

Acquisition led growth continues in H2FY23

About the stock: Persistent System (Persistent) offers cloud, data, product & design led services to BFSI, Healthcare & Hi Tech verticals

- Persistent had a strong year with revenue growth of 35.2% in dollar terms, out of which organic growth was 32.8%
- Net debt free and healthy double digit return ratio (with RoCE of 20%)

Q4FY22 Results: Persistent reported robust Q4FY22 results.

- Dollar revenues increased 9.1% QoQ, organic growth was 6.8% QoQ
- EBIT margins increased 8 bps QoQ to 14.0%
- Deal TCW was at US\$361 mn, up 8% QoQ

What should investors do? Persistent's share price has grown by ~7.9x over the past five years (from ~₹ 547 in April 2017 to ~₹ 4,311 levels in April 2022).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Persistent at ₹ 5,075 i.e. 36x P/E on FY24E

Key triggers for future price performance:

- The company is looking to reach US\$1 bn annual revenue in six to eight quarters from now and looking at EBITDA margin expansion of 16-17%, while a further 100-150 bps margin improvement is expected
- It has acquired five companies in FY22 building capabilities in payments, cloud, etc. The company is not shying away from acquisitions in coming years as well
- Strong deal win momentum will help improve its revenue growth. We expect dollar revenue to grow at 23.5% CAGR in FY22-24E along with EBIT margin expansion of ~80 bps to 14.7% in FY22-24E

Alternate Stock Idea: Apart from Persistent, in our IT coverage we also like LTI.

- Industry leading growth and healthy margins prompt us to be positive on the stock
- HOLD with target price of ₹ 6,000



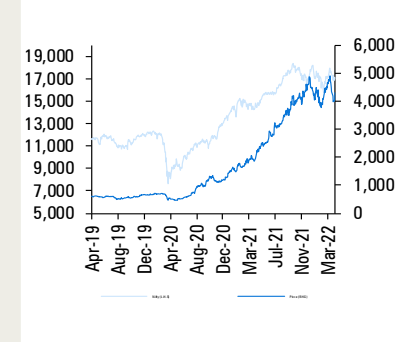
Particulars

Particular	Amount
Market Cap (₹ Crore)	33,055
Total Debt (₹ Crore)	600
Cash & Invests (₹ Crore)	1,349
EV (₹ Crore)	32,306
52 week H/L	4986 / 1930
Equity capital	76.4
Face value	10.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	31	31	31	31
FII	19	19	20	20
DII	29	28	27	27
Public	20	22	22	22

Price Chart



Recent event & key risks

- Five acquisitions in FY22
- Key Risk:** (i) Lower than expected revenue growth (ii) Lower than expected margins

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	3 Year CAGR (FY22-24E)
Net Sales	3,566	4,188	5,711	14.7%	7,292	8,750	23.8%
EBITDA	493	683	958	16.1%	1,286	1,569	28.0%
EBITDA Margins (%)	13.8	16.3	16.8		17.6	17.9	
Net Profit	340	451	690	18.0%	882	1,071	24.6%
EPS (₹)	44.4	59.0	90.3		115.5	140.2	
P/E (x)	97.1	73.1	47.7		37.3	30.8	
RoCE (%)	18.5	21.6	23.1		26.3	28.0	
RoE (%)	14.3	16.1	20.5		22.7	23.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- Revenue grew 9.1% to US\$217.3 million (mn), out of which organic growth was 6.8% QoQ while the rest has come through the inorganic route. In rupee terms, revenue grew 9.8% QoQ to ₹ 1,637.9 crore
- This is the fourth consecutive quarter of ~9% QoQ growth. In terms of geographies, growth was aided by North America market (78.6% mix), which reported 8.3% QoQ while India market (11% mix) reported 10.1% QoQ growth
- In terms of verticals, growth was aided by BFSI (32% mix), which grew 8.7% QoQ while technology (47% mix) grew 8.7% QoQ
- However, 9.8% QoQ increase in employee cost restricted EBITDA, EBIT margin expansion, which expanded ~34 bps and 8 bps QoQ to 17.2%, 14.0%, respectively. The company indicated margins were impacted by higher CSR and one-time acquisition cost (-30 bps), and were mitigated from forex (+30bps). The company called out some headwinds in FY23 for the margin would be i) inflation led higher wage hikes, ii) amortisation impact due to acquisitions, which could be mitigated by i) robust revenue growth ii) elevated fresher intake. The company indicated that they would like to maintain 14% EBIT margin guidance
- IP led revenues impacted by change in structure of the key clients from outcome based payments to fixed fee as some client’s products witnessed a muted response, which was impacting IP led revenues. Also, Persistent witnessed lower than company margin on these products
- The management continues to maintain that it is aspiring to reach US\$1 billion (bn) annual organic revenue in six to eight quarters from now. The company mentioned they would take a position on acquisitions at least in H1FY23 and focus on integration of the recent acquisitions. Persistent also indicated they will not shy away from further acquisitions from H2FY23 onwards as growth remains the primary focus area and margin is secondary
- The management expects the growth momentum in the services business to continue while IP led business, which has witnessed de-growth in the last few quarters, is expected to grow in the range of 10-15%
- The company reported a 30 bps dip in LTM attritions in the quarter to 26.6% as salary hikes, employee upscaling programme and career progression programmes may have helped attrition to see a downward trend. The company expects attrition to stabilise in H2FY23
- The company has hired a few senior members in the team. Mr Jogesh has been appointed as chief people officer, Mr Samir Bendre as chief of operations, Mr Rajiv and Mr Rahul as key leaders in the cloud practice wherein Mr Rajiv will lead Microsoft. Mr Berlin Mathew would be the head of delivery and excellence

Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,333	7,292	15.1	7,283	8,750	20.1	Factoring in recent large acquisitions
EBIT	886	1,052	18.7	1,041	1,289	23.8	
EBIT Margin (%)	14.0	14.4	44 bps	14.3	14.7	44 bps	largely maintained as per guidance
PAT	782	882	12.8	907	1,071	18.1	
EPS (₹)	102	115	12.8	119	140	18.1	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement					₹ crore
Particulars	FY21	FY22	FY23E	FY24E	
Total Revenues	4,188	5,711	7,292	8,750	
Growth (%)	17.4	36.4	27.7	20.0	
Employee & Subcon costs	2,748	3,763	4,769	5,679	
Total Operating Expenditure	3,505	4,753	6,006	7,181	
EBITDA	683	958	1,286	1,569	
Growth (%)	38.6	40.3	34.2	22.0	
Depreciation & Amortization	176	166	233	280	
Other Income	102	132	140	159	
Interest	-	-	-	-	
PBT before Excp Items	609	924	1,192	1,448	
Growth (%)	34.7	51.7	29.0	21.4	
Tax	159	234	310	376	
PAT before Excp Items	451	690	882	1,071	
Exceptional items	-	-	-	-	
PAT before MI	451	690	882	1,071	
Minority Int & Pft. frm asso	-	-	-	-	
PAT	451	690	882	1,071	
Growth (%)	32.4	53.2	27.8	21.4	
EPS	59.0	90	115	140	
EPS (Growth %)	32.9	53.2	27.8	21.4	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
	FY21	FY22	FY23E	FY24E	
PBT	609	924	1,192	1,448	
Depreciation & Amortization	176	166	233	280	
WC changes	158	(41)	22	(16)	
Other non cash adju.	(49)	32	(140)	(159)	
CF from operations	736	845	998	1,176	
Capital expenditure	(170)	(996)	(241)	(289)	
Δ in investments	(408)	(53)	-	-	
Other investing cash flow	37	72	140	159	
CF from investing Activities	(542)	(977)	(101)	(130)	
Issue of equity	-	-	-	-	
Δ in debt funds	(0)	428	-	-	
Dividends paid	(107)	(199)	(362)	(439)	
Other financing cash flow	(37)	(47)	(30)	(30)	
CF from Financial Activities	(144)	182	(392)	(469)	
Δ in cash and cash bank balance	50	50	506	577	
Effect of exchange rate changes	-	-	-	-	
Opening cash	931	981	914	1,420	
Cash c/f to balance sheet	981	914	1,420	1,997	

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet					₹ crore
	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity	76	76	76	76	
Reserves & Surplus	2,719	3,292	3,812	4,444	
Networth	2,796	3,368	3,889	4,521	
Minority Interest	-	-	-	-	
Long term Liabilities & provisions	29	625	642	651	
Source of funds	2,824	3,993	4,531	5,172	
Assets					
Net fixed assets	338	539	568	596	
Net intangible assets	123	823	831	841	
Goodwill	9	279	279	279	
Other non current assets	164	552	552	552	
Investments	362	388	388	388	
Debtors	571	948	999	1,199	
Current Investments	637	435	435	435	
Cash & Cash equivalents	981	914	1,420	1,997	
Other current assets	481	536	571	617	
Trade payables	273	430	479	575	
Current liabilities	568	991	1,031	1,157	
Application of funds	2,824	3,993	4,531	5,172	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	59.0	90.3	115.5	140.2	
Cash Per Share	128.3	119.7	185.8	261.3	
BV	365.8	440.7	508.8	591.6	
DPS	20.0	31.0	39.3	47.7	
Operating Ratios (%)					
EBITDA Margin	16.3	16.8	17.6	17.9	
PBT Margin	14.6	16.2	16.4	16.5	
PAT Margin	10.8	12.1	12.1	12.2	
Turnover Ratios					
Debtor days	50	61	50	50	
Creditor days	24	27	24	24	
Return Ratios (%)					
RoE	16.1	20.5	22.7	23.7	
RoCE	21.6	23.1	26.3	28.0	
RoIC	42.1	13.1	24.0	45.9	
Valuation Ratios (x)					
P/E	73.1	47.7	37.3	30.8	
EV / EBITDA	46.0	33.7	24.3	19.5	
Market Cap / Sales	7.9	5.8	4.5	3.8	
Solvency Ratios					
Current Ratio	1.3	1.0	1.0	1.0	
Quick Ratio	1.3	1.0	1.0	1.0	

Source: Company, ICICI Direct Research

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