

Q3FY25 operating performance was a tad better than our estimate. Revenue growth of 4.6% QoQ CC was in-line, while EBITM of 14.9% was slightly ahead of our estimate. Unlike in previous few quarters, growth was broad-based across verticals/geographies. Deal-win TCV of USD594.1mn (book-to-bill: ~1.6x) was steady. The mgmt remains confident about growth momentum, but moderating growth in TTM TCV/ACV (12.8%/10.9% vs 20% revenue growth) raises some concerns. The mgmt reaffirmed its aspiration of USD2bn revenue run-rate by FY27-end, with 200-300bps margin expansion; it also outlined a roadmap of USD5bn revenue run-rate by FY31-end. While there is some mood uplift in select areas, the mgmt stays focused on execution, irrespective of the external environment. We up FY25-27E EPS by 0-3%, accounting for the Q3 performance. Given the price correction of 11% in 1M, we upgrade our rating to REDUCE, with TP of Rs5,300 at 40x Dec-26E earnings. Valuations remain rich; we await a better entry price to become more constructive on the stock.

Persistent Systems: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	83,506	98,216	119,180	144,144	171,607
EBITDA	15,191	16,757	20,414	25,437	31,141
Adj. PAT	9,211	10,935	13,956	17,277	21,692
Adj. EPS (Rs)	60.3	71.0	89.5	110.9	139.2
EBITDA margin (%)	18.2	17.1	17.1	17.6	18.1
EBITDA growth (%)	56.1	10.3	21.8	24.6	22.4
Adj. EPS growth (%)	33.4	17.8	26.2	23.8	25.6
RoE (%)	25.9	24.5	25.8	27.0	28.3
RoIC (%)	39.8	34.9	38.0	41.2	47.5
P/E (x)	94.3	80.1	63.5	51.3	40.8
EV/EBITDA (x)	56.4	51.3	42.4	33.8	27.2
P/B (x)	21.9	17.7	15.1	12.7	10.6
FCFF yield (%)	1.2	1.1	0.8	1.4	2.0

Source: Company, Emkay Research

Results Summary

Revenue grew 4.3% QoQ (4.6% in CC; 35bps contribution from the acquisition) to USD360.2mn, in line with our estimate of USD360mn. Revenue growth was broad-based across verticals – BFSI (4.9% QoQ), Healthcare & Lifesciences (4.3%), and Software, Hi-Tech & Emerging Industries (3.7%). All geographies reported sequential growth – North America (3.2% QoQ), Europe (8.2%), India (6.5%), and ROW (23.8%). Reported EBITM expanded by 90bps QoQ to 14.9%, slightly ahead of our estimate of 14.6%. Margin expansion was driven by improved utilization and rationalization of contractor cost for a large healthcare client, coupled with operational efficiency (combined benefit of 140bps), currency tailwind (50bps), lower resale revenue and improved pricing (40bps), and lower ESOP costs (20bps), partially offset by higher furloughs (-60bps) and lower earnout credits (-100bps). Utilization increased by 260bps QoQ to 87.4%. Headcount grew 3% QoQ to 23,941. Attrition inched up, to 12.6% from 12% in Q2. The company declared interim dividend of Rs20. **What we liked:** Broad-based revenue growth; robust operating performance. **What we did not like:** Moderation in new deal wins.

Earnings Call KTAs

1) Revenue saw an impact of 100bps due to furloughs, in line with management expectations. The acquisitions of Starfish, Arka, and Soho contributed 35bps to revenue. 2) The management indicated that sentiment is turning positive in some sectors, on the back of expected increase in investment in the US, although it will take some time for it to reflect in the pipeline. 3) To achieve its aspiration of USD5bn revenue run-rate by FY31, the management has laid down some key strategies: i) doubling down on revenue from top-100 customers which currently contribute ~80% of revenue, ii) subcategorize its 3 key verticals into 12-15 sub-segments, with a focused plan to scale each, and iii) expanding alternate channels including the private equity channel, GCC focus, strengthening relationship with sourcing advisors, etc. 4) The management intends to increase its revenue contribution from Europe to 12-15% from 8-9% currently, with the help of a scaled acquisition. 5) The management is confident about better pricing, owing to its differentiated IP capabilities, focused approach in implementing COLA clause, change requests, and scaling non-linear revenue. 6) Utilization inched up, to 87.4%. The mgmt pointed to a comfortable range of 83-85%, which may though remain at elevated levels in the near term. 7) ETR for FY25 is expected to be in the 23-23.5% range.

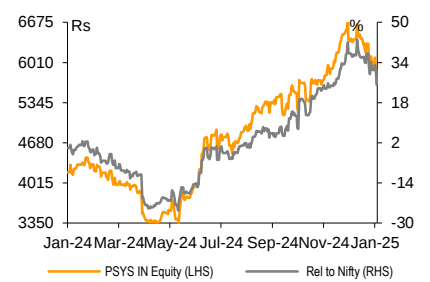
Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	SELL
Upside/(Downside) (%)	(6.7)
CMP (22-Jan-25) (Rs)	5,683.2

Stock Data	Ticker
52-week High (Rs)	6,789
52-week Low (Rs)	3,232
Shares outstanding (mn)	155.9
Market-cap (Rs bn)	886
Market-cap (USD mn)	10,259
Net-debt, FY25E (Rs mn)	-19,191
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	3,002.0
ADTV-3M (USD mn)	34.8
Free float (%)	66.0
Nifty-50	23,155
INR/USD	86.3
Shareholding, Dec-24	
Promoters (%)	30.7
FPIs/MFs (%)	24.8/26.3

Price Performance

(%)	1M	3M	12M
Absolute	(10.8)	10.2	43.5
Rel. to Nifty	(9.1)	16.4	33.7

1-Year share price trend (Rs)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Net sales (USD mn)	360.2	345.5	4.3	300.6	19.8
Net sales	30,623	28,972	5.7	24,982	22.6
Operating expenses	25,244	24,164	4.5	20,564	
EBITDA	5,378	4,807	11.9	4,418	21.7
Margins (%)	17.6	16.6	100	17.7	-10
Depreciation	821	745		787	
EBIT	4,557	4,062	12.2	3,631	25.5
Margins (%)	14.9	14.0	90	14.5	30
Other income	263	283		262	
Pre-tax profit	4,820	4,345	10.9	3,893	23.8
Tax provided	1090	1095		1032	
Profit after tax	3,730	3,250	14.8	2,861	
Emkay Net profit	3,730	3,250	14.8	2,861	30.4
EPS (Rs)	23.9	20.9	14.8	18.6	28.7

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	360.2	360.0	349.0	0.1%	3.2%	Revenue came in slightly above our expectations
Sales	30,623	30,457	30,227	0.5%	1.3%	
EBIT	4,557	4,436	4,409	2.7%	3.4%	
EBIT margin	14.9%	14.6%	14.6%	30 bps	30 bps	Reported EBITM was above expectations
PAT	3,730	3,484	3,516	7.1%	6.1%	Profit was better than expectations due to a beat on operating performance and lower ETR

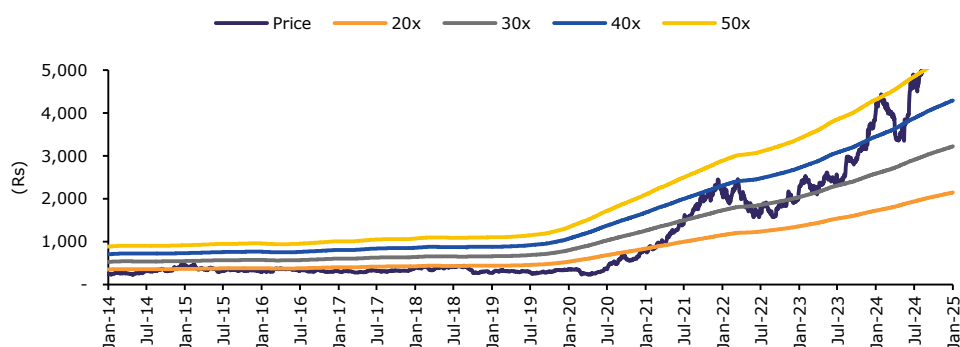
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	1,408.1	1410.7	0.2%	1,675.3	1,685.9	0.6%	1,960.2	1972.5	0.6%
YoY growth	18.7%	18.9%		19.0%	19.5%		17.0%	17.0%	
Revenue	118,812	119,180	0.3%	143,242	144,144	0.6%	170,533	171,607	0.6%
EBIT	17,153	17,294	0.8%	21,745	21,971	1.0%	27,158	27,338	0.7%
EBIT margins (%)	14.4	14.5		15.2	15.2		15.9	15.9	
Net profit	13,515	13,956	3.3%	17,087	17,277	1.1%	21,587	21,692	0.5%
EPS (Rs)	86.7	89.5	3.3%	109.6	110.9	1.1%	138.5	139.2	0.5%

Source: Company, Emkay Research

Exhibit 4: PSYS – One-year forward PER



Source: Company, Emkay Research

Persistent Systems: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	83,506	98,216	119,180	144,144	171,607
Revenue growth (%)	46.2	17.6	21.3	20.9	19.1
EBITDA	15,191	16,757	20,414	25,437	31,141
EBITDA growth (%)	56.1	10.3	21.8	24.6	22.4
Depreciation & Amortization	2,719	3,094	3,120	3,465	3,803
EBIT	12,472	13,663	17,294	21,971	27,338
EBIT growth (%)	54.6	9.5	26.6	27.0	24.4
Other operating income	0	0	0	0	0
Other income	706	1,280	1,539	1,642	2,197
Financial expense	473	467	605	422	419
PBT	12,705	14,476	18,227	23,191	29,116
Extraordinary items	(297)	0	0	0	0
Taxes	3,198	3,541	4,271	5,914	7,425
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	9,211	10,935	13,956	17,277	21,692
PAT growth (%)	33.4	18.7	27.6	23.8	25.6
Adjusted PAT	9,211	10,935	13,956	17,277	21,692
Diluted EPS (Rs)	60.3	71.0	89.5	110.9	139.2
Diluted EPS growth (%)	33.4	17.8	26.2	23.8	25.6
DPS (Rs)	25.0	26.0	32.5	40.0	49.0
Dividend payout (%)	41.5	36.6	36.3	36.1	35.2
EBITDA margin (%)	18.2	17.1	17.1	17.6	18.1
EBIT margin (%)	14.9	13.9	14.5	15.2	15.9
Effective tax rate (%)	25.2	24.5	23.4	25.5	25.5
NOPLAT (pre-IndAS)	9,333	10,321	13,242	16,369	20,367
Shares outstanding (mn)	76.4	154.1	155.9	155.9	155.9

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	764	770	770	770	770
Reserves & Surplus	38,887	48,807	57,698	68,741	82,796
Net worth	39,651	49,577	58,468	69,512	83,567
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(1,129)	(1,341)	(1,341)	(1,341)	(1,341)
Total debt	4,285	2,073	1,073	373	373
Total liabilities & equity	42,807	50,309	58,201	68,544	82,599
Net tangible fixed assets	4,860	4,420	4,596	4,660	4,803
Net intangible assets	9,171	4,575	4,683	3,560	2,427
Net ROU assets	2,198	2,307	2,669	2,827	2,779
Capital WIP	0	0	0	0	0
Goodwill	7,184	10,913	12,013	12,013	12,013
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	15,428	18,495	20,264	27,052	38,344
Current assets (ex-cash)	26,059	31,332	35,970	43,288	51,339
Current Liab. & Prov.	22,256	22,067	22,293	25,156	29,405
NWC (ex-cash)	3,803	9,265	13,676	18,132	21,934
Total assets	42,807	50,309	58,201	68,544	82,599
Net debt	(11,143)	(16,421)	(19,191)	(26,679)	(37,971)
Capital employed	42,807	50,309	58,201	68,544	82,599
Invested capital	27,378	31,815	37,936	41,492	44,255
BVPS (Rs)	259.4	321.8	375.2	446.0	536.2
Net Debt/Equity (x)	(0.3)	(0.3)	(0.3)	(0.4)	(0.5)
Net Debt/EBITDA (x)	(0.7)	(1.0)	(0.9)	(1.0)	(1.2)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	33.1	32.1	34.7	37.3	39.1

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	12,705	14,476	18,227	23,191	29,116
Others (non-cash items)	4,635	3,202	2,411	2,046	1,841
Taxes paid	(3,405)	(3,414)	(4,271)	(5,914)	(7,425)
Change in NWC	(4,377)	(2,052)	(2,947)	(3,456)	(3,802)
Operating cash flow	9,558	12,213	13,420	15,868	19,732
Capital expenditure	(4,321)	(2,791)	(6,294)	(3,565)	(2,765)
Acquisition of business	(4,311)	(2,074)	0	0	0
Interest & dividend income	539	597	709	1,419	1,962
Investing cash flow	(4,213)	(4,695)	(9,258)	(2,146)	(803)
Equity raised/(repaid)	0	1,608	0	0	0
Debt raised/(repaid)	(514)	(2,414)	(1,000)	(700)	0
Payment of lease liabilities	(545)	(760)	0	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(2,981)	(4,084)	(5,065)	(6,234)	(7,637)
Others	(545)	(1,047)	0	0	0
Financing cash flow	(4,039)	(5,937)	(6,065)	(6,934)	(7,637)
Net chg in Cash	1,305	1,581	(1,903)	6,788	11,292
OCF	9,558	12,213	13,420	15,868	19,732
Adj. OCF (w/o NWC chg.)	13,935	14,265	16,367	19,323	23,533
FCFF	5,237	9,423	7,126	12,303	16,967
FCFE	5,302	9,553	7,229	13,300	18,510
OCF/EBITDA (%)	62.9	72.9	65.7	62.4	63.4
FCFE/PAT (%)	57.6	87.4	51.8	77.0	85.3
FCFF/NOPLAT (%)	56.1	91.3	53.8	75.2	83.3

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	94.3	80.1	63.5	51.3	40.8
P/CE(x)	71.0	62.4	51.9	42.7	34.7
P/B (x)	21.9	17.7	15.1	12.7	10.6
EV/Sales (x)	10.3	8.7	7.3	6.0	4.9
EV/EBITDA (x)	56.4	51.3	42.4	33.8	27.2
EV/EBIT(x)	33.9	62.9	50.1	39.1	31.0
EV/IC (x)	15.5	27.0	22.8	20.7	19.2
FCFF yield (%)	1.2	1.1	0.8	1.4	2.0
FCFE yield (%)	1.2	1.1	0.8	1.5	2.1
Dividend yield (%)	0.4	0.5	0.6	0.7	0.9
DuPont-RoE split					
Net profit margin (%)	11.4	11.1	11.7	12.0	12.6
Total asset turnover (x)	2.1	2.1	2.2	2.3	2.3
Assets/Equity (x)	1.1	1.0	1.0	1.0	1.0
RoE (%)	25.9	24.5	25.8	27.0	28.3
DuPont-RoIC					
NOPLAT margin (%)	11.2	10.5	11.1	11.4	11.9
IC turnover (x)	4.3	3.6	3.3	3.4	3.6
RoIC (%)	39.8	34.9	38.0	41.2	47.5
Operating metrics					
Core NWC days	16.6	34.4	41.9	45.9	46.7
Total NWC days	16.6	34.4	41.9	45.9	46.7
Fixed asset turnover	2.7	3.0	3.5	3.9	4.4
Opex-to-revenue (%)	81.8	82.9	82.9	82.4	81.9

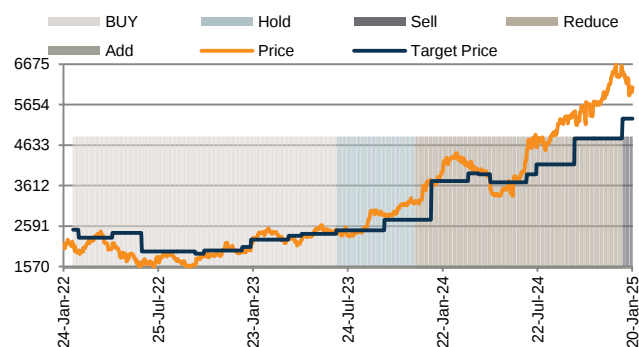
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jan-25	6,437	5,300	Sell	Dipeshkumar Mehta
23-Oct-24	5,719	4,800	Reduce	Dipeshkumar Mehta
01-Oct-24	5,488	4,800	Reduce	Dipeshkumar Mehta
20-Jul-24	4,583	4,150	Reduce	Dipeshkumar Mehta
01-Jul-24	4,496	3,900	Reduce	Dipeshkumar Mehta
09-Jun-24	3,850	3,700	Reduce	Dipeshkumar Mehta
03-Jun-24	3,426	3,700	Reduce	Dipeshkumar Mehta
27-May-24	3,737	3,700	Reduce	Dipeshkumar Mehta
22-Apr-24	3,509	3,700	Reduce	Dipeshkumar Mehta
31-Mar-24	3,985	3,900	Reduce	Dipeshkumar Mehta
11-Mar-24	4,117	3,925	Reduce	Dipeshkumar Mehta
01-Mar-24	4,300	3,725	Reduce	Dipeshkumar Mehta
23-Jan-24	4,127	3,725	Reduce	Dipeshkumar Mehta
31-Dec-23	3,695	3,725	Reduce	Dipeshkumar Mehta
30-Nov-23	3,200	2,750	Reduce	Dipeshkumar Mehta
20-Oct-23	2,954	2,750	Hold	Dipeshkumar Mehta
02-Oct-23	2,898	2,750	Hold	Dipeshkumar Mehta
21-Jul-23	2,375	2,485	Hold	Dipeshkumar Mehta
02-Jul-23	2,506	2,485	Hold	Dipeshkumar Mehta
26-Apr-23	2,236	2,400	Buy	Dipeshkumar Mehta
01-Apr-23	2,305	2,350	Buy	Dipeshkumar Mehta
19-Jan-23	2,129	2,250	Buy	Dipeshkumar Mehta
02-Jan-23	2,014	2,063	Buy	Dipeshkumar Mehta
21-Oct-22	1,833	1,975	Buy	Dipeshkumar Mehta
04-Oct-22	1,649	1,900	Buy	Dipeshkumar Mehta
22-Jul-22	1,816	1,950	Buy	Dipeshkumar Mehta
23-Jun-22	1,684	1,950	Buy	Dipeshkumar Mehta
28-Apr-22	2,154	2,425	Buy	Dipeshkumar Mehta
01-Apr-22	2,361	2,300	Buy	Dipeshkumar Mehta
15-Mar-22	2,163	2,300	Buy	Dipeshkumar Mehta
22-Feb-22	1,964	2,300	Buy	Dipeshkumar Mehta
11-Feb-22	2,098	2,500	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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