

# Persistent Systems Ltd

## Q3FY25



# Persistent Systems Ltd.

**Ambitious growth targets clash with stretched valuations**

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 6,288	INR 5,989	(4.7%)	INR 977,180	<b>REDUCE</b>	Internet Software & Services

## Result Highlights:

- PSYS delivered 22.6% YoY revenue growth in Q3FY25, driven by strong vertical performance and acquisitions. EBIT grew 25.5% YoY, while PAT surged 30.4% YoY, reflecting improved margins and robust execution. However, the outlook for FY24-FY27E (Revenue/PAT: 20.1%/ 25.1%) suggests a notable deceleration in growth compared to its historical performance, indicating a potential slowdown in momentum.
- We revise our EPS estimates for FY26E/FY27E upwards by 8.0%/8.2% to INR 110.9/137.3, respectively (previously INR 102.7/126.9), factoring in Q3FY25 performance, strong deal wins, along with margin expansion. Rolling over our valuation to FY27E and assigning a P/E multiple of 54.0x, we arrive at a target price of INR 5,989 (earlier: INR 5,441). Furthermore, the stock is currently priced at an all-time high 1-Year Forward P/E of 70.2x, significantly exceeding its three-year average of 35.6x. This widening gap between the stock's price and its fundamental performance raises concerns about the risk-reward profile. As a result, we maintain our "REDUCE" rating, reflecting a cautious view on PSYS shares.**

## MARKET DATA

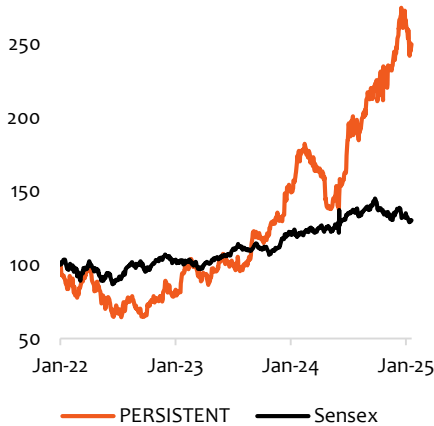
Shares outs (Mn)	155.8
Mkt Cap (INR Mn)	977,180
52 Wk H/L (INR)	6,789/1,966
Volume Avg (3m K)	493
Face Value (INR)	5.0
Bloomberg Code	PSYS IN

## KEY FINANCIALS

INR Mns	FY23	FY24	FY25E	FY26E	FY27E
Revenue	83,506	98,216	1,18,995	1,41,448	1,69,997
EBIT	12,472	13,663	17,263	21,925	27,133
PAT	9,211	10,935	13,948	17,286	21,392
OPM (%)	14.9%	13.9%	14.5%	15.5%	16.0%
NPM (%)	11.0%	11.1%	11.7%	12.2%	12.6%

Source: Company, DevenChoksey Research

## SHARE PRICE PERFORMANCE



## PSYS Targets USD 5 Bn revenue by FY31E with AI-driven growth strategy and focused vertical expansion

- PSYS remains confident in its AI-led, platform-driven services strategy to sustain growth, reaffirming its goal to achieve USD 2 Bn in revenue by FY27E. The company has set a more ambitious target of USD 5 Bn by FY31E, supported by a strategic roadmap designed to scale its core verticals through further segmentation into sub-verticals.
- Key initiatives to drive growth include deepening relationships with the Top 100 customers, who currently contribute approximately 80.0% of revenue, expanding into alternative channels such as private equity and sourcing advisors, and enhancing its focus on global capability centers as they gain increasing relevance in the ecosystem.
- These initiatives will be underpinned by the company's continued investment in AI integration across all service lines and a strong emphasis on the platformization of services.

## Challenging road ahead for PSYS amid ambitious growth goals

- Achieving PSYS ambitious USD 5 Bn revenue target by FY31E appears challenging, given the current trajectory and inherent obstacles. Our projections estimate the company achieving USD 2.0 Bn in revenue by FY27E, implying a FY24-FY27E CAGR of 19.0%.
- To meet the FY31E target, PSYS would need to deliver an accelerated CAGR of 25.7% between FY27E and FY31E, which is a tall order to achieve.
- Currently, 80.0% of PSYS's revenue originates from North America, and its operations are concentrated across three verticals. To come close to the target, the company must significantly diversify its geographic exposure and expand into new verticals to

## MARKET INFO

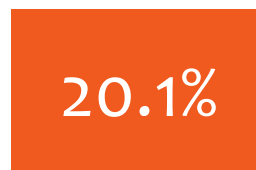
SENSEX	76,520
NIFTY	23,205

## SHARE HOLDING PATTERN (%)

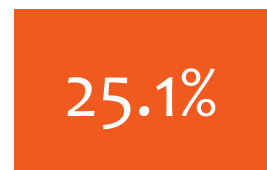
Particulars (%)	Dec-24	Sep-24	Jun-24
Promoters	30.7	30.7	31.0
FIIIs	24.7	23.3	22.6
DIIIs	26.3	27.4	28.2
Others	18.3	18.6	18.2
Total	100.0	100.0	100.0

\*Based on the today's closing

Note: All the market data is as of today's closing



Revenue CAGR between FY24 and FY27E



Adj. PAT CAGR between FY24 and FY27E

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- address a larger total addressable market (TAM). Comparatively, Tier-1 IT firms have scaled to similar revenue levels by catering to broader verticals and geographies, a strategy that will be difficult for PSYS to replicate within the stated timeframe.
- Another critical barrier is workforce capacity. Peer Tier-1 IT companies achieving USD 5 Bn in revenue typically operate with an employee base of 80,000–90,000. With PSYS's current headcount of ~24,000, the company would need to more than double its workforce, a task that entails significant hiring, onboarding, and operational scalability within a short span. This level of rapid scale-up introduces challenges in maintaining efficiency, employee utilization, and overall margin stability.
- Moreover, PSYS has emphasized that it does not intend to rely on inorganic growth for achieving its targets, except potentially for selective acquisitions in Europe to increase its revenue exposure in the region from the current ~8% to the teens. While this strategy underscores the company's focus on organic growth, it amplifies the difficulty of achieving its target, as all growth must stem from accelerated performance in existing geographies and verticals, alongside scaling new opportunities
- The lack of a detailed roadmap, reliance on organic growth, workforce constraints, and limited geographic and vertical diversification make the USD 5 Bn revenue goal by FY31E a tall order.

### Healthcare & BFSI propel strong revenue growth in Q3FY25

- PSYS revenue for Q3FY25 stood at 30,623 Mn, up 22.6% YoY (+5.7% QoQ). In terms of USD, PSYS reported revenue of USD 360 Mn (+19.9% YoY/+4.3% QoQ). Integration of its acquired entity, Starfish, Arrka, and Soho contributed 35bps to Q3FY25 revenue.
- In terms of INR, the YoY (QoQ) growth in revenue was led by robust growth in the BFSI vertical (31.7% of revenue), up 24.5% YoY (+6.3% QoQ), Healthcare & Lifesciences (27.8% of revenue) up 55.7% YoY (+5.2% QoQ). Software, Hi-Tech, and emerging industries (40.5% of revenue) saw a modest growth of 6.0% YoY (+5.6% QoQ).
- In terms of regions, North America (80.5% of revenue) grew by 23.8% YoY (+4.7% QoQ), India (9.4% of revenue) grew by 15.2% YoY (8.0% QoQ), Europe region (8.2% of revenue) grew by 12.9% YoY (+9.7% QoQ) and RoW (1.9% of revenue) grew by 66.4% (25.5% QoQ).
- EBIT of INR 4,557 Mn rose by 25.5% YoY (+12.2% QoQ), beating our estimates. EBIT margins improved by 35 bps YoY (+86bps QoQ) to 14.9%.
- PAT jumped by 30.4% (+14.8% QoQ) to 3,730 Mn; PAT margins stood at 12.2% improved by 73bps (+96bps QoQ).

### Key Concall Highlights:

#### Aims for 200bps Margin Expansion with AI and Cost Optimization Lever

- The margin movement for the period was influenced by a combination of headwinds and tailwinds. Headwinds include: 1) Seasonal furloughs impacting margins by -60bps, 2) a lower quantum of earnout credit reducing margins by -100bps.
- Tailwinds include 1) improved utilization, contractor cost rationalization with a large healthcare customer, and better operational efficiency, contributing +140bps, 2) a favorable US dollar movement adding +50bps, 3) improved pricing on certain contracts boosting margins by +40bps, and 4) a reduction in ESOP costs, contributing +20bps.
- The management targets a 200bps improvement in OPM by FY27E and has identified two margin levers: cost optimization and SG&A expense reduction. On the cost optimization front, the company is actively working on several initiatives, such as implementing OLA clauses and securing change requests with clients, along with leveraging AI-driven strategies to increase non-linear revenue, which is expected to support margin growth.
- Additionally, the company acknowledges that its SG&A expenses are relatively higher compared to peers, presenting an opportunity for further optimization in this area, which could serve as another potential lever for improving margins moving forward.

#### Strong order Book and client engagement growth in Q3FY25

- The total contract value (TCV) for the quarter reached USD 594.1 Mn in TCV (+13.9% YoY/+12.3% QoQ), with new bookings amounting to USD 333.6 Mn
- The annual contract value (ACV) portion stood at USD 428.3 Mn up 9.2% YoY (+23.0% QoQ). The ACV from new bookings accounted for USD 195.6 Mn.
- PSYS has expanded its client base in small and mid-size deal brackets, adding three clients within the USD 5-10 Mn bracket, one client in the USD 10-20 Mn range, and one client in the USD 1-5 Mn range.
- The contribution from top clients decreased on a sequential basis, Top 5 customers contributed 30.8% (Q2FY25: 31.4%), the top 10 customers contributed 40.0% (Q2FY25: 41.5%), and the top 20 customers contributed 50.9% (Q2FY25: 52.1%)

#### Employee Headcount Growth with a Slight Increase in Attrition Rate

- The company's employee headcount rose by 704 to 23,941, reflecting a net addition of 605 employees YoY.
- The attrition rate increased by 60 bps sequentially, rising to 12.6% in Q3FY24, compared to 11.9% in the previous quarter.
- Utilization jumped by 260bps QoQ to 87.4%.

#### Other Highlights:

- The acquisition of Soho forms part of a vendor consolidation strategy with a key customer, with most of the related revenue already incorporated into the company's existing run rate prior to the acquisition.
- The acquisition of Arrka, a 20-person firm specializing in the data privacy domain, is particularly strategic given the growing importance of data privacy in the current AI landscape.
- The company intends to pursue small, targeted acquisitions and investments that offer new technology and differentiation. The only potential exception to this strategy could be in Europe, where the company may consider a slightly larger acquisition to increase its market share from 8.0 - 9.0% to 12.0 - 15.0%.

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- The Starfish acquisition serves as an example of the company's approach, providing access to a new addressable market and enhancing capabilities in contact center optimization.
- PSYS has declared dividend of INR 20.0 per share.

### Valuation and view:

Persistent Systems (PSYS) delivered a strong Q3FY25 performance, with revenue growth driven by robust expansion in the Healthcare & Life Sciences and BFSI verticals. Total bookings stood at USD 594.1 million, marking a 13.9% YoY increase. EBIT margins improved to 14.9%, supported by higher utilization, currency tailwinds, and improved pricing. The management remains committed to expanding EBIT margins by 200bps by FY27E.

**We revise our EPS estimates for FY26E/FY27E upwards by 8.0%/8.2% to INR 110.9/137.3, respectively (previously: INR 102.7/126.9), factoring in Q3FY25 performance, strong deal wins, along with margin expansion. Rolling over our valuation to FY27E and assigning a P/E multiple of 54.0x, we arrive at a target price of INR 5,989 (earlier: 5,441).**

PSYS has outlined an ambitious roadmap targeting USD 5 Bn in revenue by FY31E, doubling down on its existing verticals, deepening engagement with its top 100 clients (~80% of revenue), and expanding into alternative channels such as private equity and sourcing advisors. The company also aims to enhance its global footprint and increase revenue contribution from Europe. Achieving this target requires a steep CAGR of ~25.7% from FY27E to FY31E, compared to a projected ~20.1% CAGR for FY24-FY27E. Key execution risks include workforce scaling—PSYS currently has ~24,000 employees, whereas achieving USD 5 Bn in revenue may necessitate a workforce size of 80,000–90,000, akin to Tier-1 IT peers. Furthermore, the company's reliance on organic growth, rather than aggressive M&A, could extend the timeline needed to scale its geographic and vertical presence.

Despite delivering a solid historical revenue and PAT CAGR of 32.9% and 34.4% over FY21-FY24, PSYS's projected growth for FY24-FY27E (Revenue/PAT: 20.1%/ 25.1%) appears relatively moderated. The stock is currently trading at an unprecedented 1-Year Forward P/E of 70.2x, significantly above its three-year average of 35.6x, suggesting stretched valuations. Given the divergence between forecasted growth and current valuations, we maintain our 'REDUCE' rating on the stock, as the risk-reward profile appears unfavorable at present levels.

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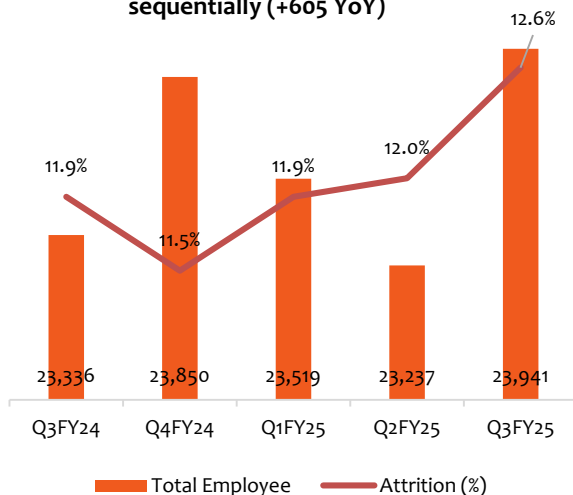
### RESULT SNAPSHOT

Particulars (INR Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24	YoY
<b>Sales</b>	<b>30,623</b>	<b>28,972</b>	<b>24,982</b>	<b>5.7%</b>	<b>22.6%</b>	<b>86,966</b>	<b>72,311</b>	<b>20.3%</b>
Total Expenditure	25,244	24,164	20,564	4.5%	22.8%	72,228	60,097	20.2%
Employee Benefit Expenses	17,639	17,253	15,036	2.2%	17.3%	50,627	44,320	14.2%
Cost of Professionals	4,331	4,256	3,060	1.8%	41.6%	12,804	7,847	63.2%
Other Expenses	3,274	2,655	2,468	23.3%	32.6%	8,797	7,931	10.9%
<b>EBITDA</b>	<b>5,378</b>	<b>4,807</b>	<b>4,418</b>	<b>11.9%</b>	<b>21.7%</b>	<b>14,738</b>	<b>12,213</b>	<b>20.7%</b>
<b>EBITDA Margin (%)</b>	<b>17.6%</b>	<b>16.6%</b>	<b>17.7%</b>	<b>97bps</b>	<b>-12bps</b>	<b>16.9%</b>	<b>16.9%</b>	<b>6bps</b>
Depreciation and Amortization expense	821	745	787	10.2%	4.3%	2,278	2,295	(0.7%)
<b>EBIT</b>	<b>4,557</b>	<b>4,062</b>	<b>3,631</b>	<b>12.2%</b>	<b>25.5%</b>	<b>12,460</b>	<b>9,919</b>	<b>25.6%</b>
<b>EBIT Margin (%)</b>	<b>14.9%</b>	<b>14.0%</b>	<b>14.5%</b>	<b>86bps</b>	<b>35bps</b>	<b>14.3%</b>	<b>13.7%</b>	<b>61bps</b>
Finance Costs	163	182	121	(10.5%)	34.7%	487	370	31.6%
Other Income	426	465	383	(8.4%)	11.3%	1,198	972	23.2%
Exceptional items	0	0	0	NA	NA	0	0	NA
<b>Profit before tax</b>	<b>4,820</b>	<b>4,345</b>	<b>3,893</b>	<b>10.9%</b>	<b>23.8%</b>	<b>13,171</b>	<b>10,521</b>	<b>25.2%</b>
Tax expense	1,090	1,095	1,032	(0.4%)	5.7%	3,127	2,739	14.1%
<b>Net profit</b>	<b>3,730</b>	<b>3,250</b>	<b>2,861</b>	<b>14.8%</b>	<b>30.4%</b>	<b>10,044</b>	<b>7,782</b>	<b>29.1%</b>
<b>Net profit margin (%)</b>	<b>12.2%</b>	<b>11.2%</b>	<b>11.5%</b>	<b>96bps</b>	<b>73bps</b>	<b>11.5%</b>	<b>10.8%</b>	<b>79bps</b>
EPS	23.9	20.9	18.4	14.8%	30.4%	64.4	49.9	29.1%

Source: Company, DevenChoksey Research

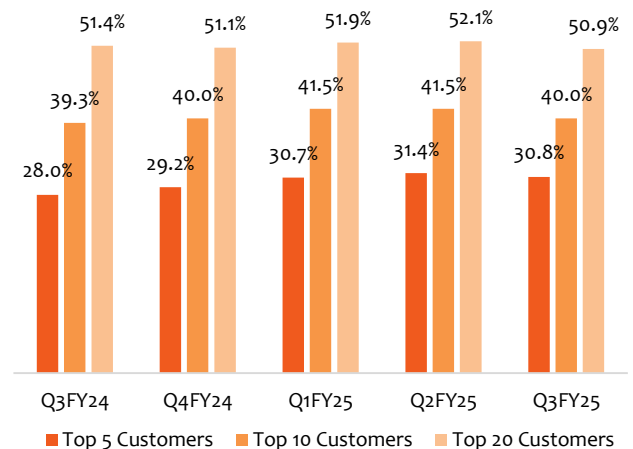
### Quarterly Trends

#### PSYS added 704 employees sequentially (+605 YoY)



Source: Company, DevenChoksey Research

#### Revenue contribution from top 5 and top 10 customers declined sequentially



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### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

INR Mns	FY23	FY24	FY25E	FY26E	FY27E
Revenue	83,506	98,216	1,18,995	1,41,448	1,69,997
Total Operating expenses	68,315	81,459	98,636	1,15,877	1,38,812
<b>EBITDA</b>	<b>15,191</b>	<b>16,757</b>	<b>20,359</b>	<b>25,572</b>	<b>31,185</b>
Depreciation	2,719	3,094	3,096	3,647	4,052
<b>EBIT</b>	<b>12,472</b>	<b>13,663</b>	<b>17,263</b>	<b>21,925</b>	<b>27,133</b>
<b>Finance Cost</b>	<b>770</b>	<b>467</b>	<b>523</b>	<b>586</b>	<b>648</b>
Other income, net	706	1,280	1,582	1,556	1,870
<b>Pre-tax Income</b>	<b>12,409</b>	<b>14,476</b>	<b>18,322</b>	<b>22,895</b>	<b>28,354</b>
Income tax expense	3,198	3,541	4,374	5,609	6,962
<b>Net profit</b>	<b>9,211</b>	<b>10,935</b>	<b>13,948</b>	<b>17,286</b>	<b>21,392</b>
Diluted EPS (INR)	60.3	71.1	89.5	110.9	137.3
Shares in Mn	153	154	156	156	156

#### Exhibit 3: Cash Flow Statement

INR Mns	FY23	FY24	FY25E	FY26E	FY27E
CFFO	9,558	12,213	12,247	16,772	19,996
CFFI	-4,213	-4,695	-9,176	-4,630	-5,221
CFFF	-4,079	-5,937	-6,904	-8,539	-10,525
Net Inc/Dec	1,266	1,581	-3,833	3,603	4,250
Opening Balance	2,978	4,631	6,585	2,751	6,355
Adjustments	387	373	0	0	0
Closing Balance	4,670	6,625	2,751	6,355	10,604

#### Exhibit 4: Key Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EBIT Margin (%)	14.9%	13.9%	14.5%	15.5%	16.0%
Tax rate (%)	25.8%	24.5%	23.9%	24.5%	24.6%
Net Profit Margin (%)	11.0%	11.1%	11.7%	12.2%	12.6%
RoE (%)	24.9%	26.1%	29.1%	29.8%	30.9%
RoCE (%)	25.5%	26.6%	29.6%	30.3%	31.4%
Current ratio	3.5	3.7	3.2	3.3	3.4
EPS (INR)	60.3	71.1	89.5	110.9	137.3
P/E (x)	100.9	85.6	67.9	54.8	44.3

Source: Company, DevenChoksey Research

INR Mns	FY23	FY24	FY25E	FY26E	FY27E
<b>Equity</b>					
Equity Capital	764	770	770	770	770
Other Equity	38,887	48,807	56,272	65,523	76,972
<b>Total Equity</b>	<b>39,651</b>	<b>49,577</b>	<b>57,042</b>	<b>66,294</b>	<b>77,743</b>
<b>Non-Current Liabilities</b>					
Long Term Borrowings	2,058	99	99	99	99
Other Long-term Liabilities	4,521	1,671	2,111	2,361	2,611
Long Term Provisions	373	547	591	638	689
<b>Total Non-Current Liabilities</b>	<b>6,951</b>	<b>2,317</b>	<b>2,801</b>	<b>3,098</b>	<b>3,399</b>
<b>Current Liabilities</b>					
Borrowings	2,926	2,804	2,865	2,929	2,995
Trade Paybles	5,689	8,139	9,716	11,303	13,135
Other current liabilities	11,514	10,899	12,359	14,043	15,988
<b>Total Current Liabilities</b>	<b>20,129</b>	<b>21,842</b>	<b>24,941</b>	<b>28,275</b>	<b>32,118</b>
<b>Total Liabilities</b>	<b>66,731</b>	<b>73,736</b>	<b>84,784</b>	<b>97,666</b>	<b>1,13,259</b>
<b>Non-Current Assets</b>					
PPE	4,860	4,420	4,705	5,077	5,854
Right of use of Assets	2,198	2,307	2,446	2,592	2,748
Intangible Assets	9,171	4,575	11,097	12,207	13,428
Goodwill	7,184	10,913	10,913	10,913	10,913
Other current assets	8,851	10,290	11,006	11,917	12,801
<b>Total Non-Current Assets</b>	<b>32,265</b>	<b>32,504</b>	<b>40,166</b>	<b>42,705</b>	<b>45,744</b>
Trade Receivables	15,253	16,761	21,736	25,837	31,052
Cash and Bank	9,033	10,229	6,355	9,940	14,190
Other current assets	10,180	14,242	16,527	19,183	22,274
<b>Total Current Assets</b>	<b>34,466</b>	<b>41,232</b>	<b>44,617</b>	<b>54,961</b>	<b>67,515</b>
<b>Total Assets</b>	<b>66,731</b>	<b>73,736</b>	<b>84,784</b>	<b>97,666</b>	<b>1,13,259</b>

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Date	CMP (INR)	TP (INR)	Recommendation
23-Jan-25	6,288	5,989	REDUCE
23-Oct-24	5,719	5,441	REDUCE
23-Jul-24	4,759	4,798	HOLD
24-Apr-24	3,466	3,857	ACCUMULATE
23-Jan-24	4,127	4,204	HOLD

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

### ANALYST CERTIFICATION:

I, **Dipak Saha** (MBA, Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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