

CMP: INR 5,655

Rating: Accumulate

Target Price: INR 6,375

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)	88,60,61
52w H/L (INR)	6,789/3,233
Avg Yearly Vol (in 000')	33

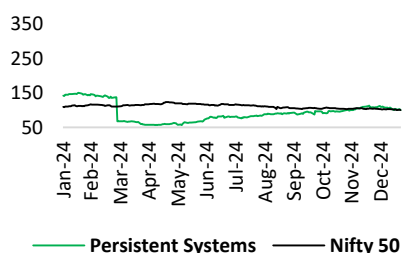
Shareholding Pattern %

(As on Dec, 2024)

Promoters	30.6
FII	24.7
DII	26.2
Public & Others	18.3

	1m	3m	12m
Persistent Systems	-10.6	10.2	43.6
Nifty 50	-1.83	-5.3	7.3

Persistent Systems Vs Nifty 50



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Persistent Systems Ltd (PSL) reported Top line & Margin above estimate; PAT below estimate due to higher other expense. Reported revenue of USD 360.2 Mn (up 4.3% QoQ/19.8%YoY) above with our estimate of \$361 Mn. Reported revenue of INR 30,623 Mn up 5.7% QoQ/ +22.6% YoY above with our estimate of INR 30,404 Mn. The growth was led by Healthcare & Life Sciences was up (+55.7%YoY/5.2% QoQ) owing to large deal wins in this segment followed by BFSI (up 24.5%YoY/+6.3% QoQ) and software (+6% YoY/+5.6% QoQ). Other expenses grew by 32.6% YoY/23.3% QoQ to 3,274 Mn due to the Group has recognised a gain on remeasurement of earnout payable towards acquisition of business to the erstwhile shareholders of Data Glove Incorporated, Media Agility, Software Corporation International & SCI Fusion 360, LLC amounting to INR 1,249.29 Mn (Previous 9M INR 271.73 Mn year/ Previous year of INR 743.03 Mn) based on settlement agreement and expected payout assessed by management. EBIT margin up 86bps QoQ/ (35bps YoY/86bps) at 14.88% above with our estimates of 14.5%. Consolidated PAT stood at INR 3,729.9 Mn, up by 14.8% QoQ/ 30.4% YoY below with our estimate of INR 3,543 Mn. The order booking for Q3FY25 was at \$594.1 Mn in TCV flat by 0.4% QoQ and New booking down by 14.4% to \$334Mn and at \$428.3 Mn in ACV terms grew by 23% QoQ and ACV (New) down by 10.5% to \$196Mn. DSO (Billed) down by 4 to 64 Days. Effort mix: Global Delivery Centers revenue mix decreased by 70 bps QoQ to 15.1%. Net employee up by 704 employees in Q3FY25 to close at 23,941 employees. LTM attrition increased by 60bps QoQ to 12.6%. Employee utilization increased by 260 bps QoQ to 87.4%. Announced dividend of INR 20 per share.

Acquisitions led synergy: In Q3, the company integrated Starsh, Arca, and SoHo, contributing 35 bps to revenue. The SoHo acquisition is part of a vendor consolidation exercise with a large customer, with most of its revenue already included in the existing run rate through a subcontracting arrangement. Starsh, a smaller acquisition, opens a new addressable market in contact center optimization. In Europe, where the market share is currently 8-9%, the goal is to grow to 12-15%, focusing on targeted acquisitions to strengthen technology and further differentiate from peers.

Aspirations and Growth Strategy: The company aims to reach \$2 bn in revenue by FY 2027, with a larger goal of \$5 bn by 2031, positioning itself as one of the fastest-growing tech services firms. The current workforce stands at 24,000, and the company is confident in its growth trajectory. Inorganic acquisitions like Arca and Starsh (focused on contact center optimization) are key to building capabilities. Europe aims to increase its MS from 8-9% to 12-15% through focused acquisitions and investments.

Valuations

PSL posted decent 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. The company aims to reach \$2 bn in revenue by FY 2027, with a larger goal of \$5 bn by 2031, positioning itself as one of the fastest-growing tech services firms. The healthcare & life sciences vertical crossed the \$100M quarterly run rate, with all verticals now exceeding this threshold. Healthcare & Life Sciences is at a \$400 mn run rate, \$100 mn per quarter. We project a 17.7% CAGR in USD revenue for PSYS from FY25e to FY27e, and with margin growth, this could lead to an EPS CAGR of over ~18%, **we value the Persistent system at a PE of 46x to its FY27E EPS of 138.6, which yields a target price of INR 6,375 per share. We maintain 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%	39.0
FY25E	1444	1,20,881	17,540	14,403	93.5	14.5%	60.5
FY26E	1693	1,41,723	22,109	17,951	116.5	15.6%	48.5
FY27E	2002	1,67,598	26,481	21,348	138.6	15.8%	40.8

Source: Arihant Research, Company Filings

Exhibit 2: Q3FY25 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	360.2	345.5	301	4.3%	19.8%
Net Revenue	30,623	28,972	24,982	5.7%	22.6%
Employee Cost	21,971	21,509	18,096	2.1%	21.4%
Other Expenses	3,274	2,655	2,468	23.3%	32.6%
EBITDA	5,378	4,807	4,418	11.9%	21.7%
EBITDA Margin %	17.56%	16.59%	17.69%	97bps	-12bps
Depreciation	821	745	787	10.2%	4.3%
EBIT	4,557	4,062	3,631	12.2%	25.5%
EBIT Margin %	14.88%	14.02%	14.53%	86bps	35bps
Other Income	426	465	383	-8.4%	11.3%
Finance Cost	163	182	121	-10.5%	34.7%
Exceptional Item	-	-	-	-	-
PBT	4,820.39	4,345.20	3,893.01	10.9%	23.8%
Tax Expense	1,090.49	1,095.23	1,031.67	-0.4%	5.7%
Effective Tax Rate %	22.6%	25.2%	26.5%	-258bps	-388bps
PAT	3,729.90	3,249.97	2,861.34	14.8%	30.4%
MI & Associates	-	-	-	-	-
Consolidated PAT	3,729.90	3,249.97	2,861.34	14.8%	30.4%
PAT Margin %	12.2%	11.2%	81.50%	96bps	-6932bps
EPS (INR)	24.28	21.19	18.92	14.6%	28.3%

INR Mn (consolidated)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
BFSI	9,692	9,117	7,786	6.3%	24.5%
Healthcare & Life Sciences	8,483	8,065	5,448	5.2%	55.7%
Software	12,447	11,789	11,748	5.6%	6.0%

Source: Arianth Research, Company Filings

Q3FY25 Conference call Highlights

- On track to achieve \$2B revenue by FY27, with a new goal of \$5B by FY31. Confident in navigating macroeconomic uncertainties and leveraging sectoral pressures to create opportunities.
- In Q3FY25, EBIT margin saw a net increase of 90 bps sequentially, despite headwinds from furloughs (-60 bps) and lower earn-out credit (-100 bps, \$152.24M reversal). Tailwinds included utilization improvement (+140 bps, 84.8% to 87.4%), strong dollar (+50 bps), lower resale revenue & better pricing (+40 bps), and lower SOF costs (+20 bps).
- Integrated Starsh, Arca, and SoHo, contributing 35 bps to Q3 revenue. The SoHo acquisition is part of a vendor consolidation exercise with a large customer, with most of its revenue already included in the existing run rate through a subcontracting arrangement.
- Starsh, a small acquisition, opens a new addressable market in contact center optimization, while in Europe, with a current 8-9% share, the goal is to grow to 12-15%, focusing on targeted acquisitions to strengthen technology and differentiate from peers.
- Persistent secured a five-year, \$50M+ deal with a UK-based software company to transform its R&D operations using SASVA-led product development. Key benefits include standardized development, rapid modernization, ARR growth, and R&D cost optimization.
- The company presented "Contract Assist" at Microsoft's AI Tour and partnered with Google and AWS to enhance healthcare, life sciences, and sports technology. These acquisitions have improved integration with platforms such as AWS, Microsoft AI, and Google Cloud.
- The company emphasizes IP-driven, platform-based services to foster outcome-driven engagements
- Persistent secured a seven-year, \$150M+ deal with a leading American financial services company to modernize its legacy systems, marking the largest transformation deal to date.
- Q3 saw strong order bookings, driven by high renewal rates and new deals across both existing and new customers.
- The healthcare & life sciences vertical crossed the \$100M quarterly run rate, with all verticals now exceeding this threshold. Healthcare & Life Sciences is at a \$400 mn run rate, \$100 mn per quarter.
- BFSI deals center on modernizing legacy systems and improving scalability. Software and hi-tech verticals focus on R&D transformation and product engineering.
- Utilization reached 87%, with the company maintaining comfort at this level for the near term.
- The focus is on strengthening relationships with the top 100 clients, which account for 80% of revenue. Additionally, the company is exploring non-linear revenue streams and pricing strategies to enhance margins.
- Selected as one of 12 global partners in AWS's Game Changers program and reached 1,000 Salesforce AI Associate certifications, while collaborating on healthcare and life sciences proof-of-concepts using the SASVA platform.

Exhibit 3: Business Matrix

Revenue	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
Revenue from Operations, USD M	300.6	310.9	328.2	345.5	360.2
% Q - o -Q growth	3.1%	3.4%	5.6%	5.3%	4.3%
% Y - o -Y growth	13.7%	13.2%	16.0%	18.4%	19.8%
Revenue from Operations, INR M	24982	25905	27372	28972	30623
% Q - o -Q growth	3.59%	3.69%	5.66%	5.84%	5.70%
% Y - o -Y growth	15.16%	14.90%	17.92%	20.13%	22.58%
Segment Revenue Mix	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
BFSI	31.20%	30.70%	30.80%	31.50%	31.70%
Healthcare & Life Sciences	21.80%	24.20%	26.70%	27.80%	27.80%
Software, Hi -Tech & Emerging Industries	47.00%	45.10%	42.50%	40.70%	40.50%
Total	100%	100%	100%	100%	100%
Geography Revenue Mix	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
North America	79.70%	80.10%	80.70%	81.30%	80.50%
Europe	8.90%	7.80%	7.80%	7.90%	8.20%
India	10.00%	10.10%	9.80%	9.20%	9.40%
ROW	1.40%	2.00%	1.70%	1.60%	1.90%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Client Contribution	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
Top 5	28.00%	29.20%	30.70%	31.40%	30.80%
Top 10	39.30%	40.00%	41.50%	41.50%	40.00%
Top 20	51.40%	51.10%	51.90%	52.10%	50.90%
Top 50	66.7%	67.3%	67.8%	67.9%	67.4%
Revenue by Delivery Centers	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
Global Development Centers	13.8%	14.8%	15.2%	15.8%	15.1%
India	86.2%	85.2%	84.8%	84.2%	84.9%
Client Engagement Size	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
\$75M+	2	2	3	3	3
\$50M - \$75M	0	1	1	1	1
\$20M – \$50M	9	7	6	6	6
\$10M – \$20M	5	7	9	11	12
\$5M – \$10M	22	23	22	22	25
\$1M – \$5M	138	138	137	141	142
People Numbers	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
Technical	21738	22224	21866	21,675	22,407
Sales and Business Development	465	484	510	492	488
Others	1133	1142	1143	1,070	1,046
Total	23336	23850	23519	23237	23941
Attrition Rate	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
TTM Basis	11.90%	11.50%	11.90%	12.00%	12.60%
Utilization (Including Trainees)	81.50%	80.00%	82.10%	84.80%	87.40%
DSO	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25
Days	66	63	67	68	64

Source: Arianth Research, Company Filings

Exhibit 4: Top line in line with our estimate

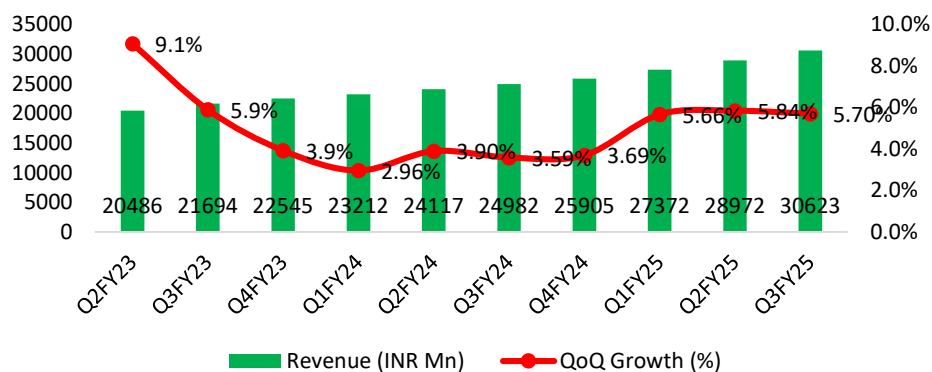


Exhibit 5: Top line in line with our estimate

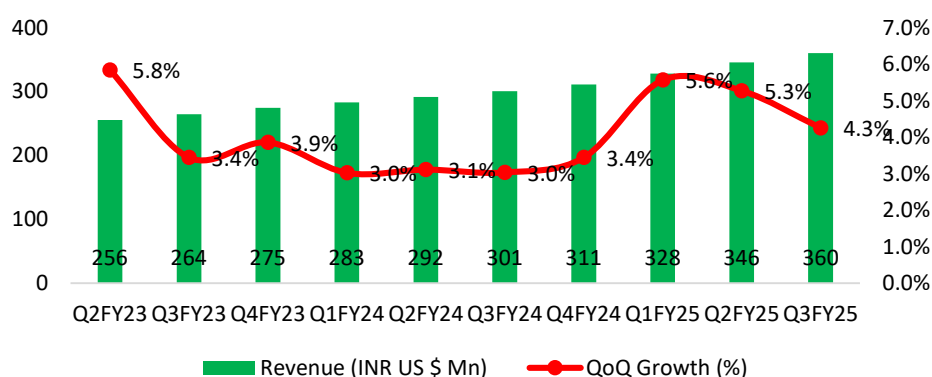


Exhibit 6: PSL remain committed to goal of improving EBIT margins by 200-300 bps over the next couple of years.

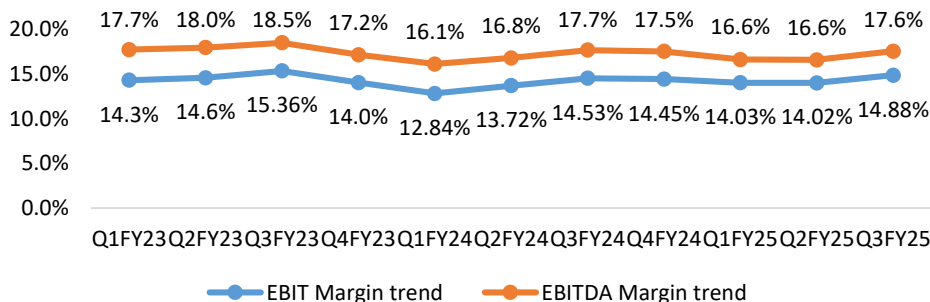
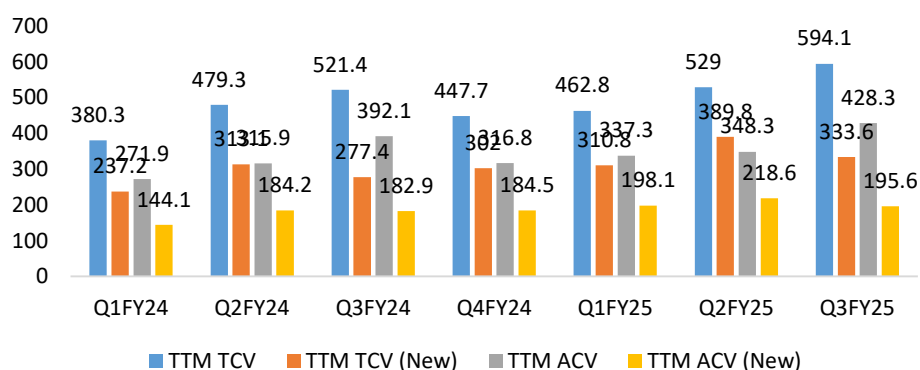


Exhibit 7: Strong deal wins



Source: Arihant Research, Company Filings

Key Financials

Income Statement (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	1,00,077	1,15,929	1,36,425
EBITDA	17,243	20,804	25,794	31,173
EBITDA Margin (%)	17.6%	17.2%	18.2%	18.6%
Depreciation	3,094	3,264	3,685	4,693
EBIT	14,149	17,540	22,109	26,481
EBIT Margin (%)	14.4%	14.5%	15.6%	15.8%
Other Income	1,129	1,166	1,204	1,244
PBT	15,278	18,705	23,313	27,724
PBT after ext-ord.	15,278	18,705	23,313	27,724
Tax	3,541	4,302	5,362	6,377
Rate (%)	23.2%	23.0%	23.0%	23.0%
PAT	11,737	14,403	17,951	21,348
Consolidated PAT	11,737	14,403	17,951	21,348
Change (%)	27.4%	22.7%	24.6%	18.9%

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY24	FY25E	FY26E	FY27E
PBT	14,476	18,705	23,313	27,724
Depreciation	3,094	3,264	3,685	4,693
Interest & others	-1,129	-1,166	-1,204	-1,244
Cash flow before WC changes	16,441	20,804	25,794	31,173
(Inc)/dec in working capital	-8,213	5,807	1,775	2,203
Operating CF after WC changes	8,228	26,611	27,568	33,376
Less: Taxes	-3,541	-4,302	-5,362	-6,377
Operating Cash Flow	4,687	22,309	22,206	27,000
(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	18,510	18,408	23,203
Loan raised/(repaid)	(2,212)	-	-	-
Equity raised	6	9.00	-	-
Interest & others	10,432	2,917	4,976	3,307
Dividend	-4,084	-4,084	-4,084	-4,084
Cash Flow from Financing Activities	4,143	-1,158	893	-776
Net inc /(dec) in cash	1,196	10,705	12,654	15,780
Opening balance of cash	9,033	10,229	20,934	33,589
Closing balance of cash	10,229	20,934	33,589	49,369

Balance Sheet (INR Mn)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	770	779	779	779
Reserves & Surplus	48,807	60,483	75,160	92,534
Net Worth	49,577	61,262	75,940	93,313
Loan Funds	2,073	2,073	2,073	2,073
MI, Deferred Tax & other Liabilities	-	-	-	-
Capital Employed	51,650	63,335	78,013	95,386
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
Cash & Bank Balance	10,229	20,934	33,589	49,369
Loans & Advances & other CA	11,515	11,515	11,515	11,515
Total Current Assets	42,946	53,977	70,344	90,732
Current Liabilities	21,976	31,820	37,306	44,118
Provisions	3,878	3,878	3,878	3,878
Net Current Assets	17,092	18,280	29,160	42,736
Total Assets	51,650	63,335	78,013	95,386

Key Ratios (INR Mn)	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	144.9	93.5	116.5	138.6
CEPS	91.1	114.7	140.4	169.0
BVPS	321.8	397.7	493.0	605.7
DPS	26.0	35.0	42.0	51.0
Div. Payout (%)	36.6%	37.4%	36.0%	36.8%
Valuation (x)				
P/E	39.0	60.5	48.5	40.8
P/CEPS	62.1	49.3	40.3	33.5
P/BV	17.6	14.2	11.5	9.3
EV/EBITDA	50.0	41.0	32.6	26.4
Dividend Yield (%)	0.5%	0.6%	0.7%	0.9%
Return Ratio (%)				
EBITDA Margin	17.6%	17.2%	18.2%	18.6%
EBIT Margin	14.4%	14.5%	15.6%	15.8%
PAT Margin	11.1%	11.9%	12.7%	12.7%
ROE	22.1%	23.5%	23.6%	22.9%
ROCE	27.4%	27.7%	28.3%	27.8%
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,

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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%

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