Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Persistent Systems Ltd

Strong Quarter, Maintain Buy

IT & ITES	Sharekhan code: PERSISTENT
Reco/View: Buy ↔	CMP: Rs. 4,581 / Price Target: Rs. 5,220 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

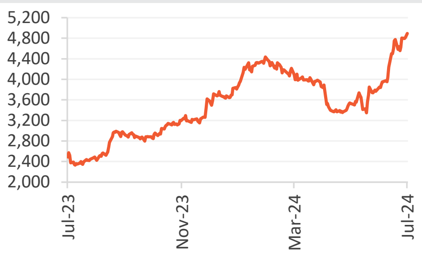
Company details

Market cap:	Rs. 70,563 cr
52-week high/low:	Rs. 4,925/2,319
NSE volume: (No of shares)	4.1 lakh
BSE code:	533179
NSE code:	PERSISTENT
Free float: (No of shares)	10.6 cr

Shareholding (%)

Promoters	31.0
FII	22.6
DII	28.2
Others	18.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.3	17.8	16.5	78.3
Relative to Sensex	15.1	7.5	4.1	58.1

Sharekhan Research, Bloomberg

Summary

- Reported revenue stood at $328 million, up 5.6% q-o-q in constant currency (CC) terms, beating our estimates of $326 million.
- EBIT margins contracted ~ 40 bps q-o-q to 14% but beat our estimates of 13.7%. Order booking was robust, with total TCVs at $462.8 million, up 3% q-o-q/ up 22%y-o-y. New business TCVs stood at $310.8 million up 3% q-o-q/31% y-o-y.
- Management expects healthy revenue growth for FY25 with EBIT margin similar to FY24 and expects secular growth led by Healthcare Lifesciences, followed by BFSI and Hi-tech
- We maintain Buy on the stock with a revised PT of Rs 5,220 (valuing at 45xFY26E EPS). At the CMP, the stock trades at 51.8/39.5x its FY25/FY26E EPS.

Persistent Systems Ltd (PSL) reported $328 million in revenues, up 5.6% q-o-q in constant currency (CC) terms, beating our estimates of $326 million. Growth was led by Healthcare & Lifesciences and BFSI partially offset by weakness in Software, Hi-tech & Emerging Industries. EBIT margin contracted ~ 40 bps q-o-q to 14% hit by one-time visa costs, increase in subcontractor cos and higher SG&A, but beat our estimates of 13.7%. Adjusted Net profit was down 2.8% q-o-q / up 10.5 % y-o-y to Rs. 306 crore, beating our estimates by 1.8%. Order booking was robust with total TCVs at $462.8 million, up 3% q-o-q/ up 22%y-o-y. Book-to-bill stood at 1.4x. New business TCVs stood at $310.8 million up 3% q-o-q/31% y-o-y. Revenues from top-5 clients, top-10 clients, top-20 clients, and top-50 clients grew 11%/ 9.5%/7.2%, and 6.3% q-o-q, respectively. Attrition in the past 12 months inched up by 40 bps to 11.9% from 11.5% in Q4FY24. However, utilisation improved 210 bps to 82.1% from 80% in Q4FY24. Management expect to deliver a healthy revenue growth for FY25 with margins similar to FY24. The management remains committed to margin improvement guidance of 200- 300 basis points over the next couple of years. PSL has been consistently delivering industry-leading performance since the past several quarters and is well placed to lead the growth trajectory in FY25-26E, given a strong order book, consistent addition of new logos and robust capabilities. We maintain BUY on the stock with a revised target price (TP) of Rs. 5,220 (valuing at 45x FY26E EPS). At CMP, the stock trades at 51.8/39.5x its FY25/FY26E EPS.

Key positives

- Health & Lifesciences grew 16.5 % q-o-q.
- New business TCVs stood at $310.8 million up 3% q-o-q/31% y-o-y
- Revenues from top-5 clients, top-10 clients, top-20 clients, and top-50 clients grew 11%/ 9.5%/7.2%, and 6.3% q-o-q, respectively.
- Utilisation improved 210 bps to 82.1% from 80% in Q4FY24.

Key negatives

- Sub-contractor costs grew ~15% q-o-q to Rs. 422 crore.
- Net headcount fell by 331, taking the overall headcount to 23,519.
- LTM attrition inched up by 40 bps to 11.9% from 11.5% in Q4FY24

Management Commentary

- Management expects to deliver healthy revenue growth for FY25 with margin profile similar to FY24.
- Management expect secular growth led by Healthcare Life Sciences, followed by BFSI and Hi-tech
- BFSI vertical is performing well and hi-tech vertical is expected to return to growth in the coming quarters
- Management remains committed to a guidance of a 200- 300 bps rise in margins in the next couple of years
- Company anticipates benefits from cost optimization initiatives to be more visible in subsequent quarters

Revision in estimates: We have revised our estimates to factor in Q1FY25 performance and FY25 revenue and margin outlook.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 5,220: PSL has reported a strong quarter on revenue front and is expected to deliver healthy revenue growth for FY25. PSL has been consistently delivering industry-leading performance since the past several quarters and is well placed to lead the growth trajectory in FY25-26E, given the strong order book, consistent addition of new logos, and robust capabilities. We expect Sales/PAT CAGR at 17.1%/25.1% over FY24-FY26E We maintain BUY on the stock with a revised target price (TP) of Rs. 5,220 (valuing at 45x FY26E EPS). At CMP, the stock trades at 51.8/39.5x its FY25/FY26E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of the banking crisis, macro headwinds, and recession in the US can moderate the pace of technology spends.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	8,350.6	9,821.6	11,396.7	13,472.6
OPM (%)	18.2	17.6	17.3	18.9
Adjusted PAT	950.7	1,142.1	1,362.2	1,787.7
YoY growth (%)	37.7	20.1	19.3	31.2
Adjusted EPS (Rs.)	63.6	75.1	88.4	116.0
P/E (x)	72.0	61.0	51.8	39.5
P/B (x)	8.8	7.1	6.1	5.1
EV/EBITDA (x)	24.0	20.8	17.5	14.4
RoNW (%)	25.9	25.6	25.4	28.2
RoCE (%)	27.8	28.7	30.2	34.0

Source: Company; Sharekhan estimates

Key Highlights

Revenue growth: PSL reported $328 million in revenues, up 5.6% q-o-q in constant currency (CC) terms beating our estimates of $326 million. Revenue in US Dollar terms was up 5.6% q-o-q/16% y-oy. Revenue in rupee terms stood at Rs. 2,737 crore, up 5.7% q-o-q/17.9% y-o-y. Growth was led by Healthcare & Lifesciences and BFSI partially offset by weakness in Software, Hi-tech & emerging industries.

EBIT margins: EBIT margins contracted ~ 40 bps q-o-q to 14% but beat our estimates of 13.7%. There was a 60 bps impact on account of one-time visa costs, 210 bps point impact of increase in subcontractor cost, by 70 bps, on account of higher SG&A. The cost optimisation programs started in Q1 aided in accruing some partial benefits during the quarter. The company achieved tailwinds from hgher utilization and operational efficiencies which benefited margins by 90 bps each, reversal of earn out credit pertaining to past acquisitions contributed 60 bps, a change in the useful life of computers and networking assets contributed 40 bps while employee benefit rationalization net of increased ESOP costs contributed to 10 bps.

Order bookings: The company's total TCVs stood at $462.8 million, up 3% q-o-q/ up 22%y-o-y. Book-to-bill stood at 1.4x. New business TCVs stood at $310.8 million up 3%q-o-q/31% y-o-y. New annual contract value stood at $198.1 million, up 7% q-o-q/37% y-o-y. Total ACV stood at $337.3 million up 6% q-o-q/24% y-o-y.

Growth across verticals: Sequential revenue growth was led by Health & Lifesciences and BFSI, which grew 16.5 %/5.9% q-o-q, respectively. Software, hi-tech, and emerging industries declined 0.5% q-o-q.

Growth across geographies: In terms of geographies, North America, Europe and India and ROW grew 6.4%/5.6% q-o-q and 2.4% q-o-q, respectively, while RoW declined 10.3% q-o-q.

Top clients: Revenue from the top-5 clients, top-10 clients, top-20 clients, and top-50 clients grew 11%/ 9.5%/7.2%, and 6.3% q-o-q, respectively.

Client additions: The company added one client in the $75mn+ and two clients in the $10mn+ revenue category sequentially, while the number of clients declined by one each in the $20mn+ revenue category and $1 million+ category.

Headcount & attrition: Net headcount fell by 331 q-o-q, taking total headcount to 23,519. LTM attrition inched up by 40 bps to 11.9% from 11.5% in Q4FY24. However, utilisation improved 210 bps to 82.1% from 80% in Q4FY24.

Cash generation & DSO: Cash & investments stood at Rs.1910.4 crore, up 2.7% y-o-y Q1FY25 from. DSO stood at 67 in Q1FY25 from 63 in Q4FY24. Operating cash flows to PAT for Q1FY25 was 49.3% compared to negative 23.5% for Q1FY24.

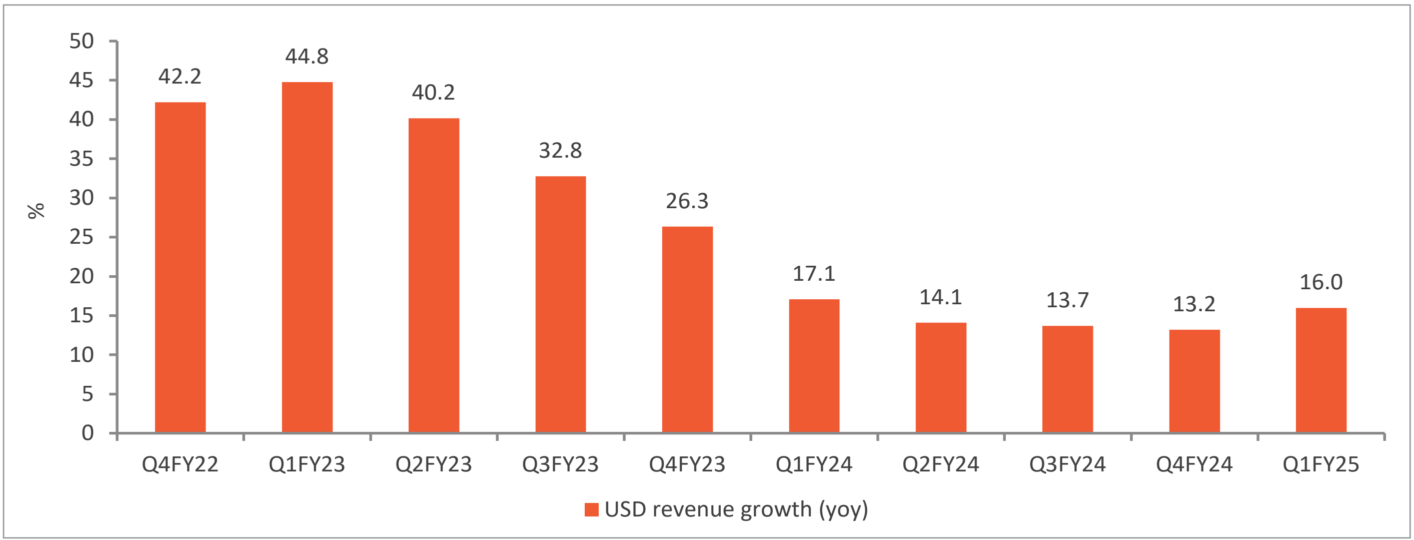
M&A deals: The company announced the intent to acquire a New Jersey-based company to enhance contact center capabilities. The integration of the acquired company's contact center platform with their own existing unified communication offerings will enable them to significantly disrupt the domain and increase traction with their existing customers on the back of AI-led innovations.

Results (Consolidated) Rs cr

Particulars	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Revenues In USD (mn)	**328.2**	**282.9**	**310.9**	**16.0**	**5.6**
Revenues In INR	**2,737.2**	**2,321.2**	**2,590.5**	**17.9**	**5.7**
Direct Costs	1,832.9	1,527.8	1,728.6	20.0	6.0
SG&A	449.1	370.4	407.5	21.2	10.2
EBITDA	**455.2**	**422.9**	**454.4**	**7.6**	**0.2**
Depreciation & amortization	71.2	76.3	79.9	-6.7	-10.9
EBIT	**384.0**	**346.6**	**374.4**	**10.8**	**2.6**
Forex gain/(loss)	-0.7	-6.4	-1.6	-88.6	-53.0
Other Income	17.3	15.5	22.6	11.6	-23.7
PBT	**400.5**	**355.7**	**395.5**	**12.6**	**1.3**
Tax Provision	94.1	78.3	80.2	20.2	17.4
PAT	**306.4**	**277.4**	**315.3**	**10.5**	**-2.8**
Minority interest	0.0	0.0	0.0		
Net profit	**306.4**	**228.8**	**315.3**	**33.9**	**-2.8**
Exceptional items (IL&FS)	**0.0**	**-48.6**	**0.0**		
Adjusted net profit	**306.4**	**277.4**	**315.3**	**10.5**	**-2.8**
EPS (Rs)	19.9	29.8	20.7	-33.1	-4.1
Margin (%)					
EBITDA	16.6	18.2	17.5	-159	-91
EBIT	14.0	14.9	14.5	-90	-42
NPM	11.2	12.0	12.2	-76	-98

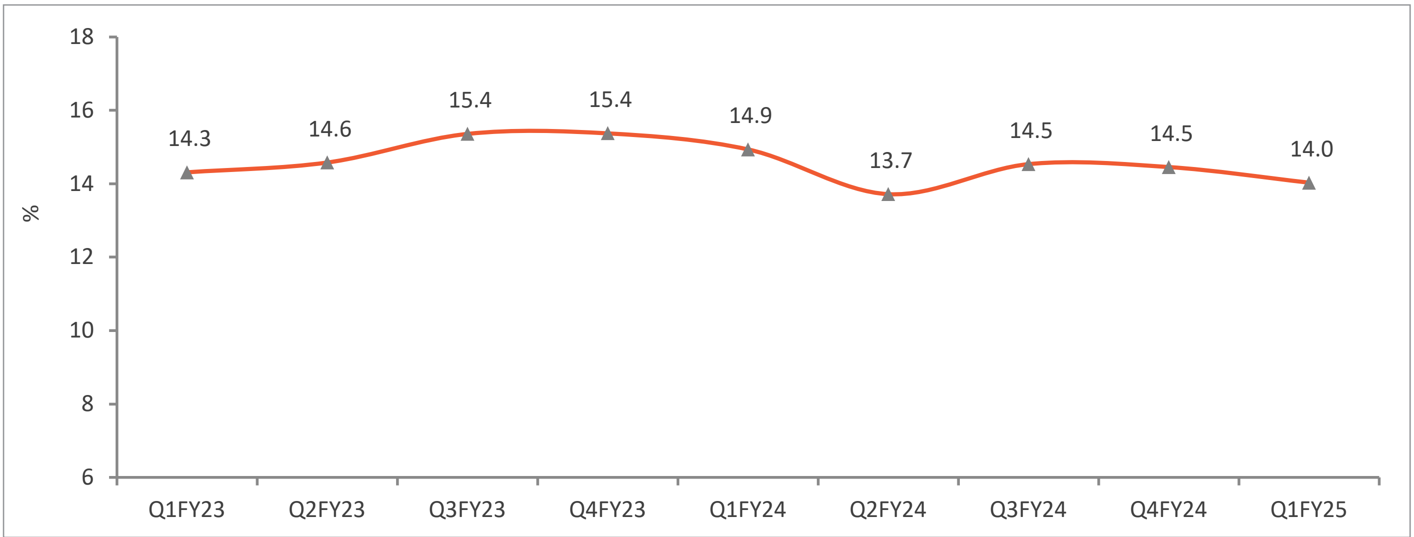
Source: Company, Sharekhan Research

USD revenue growth trend (y-o-y)



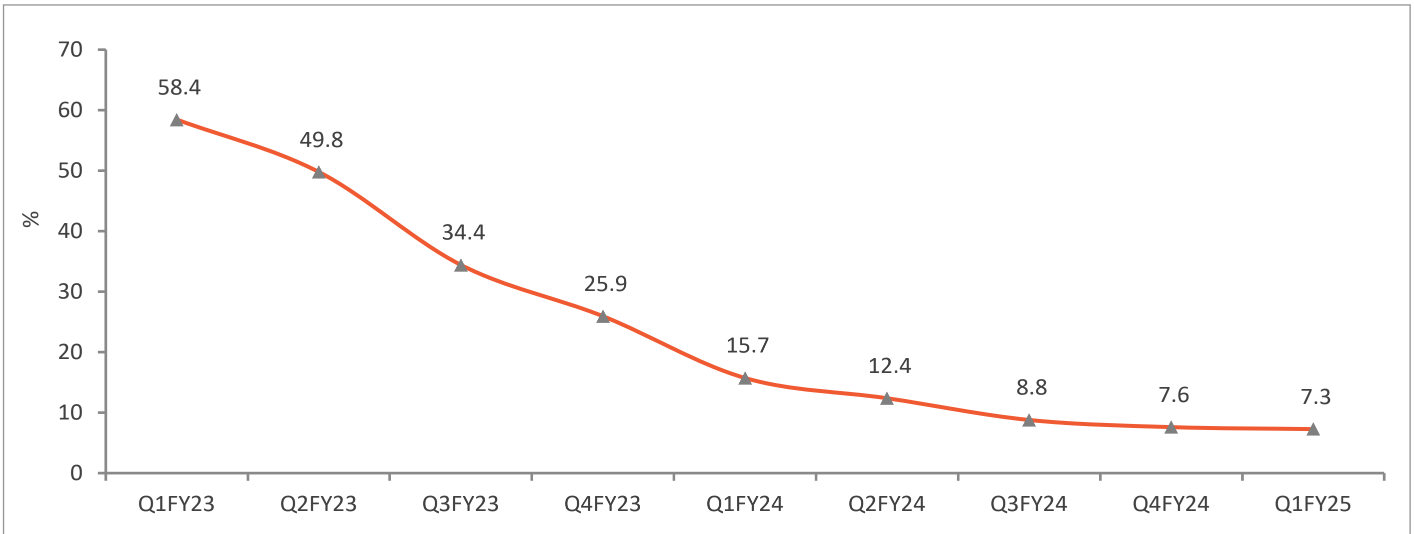
Source: Company, Sharekhan Research

EBIT margin (%) trend



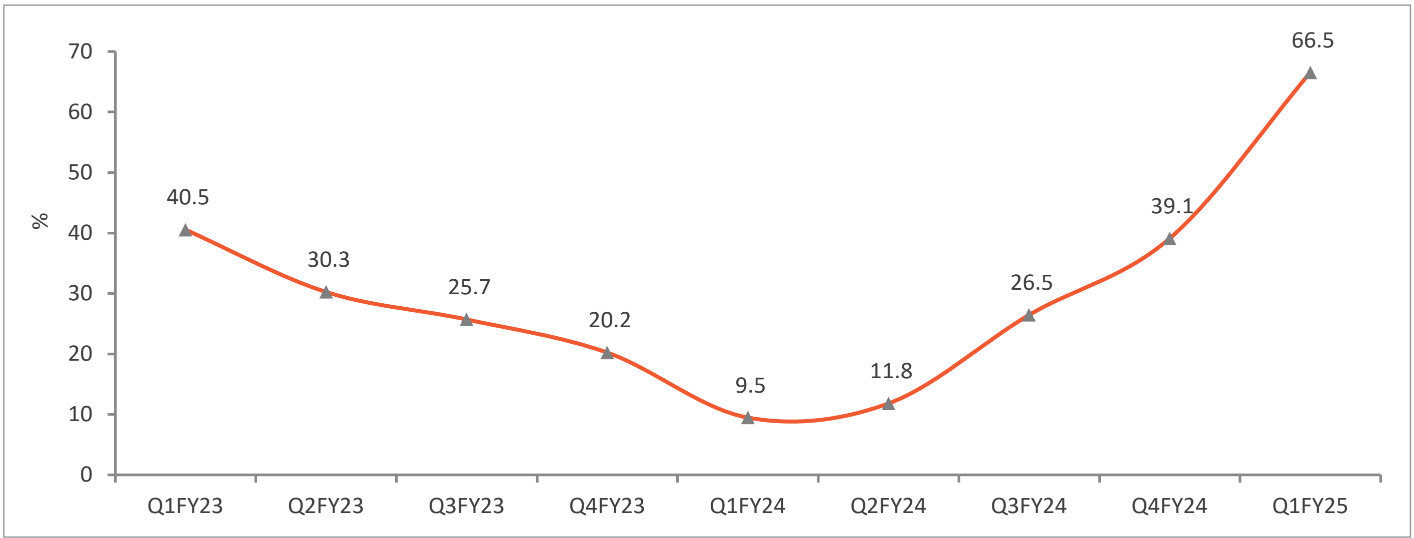
Source: Company, Sharekhan Research

BFSI revenue growth trend



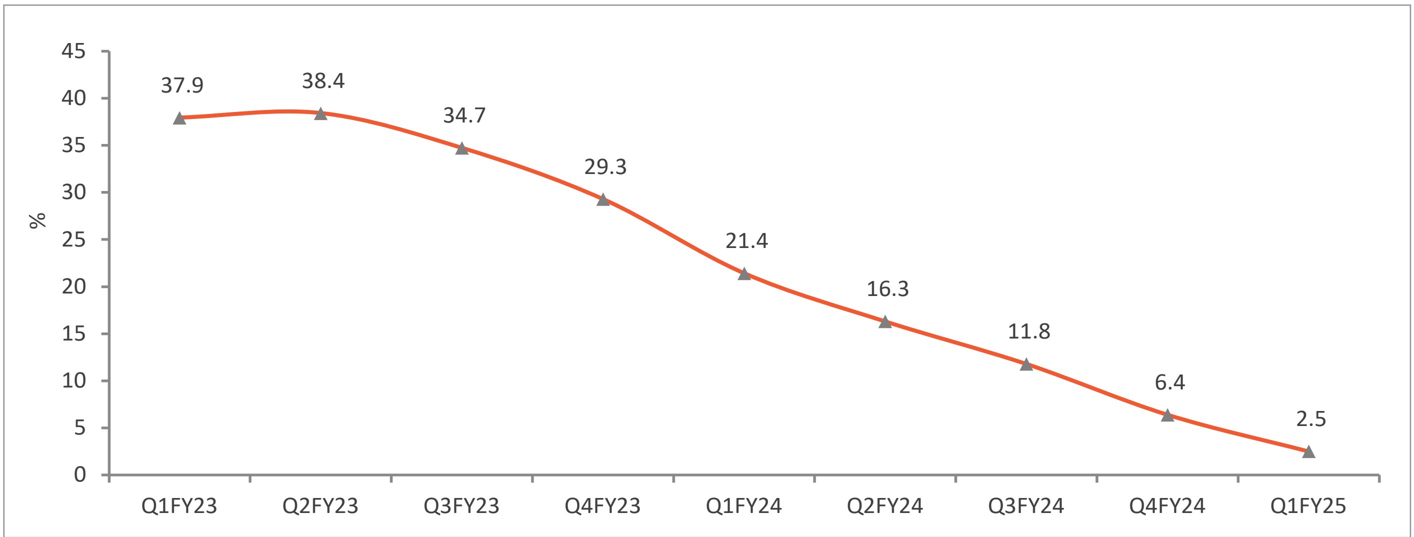
Source: Company, Sharekhan Research

Healthcare & life sciences revenue growth trend (y-o-y)



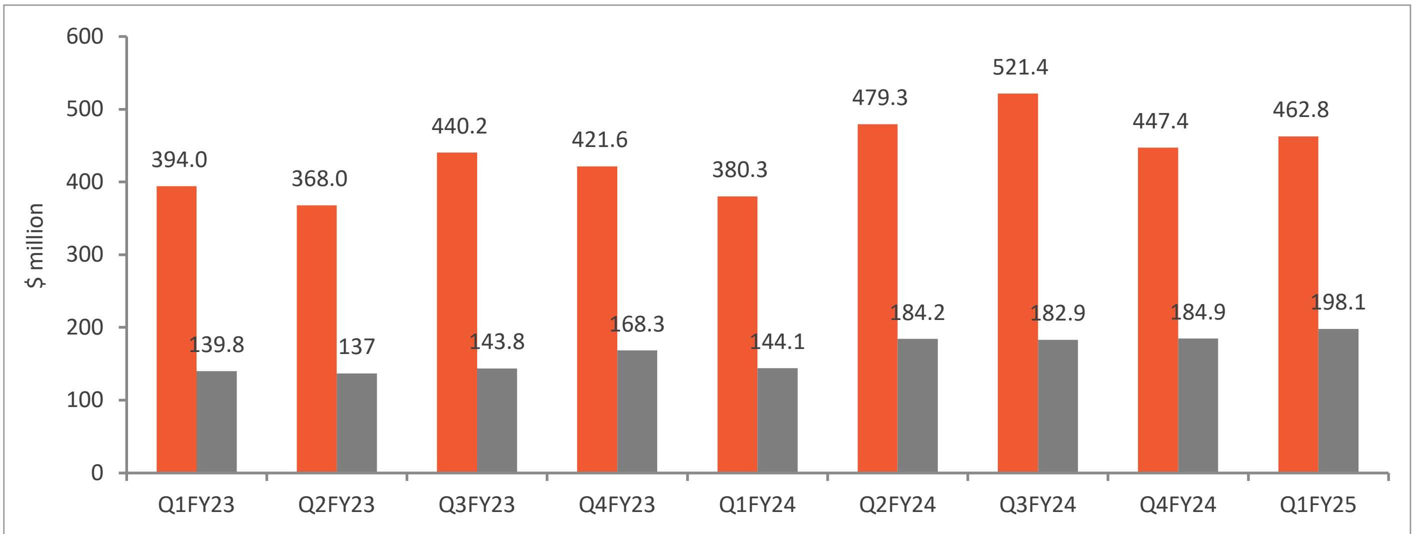
Source: Company, Sharekhan Research

Software & hi-tech revenue growth trend (y-o-y)



Source: Company, Sharekhan Research

TCV of deal wins



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Macro headwinds bottoming out coupled with better earnings visibility**

We anticipate growth momentum to return in FY25, aided by lower base coupled with easing sector headwinds. Although the IT sector has already outperformed Nifty last year, we expect the overall outperformance in CY24 to be driven by receding headwinds and better earnings visibility.

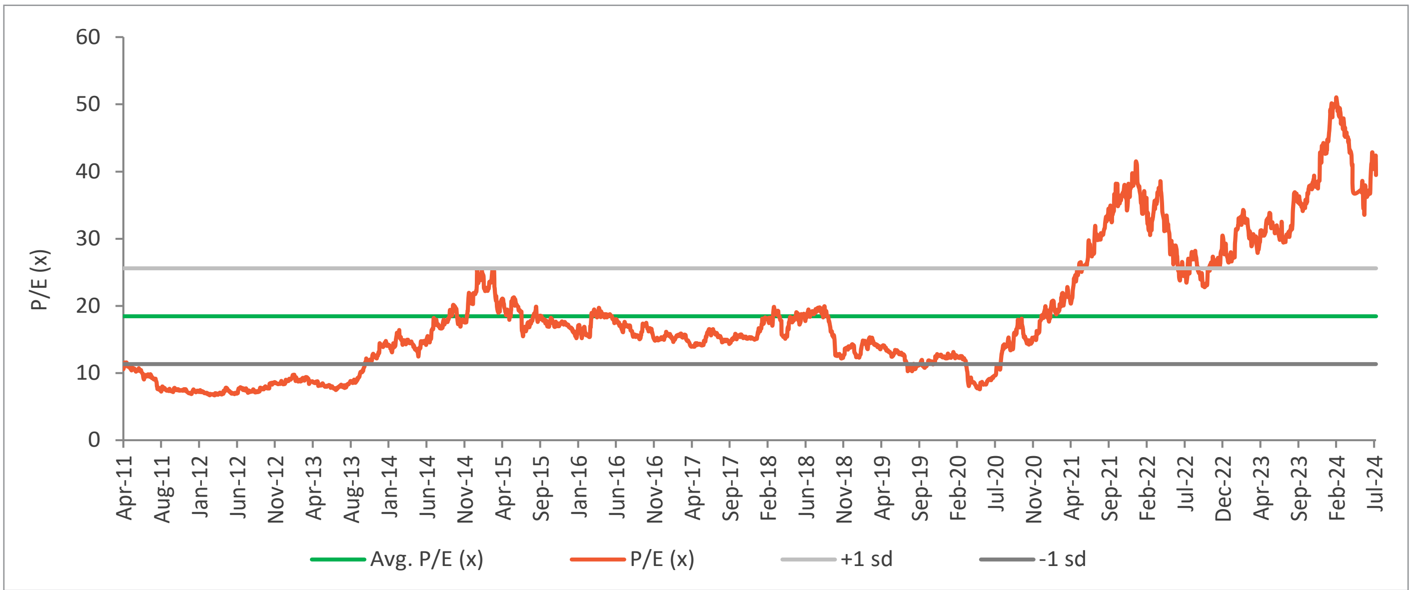
■ **Company outlook - Well-positioned to capture the immense growth opportunity**

As PSL is an early identifier of digital trends and has strong product development capabilities, we believe the company is well placed to capture a significant chunk of spends in digital technologies by clients going ahead. Management remains optimistic about delivering industry-leading revenue growth in FY24 on account of broad-based demand across verticals, robust deal bookings, new logo additions, and incremental revenue from the acquired entities. We believe the company's leadership position in outsourced product development (OPD), elongated client relationships, and being an end-to-end service provider would help PSL to make the most of the opportunity.

■ **Valuation - Maintain Buy with revised PT of Rs. 5,220**

PSL has reported a strong quarter on revenue front and is expected to deliver healthy revenue growth for FY25. PSL has been consistently delivering industry-leading performance since the past several quarters and is well placed to lead the growth trajectory in FY25-26E, given the strong order book, consistent addition of new logos, and robust capabilities. We expect Sales/PAT CAGR at 17.1%/25.1% over FY24-FY26E We maintain BUY on the stock with a revised target price (TP) of Rs. 5,220 (valuing at 45x FY26E EPS). At CMP, the stock trades at 51.8/39.5x its FY25/FY26E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Incorporated in 1990, PSL is a global software company specialising in product and technology services. The company has proven expertise, strong presence in newer technologies, and strength to improve its IP base. PSL focuses on developing IoT products and platforms, as it sees significant traction from industrial machinery, SmartCity, healthcare, and smart agriculture verticals. PSL has been focusing on product development, establishing processes to build distributed agile teams, and partnering with the world's leading product companies to build software contributing across the entire product lifecycle. The company derives revenue from North America, Europe, and RoW.

Investment theme

Large corporates have been allocating higher budgets towards digital transformation initiatives and IT spends are moving from ISV to the enterprise model. PSL has restructured its business and aligned its sales resources to capitalise the benefits from clients' digital transformation journey. The alliance with IBM and investments in new-age technologies (IoT, Blockchain, artificial learning, and machine learning) are expected to help the company capture opportunities from these spends.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements and 2) Contagion effect of banking crisis, macro headwinds, and recession in the U.S., can moderate the pace of technology spends.

Additional Data

Key management personnel

Dr. Anand Deshpande	Founder, Chairman and MD
Sandeep Kalra	Executive Director and CEO
Vinit Teredesai	Chief Financial Officer (CFO)

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	KOTAK MAHINDRA TRUSTEE CO	4.97
2	Motilal Oswal Asset Management Co	3.59
3	Kotak Mahindra Asset Management Co	3.42
4	Vanguard Group Inc/The	2.75
5	HDFC Asset Management Co Ltd	2.67
6	BlackRock Inc	2.61
7	Axis Asset Management Co Ltd/India	2.35
8	Nippon Life India Asset Management	1.79
9	FundRock Management Co SA	1.4
10	UTI Asset Management Co Ltd	1.04

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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