



### Stellar Performance ...

**Persistent Systems has delivered strong performance this quarter, driven by healthcare, BFSI Vertical and North America contributing to the growth.**

- \$ revenue: \$345.5 Mn, +5.3% QoQ / +18.4% YoY and +0.6% vs our estimates
- INR revenue at 28,972 Mn, +5.8% QoQ / +20.1% YoY and +1.2% vs our estimates
- EBITDA: INR 4,807 Mn, +5.6% QoQ / +18.7% YoY and +2.1% vs our estimates
- EBITDA margins: 16.6%, vs 16.6% / 16.8% in Q1FY25 / Q2FY24 respectively
- EBIT: INR 4,062 Mn, +5.8% QoQ / +22.8% YoY and +1.8% vs our estimates
- EBIT margins: 14%, vs 14% / 13.7% in Q1FY25 / Q2FY24 respectively.
- PAT: INR 3,250 Mn, +6.1% QoQ / +23.4% YoY and +2% vs our estimates
- EPS at INR 20.9 in Q2FY25 vs 19.9 / 17.1 in Q1FY25 / Q2FY24 respectively and versus our estimate of INR 20.7
- New TTM Deal wins TCV were at \$389.8 Mn vs \$310.8 Mn in Q1FY25.
- Total TCV now stands at \$529 Mn in Q2FY25 vs \$462.8 Mn in Q1FY25.

### Segment-wise Performance

- **BFSI** (31.5% of revenue) reported +7.7% QoQ / +15.5% YoY.
- **Healthcare & Lifesciences** (27.8% of revenue) reported +9.6% QoQ / +70.6% YoY.
- **Software, Hi-Tech & Emerging Industries** (40.7% of revenue) reported -0.8% QoQ / -0.4% YoY.

### Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	57,107	83,506	98,216	117,218	138,902	158,695
EBITDA	9,582	15,191	17,243	19,827	24,569	29,036
Adjusted net profit	6,904	9,507	11,421	13,473	17,345	20,689
Free cash flow	7,938	4,306	14,334	19,135	10,199	21,854
EPS (Rs)	45	62	74	86	111	133
growth (%)	53.2	37.7	19.2	16.6	28.7	19.3
P/E (x)	114	86	73	60	46	39
P/B (x)	114	86	73	60	46	39
EV/EBITDA (x)	40	25	22	19	15	13
ROCE (%)	17.7	22.0	22.3	23.2	24.7	25.0
RoE (%)	22.4	25.9	24.5	25.1	27.6	27.9
Dividend yield (%)	0.4	0.6	1.0	0.8	1.2	1.5

Source: Dalal & Broacha Research, Company

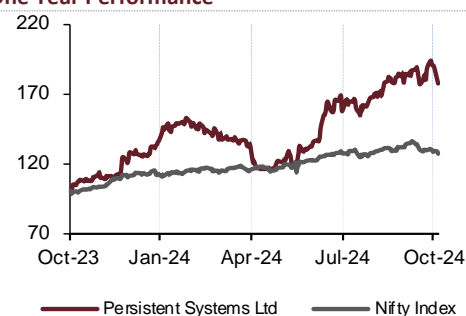
Rating	TP (Rs)	Up/Dn (%)
<b>BUY ON DIPS</b>	<b>5,310</b>	<b>3</b>

### Market data

<b>Current price</b>	Rs	5,158
Market Cap (Rs.Bn)	(Rs Bn)	804
Market Cap (US\$ Mn)	(US\$ Mn)	9,563
Face Value	Rs	10
52 Weeks High/Low	Rs	5692.95 / 2840
Average Daily Volume	('000)	513
BSE Code		533179
Bloomberg		PSYS.IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Sep-24	Jun-24
Promoters	30.66	31.02
Public	67.67	68.29
<b>Total</b>	<b>98.33</b>	<b>99.31</b>

Source: Bloomberg

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## Concall Highlights

- Persistent Systems believes it is too early to assess the impact of interest rates due to various dynamics, including the upcoming U.S. elections. The current demand environment is described as "tough," influenced by external factors. However, the company has developed the ability to identify specific revenue and profit pools within these challenging markets. Importantly, Persistent does not consider its business to be dependent on discretionary spending instead, it focuses on sectors that are more resilient to economic fluctuations. In Q2 FY25, growth was driven by the Healthcare and Life Sciences (HLS) sector, which grew by **71.2% YoY**, and the Banking, Financial Services, and Insurance (BFSI) sector, which grew by **15.3% YoY**.
- Geographically:
  - a. **North America:** Grew by **21.6% YoY**
  - b. **Europe:** Experienced a slight decline of **1.3% YoY**, but grew by **6.6% QoQ**. The decline in Europe was attributed to reduced sales force business and rationalization of tail customers
  - c. **India:** Revenue increased by **11.7% YoY**.
  - d. **Rest of World (ROW):** Grew by **19.2% YoY**, albeit from a low base.
- Margin Walk: The EBIT margin for Q2 FY25 stood at **14%**, representing a **30 basis point improvement** year-on-year. Several factors influenced this
  - a. Headwinds:
    - i. Wage hikes impacted margins by **210 bps**
    - ii. The absence of benefits from policy rationalization initiatives contributed to a **130 bps** negative impact.
  - b. Tailwinds:
    - i. Improved utilization from **82.1% to 84.8%**, contributing positively to margins by **120 bps**.
    - ii. Reduction in subcontractor costs provided a benefit of **70 bps**.
    - iii. Favorable currency movements aided margins by **30 bps**.
    - iv. The absence of H-1B visa costs contributed an additional tailwind of **60 bps**.
- Headcount decreased by **282 employees**, leading to an improvement in utilization from **82.1% to 84.8%**.
- Attrition increased slightly to **11.9%**, up from **11.5%** in Q1 FY25 but remains within a manageable range.
- Order book: TCV stood at \$462.8 million in Q2FY25 (+14.3% QoQ/+10.4% YoY). On a TTM basis, TCV was \$1.961 billion, while the ACV stood at \$348.3 million (+3.3% QoQ/+10.3%). On a TTM basis, ACV was \$1.394 billion.
- The DSO stood at 68 days (vs. 67 days in Q1FY25) this quarter.
- The customer count increased in the \$1mn-\$5mn & \$10mn-\$20 mn buckets, which have the potential to scale up further in the coming quarters.
- Persistent has announced its acquisition of Arrka, enhancing its data privacy management capabilities and strengthening its AI offerings through integration with existing platforms like SASVA and iAURA. This acquisition will bolster the company's ability to provide enhanced data privacy features and improved AI governance mechanisms

## Outlook:

- \$2 billion top-line
- Management aspires to reach \$2 billion top-line and improve margins by 200-300 bps in next 2 to 3 years. on account of improvement in utilization, a higher offshore mix, and an improved employee pyramid.

## Quarterly Deviation Sheet

YE March (Rs. Mn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)	Q2FY25E	Deviation (%)
<b>Net Sales (US\$ Mn)</b>	345.5	328.2	5.3%	291.7	18.4%	343.3	0.6%
<b>Net Sales (INR Mn)</b>	28,972	27,372	5.8%	24,117	20.1%	28,633	1.2%
<b>Less:</b>							
Employees Benefits	21,509	19,952	7.8%	17,759	21.1%	21,063	2.1%
SG&A Expenses	2,655	2,868	(7.4%)	2,306	15.1%	2,863	(7.3%)
<b>Total Operating Expenditure</b>	<b>24,164</b>	<b>22,820</b>	<b>5.9%</b>	<b>20,065</b>	<b>20.4%</b>	<b>23,927</b>	<b>1.0%</b>
<b>EBITDA</b>	<b>4,807</b>	<b>4,552</b>	<b>5.6%</b>	<b>4,052</b>	<b>18.7%</b>	<b>4,706</b>	<b>2.1%</b>
<b>EBIT</b>	<b>4,062</b>	<b>3,840</b>	<b>5.8%</b>	<b>3,308</b>	<b>22.8%</b>	<b>3,991</b>	<b>1.8%</b>
Less: Depreciation	745	712		744		716	
Less: Interest	182	141	29.2%	123	48.4%	141	29.2%
Add: Other income	465	306	51.8%	373	24.8%	372	25.0%
Extraordinary Income	0	0		0		0	
<b>Profit Before Tax</b>	<b>4,345</b>	<b>4,005</b>	<b>8.5%</b>	<b>3,558</b>	<b>22.1%</b>	<b>4,222</b>	<b>2.9%</b>
<b>Adjusted Profits</b>	<b>4,345</b>	<b>4,005</b>	<b>8.5%</b>	<b>3,558</b>	<b>22.1%</b>	<b>4,222</b>	
Less: Total Tax	1,095	941		925		1,034	
<b>PAT</b>	<b>3,250</b>	<b>3,064</b>	<b>6.1%</b>	<b>2,633</b>	<b>23.4%</b>	<b>3,187</b>	<b>2.0%</b>
<b>Adjusted PAT</b>	<b>3,250</b>	<b>3,064</b>	<b>6.1%</b>	<b>2,633</b>	<b>23.4%</b>	<b>3,187</b>	<b>2.0%</b>
Reported Diluted EPS (Rs.)	20.9	19.9		17.1		20.7	0.8%
Adjusted Diluted EPS (Rs.)	20.9	19.9		17.1		20.7	
No of Shared Diluted (mn)	156	154		154		154	
<b>Margin Analysis %</b>	<b>Q2FY25</b>	<b>Q1FY25</b>	<b>Change in bps</b>	<b>Q2FY24</b>	<b>Change in bps</b>	<b>Q2FY25E</b>	<b>Deviation in bps</b>
EBIT margin	14.0%	14.0%	(1)	13.7%	31	13.9%	8
EBIDTA Margin	16.6%	16.6%	(4)	16.8%	(21)	16.4%	16
NPM	11.2%	11.2%	2	10.9%	30	11.1%	9
Adjusted NPM	11.2%	11.2%	2	10.9%	30	11.1%	9
Effective Tax Rate %	25.2%	23.5%	171	26.0%	(79)	24.5%	71
<b>Cost Analysis %</b>	<b>Q2FY25</b>	<b>Q1FY25</b>	<b>Change in bps</b>	<b>Q2FY24</b>	<b>Change in bps</b>	<b>Q2FY25E</b>	<b>Deviation in bps</b>
Employee Cost/Net Sales	74.2%	72.9%	135	73.6%	60	73.6%	68
SG&A/Net sales	9.2%	10.5%	(131)	9.6%	(40)	10.0%	(84)

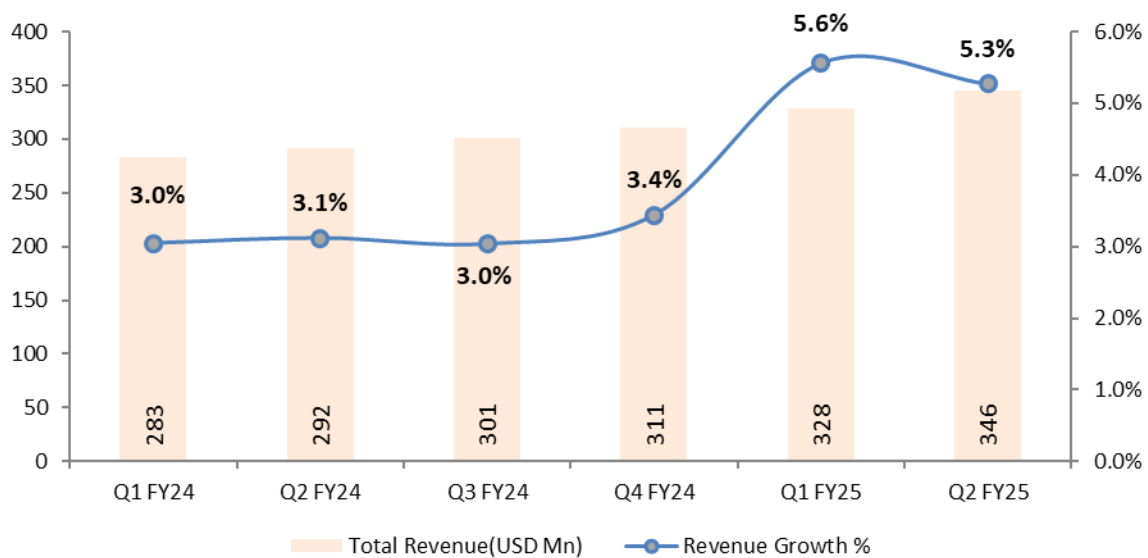
Source: Dalal & Broacha Research, Company

Valuation & Outlook

Persistent Systems aims to improve its margins by 200-300 bps over the next 2 to 3 years, while targeting a topline of \$2 billion. The company's strategic focus on generative AI and cloud technologies has delivered positive outcomes, driving new deal wins. Persistent remains dedicated to account mining, with growth being primarily led by the healthcare and life sciences sectors, followed by BFSI. Attrition has reduced to comfortable levels, and there is optimism about improved utilization of freshers. The company is well-positioned to maintain its strong execution and secure healthy deal wins over the next two years. With an improving macro environment and a robust pipeline, Persistent Systems is well-placed for future growth.

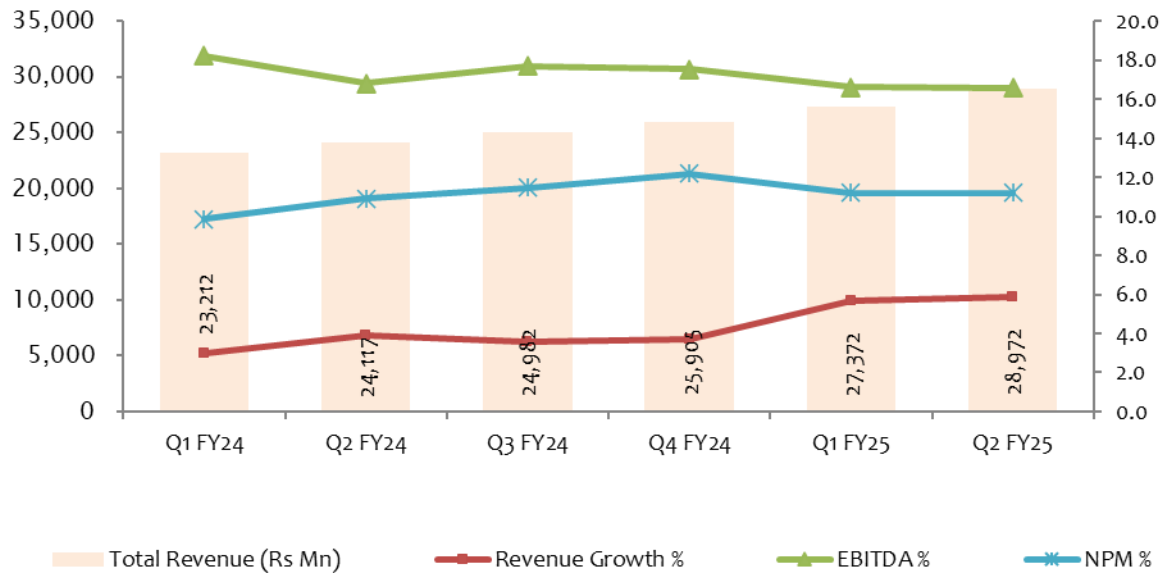
**Persistent Systems is currently trading at 59.7x / 46.3x / 38.9x FY25e/FY26e/FY27e EPS respectively. Taking the above factors into consideration, We believe the stock is trading at a premium due to its stellar performance and is expected to enjoy a scarcity premium in the current environment. We recommend a BUY ON DIPS rating, applying a target multiple of 40x FY27e EPS to arrive at a target price of INR 5,310.**

Exhibit 1: Total Revenue USD Growth



Source: : Dalal & Broacha Research, Company

**Exhibit 2: Quarterly Financial Performance**



**Exhibit 3: Change in Geographical Presence**

US\$ Revenues (Mn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
<b>North America</b>	224	231	240	249	265	281
Growth Rate QoQ (%)	4.8%	3.1%	3.7%	4.0%	6.4%	6.1%
<b>Europe</b>	27	28	27	24	26	27
Growth Rate QoQ (%)	-3.0%	1.0%	-3.5%	-9.3%	5.6%	6.6%
<b>India</b>	28	28	30	31	32	32
Growth Rate QoQ (%)	2.0%	1.0%	6.2%	4.5%	2.4%	-1.2%
<b>ROW</b>	3	5	4	6	6	6
Growth Rate QoQ (%)	-31.3%	37.5%	-9.8%	47.8%	-10.3%	-0.9%

Source : Dalal & Broacha Research, Company

Financials

<b>Profit &amp; Loss A/c</b>						
<b>YE March (Rs. mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
<b>Net Sales</b>	57,107	83,506	98,216	117,218	138,902	158,695
<i>Growth %</i>	36.4%	46.2%	17.6%	19.3%	18.5%	14.2%
Other Operating Income	0	0	0	0	0	0
<b>Total Revenue</b>	57,107	83,506	98,216	117,218	138,902	158,695
<b>Less:</b>						
Employee Cost & Related Expenses	42,567	60,122	71,102	86,077	101,831	115,376
Miscellaneous Expenses	4,958	8,193	9,870	11,315	12,501	14,283
<b>Total Operating Expenditure</b>	47,526	68,315	80,973	97,392	114,332	129,659
<b>EBIDTA</b>	9,582	15,191	17,243	19,827	24,569	29,036
<i>Growth %</i>	40.3%	58.5%	13.5%	15.0%	23.9%	18.2%
Less: Depreciation	1,660	2,719	3,094	3,022	3,611	3,967
<b>EBIT</b>	7,922	12,472	14,149	16,805	20,958	25,069
<i>Growth %</i>	56.1%	57.4%	13.4%	18.8%	24.7%	19.6%
Interest Paid	118	473	467	688	215	215
Non-operating Income	1,440	706	1,280	1,749	2,230	2,548
Extraordinary Income	0	(297)	(486)	0	0	0
<b>Profit Before tax</b>	9,243	12,409	14,476	17,865	22,974	27,402
Tax	2,339	3,198	3,541	4,393	5,629	6,714
<b>Net Profit before Minority</b>	6,904	9,211	10,935	13,473	17,345	20,689
<b>Net Profit</b>	6,904	9,211	10,935	13,473	17,345	20,689
<b>Adjusted Profit</b>	6,904	9,507	11,421	13,473	17,345	20,689
<b>Reported Diluted EPS Rs</b>	45.2	60.3	71.0	86.4	111.3	132.7
<i>Growth %</i>	53.2%	33.4%	17.8%	21.8%	28.7%	19.3%
<b>Adjusted Diluted EPS Rs</b>	45.2	62.2	74.1	86.4	111.3	132.7
<i>Growth %</i>	53.2%	37.7%	19.2%	16.6%	28.7%	19.3%
<b>Balance Sheet (Consolidated)</b>						
<b>YE March( Rs. mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
<b>Liabilities</b>						
Equity Capital	764	764	770	770	770	770
Reserves & Surplus	32,918	38,887	48,807	56,857	67,220	79,582
<b>Equity</b>	33,682	39,651	49,577	57,627	67,991	80,352
Preference Share Capital						
<b>Net Worth</b>	33,682	39,651	49,577	57,627	67,991	80,352
Minority Interest						
Net Deferred tax liability/(Asset)	2,326	3,760	859	1,065	1,365	1,628
<b>Total Loans</b>	2,801	2,058	99	99	99	99
<b>Capital Employed</b>	38,809	45,468	50,535	58,791	69,455	82,079
<b>Assets</b>						
Gross Block	8,970	11,936	12,354	15,854	19,354	22,854
Less: Depreciation	6,052	7,076	7,934	10,956	14,568	18,535
<b>Net Block</b>	2,918	4,860	4,420	4,898	4,786	4,319
Capital WIP	1,071	161	335	400	474	542
<b>Investments</b>	4,409	5,475	6,952	8,226	9,538	10,822
Intangible Assets	11,060	16,355	15,488	18,484	25,002	28,565
Others Assets	3,863	1,629	1,255	1,498	1,776	2,029
Right of Use Assets	1,358	2,198	2,307	2,415	0	2,523
<b>Current Assets</b>						
Sundry Debtors	9,484	15,253	16,761	20,553	25,116	28,696
Current Investments	4,347	1,880	2,727	4,689	5,556	6,348
Cash and Bank Balance	9,145	9,033	10,229	14,873	16,400	20,454
Other Current Assets	5,414	8,752	11,902	10,550	13,057	14,917
<b>Total Current Assets</b>	28,389	34,918	41,619	50,664	60,129	70,415
<b>Less:Current Liabilities &amp; Provisions</b>						
Sundry Creditors	4,299	5,689	8,139	9,873	10,963	12,433
Provisions	3,950	4,649	3,331	6,370	7,599	9,063
Other Current Liabilities	6,011	9,790	10,372	11,552	13,689	15,639
<b>Total Current Liabilities</b>	14,260	20,129	21,842	27,794	32,251	37,136
<b>Capital Applied</b>	38,809	45,468	50,535	58,791	69,455	82,079

Source: : Dalal & Broacha Research, Company

<b>Key Ratios (Consolidated)</b>						
<b>YE March (Rs. mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
<b>Key Operating Ratios</b>						
EBITDA Margin (%)	16.8%	18.2%	17.6%	16.9%	17.7%	18.3%
Tax / PBT (%)	25.3%	25.8%	24.5%	24.6%	24.5%	24.5%
Net Profit Margin (%)	12.1%	11.0%	11.1%	11.5%	12.5%	13.0%
RoE (%)	22.4%	25.9%	25.6%	25.1%	27.6%	27.9%
RoCE (%)	17.7%	22.0%	22.3%	23.2%	24.7%	25.0%
Current Ratio (x)	2.0x	1.7x	1.9x	1.8x	1.9x	1.9x
Dividend Payout (%)	39.4%	47.9%	33.8%	40.3%	40.3%	40.3%
Book Value Per Share (Rs.)	220.4	259.4	321.8	369.8	436.3	515.6
<b>Financial Leverage Ratios</b>						
Debt/ Equity (x)	0.1x	0.1x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	81.0x	32.1x	36.9x	28.8x	114.5x	135.3x
Interest / Debt (%)	8.3%	19.5%	43.3%	694.0%	216.5%	216.5%
<b>Growth Indicators %</b>						
Growth in Gross Block (%)	13.8%	33.1%	3.5%	28.3%	22.1%	18.1%
Sales Growth (%)	36.4%	46.2%	17.6%	19.3%	18.5%	14.2%
EBITDA Growth (%)	40.3%	58.5%	13.5%	15.0%	23.9%	18.2%
Net Profit Growth (%)	53.2%	33.4%	18.7%	23.2%	28.7%	19.3%
Diluted EPS Growth (%)	53.2%	33.4%	17.8%	21.8%	28.7%	19.3%
<b>Turnover Ratios</b>						
Debtors Days	49	54	59	58	60	62
Creditors Days	44	42	50	52	51	50
<b>Cash Flows (Consolidated)</b>						
<b>YE March (Rs. Mn)</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
<b>PAT</b>	<b>6,904</b>	<b>9,211</b>	<b>10,935</b>	<b>13,473</b>	<b>17,345</b>	<b>20,689</b>
(Less)/Add: Extraordinary Income/Expense	0	297	486	0	0	0
Less: Non Operating Income	(1,440)	(706)	(1,280)	(1,749)	(2,230)	(2,548)
Add: Depreciation	1,660	2,719	3,094	3,022	3,611	3,967
Add: Interest Paid	118	473	467	688	215	215
<b>Operating Profit before WC Changes</b>	<b>7,243</b>	<b>11,994</b>	<b>13,702</b>	<b>15,434</b>	<b>18,941</b>	<b>22,323</b>
(Inc)/Dec in Current Assets	(4,379)	(9,108)	(4,658)	(2,440)	(7,070)	(5,440)
Inc/(Dec) in Current Liabilities	6,562	5,869	1,713	5,952	4,457	4,885
<b>Net Cash Generated From Operations</b>	<b>9,427</b>	<b>8,755</b>	<b>10,757</b>	<b>18,947</b>	<b>16,327</b>	<b>21,768</b>
<b>Cash Flow from Investing Activities</b>						
(Inc)/Dec in Fixed Assets	(1,085)	(2,966)	(418)	(3,500)	(3,500)	(3,500)
(Inc)/Dec in Capital Work In Progress	(949)	910	(174)	(65)	(74)	(68)
(Inc)/Dec in Investment (Strategic)	(256)	(638)	(1,023)	(1,000)	(1,000)	(1,000)
(Inc)/Dec in Investment (Others)	(64)	(428)	(454)	(273)	(312)	(285)
Add: Non Operating Income	1,440	706	1,280	1,749	2,230	2,548
(Inc)/Dec in Intangible Assets	(13,472)	(3,062)	1,241	(3,239)	(6,795)	(3,816)
<b>Cash Flow from Investing Activities</b>	<b>(14,388)</b>	<b>(5,478)</b>	<b>453</b>	<b>(6,329)</b>	<b>(9,451)</b>	<b>(6,120)</b>
<b>Cash Flow from Financing Activities</b>						
Inc/(Dec) in Total Loans	5,163	691	(4,860)	207	300	263
Dividend Paid	(2,368)	(3,833)	(3,210)	(4,715)	(6,071)	(7,241)
Tax Paid on Dividend	(355)	(575)	(482)	(707)	(911)	(1,086)
Less: Interest Paid	(118)	(473)	(467)	(688)	(215)	(215)
<b>Net Cash Flow from Financing Activities</b>	<b>2,775</b>	<b>(5,017)</b>	<b>(9,057)</b>	<b>(5,904)</b>	<b>(6,896)</b>	<b>(8,279)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>(2,187)</b>	<b>(1,739)</b>	<b>2,152</b>	<b>6,714</b>	<b>(20)</b>	<b>7,369</b>
<b>Opening Balance</b>	<b>9,809</b>	<b>9,145</b>	<b>9,033</b>	<b>10,229</b>	<b>14,873</b>	<b>16,400</b>
<b>Closing Cash Balance</b>	<b>7,622</b>	<b>7,406</b>	<b>11,185</b>	<b>16,943</b>	<b>14,852</b>	<b>23,769</b>
<b>Free Cash Flow Analysis</b>						
	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
<b>EBITDA</b>	<b>9,582</b>	<b>15,191</b>	<b>17,243</b>	<b>19,827</b>	<b>24,569</b>	<b>29,036</b>
<b>Add: Depreciation Tax Shield</b>	<b>420</b>	<b>701</b>	<b>757</b>	<b>743</b>	<b>885</b>	<b>972</b>
<b>Working Capital Changes</b>	<b>1,361</b>	<b>(5,422)</b>	<b>293</b>	<b>6,458</b>	<b>(6,126)</b>	<b>2,059</b>
<b>Less: Inc in FC Investment</b>	<b>1,085</b>	<b>2,966</b>	<b>418</b>	<b>3,500</b>	<b>3,500</b>	<b>3,500</b>
<b>Taxes Paid</b>	<b>2,339</b>	<b>3,198</b>	<b>3,541</b>	<b>4,393</b>	<b>5,629</b>	<b>6,714</b>
<b>Total Free Cash Flows</b>	<b>7,938</b>	<b>4,306</b>	<b>14,334</b>	<b>19,135</b>	<b>10,199</b>	<b>21,854</b>

Source: Dalal &amp; Broacha Research, Company

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