

CMP: INR 5,156

Rating: Accumulate

Target Price: INR 5,876

Stock Info

BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Computers- Software
Face Value (INR)	5
Equity Capital (INR mn)	779
Mkt Cap (INR mn)	803,624
52w H/L (INR)	5693/2,840
Avg Yearly Vol (in 000')	765

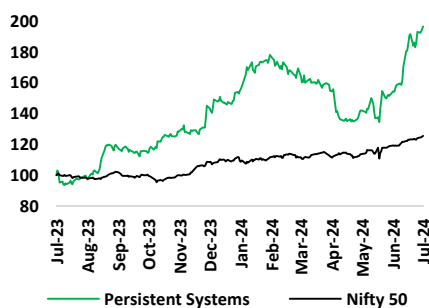
Shareholding Pattern %

(As on Sept, 2024)

Promoters	31.02
FII	22.55
DII	28.23
Public & Others	17.50

	1m	3m	12m
Persistent Systems	27.5	27.6	96.9
Nifty 50	5.3	12.8	25.6

Persistent Systems Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Persistent Systems Ltd (PSL) reported good set of Nos in Q2FY25; Top line & PAT above estimate; Margin in line with the estimate; Strong deal wins. Reported revenue of USD 345.5 Mn (up 5.3% QoQ/18.4%YoY) above with our estimate of \$340 Mn. Reported revenue of INR 28,972 Mn up 5.8% QoQ/ 20.1% YoY above with our estimate of INR 28,374 Mn. The growth was led by Healthcare & Life Sciences was up (73.2%YoY/10.3% QoQ) owing to large deal wins in this segment followed by BFSI (up 17%YoY/8.1% QoQ) and software (1% YoY/1.4% QoQ). EBIT margin flat 1bps QoQ/ (31bps YoY/f-1bps) at 14.02% in-line with our estimates of 14.0%. Consolidated PAT stood at INR 3,250 Mn, up by 6.1% QoQ/ 23.4% YoY above with our estimate of INR 3,195 Mn. The order booking for Q2FY25 was at \$529.0 mn in TCV up by 14.3% QoQ and at \$348.3 mn in ACV terms grew by 3.3% QoQ. DSO (Billed) up by 1 to 68 Days. Effort mix: Global Delivery Centers revenue mix increased by 60 bps QoQ to 15.8%. Net employee down by 282 employees in Q2FY25 to close at 23,237 employees. LTM attrition increased by 10bps QoQ to 12.0%. Employee utilization increased by 270 bps QoQ to 84.8%.

Strong order book led by existing & new clients: The order book in Q2FY25 a TCV of \$529 mn, with new bookings contributing \$389.8 mn and an ACV of \$348.3 mn, of which \$218.6 mn came from new bookings. Annually growth was strong across client segments, with revenues from the top five customers up by 31.5%, top ten by 24.6%, top twenty by 22.1%, and top fifty by 24.9%. The contribution from the top ten customers increased to 41.5%, and the number of customers generating over \$1 mn in TTM revenue rose to 184, reflecting the company's ability to significantly scale customer relationships over time.

AI Strategy Driving Growth and Customer Success: The company's AI strategy has two main components: AI for technology and AI for business as witnessed during the beginning of SASVA 2.0 that introduces assessments and optimizes software engineering productivity. There are however some notable case studies, for instance SASVA assisted a leading observability platform in accelerating R&D and also a financial analytics firm in streamlining their go-to-market strategies. The emergence of the GenAI Hub as well as enhancements of the iAURA platform serve to strengthen the position of the company in meeting competition in the market. Such strategic investments ensure that the company is able to realize growth and improved outcomes for its customers across different segments in standard which will in turn enhance the profitability hence shareholder returns.

Valuations

PSL posted strong growth in Q2FY25, with management indicating continued growth momentum supported by robust new ACV deal wins. Client growth was strong, especially in North America and the Healthcare sector, while headcount was reduced by 282 and utilization improved to 84.8%. Persistent aims to sustain revenue growth and enhance margins through operational efficiencies, having achieved carbon neutrality for Scope 1 and 2 emissions. We believe Persistent Systems is well-positioned to sustain its consistent revenue growth momentum, with early-teens growth expected for FY25E to FY26E compared to peers.

We project a 17.8% CAGR in USD revenue for PSYS from FY24 to FY27, and with margin growth, this could lead to an EPS CAGR of over 18%. This positions PSL uniquely as a diversified player in product engineering and IT services, warranting a premium valuation multiple. Hence, **we value the Persistent system at a PE of 44x to its FY27E EPS of 133.6, which yields a target price of INR 5,876 per share. We revised our rating to an Accumulate on the stock.**

Exhibit 1: Financial Overview (Consolidated)

Particulars (INR Mn)	Revenues (US\$ mn)	Net Sales	EBIT	PAT	EPS (INR)	EBIT Margin %	P/E (x)
FY24	1186	98,216	14,149	11,737	144.9	14.4%	35.6
FY25E	1444	1,20,881	16,984	13,975	90.7	14.1%	56.8
FY26E	1693	1,41,723	21,258	17,296	112.3	15.0%	45.9
FY27E	2002	1,67,598	25,475	20,574	133.6	15.2%	38.6

Source: Arihant Research, Company Filings

Exhibit 2: Q2FY25 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	345.5	328	292	5.3%	18.4%
Net Revenue	28,972	27,372	24,117	5.8%	20.1%
Employee Cost	21,509	19,952	17,759	7.8%	21.1%
Other Expenses	2,655	2,868	2,306	-7.4%	15.1%
EBITDA	4,807	4,552	4,052	5.6%	18.7%
EBITDA Margin %	16.59%	16.63%	16.80%	-4bps	-21bps
Depreciation	745	712	744	4.6%	0.1%
EBIT	4,062	3,840	3,308	5.8%	22.8%
EBIT Margin %	14.02%	14.03%	13.72%	-1bps	31bps
Other Income	465	306	373	51.8%	24.8%
Finance Cost	182	141	123	29.2%	48.4%
Exceptional Item	-	-	-	-	-
PBT	4,345.20	4,005.29	3,557.63	8.5%	22.1%
Tax Expense	1,095.23	941.27	924.95	16.4%	18.4%
Effective Tax Rate %	25.2%	23.5%	26.0%	170bps	-79bps
PAT	3,249.97	3,064.02	2,632.68	6.1%	23.4%
MI & Associates	-	-	-	-	-
Consolidated PAT	3,249.97	3,064.02	2,632.68	6.1%	23.4%
PAT Margin %	11.2%	11.2%	10.9%	2bps	30bps
EPS (INR)	21.19	20.09	17.91	5.5%	18.3%

INR Mn (consolidated)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
BFSI	9,117	8,432	7,791	8.1%	17.0%
Healthcare & Life Sciences	8,065	7,311	4,657	10.3%	73.2%
Software	11,789	11,629	11,668	1.4%	1.0%

Source: Arianth Research, Company Filings

Q2FY25 Conference call Highlights

- Most of company's work is critical to clients and not discretionary, so the slowdown in discretionary spending is not affecting it.
- The overall growth and demand environment is healthy, although many factors are beyond control. The market is pivoting, and there is relative confidence in demand, with an expected utilization band of 83-85% and no labor shortages anticipated. The Starfish acquisition was fully integrated in Q2. The aspiration to reach \$2 bn in revenue by FY27 has been reaffirmed.
- Revenue growth and cost optimization initiatives are underway for FY25 and beyond, with benefits seen in Q2 expected to continue.
- Margin headwinds in H2 FY25 are expected to be similar to last year due to furloughs.
- Margin showed a -210 bps impact from wage hikes, -130 bps from the lack of policy rationalization, and -60 bps from new ESOP issues, alongside tailwinds from improved utilization (+120 bps), reduced subcontracting (+70 bps), lower resale business (+50 bps), pricing and right-shoring effects (+130 bps), currency tailwinds (+30 bps), and absence of visa costs (+60 bps).
- A one-time gain of INR 80 mn resulted from the pre-closure of underutilized lease premises in Pune and Indore. The company has also invested in new facilities in Chennai and Hyderabad, although overall treasury income decreased from the Q1FY25 due to acquisition payouts totaling INR 524 mn. However, there was a foreign exchange gain of INR 106 mn, compared to a loss of INR 7.3 mn in Q1.
- SG&A will see significant investments in the next couple of quarters, leading to future benefits.
- Pricing growth momentum continues to support margin expansion. Microsoft's performance is higher than expected.
- The company is confident in adapting to market demands, even amidst volatility.
- HLS and BFSI sectors drove growth in Q2.
- The T100 program was launched, focusing on the top 100 clients.
- The effective tax rate is projected to remain between 23.5% and 24.5% for FY25.
- The order book has remained robust over recent quarters.
- There is no immediate need for headcount increases.
- Pricing, right-shoring, and ongoing growth momentum will support margin maintenance and growth.
- The aim is to become a platform-driven services company.
- Scaling efforts are improving revenue per employee through AI utilization. The tech vertical is expected to bottom out, with growth anticipated in the next two quarters based on the current pipeline.
- The company aims to be in the top performing quartile, even in a challenging macroeconomic environment.

Exhibit 3: Business Matrix

Revenue	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
Revenue from Operations, USD M	291.7	300.6	310.9	328.2	345.5
% Q - o -Q growth	3.1%	3.1%	3.4%	5.6%	5.3%
% Y - o -Y growth	14.1%	13.7%	13.2%	16.0%	18.4%
Revenue from Operations, INR M	24117	24982	25905	27372	28972
% Q - o -Q growth	3.90%	3.59%	3.69%	5.66%	5.84%
% Y - o -Y growth	17.72%	15.16%	14.90%	17.92%	20.13%
Segment Revenue Mix	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
BFSI	32.30%	31.20%	30.70%	30.80%	31.50%
Healthcare & Life Sciences	19.30%	21.80%	24.20%	26.70%	27.80%
Software, Hi -Tech & Emerging Industries	48.40%	47.00%	45.10%	42.50%	40.70%
Total	100%	100%	100%	100%	100%
Geography Revenue Mix	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
North America	79.20%	79.70%	80.10%	80.70%	81.30%
Europe	9.50%	8.90%	7.80%	7.80%	7.90%
India	9.70%	10.00%	10.10%	9.80%	9.20%
ROW	1.60%	1.40%	2.00%	1.70%	1.60%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Client Contribution	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
Top 5	28.30%	28.00%	29.20%	30.70%	31.40%
Top 10	39.50%	39.30%	40.00%	41.50%	41.50%
Top 20	50.40%	51.40%	51.10%	51.90%	52.10%
Top 50	66.1%	66.7%	67.3%	67.8%	67.9%
Revenue by Delivery Centers	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
Global Development Centers	12.7%	13.8%	14.8%	15.2%	15.8%
India	87.3%	86.2%	85.2%	84.8%	84.2%
Client Billed	375	375	382	374	379
Client Engagement Size	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
\$75M+	2	2	2	3	3
\$50M - \$75M	0	0	1	1	1
\$20M – \$50M	7	9	7	6	6
\$10M – \$20M	7	5	7	9	11
\$5M – \$10M	23	22	23	22	22
\$1M – \$5M	136	138	138	137	141
People Numbers	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
Technical	21236	21738	22224	21866	21,675
Sales and Business Development	443	465	484	510	492
Others	1136	1133	1142	1143	1,070
Total	22815	23336	23850	23519	23237
Attrition Rate	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
TTM Basis	13.50%	11.90%	11.50%	11.90%	12.00%
Utilization (Including Trainees)	80.60%	81.50%	80.00%	82.10%	84.80%
DSO	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
Days	66	66	63	67	68

Source: Arianth Research, Company Filings

Exhibit 4: Top line above with our estimate

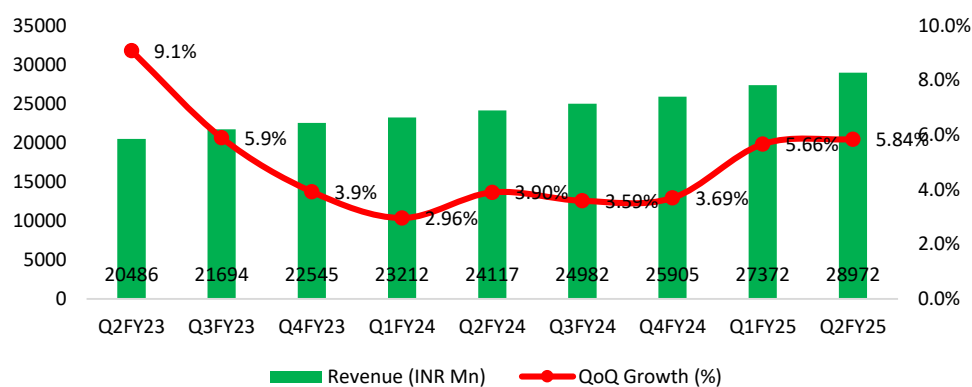


Exhibit 5: Top line above with our estimate

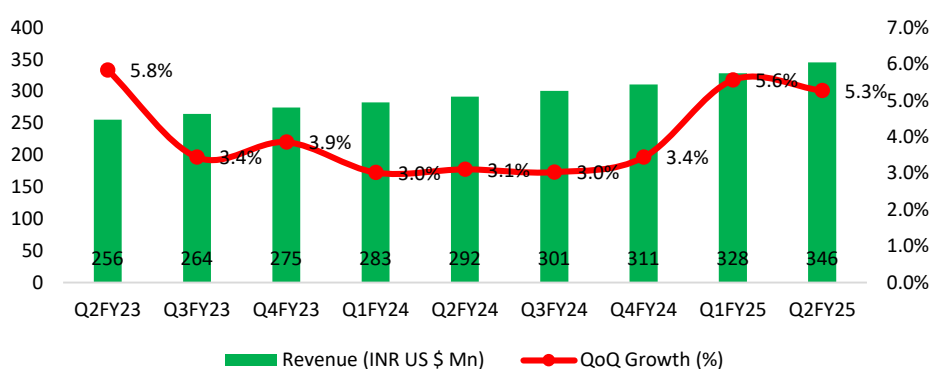


Exhibit 6: PSL remain committed to goal of improving EBIT margins by 200-300 bps over the next couple of years.

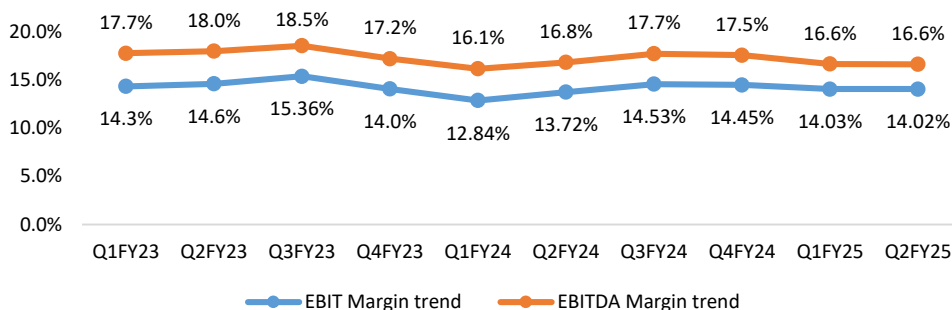
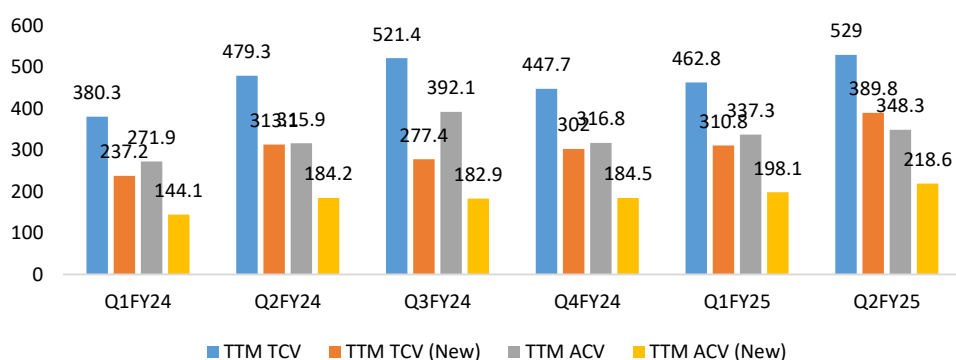


Exhibit 7: Strong deal wins



Source: Arihant Research, Company Filings

Key Financials

Income Statement				
Income Statement (INR Mn)	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	1186	1444	1693	2002
Change (%)	14.5%	21.8%	17.2%	18.3%
Revenues	98,216	1,20,881	1,41,723	1,67,598
Change (%)	17.6%	23.1%	17.2%	18.3%
Total Expenses	89,594	1,00,198	1,16,071	1,37,431
EBITDA	17,243	20,683	25,652	30,168
EBITDA Margin (%)	17.6%	17.1%	18.1%	18.0%
Depreciation	3,094	3,699	4,393	4,693
EBIT	14,149	16,984	21,258	25,475
EBIT Margin (%)	14.4%	14.1%	15.0%	15.2%
Other Income	1,129	1,166	1,204	1,244
Interest	-	-	-	-
PBT	15,278	18,149	22,462	26,719
PBT after ext-ord.	15,278	18,149	22,462	26,719
Tax	3,541	4,174	5,166	6,145
Rate (%)	23.2%	23.0%	23.0%	23.0%
PAT	11,737	13,975	17,296	20,574
MI & Associates	-	-	-	-
Consolidated PAT	11,737	13,975	17,296	20,574
Change (%)	27.4%	19.1%	23.8%	19.0%

Balance Sheet				
Balance Sheet (INR Mn)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	770	779	779	779
Reserves & Surplus	48,807	60,054	74,077	90,677
Net Worth	49,577	60,834	74,857	91,456
Loan Funds	2,073	2,073	2,073	2,073
MI, Deferred Tax & other Liabilities	-	-	-	-
Capital Employed	51,650	62,907	76,930	93,529
Application of Funds				
Net Block	14,395	18,194	21,992	25,789
CWIP	335	335	335	335
Other Non-current Assets	16,901	16,901	16,901	16,901
Deferred Tax Assets	1,360	1,360	1,360	1,360
Net Fixed Assets	32,991	36,790	40,588	44,385
Investments	8,266	8,266	8,266	8,266
Debtors	17,491	21,528	25,240	29,848
Inventories	-	-	-	-
Cash & Bank Balance	10,229	20,506	32,506	47,511
Loans & Advances & other CA	11,515	11,515	11,515	11,515
Total Current Assets	42,946	53,549	69,261	88,874
Current Liabilities	21,976	31,820	37,306	44,118
Provisions	3,878	3,878	3,878	3,878
Net Current Assets	17,092	17,852	28,077	40,879
Total Assets	51,650	62,907	76,930	93,529

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY24	FY25E	FY26E	FY27E
PBT	14,476	18,149	22,462	26,719
Depreciation	3,094	3,699	4,393	4,693
Interest & others	-1,129	-1,166	-1,204	-1,244
Cash flow before WC changes	16,441	20,683	25,652	30,168
(Inc)/dec in working capital	-8,213	5,807	1,775	2,203
Operating CF after WC changes	8,228	26,490	27,426	32,371
Less: Taxes	-3,541	-4,174	-5,166	-6,145
Operating Cash Flow	4,687	22,316	22,260	26,225
(Inc)/dec in F.A + CWIP	11,796	7,114	7,115	7,116
(Pur)/sale of investment	(1,870.02)	-	-	-
Cash Flow from Investing	-7,633	-10,446	-10,445	-10,444
Free Cash Flow (FCF)	1,896	18,517	18,462	22,428
Loan raised/(repaid)	(2,212)	-	-	-
Equity raised	6	9.00	-	-
Interest & others	10,432	2,482	4,268	3,307
Dividend	-4,084	-4,084	-4,084	-4,084
Cash Flow from Financing Activities	4,143	-1,593	184	-776
Net inc /(dec) in cash	1,196	10,277	12,000	15,005
Opening balance of cash	9,033	10,229	20,506	32,506
Closing balance of cash	10,229	20,506	32,506	47,511

Key Ratios				
Key Ratios (INR Mn)	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	144.9	90.7	112.3	133.6
CEPS	91.1	114.7	140.8	164.0
BVPS	321.8	394.9	485.9	593.7
DPS	26.0	35.0	42.0	51.0
Div. Payout (%)	36.6%	38.6%	37.4%	38.2%
Valuation (x)				
P/E	35.6	56.8	45.9	38.6
P/CEPS	56.6	44.9	36.6	31.4
P/BV	16.0	13.1	10.6	8.7
EV/EBITDA	45.6	37.5	29.8	24.8
Dividend Yield (%)	0.5%	0.7%	0.8%	1.0%
Return Ratio (%)				
EBITDA Margin	17.6%	17.1%	18.1%	18.0%
EBIT Margin	14.4%	14.1%	15.0%	15.2%
PAT Margin	11.1%	11.6%	12.2%	12.3%
ROE	22.1%	23.0%	23.1%	22.5%
ROCE	27.4%	27.0%	27.6%	27.2%
Leverage Ratio (x)				
Total D/E	0.002	0.002	0.002	0.002
Net D/E	-0.2	-0.3	-0.4	-0.5
Turnover Ratios				
Asset Turnover (x)	1.9	1.9	1.8	1.8
Receivable Days	65	65	65	65
Payable days	96	96	96	96

Source: Arianth Research, Company Filings,

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House 6, Lad Colony, Y.N Road, , Indore, Madhya Pradesh, 452001 Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199
Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880