MIRAE ASSET Sharekhan

Persistent Systems Ltd

Leading the growth recovery

IT & ITES	Sharekhan code: PERSISTENT

Reco/View: Buy	↔	CMP: Rs. 6,436	Price Target: Rs. 7,280	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain BUY with revised PT of Rs. 7,280 (valuing at 56x Dec26E EPS). At CMP, the stock trades at 71.6/56.1/46.7x its FY25/26/27E EPS.
- The company continues to outpace peer companies and remains well positioned to deliver industry-leading growth in FY25, aided by robust order inflows and strong growth momentum across key markets and verticals.
- Persistent managed to buck the y-o-y deal win moderation trend seen in most IT services companies, especially Tier-1 peers in Q2FY25, reporting strong order inflows and highest ever deal win TCV.
- The company expects margin expansion in the coming quarters due to reduced SG&A investments, structural cost cuts, and operational efficiencies. The company remains committed to its margin improvement target of 200-300 bps by FY27.

3R MATRIX

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		↔	

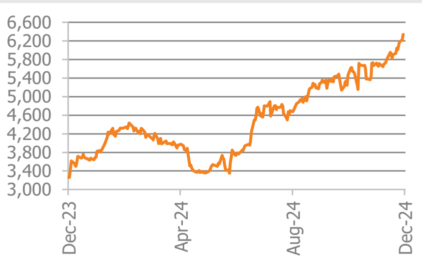
Company details

Market cap:	Rs. 1,00,305 cr
52-week high/low:	Rs. 6,506/3,215
NSE volume: (No of shares)	5.1 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	13.5	21.5	70.9	97.2
Relative to Sensex	10.2	23.5	64.8	80.3

Mirae Asset Sharekhan Research, Bloomberg

Persistent Systems Limited delivered robust growth in H1FY25, with quarterly revenue growing by over 5% in constant currency terms. The company, which has delivered 24% revenue CAGR, with significant relative sector outperformance over the last four years, continues to outpace both Tier 1 and Tier 2 companies and remains well positioned to deliver industry-leading growth in FY25. While its key North Americas market is seeing strong growth momentum, the company aims to expand its market share in Europe, potentially through acquisitions to gain access to new customers. Persistent achieved strong order inflow in Q2FY25, with the highest-ever deal TCV of $529 million, while its larger peers saw y-o-y deal win moderation. The company's recently launched AI-driven platform, SASVA 2.0, has helped secure certain AI deals, including a major five-year contract worth $45 million. The company's growth and cost-optimisation initiatives have contributed to stable margins in Q2. The company anticipates further margin expansion in the coming quarters due to reduced SG&A investments, structural cost cuts, and operational efficiencies. The company remains committed to its margin improvement target of 200-300 bps by FY2027. We expect the demand environment to improve, driven by rate cut cycle in the US and end of U.S. election uncertainties. This would expedite Persistent's growth steadily, leading it to the aspirational target of USD2 billion revenue target by FY27. We maintain Buy rating on the stock with revised target price (TP) of Rs. 7,280 (valuing at 56x Dec26E EPS), which is reasonable, given its consistent performance and industry-leading growth. At CMP, the stock trades at 71.6/56.1/46.7x its FY25/26/27E EPS.

- **Consistent strong growth:** The company reported strong H1FY25 performance, aided by robust revenue growth in Q1 and Q2, delivering more than 5% q-o-q in CC. The company continues to outpace Tier-1 and Tier-2 companies and remains well-positioned to deliver industry-leading growth in FY25. Key market of North America (~81% of the revenue mix) continues to see strong growth momentum along with the key BFSI vertical (~31% of the revenue mix). The company aims to expand its market share in Europe (~8% of the revenue mix), potentially through acquisitions to gain access to new customers. Although the hi-tech vertical continues to reflect softness, management believes it has bottomed out and expects a gradual uptick in H2FY25. The company has deepened its partnership with hyperscalers like Microsoft, AWS, Google, and Salesforce, enhancing Persistent's visibility and unlocking opportunities. The company recently launched the T100 Program to strengthen relationships with its top 100 clients, enhance customer value, and unlock new opportunities. We expect the demand environment to improve, driven by the rate cut cycle in the U.S. and end of U.S. election uncertainties, which would expedite Persistent's growth, steadily leading it to the aspirational revenue target of USD2 billion by FY27.
- **Robust order inflow:** Persistent has managed to buck the y-o-y deal win moderation trend by most IT services companies, especially Tier 1 in Q2FY25 reporting strong order inflows with the highest-ever deal win TCV of USD529, up 14% q-o-q/10% y-o-y. TCS, Infosys, HCL Tech and TechM saw deal win TCV declining by 23% / 68% / 44% and 6% respectively. The new business TCV in Q2FY25 stood at 74% of the total compared to 62% in FY24. However, while the order book has been healthy over several quarters, it is largely of a critical nature for clients and not necessarily discretionary. The company has launched SASVA 2.0, an advanced AI-driven platform to streamline software engineering. This platform has enabled the company to secure certain AI deals, including a major five-year contract worth $45 million
- **Stable Margins:** The company has its growth and cost programs running, which contributed to stable margins for Q2 despite wage hikes and makes the company well placed to continue its journey of margin improvement in the subsequent quarters. Aided by revenue growth and cost programs, blended utilisation improved 420 bps y-o-y to 84.8% and management expects to maintain it in the 83-85% band for the foreseeable future. The company has heavily invested in SG&A over the past few quarters and expects to reap benefits of these expenses aiding margin improvement. SG&A is expected to be the key lever, aiding margin expansion for the quarters going forward. The company is implementing structural changes as part of its cost-program, with some current expenses such as consultancy and other professional expenses set to decline in the next year. This, along with right shoring, subcon optimisation, pricing, growth-led operating leverage, and SG&A optimisation, supports its confidence in continued margin improvement heading into FY26. Management remains committed to its guidance of 200-300 bps margin improvement by FY27 which is likely to be aided by the above levers along with lower ESOP costs in the coming fiscals.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 7,280: Persistent, which has delivered a 24% revenue CAGR with significant relative sector outperformance over the past four years, continues to outpace both Tier 1 and Tier 2 companies and remains well positioned to deliver industry-leading growth in FY25. The company is consistently reporting strong deal wins over the past several quarters, providing strong revenue visibility. SASVA 2.0 is expected to further augment AI deals bolstering the order book going ahead. We expect the demand environment to improve, driven by the rate cut cycle in the U.S. and end of U.S. election uncertainties, which would expedite Persistent's growth steadily, leading them to their aspirational target of USD2 billion revenue target by FY27. We expect Sales/PAT CAGR at ~19%/23% over FY24-FY27E. We maintain BUY on the stock with a revised PT of Rs. 7,280 (valuing at 56x its Dec26E EPS), which is reasonable, given its consistent performance and industry-leading growth. At the CMP, the stock trades at 71.6/56.1/46.7x 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.

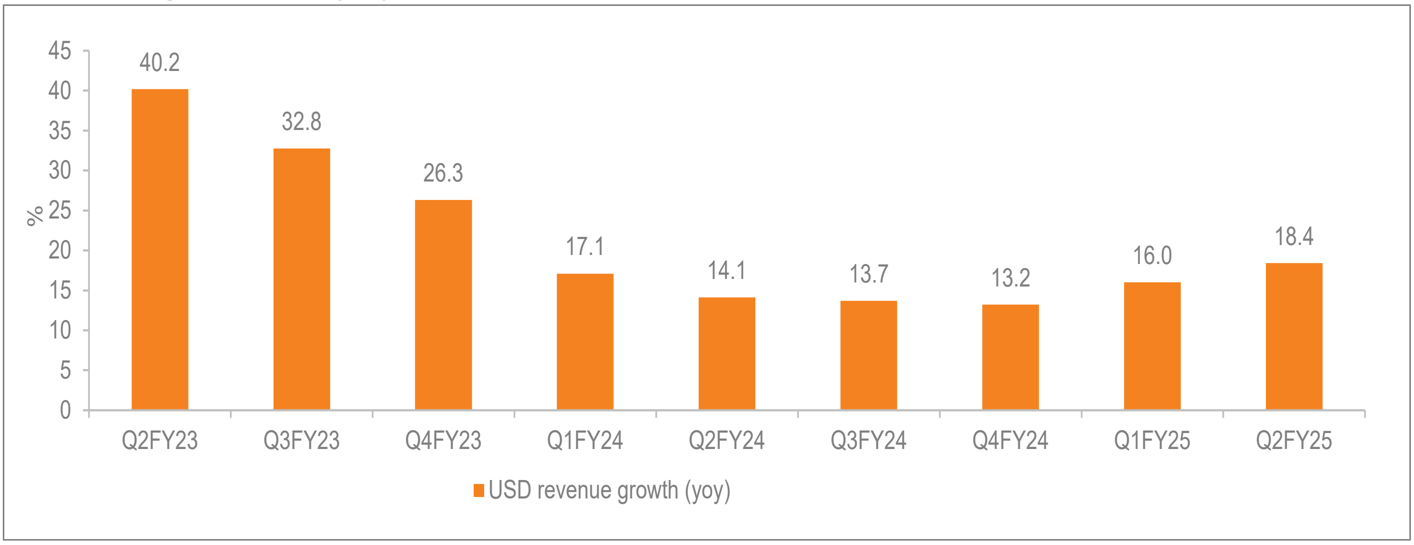
Valuation (Consolidated)

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)	85.6	71.6	56.1	46.7
P/B (x)	10.0	17.1	14.4	12.1
EV/EBITDA (x)	56.6	47.6	38.4	32.1
RoNW (%)	25.6	25.6	27.7	28.1
RoCE (%)	28.7	30.8	33.7	34.3

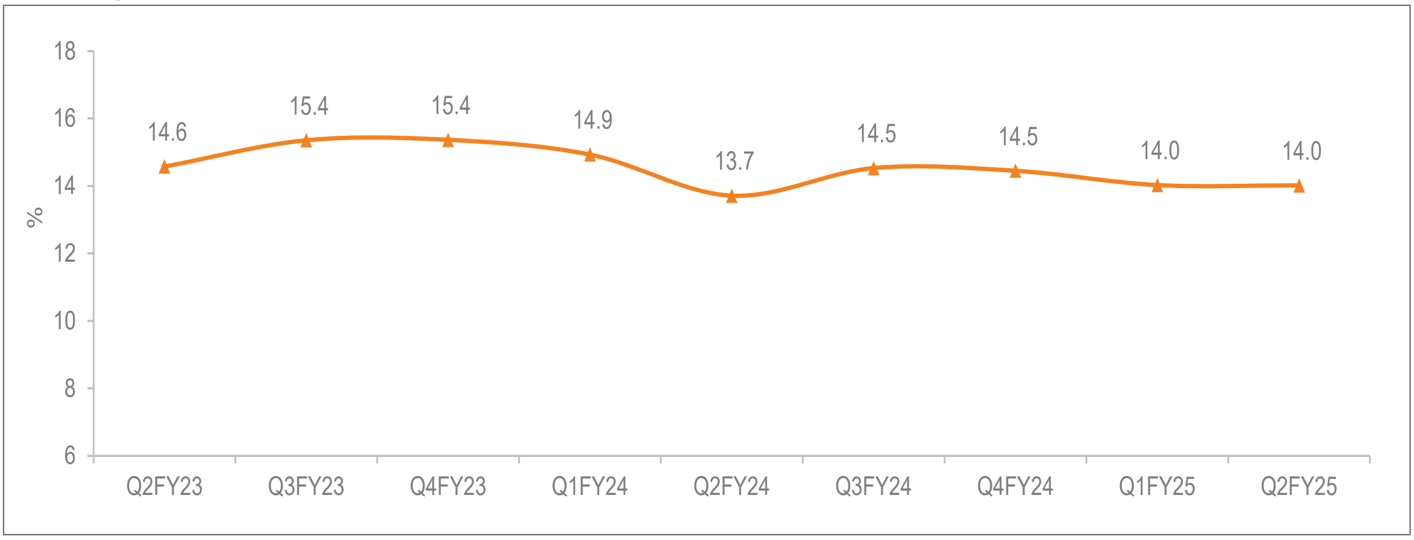
Source: Company; Mirae Asset Sharekhan estimates

USD revenue growth trend (y-o-y)



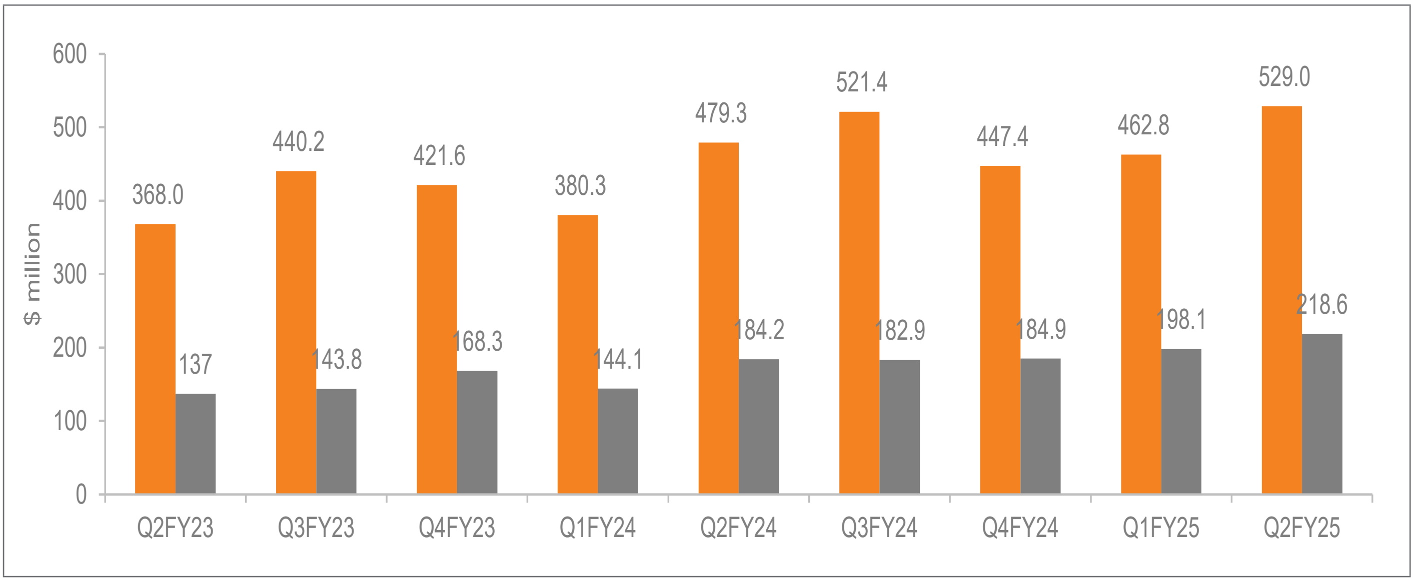
Source: Company; Mirae Asset Sharekhan Research

EBIT margin trend (%)



Source: Company; Mirae Asset Sharekhan Research

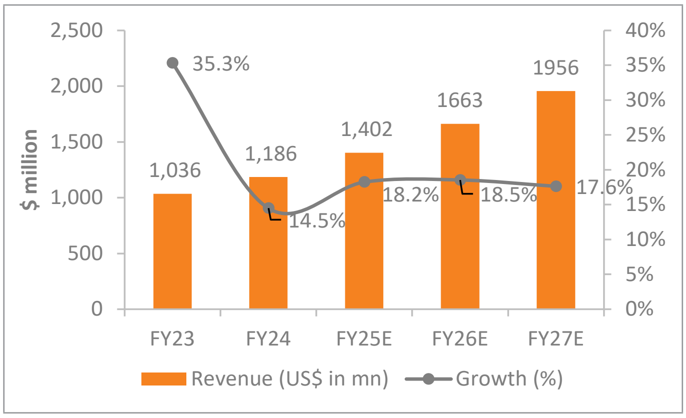
Total deal TCV and new business ACV trend



Source: Company; Mirae Asset Sharekhan Research

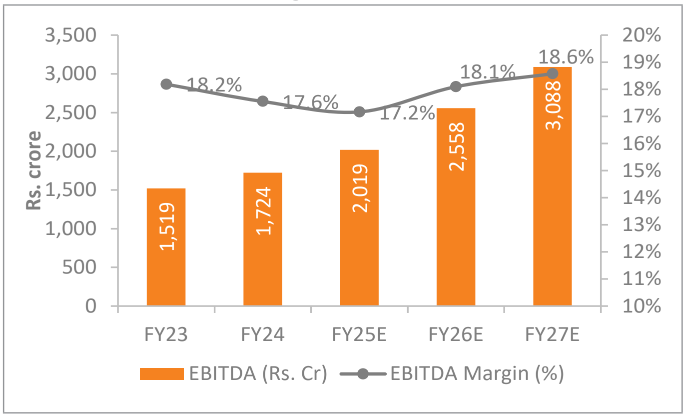
Financials in charts

Revenue (USD mn)



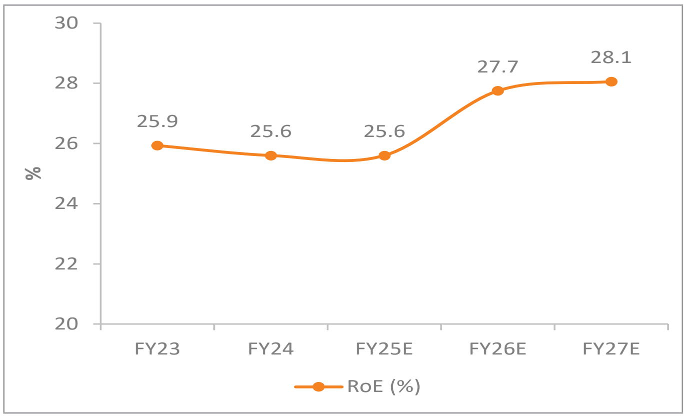
Source: Company; Mirae Asset Sharekhan Research

EBITDA and EBITDA Margin



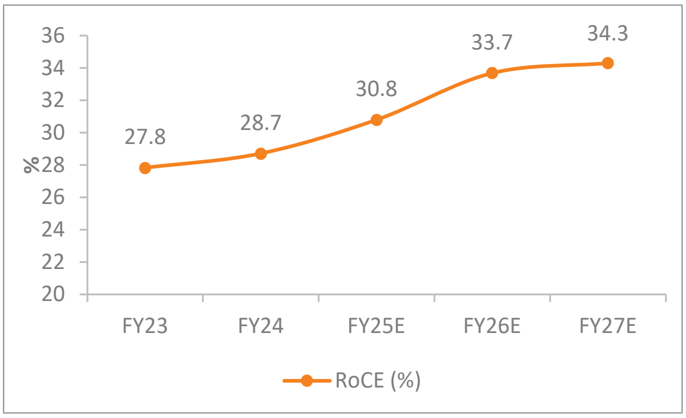
Source: Company; Mirae Asset Sharekhan Research

RoE



Source: Company; Mirae Asset Sharekhan Research

RoCE



Source: Company; Mirae Asset 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 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 spending 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 Persistent to make the most of the opportunity.

■ Valuation – Maintain BUY with a revised PT of Rs. 7,280

Persistent, which has delivered a 24% revenue CAGR with significant relative sector outperformance over the past four years, continues to outpace both Tier 1 and Tier 2 companies and remains well positioned to deliver industry-leading growth in FY25. The company is consistently reporting strong deal wins over the past several quarters, providing strong revenue visibility. SASVA 2.0 is expected to further augment AI deals bolstering the order book going ahead. We expect the demand environment to improve, driven by the rate cut cycle in the U.S. and end of U.S. election uncertainties, which would expedite Persistent's growth steadily, leading them to their aspirational target of USD2 billion revenue target by FY27. We expect Sales/PAT CAGR at ~19%/23% over FY24-FY27E. We maintain BUY on the stock with a revised PT of Rs. 7,280 (valuing at 56x its Dec26E EPS), which is reasonable, given its consistent performance and industry-leading growth. At the CMP, the stock trades at 71.6/56.1/46.7x its FY25/26/27E EPS.

One-year forward P/E (x) band

Source: Company; Mirae Asset 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. PSL has restructured its business and aligned its sales resources to capitalise on the benefits of 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 the banking crisis, macro headwinds, and recession in the U.S. can moderate the pace of technology spending.

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	4.91
2	Motilal Oswal Asset Management Co	3.41
3	FundRock Management Co SA	2.87
4	Kotak Mahindra Asset Management Co	2.85
5	Vanguard Group Inc/The	2.75
6	Blackrock Inc	2.68
7	HDFC Asset Management Co Ltd	2.63
8	Axis Asset Management Co Ltd/India	2.16
9	Nippon Life India Asset Management	1.84
10	PSPL ESOP MANAGEMENT TRUST	1.67

Source: Bloomberg

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Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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