

CMP: INR 4,593

Rating: Sell

Target Price: INR 3408

Stock Info

BSE	533179
NSE	PERSISTENT
Bloomberg	PERSISTENT IN
Reuters	PERSISTENT.BO
Sector	Computers-Software
Face Value (INR)	5
Equity Capital (INR mn)	770
Mkt Cap (INR mn)	755,400
52w H/L (INR)	4,929/2,317
Avg Yearly Vol (in 000')	765

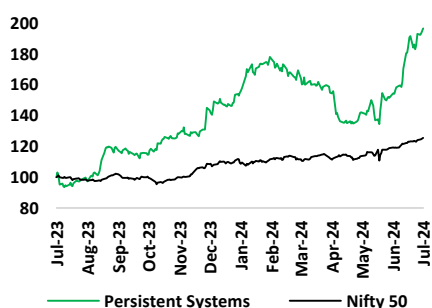
Shareholding Pattern %

(As on Mar, 2024)

Promoters	31.02
FII	22.55
DII	28.23
Public & Others	17.50

	1m	3m	12m
Persistent Systems	27.48	27.6	96.85
Nifty 50	5.28	12.75	25.58

Persistent Systems Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Persistent system reported revenue of USD 328 Mn (up 5.6% QoQ/16%YoY) in-line with our estimate of \$326 Mn. Reported revenue of INR 27,372 Mn up 5.7% QoQ/ 17.9% YoY above with our estimate of INR 27,200 Mn. The growth was led by Healthcare & Life Sciences was up (69.7%YoY/16.5% QoQ) owing to large deal wins in this segment followed by BFSI (up 9%YoY/5.9% QoQ) and software (4.2% YoY). EBIT margin contraction by 42bps QoQ/ (up 119bps YoY) at 14.03% above with our estimates of 13.8%. Consolidated PAT stood at INR 3,064 Mn, down by 2.8% QoQ/33.9 % YoY above with our estimate of INR 3,040 Mn. The order booking for Q1FY25 was at \$462.8M vs in Q4FY24, was at \$ 447.7 mn in TCV and at \$337.3 vs \$316.8 mn in ACV terms. TCV (New) \$198.1 Mn and ACV (New) vs to \$184.5Mn in Q4FY24. DSO (Billed) up by 4 to 67 Days. Effort mix: Global Delivery Centers revenue mix increased by 40 bps QoQ to 15.2%. Net employee down by 331 employees in Q1FY25 to close at 23,519 employees. LTM attrition increased by 40 bps QoQ to 11.9%. Employee utilization increased by 210 bps QoQ to 82.1%.

Sustainable margin going forward: There was a (60 bps) impact due to one-time visa costs, a (210 bps) impact from increased subcontractor costs, and a (70 bps) impact from higher SG&A in Q1FY25. Benefits from growth and cost optimization programs for FY25 and beyond have started accruing, with increased utilization and operational efficiencies contributing (90 bps) each, a reversal of earn-out credit from past acquisitions contributing 60 bps, networking assets contributing (40 bps), and employee benefit rationalization contributing (10 bps). Two acquisitions did not meet expectations, leading to a write-back of the lower consideration amount. By Q4FY25, the company will deliver a sustainable margin improvement.

Strong key verticals: The healthcare segment's growth is broad-based, driven by multiple accounts rather than just one. Bigger deals contribute significantly, but the overall growth is sustained by ongoing investments and leadership changes over the past two years. Continued growth is expected. In the high-tech segment, engineering performance has been strong.

Valuations

PSL posted strong growth in Q1, with management indicating continued growth momentum supported by robust new ACV deal wins. OPM stood at 14%, down 50bps QoQ, including a one-time gain from earnout reversal (+60bps) and changes in amortization (+40bps). Management expects strong growth momentum driven by new ACV wins. PSL aims to enhance its margins by 200 to 300bps over the next couple of years. 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. However, the current high valuation does not adequately account for potential risks from weakened macroeconomic conditions. Hence, **we value the Persistent system at a PE of 30x to its FY27E EPS of 113.6, which yields a target price of INR 3,408 per share. We downgrade our rating to SELL on the stock from Buy earlier.**

Exhibit 1: Financial Performance (Consolidated)

Particulars (INR Mn)	Revenues (US\$ mn)	Net Sales	EBIT	PAT	EPS (INR)	EBIT Margin %	RoE (%)	P/E (x)
FY24	1186	98,216	14,149	11,737	144.9	14.4%	22.1%	31.6
FY25E	1371	1,14,478	16,542	13,281	86.2	14.5%	22.1%	53.2
FY26E	1540	1,30,153	19,523	15,545	100.9	15.0%	21.4%	45.4
FY27E	1731	1,46,294	22,090	17,501	113.6	15.1%	20.3%	40.3

Source: Arihant Research, Company Filings

Exhibit 2: Q1FY25 - Quarterly Performance (Consolidated)

INR Mn (consolidated)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	328	311	283	5.6%	16.0%
Net Revenue	27,372	25,905	23,212	5.7%	17.9%
Employee Cost	19,952	18,936	16,312	5.4%	22.3%
Other Expenses	2,868	2,426	3,156	18.2%	-9.1%
EBITDA	4,552	4,544	3,743	0.2%	21.6%
EBITDA Margin %	16.63%	17.54%	16.13%	-91bps	50bps
Depreciation	712	799	763	-10.9%	-6.7%
EBIT	3,840	3,744	2,980	2.6%	28.9%
EBIT Margin %	14.03%	14.45%	12.84%	-42bps	119bps
Other Income	306	308	216	-0.5%	41.5%
Finance Cost	141	97	126	45.0%	12.0%
PBT	4,005.42	3,954.92	3,070	1.3%	30.4%
Tax Expense	941.27	801.71	783	17.4%	20.2%
Effective Tax Rate %	23.5%	20.3%	25.5%	323bps	-199bps
PAT	3,064.15	3,153.21	2,288	-2.8%	33.9%
MI & Associates	-	-	-	-	-
Consolidated PAT	3,064.15	3,153.21	2,287.68	-2.8%	33.9%
PAT Margin %	11.2%	12.2%	9.9%	-98bps	134bps
EPS (INR)	20.09	20.73	30.50	-3.1%	-34.1%

INR Mn (consolidated)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
BFSI	8,432	7,959	7,737	5.9%	9.0%
Healthcare & Life Sciences	7,311	6,278	4,309	16.5%	69.7%
Software	11,629	11,668	11,166	-0.3%	4.2%

Source: Arianth Research, Company Filings

Q1FY25 Conference call Highlights

Guidance: Company is confident that revenue enhancement and cost optimization initiatives will significantly boost margins by FY25, aiming for healthy revenue growth and a similar margin profile as FY24, with a commitment to improving margins by 200 to 300 bps over the next couple of years.

Europe declined yoy amid decline in Salesforce business in this geo and tail rationalization related to Salesforce-business

Salesforce in US, India, Australia is doing fairly well.

Growth in Q1 was led by HCLS followed by BFSI.

BFSI crossed \$100 mn+ revenue milestone for the first time.

Margin: There was a (60 bps) impact due to one-time visa costs, a (210 bps) impact from increased subcontractor costs, and a (70 bps) impact from higher SG&A in Q1FY25. Benefits from growth and cost optimization programs for FY25 and beyond have started accruing, with increased utilization and operational efficiencies contributing (90 bps) each, a reversal of earn-out credit from past acquisitions contributing 60 bps, networking assets contributing (40 bps), and employee benefit rationalization contributing (10 bps). Two acquisitions did not meet expectations, leading to a write-back of the lower consideration amount. By Q4FY25, the company will deliver a sustainable margin improvement.

Wage hike: Effective July 2024, wage hikes were given. Wage hike impact to be around 150-200 bps which will get offset by improved utilization, right shoring, SGA cost optimization

Looking for suitable M&A target around leveraging AI in the contact center space.

Within **Hi-tech segment**, engineering has done fairly well. Based on visible green shoots and order book in Q1, confident that hi-tech will do well.

Discretionary spending: Emphasizing execution over discretionary spending.

Employee Metrics

Net decline of 331 employees due to selective hiring.

Stable attrition within a comfortable range.

Commitment to zero carbon neutrality by 2050.

Integrating Starfish with contact center platform and leveraging AI innovations, including Google Contact Center AI and AWS Connect, will enhance offerings and customer traction. Company expect to close the transaction in 2-3 weeks and start integration in Q1.

Strategic partnership with Google will drive joint activities, accelerate digital transformation, and enable broad-based AI adoption through Google's cloud technologies.

Cost optimization and operational efficiency side, PSL has been benchmarking policies against industry best practices, focusing on employee compensation, benefits, and long-term incentive plans such as ESOP, aiming for both one-time benefits and structural balance in the cost base to support growth investments.

Key Deal Wins: In Q1, Persistent secured a five-year, \$50 mn contract with a major US tech company for cloud services and was chosen by a leading European network automation company to consolidate R&D operations and boost productivity.

Exhibit 3: Business Matrix

Revenue	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
Revenue from Operations, USD M	282.9	291.7	300.6	310.9	328.2
% Q - o -Q growth	3.0%	3.1%	3.1%	3.4%	5.6%
% Y - o -Y growth	17.1%	14.1%	13.7%	13.2%	16.0%
Revenue from Operations, INR M	23212	24117	24982	25905	27372
% Q - o -Q growth	2.96%	3.90%	3.59%	3.70%	5.66%
% Y - o -Y growth	23.59%	17.72%	15.16%	14.90%	17.92%
Segment Revenue Mix	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
BFSI	33.30%	32.30%	31.20%	30.70%	30.80%
Healthcare & Life Sciences	18.60%	19.30%	21.80%	24.20%	26.70%
Software, Hi -Tech & Emerging Industries	48.10%	48.40%	47.00%	45.10%	42.50%
Total	100%	100%	100%	100%	100%
Geography Revenue Mix	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
North America	79.20%	79.20%	79.70%	80.10%	80.70%
Europe	9.70%	9.50%	8.90%	7.80%	7.80%
India	9.90%	9.70%	10.00%	10.10%	9.80%
ROW	1.20%	1.60%	1.40%	2.00%	1.70%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Client Contribution	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
Top 5	27.90%	28.30%	28.00%	29.20%	30.70%
Top 10	39.60%	39.50%	39.30%	40.00%	41.50%
Top 20	50.40%	50.40%	51.40%	51.10%	51.90%
Top 50	66.1%	66.1%	66.7%	67.3%	67.8%
Revenue by Delivery Centers	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
Global Development Centers	13%	12.7%	13.8%	14.8%	15.2%
India	86.9%	87.3%	86.2%	85.2%	84.8%
Client Billed	367	375	375	382	374
Client Engagement Size	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
\$75M+	2	2	2	2	3
\$50M - \$75M	0	0	0	1	1
\$20M – \$50M	8	7	9	7	6
\$10M – \$20M	7	7	5	7	9
\$5M – \$10M	21	23	22	23	22
\$1M – \$5M	129	136	138	138	137
People Numbers	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
Technical	21511	21236	21738	22224	21866
Sales and Business Development	428	443	465	484	510
Others	1191	1136	1133	1142	1143
Total	23130	22815	23336	23850	23519
Attrition Rate	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
TTM Basis	15.50%	13.50%	11.90%	11.50%	11.90%
Utilization (Including Trainees)	78.30%	80.60%	81.50%	80.00%	82.10%
DSO	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25
Days	67	66	66	63	67

Source: Arianth Research, Company Filings

Exhibit 4: In line top line

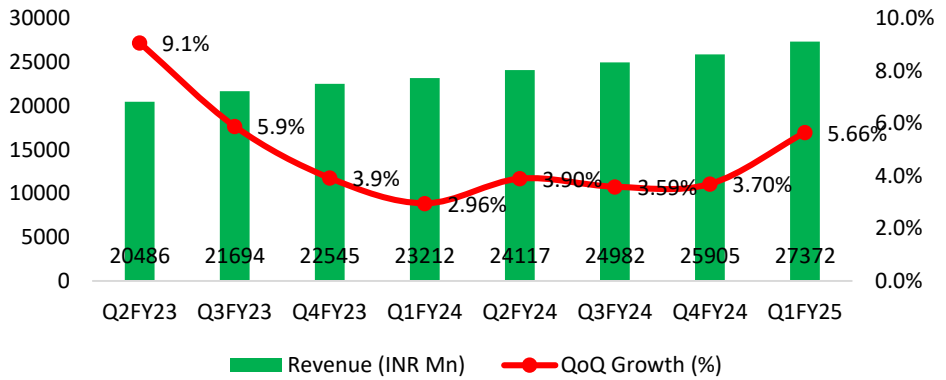


Exhibit 5: Top line in-line with our estimate

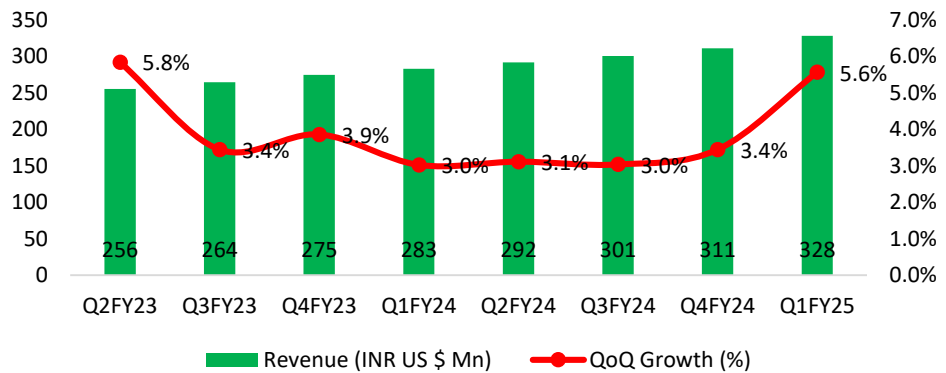


Exhibit 6: PSL remain committed to goal of improving EBIT margins by 200-300 bps over the next couple of years.

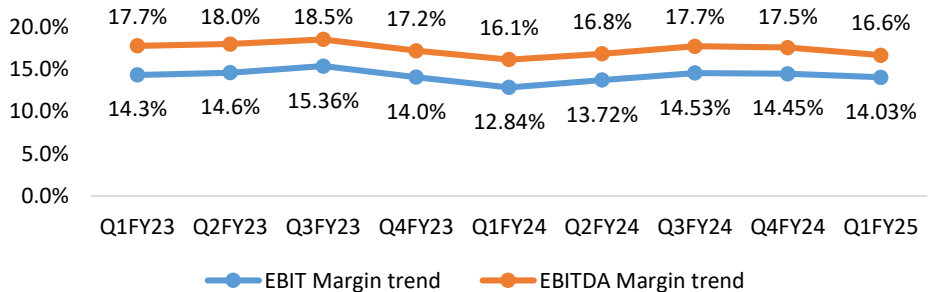
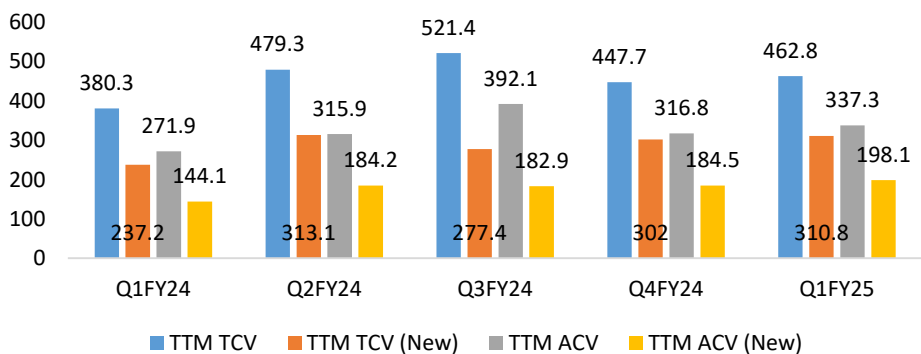


Exhibit 7: Strong deal wins



Source: Arianth Research, Company Filings

Key Financials

Income Statement				
Income Statement (INR Mn)	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	1186	1371	1540	1731
Change (%)	14.5%	15.6%	12.3%	12.4%
Revenues	98,216	1,14,478	1,30,153	1,46,294
Change (%)	17.6%	16.6%	13.7%	12.4%
Total Expenses	89,594	94,433	1,06,595	1,18,791
EBITDA	17,243	20,045	23,558	27,503
EBITDA Margin (%)	17.6%	17.5%	18.1%	18.8%
Depreciation	3,094	3,503	4,035	5,413
EBIT	14,149	16,542	19,523	22,090
EBIT Margin (%)	14.4%	14.5%	15.0%	15.1%
Other Income	1,129	1,166	1,204	1,244
PBT	15,278	17,708	20,727	23,334
PBT after ext-ord.	15,278	17,708	20,727	23,334
Tax	3,541	4,427	5,182	5,834
Rate (%)	23.2%	25.0%	25.0%	25.0%
PAT	11,737	13,281	15,545	17,501
Consolidated PAT	11,737	13,281	15,545	17,501

Balance Sheet				
Balance Sheet (INR Mn)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	770	770	770	770
Reserves & Surplus	48,807	59,413	71,748	85,351
Net Worth	49,577	60,183	72,518	86,121
Loan Funds	2,073	2,073	2,073	2,073
MI, Deferred Tax & other Liabilities	-	-	-	-
Capital Employed	51,650	62,256	74,591	88,194
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	20,387	23,179	26,054
Inventories	-	-	-	-
Cash & Bank Balance	10,229	19,310	29,182	40,362
Loans & Advances & other CA	11,515	11,515	11,515	11,515
Total Current Assets	42,946	51,213	63,876	77,931
Current Liabilities	21,976	30,135	34,261	38,510
Provisions	3,878	3,878	3,878	3,878
Net Current Assets	17,092	17,201	25,738	35,544
Total Assets	51,650	62,256	74,591	88,194

Cash Flow Statement				
Cash Flow Statement (INR Mn)	FY24	FY25E	FY26E	FY27E
PBT	14,476	17,708	20,727	23,334
Depreciation	3,094	3,503	4,035	5,413
Interest & others	-1,129	-1,166	-1,204	-1,244
Cash flow before WC changes	16,441	20,045	23,558	27,503
(Inc)/dec in working capital	-8,213	5,262	1,335	1,374
Operating CF after WC changes	8,228	25,307	24,892	28,878
Less: Taxes	-3,541	-4,427	-5,182	-5,834
Operating Cash Flow	4,687	20,880	19,711	23,044
(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	17,081	15,913	19,247
Loan raised/(repaid)	(2,212)	-	-	-
Equity raised	6	-	-	-
Interest & others	10,432	2,730	4,690	2,664
Dividend	-4,084	-4,084	-4,084	-4,084
Cash Flow from Financing Activities	4,143	-1,353	606	-1,420
Net inc/(dec) in cash	1,196	9,081	9,872	11,180
Opening balance of cash	9,033	10,229	19,310	29,182
Closing balance of cash	10,229	19,310	29,182	40,362

Key Ratios				
Key Ratios (INR Mn)	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	144.9	86.2	100.9	113.6
CEPS	91.1	108.9	127.1	148.7
BVPS	321.8	390.7	470.7	559.0
DPS	26.0	35.0	42.0	51.0
Div. Payout (%)	36.6%	40.6%	41.6%	44.9%
Valuation (x)				
P/E	31.6	53.2	45.4	40.3
P/CEPS	50.3	42.1	36.1	30.8
P/BV	14.2	11.7	9.7	8.2
EV/EBITDA	40.5	34.4	28.8	24.3
Dividend Yield (%)	0.6%	0.8%	0.9%	1.1%
Return Ratio (%)				
EBITDA Margin	17.6%	17.5%	18.1%	18.8%
EBIT Margin	14.4%	14.5%	15.0%	15.1%
PAT Margin	11.1%	11.6%	11.9%	12.0%
ROE	22.1%	22.1%	21.4%	20.3%
ROCE	27.4%	26.6%	26.2%	25.0%
Leverage Ratio (x)				
Total D/E	0.002	0.002	0.002	0.002
Net D/E	-0.2	-0.3	-0.4	-0.4
Turnover Ratios				
Asset Turnover (x)	1.9	1.8	1.7	1.7
Receivable Days	65	65	65	65
Payable days	96	96	96	96

Source: Arianth Research, Company Filings,

Arihant Research Desk

Email: research@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 E-5 Ratlam Kothi 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

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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