

**HOLD**

TP: Rs 4,880 | ▲ 13%

**PERSISTENT SYSTEMS**

Technology & Internet

28 April 2022

### Stellar, all-round performance

- Q4 revenue growth of 9.1% QoQ USD outperformed estimates led by services business; TCV at US\$ 361mn rose 8% QoQ
- EBIT margin flattish QoQ at 14% and guided to remain at this level in FY23. Attrition under control, declining 30bps QoQ
- We raise FY23/FY24 EPS ~8% to bake in the strong services growth and margin beat; on rollover, our TP rises to Rs 4,880 (vs. Rs 4,580) – HOLD

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**Performance beats estimates:** PSYS reported Q4FY22 revenue growth of 9.1% QoQ USD (6.8% organic growth), ahead of consensus as well as our optimistic estimate of 7.7%. Growth was led by the services segment while IP volatility continued (-27%). The company did well across verticals, with revenue from major segments rising by high single digits QoQ. BFSI led the way (+9.8% QoQ USD), aided by the SCI and Shree Partners' acquisitions. However, top client revenue contracted 12.7% QoQ USD due to IP contract restructuring. Overall, top-5 client revenues contracted 1.7%. TCV at US\$ 361mn grew 8% QoQ. New business formed 54% of TCV, up from 47% in Q3, pointing to a strong demand climate.

**Margin flattish:** EBIT margin at 14% was flat QoQ (vs. our estimate of 13.3%) despite the widespread talent supply crunch. Employee cost increased slightly but was offset by reduction in SG&A expense as % of revenue. Strong employee addition caused utilisation to moderate to 80.6%, after two quarters of high prints.

**Attrition stable:** Attrition at 26.6% was down 30bps QoQ. PSYS is the first company to report lower sequential attrition rates in Q4. Management believes employee churn will be elevated for the next few quarters before tapering down. The company hired 1,610 employees QoQ (700 from inorganic additions).

**Acquisition update:** PSYS acquired five companies in FY22, viz. SCI, Shree Partners, Data Glove, MediaAgility and Sureline, which will drive enhanced cloud capabilities and stronger partnerships with cloud hyperscalers. Integration of Data Glove is proceeding per expectations. The SCI and Shree Partners buyouts have already opened up multiple new leads in the payments segment. PSYS will continue to target tuck-in acquisitions that strengthen any of its verticals, geographies or service lines.

**Maintain HOLD:** Management expects EBIT margin to remain at 14% in FY23 due to high employee costs, pay hikes and rising amortisation cost (from multiple acquisitions). We raise FY23/FY24E EPS estimates by ~8% each to bake in the Q4 outperformance and roll valuations forward to Jun'23, leading to a new TP of Rs 4,880 (vs. Rs 4,580), set at an unchanged 40.1x P/E. Retain HOLD.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PSYS IN/Rs 4,309
Market cap	US\$ 4.5bn
Free float	70%
3M ADV	US\$ 18.0mn
52wk high/low	Rs 4,988/Rs 1,926
Promoter/FPI/DII	30%/26%/44%

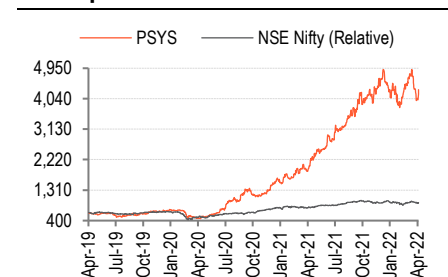
Source: NSE | Price as of 28 Apr 2022

### Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	57,108	76,929	86,553
EBITDA (Rs mn)	9,582	13,121	14,475
Adj. net profit (Rs mn)	6,904	8,486	9,994
Adj. EPS (Rs)	86.6	106.4	125.3
Consensus EPS (Rs)	83.7	101.7	124.4
Adj. ROAE (%)	22.4	23.2	23.2
Adj. P/E (x)	49.8	40.5	34.4
EV/EBITDA (x)	35.8	26.3	24.0
Adj. EPS growth (%)	53.2	22.9	17.8

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenue (US\$ mn)	217.3	152.8	42.2	199.1	9.1	766	566	35.2
Revenue	16,379	11,134	47.1	14,917	9.8	57,108	41,879	36.4
Operating Expenditure	13,567	9,250	46.7	12,406	9.4	47,526	35,049	35.6
Cost of revenues	10,859	7,363	47.5	9,880	9.9	37,895	27,650	37.1
as % of sales	66.3	66.1	-	66.2	-	265	264	-
SG&A expenses	2,707	1,887	43.5	2,526	7.2	9,631	7,398	30.2
as % of sales	16.5	17.0	-	16.9	-	68	71	-
<b>EBITDA</b>	<b>2,812</b>	<b>1,883</b>	<b>49.3</b>	<b>2,511</b>	<b>12.0</b>	<b>9,582</b>	<b>6,830</b>	<b>40.3</b>
Depreciation	511	419	22.0	428	19.5	1,660	1,756	-5.4
<b>EBIT</b>	<b>2,300</b>	<b>1,464</b>	<b>57.1</b>	<b>2,083</b>	<b>10.4</b>	<b>7,922</b>	<b>5,075</b>	<b>56.1</b>
Other Income	371	385	-	281	-	1,322	1,020	-
PBT	2,672	1,849	44.5	2,364	13.0	9,243	6,094	51.7
Total Tax	662	471	40.5	600	10.3	2,339	1,588	47.3
<b>Adjusted PAT</b>	<b>2,010</b>	<b>1,378</b>	<b>45.9</b>	<b>1,764</b>	<b>13.9</b>	<b>6,904</b>	<b>4,507</b>	<b>53.2</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	0	0	-
APAT after MI	2,010	1,378	45.9	1,764	13.9	6,904	4,507	53.2
Extra ordinary items	0	0	-	0	-	0	0	-
<b>Reported PAT</b>	<b>2,010</b>	<b>1,378</b>	<b>45.9</b>	<b>1,764</b>	<b>13.9</b>	<b>6,904</b>	<b>4,507</b>	<b>53.2</b>
Reported EPS	25.1	17.2	45.9	22.0	13.9	86.3	56.3	53.2
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
EBITDA	17.2	16.9	25	16.8	34	16.8	16.3	47
EBIT	14.0	13.2	89	14.0	8	13.9	12.1	175
EBT	16.3	16.6	(29)	15.8	46	16.2	14.6	163
PAT	12.3	12.4	(10)	11.8	45	12.1	10.8	133
Effective Tax rate	24.8	25.5	(71)	25.4	(61)	25.3	26.1	(75)

Source: Company, BOBCAPS Research

Fig 2 – Operating metrics

(in US\$ terms)	Q4FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
<b>Revenue by Geography</b>			
North America	78.6	8.3	44.1
Europe	8.4	10.5	41.9
India, APAC	12.5	9.1	84.0
<b>Client Concentration</b>			
Top Client	14.0	(12.7)	(21.8)
Top 5 Clients	32.5	(1.7)	(10.7)
Top 10 Clients	42.1	2.1	(9.1)
Non Top 10 Clients	57.9	14.9	7.8
<b>Revenue by Vertical</b>			
BFSI	32.4	9.8	53.1
Healthcare and Lifesciences	20.7	9.1	52.5
Tech. Cos. & Emerging Verticals	46.9	8.7	31.8
<b>TCV (US\$ mn)</b>	<b>361.0</b>	<b>8.0</b>	<b>46.5</b>

	Q4FY22	Q3FY22	Q4FY21
<b>Onsite-Offshore mix (%)</b>			
Onsite	34.5	31.4	30.4
Offshore	56.6	55.3	54.7
IP-led	8.9	13.3	14.9
Utilisation	80.6	83.0	79.1
Headcount	18,599	16,989	13,680

Source: Company, BOBCAPS Research

## Valuation methodology

PSYS consistently demonstrates increasing TCV and strong services growth with a slew of synergistic tuck-in acquisitions. Factoring in the stellar Q4FY22 revenue growth and margin outperformance, we raise our FY23/FY24 EPS estimates by 8% each. Management expects to maintain EBIT margin at ~14% levels in FY23. Based on estimate revision and valuation rollover to Jun'23, we have a new TP of Rs 4,880 (vs. Rs 4,580), set at an unchanged 40.1x P/E. Retain HOLD.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues (US\$ mn)	765.5	983.0	1,102.6	762.6	926.7	1,049.7	0.4	6.1	5.0
YoY growth (%)	35.2	28.4	12.2	34.7	21.5	13.3	-	-	-
Revenues	57,108	76,929	86,553	56,892	72,519	82,404	0.4	6.1	5.0
EBITDA	9,582	13,121	14,475	9,408	11,823	13,599	1.8	11.0	6.4
EBITDA margin (%)	16.8	17.1	16.7	16.5	16.3	16.5	-	-	-
Net profits	6,904	8,486	9,994	6,603	7,844	9,222	4.6	8.2	8.4
EPS (Rs)	86.3	106.1	124.9	82.5	98.1	115.3	4.6	8.2	8.4

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- IP volatility offsetting services business growth,
- subdued margins, and
- stagnation in BFSI demand.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Coforge	COFORGE IN	3.3	4,101	7,080	BUY
eClerx Services	ECLX IN	1.2	2,433	3,790	BUY
HCL Technologies	HCLT IN	38.8	1,093	1,610	BUY
Infosys	INFO IN	88.1	1,583	2,130	BUY
L&T Infotech	LTI IN	11.2	4,886	8,140	BUY
Mindtree	MTCL IN	7.8	3,606	5,610	BUY
Mphasis	MPHL IN	6.8	2,798	3,470	HOLD
Persistent Systems	PSYS IN	4.5	4,309	4,880	HOLD
Tata Consultancy Services	TCS IN	175.9	3,584	4,660	BUY
Tech Mahindra	TECHM IN	14.5	1,271	1,940	BUY
Wipro	WPRO IN	37.7	523	850	BUY

Source: BOBCAPS Research, NSE | Price as of 28 Apr 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Total revenue</b>	<b>35,658</b>	<b>41,879</b>	<b>57,108</b>	<b>76,929</b>	<b>86,553</b>
EBITDA	4,930	6,830	9,582	13,121	14,475
Depreciation	1,660	1,756	1,660	2,193	1,585
EBIT	3,270	5,075	7,922	10,928	12,890
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	1,254	1,020	1,322	463	525
Exceptional items	0	0	0	0	0
EBT	4,523	6,094	9,243	11,391	13,415
Income taxes	1,121	1,588	2,339	2,905	3,421
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>3,403</b>	<b>4,507</b>	<b>6,904</b>	<b>8,486</b>	<b>9,994</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,403</b>	<b>4,507</b>	<b>6,904</b>	<b>8,486</b>	<b>9,994</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	3,810	4,607	9,911	8,220	9,248
Provisions	1,954	2,719	4,195	4,215	4,743
Debt funds	12	44	6,004	6,004	6,004
Other liabilities	0	0	0	0	0
Equity capital	791	764	764	764	764
Reserves & surplus	24,002	27,192	32,918	38,851	45,838
Shareholders' fund	24,793	27,957	33,682	39,615	46,602
<b>Total liab. and equities</b>	<b>30,569</b>	<b>35,327</b>	<b>53,792</b>	<b>58,051</b>	<b>66,597</b>
Cash and cash eq.	1,461	2,419	2,978	5,043	11,556
Accounts receivables	5,862	5,709	9,484	10,538	11,619
Inventories	0	0	0	0	0
Other current assets	5,373	4,945	5,355	7,039	7,920
Investments	13,304	17,853	18,445	18,445	18,445
Net fixed assets	4,083	3,277	13,617	13,073	13,139
CWIP	316	122	1,071	1,071	1,071
Intangible assets	81	86	2,790	2,790	2,790
Deferred tax assets, net	405	1,038	1,123	1,123	1,123
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>30,569</b>	<b>35,327</b>	<b>53,792</b>	<b>58,051</b>	<b>66,592</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Cash flow from operations</b>	<b>2,025</b>	<b>5,679</b>	<b>8,448</b>	<b>5,806</b>	<b>10,646</b>
Capital expenditures	(1,500)	(392)	(3,808)	(1,650)	(1,650)
Change in investments	0	(3,722)	(212)	0	0
Other investing cash flows	1,254	1,020	(5,754)	463	525
<b>Cash flow from investing</b>	<b>(247)</b>	<b>(3,094)</b>	<b>(9,774)</b>	<b>(1,187)</b>	<b>(1,125)</b>
Equities issued/Others	(828)	0	0	0	0
Debt raised/repaid	0	0	3,928	0	0
Interest expenses	0	0	(118)	0	0
Dividends paid	(1,229)	(1,627)	(1,987)	(2,553)	(3,007)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(2,057)</b>	<b>(1,627)</b>	<b>1,823</b>	<b>(2,553)</b>	<b>(3,007)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(278)</b>	<b>958</b>	<b>497</b>	<b>2,065</b>	<b>6,513</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,461</b>	<b>2,419</b>	<b>2,978</b>	<b>5,043</b>	<b>11,556</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	42.7	56.5	86.6	106.4	125.3
Adjusted EPS	42.7	56.5	86.6	106.4	125.3
Dividend per share	12.8	16.9	26.0	26.6	31.3
Book value per share	310.8	350.5	422.3	496.6	584.2

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	9.6	8.2	6.0	4.5	4.0
EV/EBITDA	69.5	50.2	35.8	26.3	24.0
Adjusted P/E	101.0	76.3	49.8	40.5	34.4
P/BV	13.9	12.3	10.2	8.7	7.4

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	75.2	73.9	74.7	74.5	74.5
Interest burden (PBT/EBIT)	138.3	120.1	116.7	104.2	104.1
EBIT margin (EBIT/Revenue)	9.2	12.1	13.9	14.2	14.9
Asset turnover (Rev./Avg TA)	120.6	127.1	128.2	137.6	138.9
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.4	1.5	1.4
Adjusted ROAE	14.1	17.1	22.4	23.2	23.2

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	5.9	17.4	36.4	34.7	12.5
EBITDA	(15.1)	38.6	40.3	36.9	10.3
Adjusted EPS	(2.9)	32.4	53.2	22.9	17.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.8	16.3	16.8	17.1	16.7
EBIT margin	9.2	12.1	13.9	14.2	14.9
Adjusted profit margin	9.5	10.8	12.1	11.0	11.5
Adjusted ROAE	14.1	17.1	22.4	23.2	23.2
ROCE	10.9	15.3	19.0	21.1	23.5

### Working capital days (days)

Receivables	55	50	49	47	47
Inventory	0	0	0	0	0
Payables	41	44	56	52	44

### Ratios (x)

Gross asset turnover	8.6	11.4	6.8	5.8	6.6
Current ratio	2.2	1.8	1.3	1.8	2.2
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.1)	0.1	0.0	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

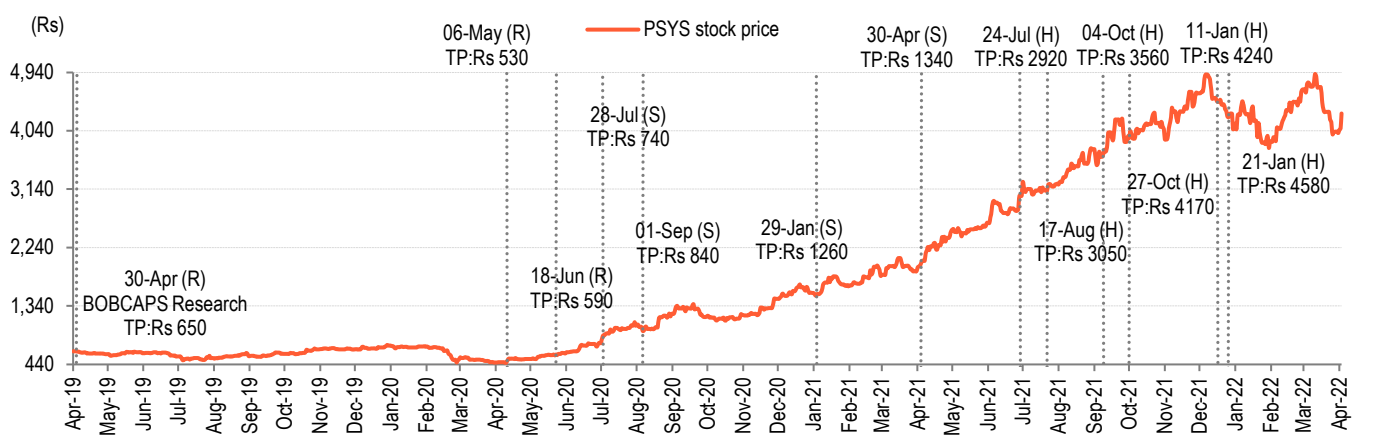
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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