Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Persistent Systems Ltd

Good Q2, Maintain Buy

IT & ITES	Sharekhan code: PERSISTENT
Reco/View: Buy ↔	CMP: Rs. 5,156
	Price Target: Rs. 6,200 ↔

↑ 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	=	↔	=

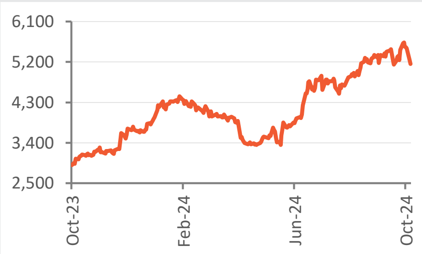
Company details

Market cap:	Rs. 80,362 cr
52-week high/low:	Rs. 5,693 / 2,840
NSE volume: (No of shares)	5.4 lakh
BSE code:	533179
NSE code:	PERSISTENT
Free float: (No of shares)	10.8 cr

Shareholding (%)

Promoters	30.7
FII	23.3
DII	27.4
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.7	8.4	46.9	77.4
Relative to Sensex	1.4	8.7	38.0	53.2

Sharekhan Research, Bloomberg

Summary

- Company reported $345.5 million in revenues, up 5.1% q-o-q in CC terms beating our estimates of $342 million.
- EBIT margins were flat q-o-q at 14% slightly beating our estimates of 13.9%. The company's total TCVs stood at $529 million, up14% q-o-q/10%y-o-y.
- Persistent reiterated its aspiration to achieve $ 2 billion revenue target by FY27. Management would endeavour to maintain utilisation at 83-85%.
- We maintain Buy on the stock with unchanged PT of Rs 6,200 (valuing at 50x Sep-26E EPS). At the CMP, the stock trades at 57.4/45/37.5x its FY25/26/27E EPS.

Revenues stood at $345.5 million, up 5.1% q-o-q in constant currency (CC) terms beating our estimates of $342 million. Revenue in US Dollar terms was up 5.6% q-o-q/18.4% y-o-y, while revenue in rupee terms stood at Rs. 2,897 crore, up 5.8% q-o-q/20.1% y-o-y. Growth was led by Healthcare & Lifesciences and BFSI verticals. EBIT margins was flat q-o-q at 14% slightly beating our estimates of 13.9%, despite wage hikes, absence of policy rationalisation, incremental impact of fresh ESOP issuance in Q2 and lower earnout credit which was neutralised by revenue growth and cost optimisation programs. Adjusted net profit was up by 6.1% q-o-q/23.4 % y-o-y at Rs. 325 crore in-line with our estimates of Rs 326 crore. Total TCVs stood at $529 million, up14% q-o-q/10%y-o-y. Book-to-bill stood at 1.5x (1.4x in Q1FY25). New business TCVs stood at $389.8 million up 25%q-o-q24% y-o-y. Net headcount additions declined by 282, taking total headcount to 23,130 while Attrition (TTM) inched up by 10 bps to 12% . However, Utilisation improved 270 bps q-o-q to 84.8%. The Company reiterated its aspiration to achieve $ 2 billion revenue target by FY27. Management would endeavour to maintain Utilisation in the band of 83-85%. With a solid H1Y25, a strong order book, and excellent execution capabilities, the company is well-positioned for top quartile performance in FY25. We maintain Buy rating on the stock with unchanged target price (TP) of Rs. 6,200 (valuing at 50x Sep25E EPS). At CMP, the stock trades at 57.4/45/37.5x its FY25/26/27E EPS.

Key positives

- Health & Lifesciences and BFSI verticals grew 9.6 %/7.7% q-o-q, respectively.
- New business TCVs stood at $389.8 million up 24% q-o-q/25% y-o-y
- Utilisation improved 270 bps q-o-q to 84.8% from 82.1% in Q1FY25.

Key negatives

- Software, Hi-Tech & Emerging Industries declined 0.4% y-o-y
- Net headcount fell by 282, taking the overall headcount to 23,237.
- LTM attrition inched up by 10 bps to 12% from 11.9% in Q1FY25.

Management Commentary

- Persistent reiterated its aspiration to achieve a $2 billion revenue target by FY27.
- Management would endeavour to maintain utilisation at 83-85%.
- Management remains committed to a guidance of a 200-300 bps improvement in margins in the next couple of years
- ETR for the year to remain in the range of 23.5-24.5%
- Furloughs for FY25 to be similar as last year.

Revision in estimates – We have revised our estimates to factor in Q2FY25 performance.

Our Call

Valuation – Maintain Buy with unchanged PT of Rs. 6,200: Persistent Systems continues to report industry-leading revenue growth beating our estimates. The EBIT margin remained stable and largely in-line, while both total and new deal TCV were robust providing strong revenue visibility. Although net headcount fell for the second consecutive quarter and attrition rose slightly, utilization saw a significant improvement. With a solid H1FY25, a strong order book, and excellent execution capabilities, the company is well-positioned for top quartile performance. We expect Sales/PAT CAGR of ~19%/23% over FY24-FY27E. We maintain BUY on the stock with unchanged price target (PT) of Rs. 6,200 (valuing at 50x Sep25E EPS). At CMP, the stock trades at 57.4/45/37.5x 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	11,755.8	14,131.7	16,623.5
OPM (%)	17.6	17.2	18.1	18.6
Adjusted PAT	1,142.1	1,376.8	1,757.9	2,108.6
YoY growth (%)	20.1	20.5	27.7	20.0
Adjusted EPS (Rs.)	75.1	89.8	114.7	137.5
P/E (x)	68.7	57.4	45.0	37.5
P/B (x)	8.0	13.7	11.6	9.7
EV/EBITDA (x)	45.3	37.9	30.8	25.7
RoNW (%)	25.6	25.6	27.7	28.1
RoCE (%)	28.7	30.8	33.7	34.3

Source: Company; Sharekhan estimates

Key Highlights

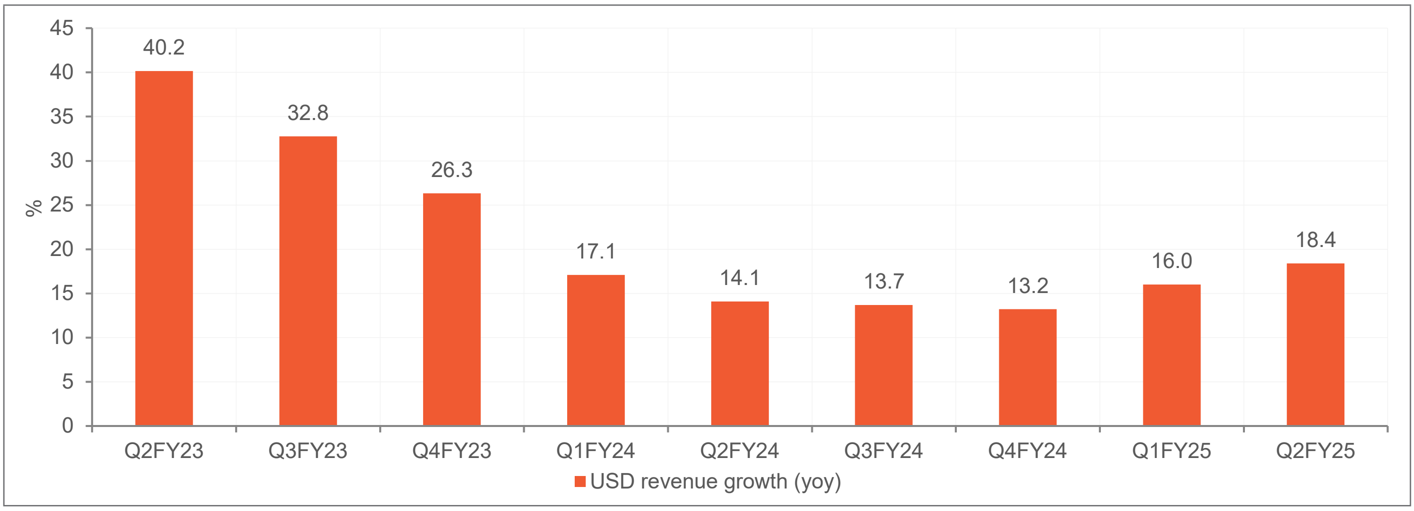
- **Revenue growth:** PSL reported $345.5 million in revenues, up 5.1% q-o-q in constant currency (CC) terms beating our estimates of $342 million. Revenue in USD terms was up 5.6% q-o-q/18.4% y-oy while revenue in rupee terms stood at Rs. 2,897 crore, up 5.8% q-o-q/20.1% y-o-y. Growth was led by Healthcare & Lifesciences and BFSI verticals.
- **EBIT margins:** EBIT margins was flat q-o-q at 14% slightly beating our estimates of 13.9%. Margin headwinds comprising of wage hike (-210 bps), absence of policy rationalisation present in Q1 (-130 bps), Incremental impact of fresh ESOP issuance in Q2(-60 bps) and lower earnout credit (-60 bps) was neutralized by margin tailwinds comprising of Utilisation (+120 bps), Sub contractor cost reduction (+70 bps), lower resale business(+50 bps), Pricing and right shoring(+130 bps), favorable currency (+30 bps) and absence of H-1B visa cost(+60 bps).
- **Order bookings:** TCVs stood at $529 million, up14% q-o-q/10%y-o-y. Book-to-bill stood at 1.5x (1.4x in Q1FY25). New business TCVs stood at $389.8 million up 25%q-o-q24% y-o-y. Total ACV stood at $348.3 million up 3% q-o-q/10% y-o-y. while New Business ACV stood at $218.6 million, up 10% q-o-q/19% y-o-y.
- **Growth across verticals:** Sequential revenue growth was led by Health & Lifesciences and BFSI, which grew 9.6 %/7.7% q-o-q, respectively. Software, hi-tech, and emerging industries grew 0.8% q-o-q.
- **Growth across geographies:** In terms of geographies, North America, Europe grew 6.1%/6.6% q-o-q respectively while India and RoW declined 1.2%/0.9% q-o-q, respectively.
- **Top clients:** Revenue from the top-5 clients, top-10 clients, top-20 clients, and top-50 clients grew 7.7%/ 5.3%/5.7%, and 5.4% q-o-q, respectively.
- **Client additions:** Persistent added two clients in the $10mn+ and four clients in the $1mn+ revenue category sequentially.
- **Headcount & attrition:** Net headcount additions declined by 282, taking total headcount to 23,130. TTM attrition inched up by 10 bps q-o-q to 12% . However, utilisation improved 270 bps q-o-q to 84.8%.
- **Cash generation & DSO:** Cash & investments stood at Rs 1791.6 crore, down 6.2% q-o-q . DSO stood at 68 from 67 in Q1FY25. Operating cash flows to PAT for Q2FY25 was 108.3% compared to 49.3% Q1FY25.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	Q1FY25	Y-o-Y (%)	Q-o-Q (%)
Revenues In USD (mn)	**345.5**	**291.7**	**328.2**	**18.4**	**5.3**
Revenues In INR	**2,897.2**	**2,411.7**	**2,737.2**	**20.1**	**5.8**
Direct Costs	1,929.4	1,612.7	1,832.9	19.6	5.3
SG&A	487.0	393.8	449.1	23.7	8.4
EBITDA	**480.7**	**405.2**	**455.2**	**18.6**	**5.6**
Depreciation & amortization	74.5	74.4	71.2	0.1	4.6
EBIT	**406.2**	**330.8**	**384.0**	**22.8**	**5.8**
Forex gain/(loss)	10.6	8.4	-0.7	26.6	-1,552.1
Other Income	17.7	16.6	17.3	6.4	2.6
PBT	**434.5**	**355.8**	**400.5**	**22.1**	**8.5**
Tax Provision	109.5	92.5	94.1	18.4	16.3
PAT	**325.0**	**263.3**	**306.4**	**23.4**	**6.1**
Minority interest	0.0	0.0	0.0		
Net profit	**325.0**	**263.3**	**306.4**	**23.4**	**6.1**
Exceptional items (IL&FS)	**0.0**	**0.0**	**0.0**		
Adjusted net profit	**325.0**	**263.3**	**306.4**	**23.4**	**6.1**
EPS (Rs)	21.2	35.0	19.9	-39.4	6.6
Margin (%)					
EBITDA	16.6	16.8	16.6	-21	-4
EBIT	14.0	13.7	14.0	31	-1
NPM	11.2	10.9	11.2	30	2
Tax rate	25.2	26.0	23.5	-79	170

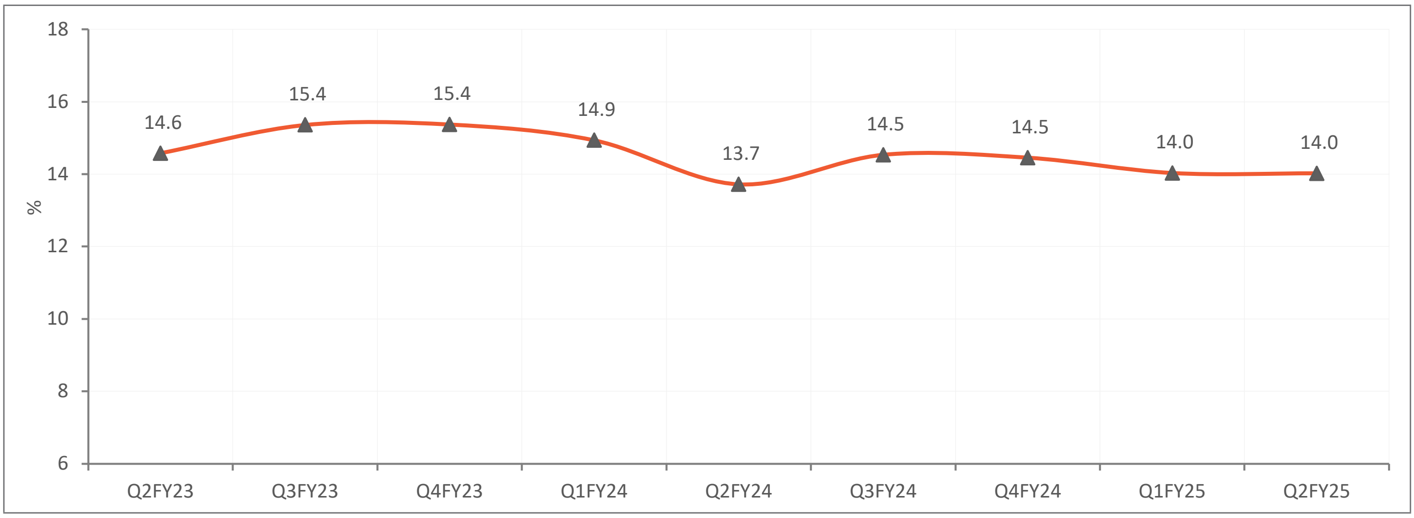
Source: Company; Sharekhan Research

USD revenue growth trend (y-o-y)



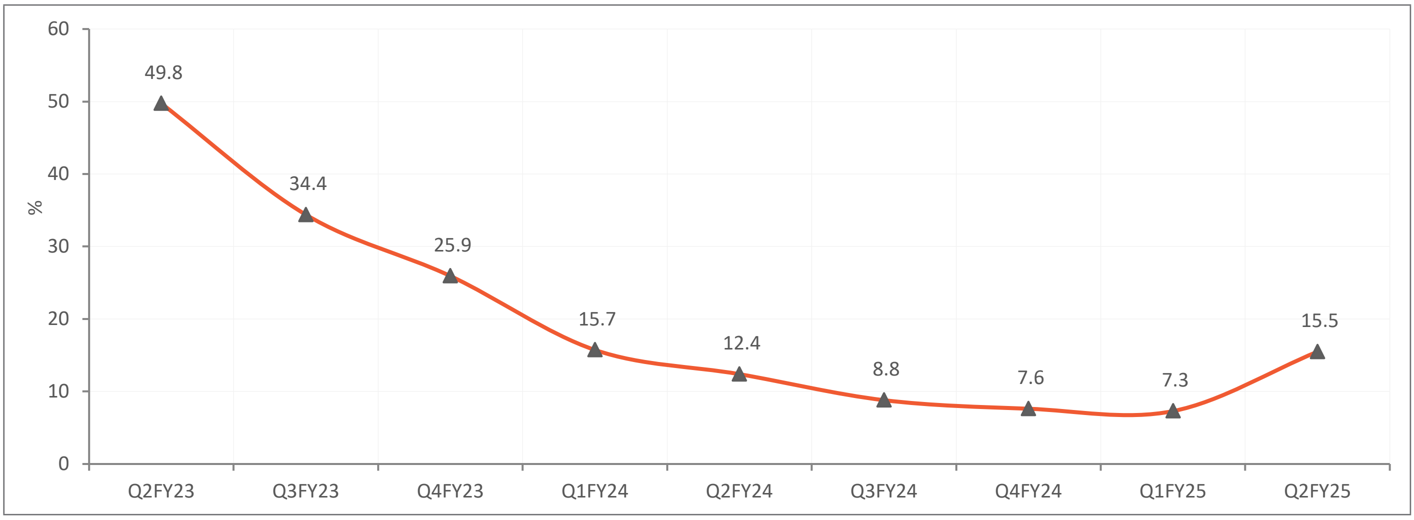
Source: Sharekhan Research

EBIT margin (%) trend



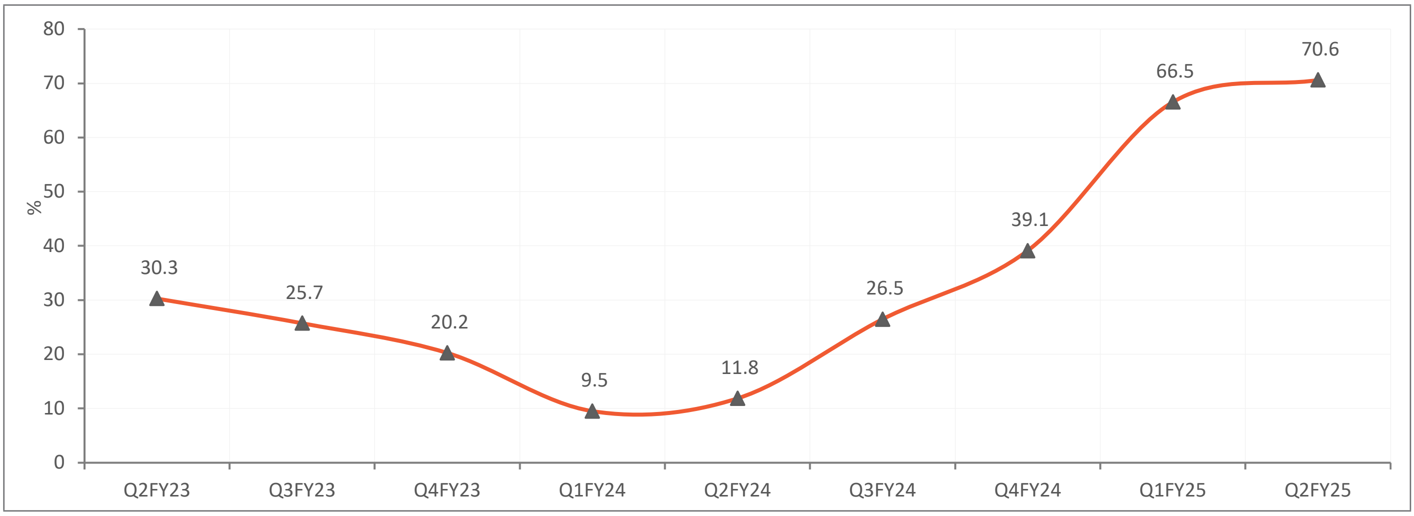
Source: Sharekhan Research

BFSI revenue growth trend



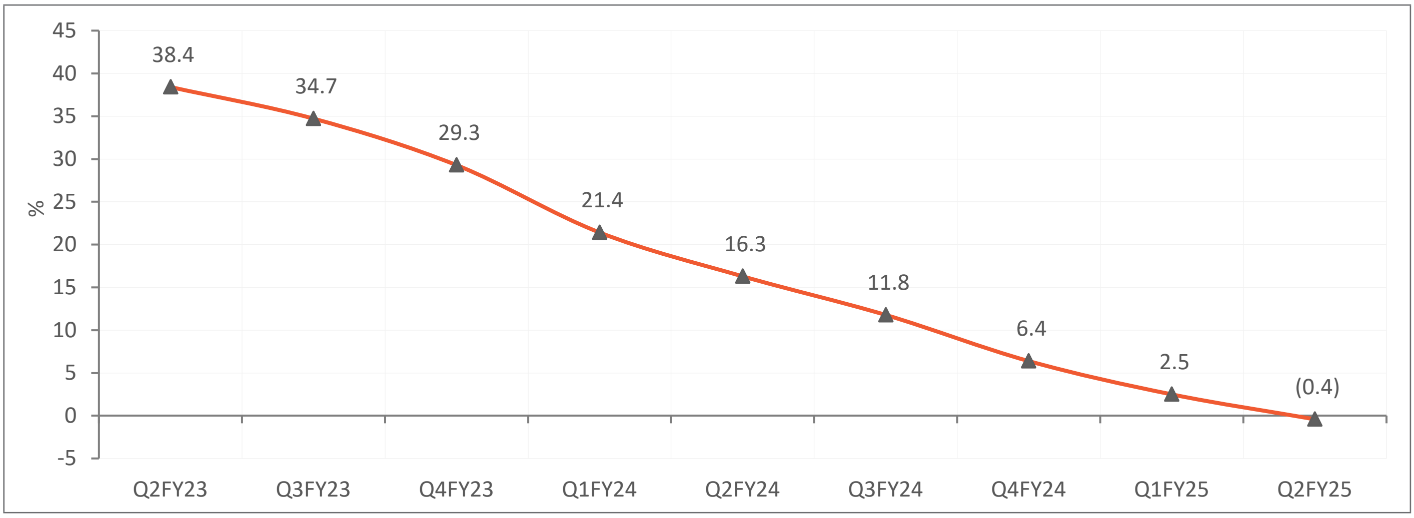
Source: Sharekhan Research

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



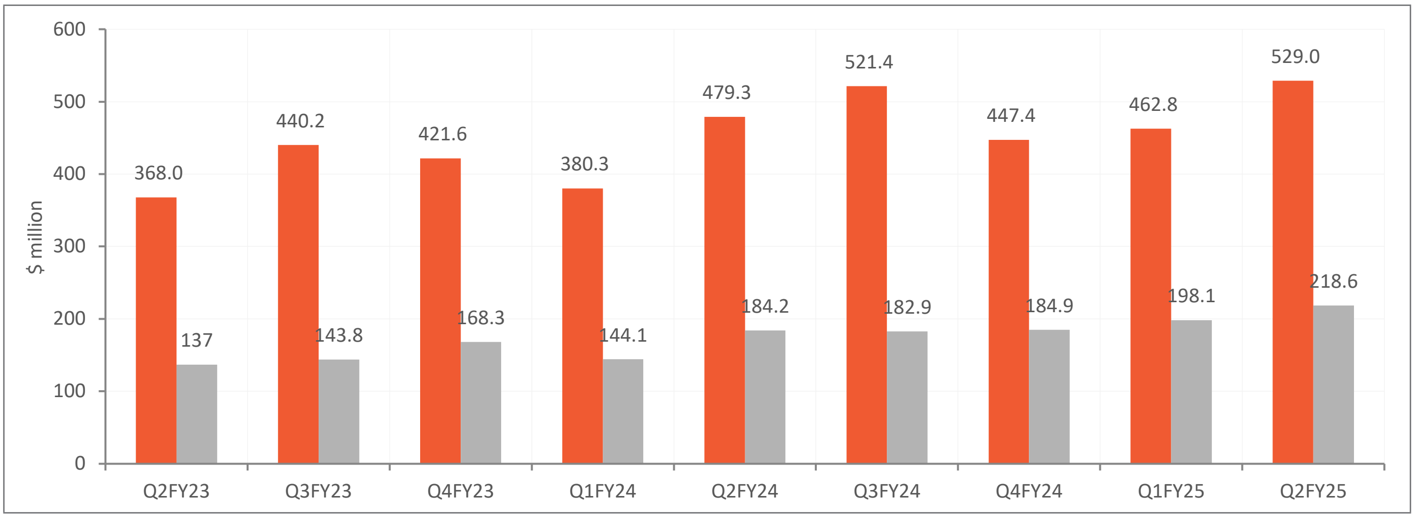
Source: Sharekhan Research

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



Source: Sharekhan Research

TCV of deal wins



Source: 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 unchanged PT of Rs. 6,200

Persistent Systems continues to report industry-leading revenue growth beating our estimates. The EBIT margin remained stable and largely in-line, while both total and new deal TCV were robust providing strong revenue visibility. Although net headcount fell for the second consecutive quarter and attrition rose slightly, utilization saw a significant improvement. With a solid H1FY25, a strong order book, and excellent execution capabilities, the company is well-positioned for top quartile performance. We expect Sales/PAT CAGR of ~19%/23% over FY24-FY27E. We maintain BUY on the stock with unchanged price target (PT) of Rs. 6,200 (valuing at 50x Sep25E EPS). At CMP, the stock trades at 57.4/45/37.5x its FY25/26/27E 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	KOTAK MAHINDRA TRUSTEE CO	4.91
2	Kotak Mahindra Asset Management Co	3.39
3	Motilal Oswal Asset Management Co	3.11
4	Vanguard Group Inc/The	2.74
5	HDFC Asset Management Co Ltd	2.66
6	Blackrock Inc	2.63
7	Axis Asset Management Co Ltd/India	2.19
8	Nippon Life India Asset Management	1.83
9	PSPL ESOP MANAGEMENT TRUST	1.67
10	FundRock Management Co SA	1.39

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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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.

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