Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Persistent Systems Ltd

Poised for another top Quartile performance

Stock Update

Company Update

IT & ITES	Sharekhan code: PERSISTENT
Reco/View: Buy ↔	CMP: Rs. 5,190
	Price Target: Rs. 6,200 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain BUY with revised PT of Rs. 6,200 (valued at 50x Sept26E EPS). At CMP, the stock trades at 59.5/46.3/38.4x its FY25/26/27E EPS.
- The company is aspiring to achieve $USD2 billion revenue milestone, aided by its diversified product engineering and IT service offerings, focus on large deal bookings, and broad-based growth across its verticals.
- Management has reiterated its commitment of 200-300 bps EBIT margin improvement, aided by cost-optimisation programs, reduction in SG&A, rationalisation of ESOP cost, and higher utilisation.
- Management is looking at tuck-in acquisitions to improve capabilities in cyber security.

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	=	↔	=

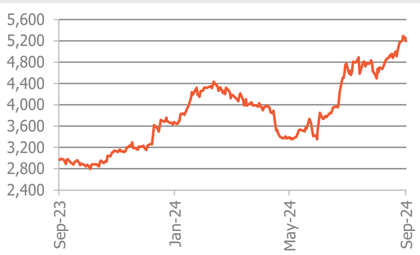
Company details

Market cap:	Rs. 79,952 cr
52-week high/low:	Rs. 5,332/2,790
NSE volume: (No of shares)	5.7 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	10.4	34.8	24.1	73.6
Relative to Sensex	8.1	28.4	14.0	51.2

Sharekhan Research, Bloomberg

We interacted with the management of Persistent Systems Limited (Persistent) to understand the business strategy and growth prospects of the company. The company is aspiring to achieve the USD2 billion revenue milestone, aided by its diversified product engineering and IT service offerings, large deal bookings and broad-based growth across its three key verticals, led by Healthcare & Lifesciences followed by BFSI and Hi-tech. The company expects top-quartile performance to continue in FY25, with margins around similar levels. Management has reiterated its commitment of a 200-300 bps EBIT margin improvement, aided by cost-optimisation program, reduction in SG&A, rationalisation of ESOP cost, and higher utilisation. The company is looking at tuck in acquisitions in areas of cyber security to expand capabilities. The company is also looking to expand geographically. The company is well placed to deliver top-quartile performance in FY25, accompanied by a strong start to FY25 with broad-based revenue growth across segments supported by robust bookings and diversified product engineering and IT service offerings. We have introduced FY27 estimates and rolled over to Sep26E EPS. We maintain BUY on Persistent with revised price target (PT) of Rs. 6,200 (valued at 50x Sept26E EPS). At CMP, the stock trades at 59.5/46.3/38.4x its FY25/26/27E EPS.

- **Revenue milestone aspiration of USD2 billion by FY27:** The company made a strong start in FY25 with 5.6% cc revenue growth in Q1FY25. The company is steadily progressing towards achieving its aspirational USD2 billion milestone by FY27. For FY25, the company expects broad-based growth, led by Healthcare Life Sciences, followed by BFSI and Hi-tech. With BFSI vertical performing well, the potential interest rate cut tailwinds augurs well for the company and is likely to provide further growth impetus. The company is focussing on large deal wins and seeing conversion of several POC into deals. The company continued to report strong bookings in Q1, with total TCV at USD462.8 million, up 22% y-o-y, and new business TCV at USD310.8 million, up 31% y-o-y, providing strong revenue visibility.
- **Sufficient margin levers to aid margin improvement:** Management has emphasised its confidence in margin improvement of 200-300 bps by FY27, aided by cost-optimisation programmes, rationalisation of ESOP costs, lower consulting costs, and higher utillisation. Despite the expected wage hike impact of ~200 bps in Q2FY25, management expects cost-optimisation programs to result in near zero impact with steady improvement in Q3 and Q4. Management expects margin improvement to step up in FY2026, with 60-70% of ESOP cost impact taken in the previous year. Lower consulting costs are likely to aid in margin improvement as well. Further, the company is likely to see benefits and leverage to kick in from sales and marketing efforts of prior years. Utilisation, which improved by 210 bps in Q1FY25, has further headroom to inch steadily upwards to 84%, aiding margin improvement.
- **Acquistions to aid in achieving aspirational target:** Management is looking at tuck-in acquisitions to improve capabilities around cyber security. The company is also looking at acquisitions from the geographical expansion perspective. The company's recent acquisition of Starfish Associates LLC builds on Persistent's existing engineering capabilities in the Unified Communications and Contact Center, expanding its strong AI-driven business transformation capabilities and expertise in driving operational excellence. The company is also looking to increase revenue contribution from Europe to 12% from 7-8% currently.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 6,200: Despite a challenging environment, Persistent had delivered industry-leading growth in FY2024, up 14.5% y-o-y. We believe the company is well placed to deliver another top-quartile performance in FY25 after strong Q1, aided by robust order bookings and a strong deal pipeline with broad-based growth across verticals. The company is confident of achieving its aspirational USD2 billion revenue milestone by FY27, given its diversified product engineering and IT service offering and focus on large deal bookings. We expect Sales/PAT CAGR at ~18%/22% over FY24-FY27E. We maintain BUY on Persistent with revised PT of Rs. 6,200 (valued at 50x Sept26E EPS). At CMP, the stock trades at 59.5/46.3/38.4x its FY25/26/27E EPS.

Key Risks

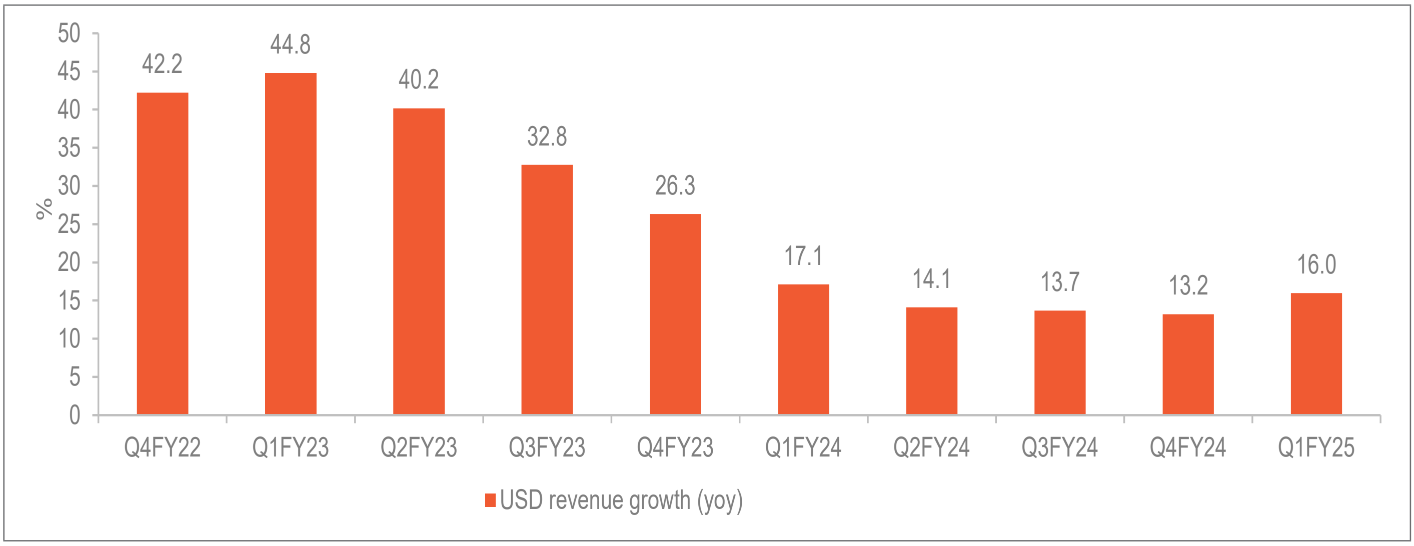
Rupee appreciation and/or adverse cross-currency movements. The contagion effect of the banking crisis, macro headwinds, and recession in the US can moderate the pace of technology spends.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	9,821.6	11,456.9	13,692.7	16,168.3
OPM (%)	17.6	17.0	18.1	18.7
Adjusted PAT	1,142.1	1,344.6	1,727.9	2,080.8
YoY growth (%)	20.1	17.7	28.5	20.4
Adjusted EPS (Rs.)	75.1	87.3	112.2	135.1
P/E (x)	69.1	59.5	46.3	38.4
P/B (x)	8.1	13.8	11.7	9.9
EV/EBITDA (x)	45.6	39.6	32.0	26.4
RoNW (%)	25.6	25.0	27.4	27.9
RoCE (%)	28.7	29.9	33.0	33.9

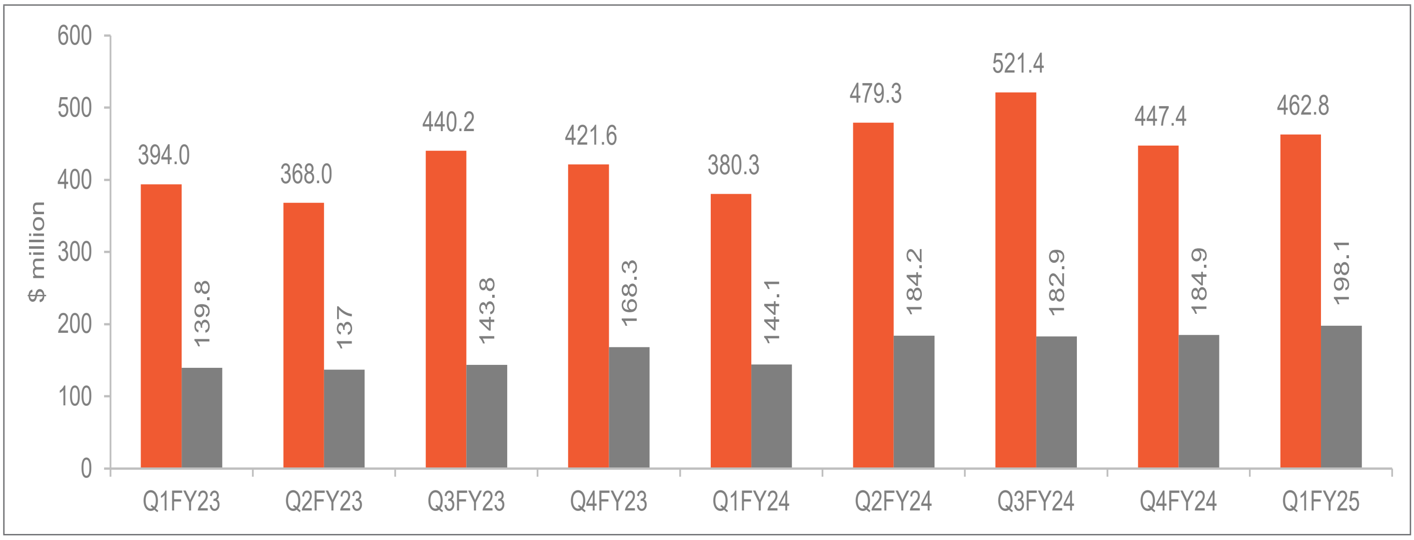
Source: Company; Sharekhan estimates

USD revenue growth trend (y-o-y)



Source: Sharekhan Research

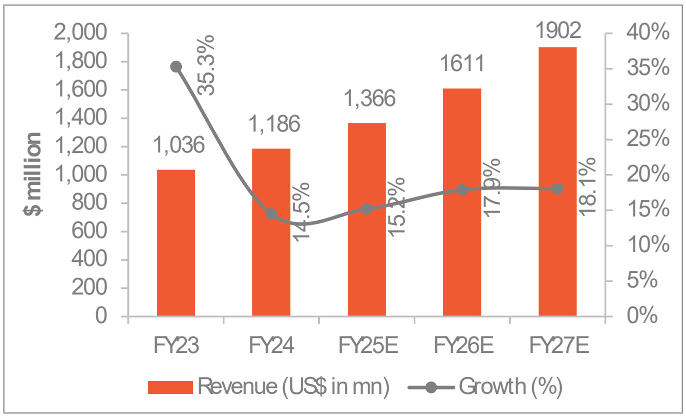
Total deal TCV and new business ACV trend



Source: Sharekhan Research

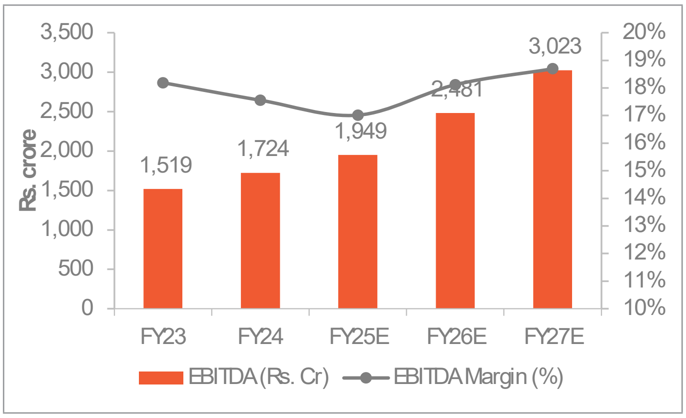
Financials in charts

Revenue (USD mn)



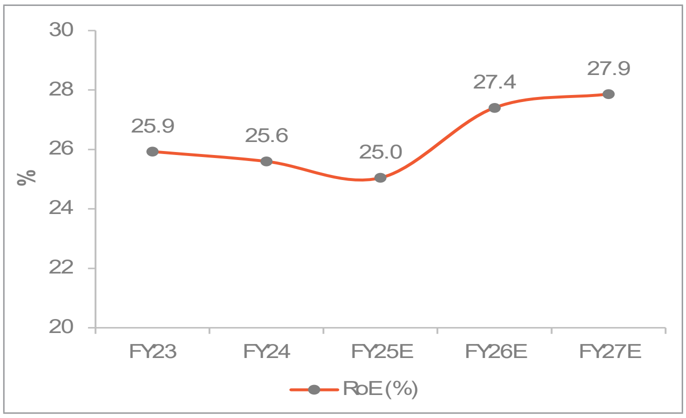
Source: Company, Sharekhan Research

EBITDA and EBITDA Margin



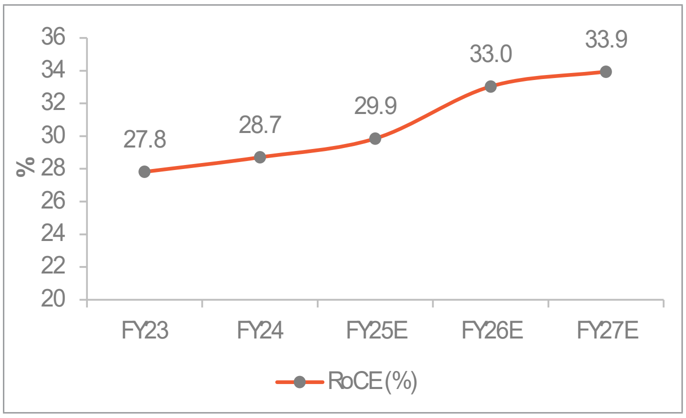
Source: Company, Sharekhan Research

RoE



Source: Company, Sharekhan Research

RoCE



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Macro headwinds bottoming out coupled with better earnings visibility

We anticipate growth momentum to return in FY25, aided by a 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.

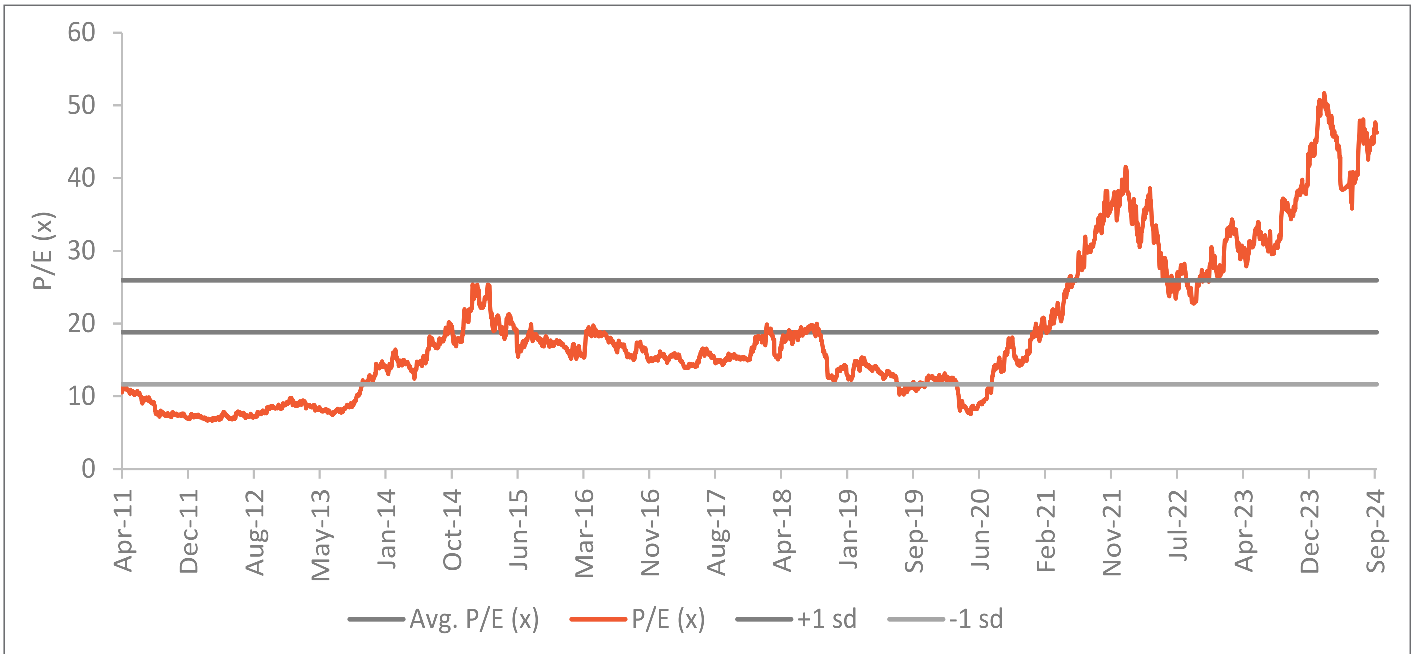
■ Company Outlook – Well-positioned to capture the immense growth opportunity

As Persistent 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 it to make the most of the opportunity.

■ Valuation – Maintain Buy with revised PT of Rs. 6,200

Despite a challenging environment, Persistent had delivered industry-leading growth in FY2024, up 14.5% y-o-y. We believe the company is well placed to deliver another top-quartile performance in FY25 after strong Q1, aided by robust order bookings and a strong deal pipeline with broad-based growth across verticals. The company is confident of achieving its aspirational USD2 billion revenue milestone by FY27, given its diversified product engineering and IT service offering and focus on large deal bookings. We expect Sales/PAT CAGR at ~18%/22% over FY24-FY27E. We maintain BUY on Persistent with revised PT of Rs. 6,200 (valued at 50x Sept26E EPS). At CMP, the stock trades at 59.5/46.3/38.4x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

Incorporated in 1990, Persistent 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. The company focuses on developing IoT products and platforms, as it sees significant traction from industrial machinery, SmartCity, healthcare, and smart agriculture verticals. The company 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. Persistent 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	KOTAK MAHINDRA TRUSTEE CO	4.95
2	Motilal Oswal Asset Management Co	3.59
3	Kotak Mahindra Asset Management Co	3.57
4	Vanguard Group Inc/The	2.75
5	HDFC Asset Management Co Ltd	2.66
6	BlackRock Inc	2.62
7	Axis Asset Management Co Ltd/India	2.32
8	Nippon Life India Asset Management	1.86
9	FundRock Management Co SA	1.44
10	Edelweiss Asset Management Ltd	1.05

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

Sharekhan

by BNP PARIBAS

DISCLAIMER

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.