

CMP: ₹ 3633

Target: ₹ 4200 (16%)

Target Period: 12 months

BUY

July 25, 2022

Highest ever TCV booking

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

- Persistent had a strong year FY22 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%)

Q1FY23 Results: Persistent reported robust Q1FY23 results.

- Dollar revenues increased 11.1% QoQ, organic growth was 5.6% QoQ
- EBIT margins improved ~30 bps QoQ to 14.3%
- Deal TCV was at US\$394 mn, up 9% QoQ

What should investors do? Persistent's share price has grown by ~5.5x over the past five years (from ~₹ 663 in July 2017 to ~₹ 3,633 levels in July 2022).

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

Target Price and Valuation: We value Persistent at ₹ 4,200 i.e. 30x P/E on FY24E

Key triggers for future price performance:

- The company has reached US\$966mn LTM revenues and approaching its targeted US\$1bn revenue, now it is aiming at US\$2bn revenues in the medium term
- 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% over 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 ₹ 4,480



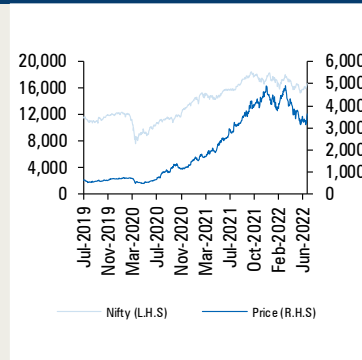
Particulars

Particular	Amount
Market Cap (₹ Crore)	25,526
Total Debt (₹ Crore)	600
Cash & Invests (₹ Crore)	1,349
EV (₹ Crore)	24,777
52 week H/L	4987 / 2813
Equity capital	76.4
Face value	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	31	31	31	31
FII	19	20	20	20
DII	28	27	27	26
Public	22	22	22	22

Price Chart



Recent event & key risks

- Highest TCV of US\$394 mn
- Key Risk:** (i) lower than expected revenue growth (ii) Lower than expected margins

Research Analyst

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 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)	75.0	56.5	36.9		28.8	23.7	
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 11.1% to US\$241.5 million (mn), out of which organic growth was 5.6% QoQ while the rest has come through the inorganic route (data glove full integration and media agility for 2 months). In rupee terms, revenue grew 14.7% QoQ to ₹ 1,878.1 crore
- This is the fifth consecutive quarter of above 9+% QoQ growth. In terms of geographies, growth was aided by North America market (78.4% mix), which reported 10.8% QoQ while India market (11.3% mix) reported 14.3% QoQ growth
- In terms of verticals, growth was aided by BFSI (33.7% mix), which grew 15.6% QoQ while technology (46.4% mix) grew 9.9% QoQ
- EBIT margin came in at 14.3%, ~30 bps QoQ growth as factors like a) higher travel cost led by visa expenses which are incurred in Q1, b) lower utilization due to fresher hiring's & c) higher SGA expenses restricted margin expansion for the quarter. The company indicated that it would roll out wage hikes in Q2 and also mentioned that wage hike this year would be higher than previous year and the impact of the same would be around 250-300 bps in Q2. The company also indicated that travel expenses will higher as travel opens up. It has incurred US\$1.1 mn for visa expenses & ~US\$200k for project related travel expenses in Q1.
- Despite the above headwinds the company indicated that its EBIT margin will remain similar to last year's level. The company indicated that it would be working on the following levers to improve its margins:
 - a) pricing: the company indicated that it is passing on the inflation related cost to clients and new deals are coming at better pricing
 - b) sub-contractor cost: the company indicated that with travel opening up it expects the sub-contractor costs to moderate
 - c) utilization: the utilization level of the company has come down led by the fresher hiring's. The company expects the same to continue for couple of quarters and expected to pick up thereafter after gradual deployment of resources
 - d) acquisitions synergy: The company would take a pause in acquisition for couple of quarters which would allow the smooth integration of acquired companies, however it indicates that it is not shying away from any opportunity coming their way
 - e) ₹ currency depreciation: though it being a macro factor beyond company's control, it believes currency depreciation will provide some tailwind opportunity
- The company indicated that its top customers IP led contract is being reworked which has impacted the drop in IP led revenue & the revenue from its top customer. The company indicated that it is witnessing broad based growth across customers and also indicated that it intentionally rationalizing clients which are not scaling up
- The company indicated that higher capital expenditure for the quarter was due to addition of laptops and electronics led by high fresher hiring's, and also on account of setting up of new office in Haryana. The company indicated that the number is expected to moderate going forward.
- The company excluding fresher's reported a 30 bps dip in LTM attritions in the quarter to 26.3% (including fresher's it was 24.8%). The company added 3039 net new employees including 1950 fresher's in Q1 taking it total employee strength past 20k employees to 21,638. The company indicated that it will hire 1,350 fresher's in Q2
- The company indicated that demand environment continue to be robust and it is confident of strong growth in the coming quarters. As per the company, what is working in their favour when it comes to growth is early

conversation with their clients citing global macro headwinds and access their needs.

Exhibit 1: P&L

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	1oQ (%)	Comments
Revenue (USD mn)	241.5	166.8	44.8	217.3	11.1	5th consecutive quarter of above 9%+ QoQ growth
Revenue	1,878.1	1,229.9	52.7	1,637.9	14.7	Services revenue grew by 13.5% QoQ & IP revenue declined by 12.8% QoQ
Employee expenses	1,223.9	806.5	51.8	1,078.3	13.5	
Gross Margin	654.2	423.4	54.5	559.6	16.9	
Gross margin (%)	34.8	34.4	41 bps	34.2	67 bps	
Other expenses	320.9	221.9	44.6	278.4	15.3	
EBITDA	333.3	201.5	65.4	281.2	18.5	
EBITDA Margin (%)	17.7	16.4	136 bps	17.2	58 bps	
Depreciation & amortisatio	64.5	35.0	84.3	51.1	26.2	
EBIT	268.8	166.5	61.4	230.0	16.8	
EBIT Margin (%)	14.3	13.5	77 bps	14.0	27 bps	Margin expansion was restricted due to higher travelling cost, lower utilization & higher amotization cost
Other income	13.1	36.5	-64.2	37.1	-64.7	
PBT	281.9	203.1	38.8	267.2	5.5	
Tax paid	70.3	51.8	35.6	66.2	6.1	
PAT	211.6	151.2	39.9	201.0	5.3	

Source: Company, ICICI Direct Research

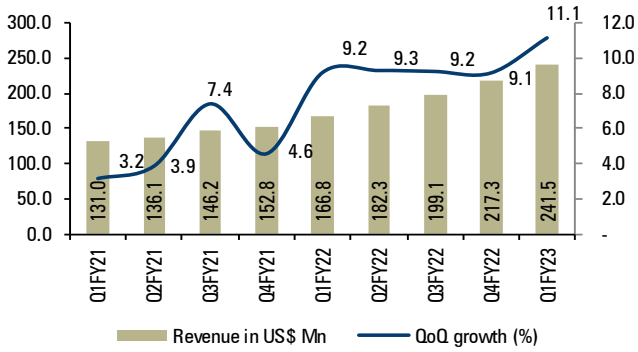
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	7,292	7,292	0.0	8,750	8,750	0.0	
EBIT	1,052	1,052	0.0	1,289	1,289	0.0	
EBIT Margin (%)	14.4	14.4	0 bps	14.7	14.7	0 bps	
PAT	882	882	0.0	1,071	1,071	0.0	
EPS (₹)	115	115	0.0	140	140	0.0	

Source: Company, ICICI Direct Research

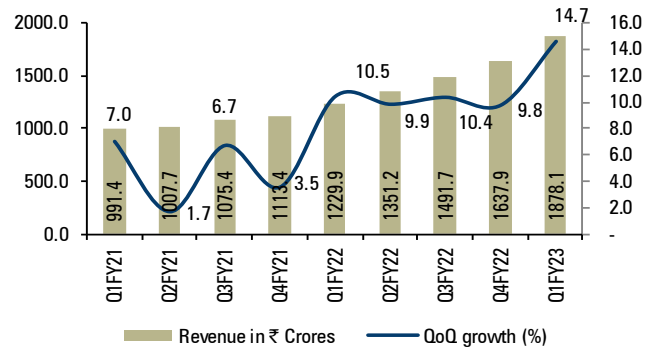
Key Metrics

Exhibit 3: Revenue in USD with QoQ growth



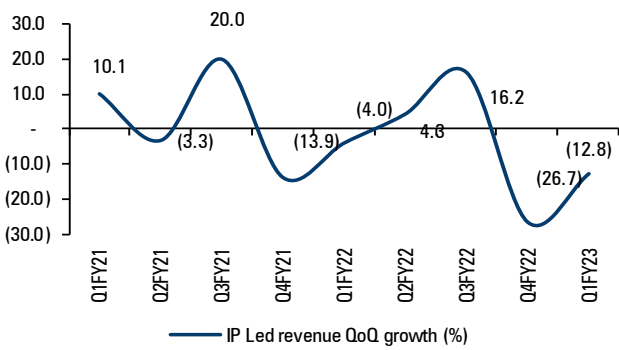
Source: Company, ICICI Direct Research

Exhibit 4: Revenue in INR QoQ growth



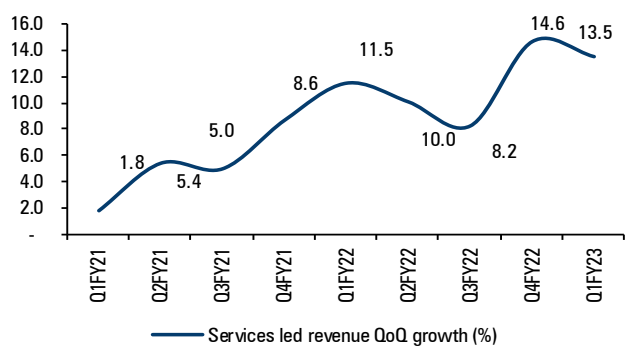
Source: Company, ICICI Direct Research

Exhibit 5: IP Revenue QoQ growth



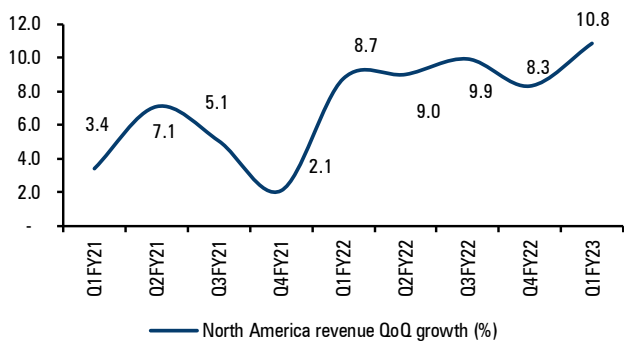
Source: Company, ICICI Direct Research

Exhibit 6: Services Revenue QoQ growth



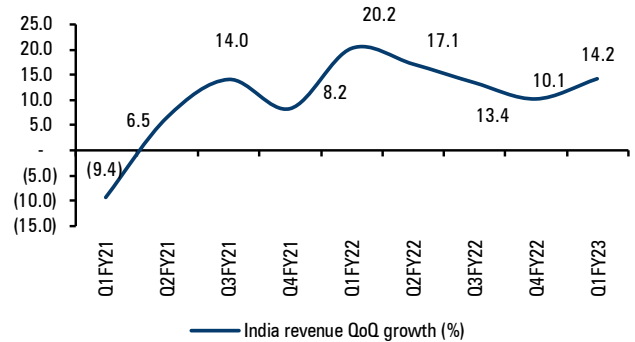
Source: Company, ICICI Direct Research

Exhibit 7: North America Revenue QoQ growth



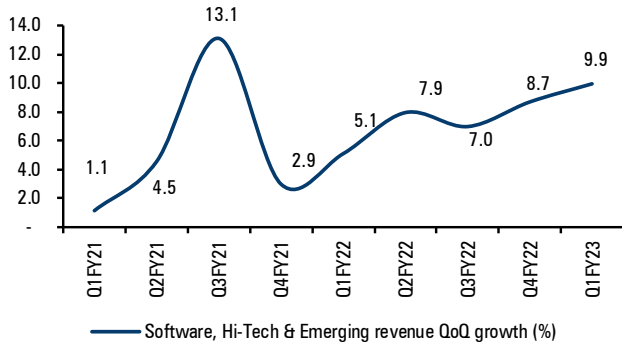
Source: Company, ICICI Direct Research

Exhibit 8: India Revenue QoQ growth



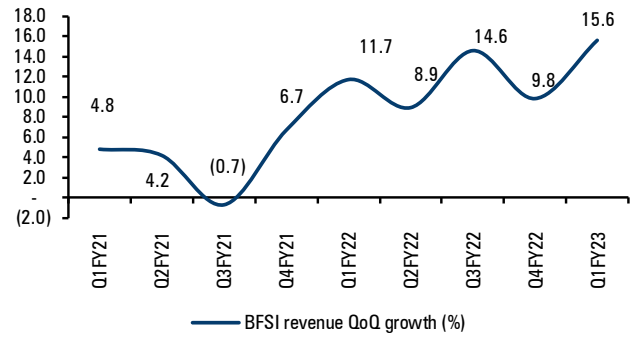
Source: Company, ICICI Direct Research

Exhibit 9: Software, Hi-Tech & Emerging QoQ growth



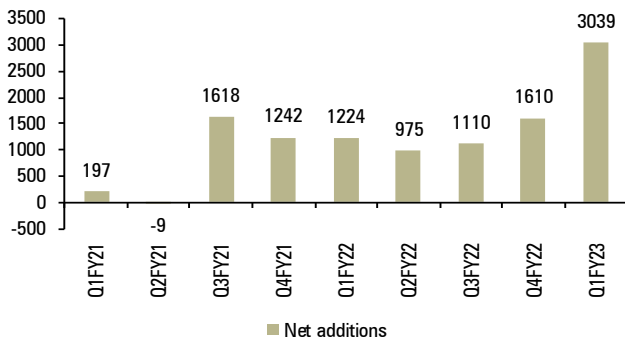
Source: Company, ICICI Direct Research

Exhibit 10: BFSI Revenue QoQ growth



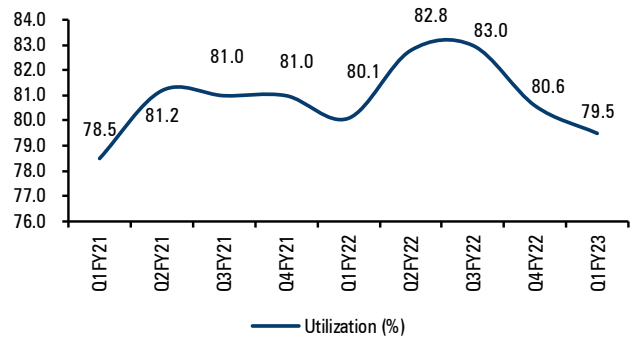
Source: Company, ICICI Direct Research

Exhibit 11: Net employee addition trend



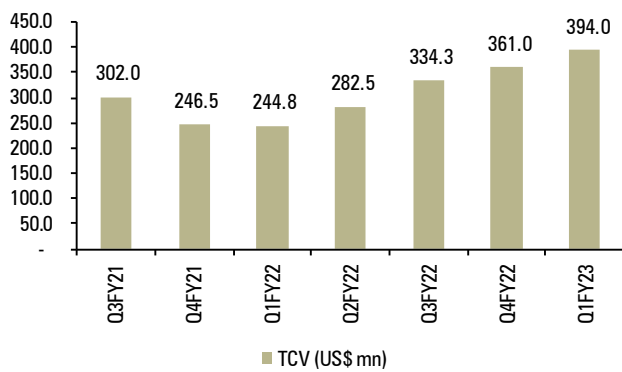
Source: Company, ICICI Direct Research

Exhibit 12: Utilization trend



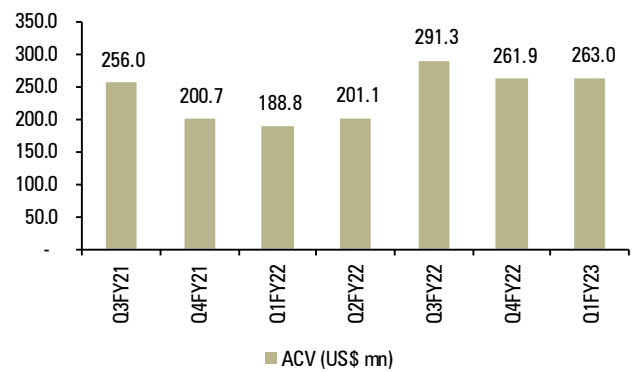
Source: Company, ICICI Direct Research

Exhibit 13: LTM TCV in US\$ mn



Source: Company, ICICI Direct Research

Exhibit 14: LTM ACV in US\$ mn



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: 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 16: 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 17: 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 equivalent	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 18: 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	56.5	36.9	28.8	23.7	
EV / EBITDA	35.0	25.9	18.4	14.7	
Market Cap / Sales	6.1	4.5	3.5	2.9	
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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Reduce: -15% to -5%;

Sell: <-15%



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