	4,161	(514)	(2,414)	(1,000)	(700)
Payment of lease liabilities	(351)	(545)	(760)	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(1,987)	(2,981)	(4,084)	(4,776)	(5,931)
Others	(351)	(545)	(1,047)	0	0
Financing cash flow	1,823	(4,039)	(5,937)	(5,776)	(6,631)
Net chg in Cash	499	1,305	1,581	(4,602)	13,441
OCF	8,450	9,558	12,213	13,104	15,988
Adj. OCF (w/o NWC chg.)	8,857	13,935	14,265	15,280	18,723
FCFF	4,642	5,237	9,423	9,794	12,708
FCFE	5,242	5,302	9,553	10,443	13,697
OCF/EBITDA (%)	86.8	62.9	72.9	65.7	65.1
FCFE/PAT (%)	75.9	57.6	87.4	79.2	82.3
FCFF/NOPLAT (%)	77.0	56.1	91.3	78.3	80.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	764	764	770	770	770
Reserves & Surplus	32,918	38,887	48,807	57,210	67,929
Net worth	33,682	39,651	49,577	57,980	68,699
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(1,123)	(1,129)	(1,341)	(1,341)	(1,341)
Total debt	4,325	4,285	2,073	1,073	373
Total liabilities & equity	36,885	42,807	50,309	57,712	67,732
Net tangible fixed assets	2,918	4,860	4,420	4,020	3,707
Net intangible assets	8,270	9,171	4,575	3,560	2,535
Net ROU assets	1,358	2,198	2,307	2,449	2,630
Capital WIP	0	0	0	0	0
Goodwill	2,790	7,184	10,913	10,913	10,913
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	17,369	15,428	18,495	23,565	31,006
Current assets (ex-cash)	19,242	26,059	31,332	34,337	40,129
Current Liab. & Prov.	16,133	22,256	22,067	21,432	23,489
NWC (ex-cash)	3,109	3,803	9,265	12,905	16,640
Total assets	36,885	42,807	50,309	57,712	67,732
Net debt	(13,044)	(11,143)	(16,421)	(22,492)	(30,633)
Capital employed	36,885	42,807	50,309	57,712	67,732
Invested capital	19,516	27,378	31,815	34,147	36,725
BVPS (Rs)	220.4	259.4	321.8	376.4	446.0
Net Debt/Equity (x)	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(1.3)	(0.7)	(1.0)	(1.1)	(1.2)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	29.3	33.1	32.1	33.5	36.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	77.7	58.2	49.4	41.0	32.5
P/CE(x)	62.6	43.9	38.5	33.1	26.9
P/B (x)	15.9	13.5	10.9	9.3	7.9
EV/Sales (x)	9.2	6.3	5.3	4.6	3.8
EV/EBITDA (x)	53.8	34.6	31.3	26.0	20.7
EV/EBIT(x)	31.6	20.6	38.4	30.9	24.1
EV/IC (x)	13.1	9.4	16.5	15.2	13.9
FCFF yield (%)	1.8	2.0	1.8	1.9	2.5
FCFE yield (%)	2.0	2.0	1.8	1.9	2.5
Dividend yield (%)	0.4	0.7	0.7	0.9	1.1
DuPont-RoE split					
Net profit margin (%)	12.1	11.4	11.1	11.6	12.5
Total asset turnover (x)	1.8	2.1	2.1	2.1	2.1
Assets/Equity (x)	1.0	1.1	1.0	1.0	1.0
RoE (%)	22.4	25.9	24.5	24.5	26.3
DuPont-RoIC					
NOPLAT margin (%)	10.6	11.2	10.5	11.0	11.8
IC turnover (x)	5.3	4.3	3.6	3.3	3.4
RoIC (%)	45.2	39.8	34.9	37.9	44.4
Operating metrics					
Core NWC days	19.9	16.6	34.4	41.5	45.5
Total NWC days	19.9	16.6	34.4	41.5	45.5
Fixed asset turnover	2.5	2.7	3.0	3.4	3.8
Opex-to-revenue (%)	83.0	81.8	82.9	82.5	81.6

Source: Company, Emkay Research

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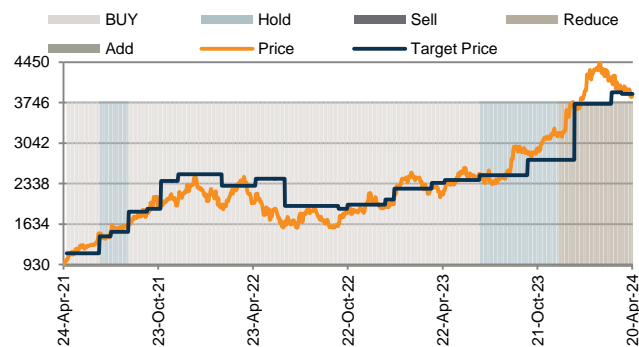
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Mar-24	3,985	3,900	Reduce	Dipeshkumar Mehta
11-Mar-24	4,117	3,925	Reduce	Dipeshkumar Mehta
01-Mar-24	4,300	3,725	Reduce	Dipeshkumar Mehta
23-Jan-24	4,127	3,725	Reduce	Dipeshkumar Mehta
31-Dec-23	3,695	3,725	Reduce	Dipeshkumar Mehta
30-Nov-23	3,200	2,750	Reduce	Dipeshkumar Mehta
20-Oct-23	2,954	2,750	Hold	Dipeshkumar Mehta
02-Oct-23	2,898	2,750	Hold	Dipeshkumar Mehta
21-Jul-23	2,375	2,485	Hold	Dipeshkumar Mehta
02-Jul-23	2,506	2,485	Hold	Dipeshkumar Mehta
26-Apr-23	2,236	2,400	Buy	Dipeshkumar Mehta
01-Apr-23	2,305	2,350	Buy	Dipeshkumar Mehta
19-Jan-23	2,129	2,250	Buy	Dipeshkumar Mehta
02-Jan-23	2,014	2,063	Buy	Dipeshkumar Mehta
21-Oct-22	1,833	1,975	Buy	Dipeshkumar Mehta
04-Oct-22	1,649	1,900	Buy	Dipeshkumar Mehta
22-Jul-22	1,816	1,950	Buy	Dipeshkumar Mehta
23-Jun-22	1,684	1,950	Buy	Dipeshkumar Mehta
28-Apr-22	2,154	2,425	Buy	Dipeshkumar Mehta
01-Apr-22	2,361	2,300	Buy	Dipeshkumar Mehta
15-Mar-22	2,163	2,300	Buy	Dipeshkumar Mehta
22-Feb-22	1,964	2,300	Buy	Dipeshkumar Mehta
11-Feb-22	2,098	2,500	Buy	Dipeshkumar Mehta
22-Jan-22	2,151	2,500	Buy	Dipeshkumar Mehta
01-Jan-22	2,452	2,500	Buy	Dipeshkumar Mehta
30-Nov-21	2,069	2,500	Buy	Dipeshkumar Mehta
28-Oct-21	1,994	2,385	Buy	Dipeshkumar Mehta
02-Oct-21	1,822	1,900	Buy	Dipeshkumar Mehta
30-Sep-21	1,858	1,850	Buy	Dipeshkumar Mehta
13-Sep-21	1,794	1,850	Buy	Dipeshkumar Mehta
27-Aug-21	1,627	1,850	Buy	Dipeshkumar Mehta
24-Jul-21	1,520	1,500	Hold	Dipeshkumar Mehta
02-Jul-21	1,465	1,425	Hold	Dipeshkumar Mehta
30-Apr-21	1,019	1,125	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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