

**NOT RATED****PERSISTENT SYSTEMS**

| IT Services

| 22 October 2024

## Strong quarter both on revenue and margins

- **Met revenue estimate. But a beat on EBIT margin. Strong 1H and ACV should mean high teen revenue growth with flat EBIT margin vs FY24**
- **Reiterates US\$2bn revenue/16.5%-17.5% EBIT margin by FY27. Believes platform-based approach and SGA leverage will drive margins.**
- **Likely to have among fastest earnings growth among >US\$1bn revenue Indian IT services players. Will initiate coverage on company soon**

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**Strong revenue growth in line but margin better:** 5.1% CC QoQ growth was in line with our estimate of 5%. Growth was driven by Healthcare & Life Sciences and the BFSI verticals whereas the Hitech vertical was virtually flat. The EBIT margin was better than expected by 100bps QoQ at 14% (flat QoQ). But helped by continued large earn out reversals.

**Margin Headwinds and tailwinds:** Headwinds – wage hike (210bps), HR and other policy rationalization not being there (130), incremental ESOP impact (60), lower earn out reversal impact (60). A total of 460bps. Tailwinds – Utilization (120bps), lower subcon (70), lower resale of products (50), pricing and right shoring (130), currency (30) and no visa cost (60). Believes margins can move up higher in 2H. The earn-out reversals will be there in 2H too but will be largely accounted for in by FY25. The earn-out reversal helped 1QFY25 EBIT margin by 230bps.

**Revenue growth delinked from industry:** Persistent has delivered strong revenue growth (>5% CC QoQ) for the second consecutive quarter and has set itself apart from its peers, big and small. Its ability to pivot quickly to the requirements of the market is what it says has helped it grow much faster. This is visible in the TCV/ACV of the company.

**Says revenue/profit per capita should move up in the coming years:** Believes its AI platform-based strategy of using SAASVA (which is technology related) and iAURA (for business) will lead to higher revenue/profit per employee which should drive lower employee intensity and higher margins.

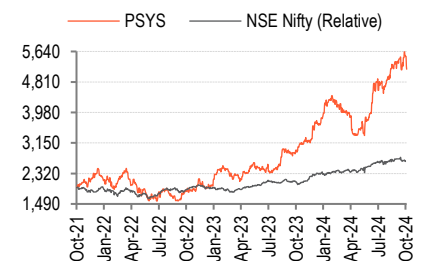
**Headcount growth controlled:** Persistent trimmed its employee base for the second consecutive quarter while taking up utilization to 84.8% (including trainees). Very likely it will start adding employees from here on as it is at the upper end of the utilization band it wants to operate in (83-85%).

**Furloughs will be normal but 2H growth should be healthy:** Does not see anything different this year. Strong TCV/ACV addition will drive growth.

Ticker/Price	PSYS IN/Rs 5,158
Market cap	US\$ 9.4bn
Free float	68%
3M ADV	US\$ 26.2mn
52wk high/low	Rs 5,690/Rs 2,840
Promoter/FPI/DII	31%/23%/27%

Source: NSE | Price as of 22 Oct 2024

## Stock performance



Source: NSE

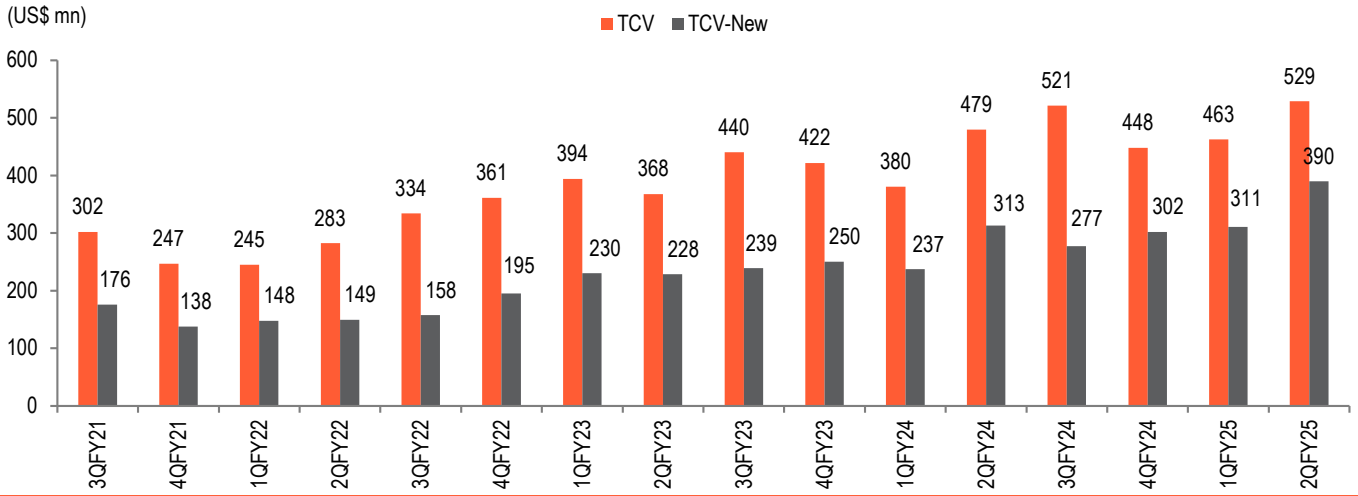


**Fig 1 – Quarterly results: Comparison of actuals with estimates**

Y/E March (Rs mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	2QFY25E	Dev (%)
<b>Net Sales (US\$ mn)</b>	<b>291.7</b>	<b>328.2</b>	<b>345.3</b>	<b>18.4</b>	<b>5.2</b>	<b>345.3</b>	<b>0.0</b>
<b>Net Sales</b>	<b>24,117</b>	<b>27,372</b>	<b>28,972</b>	<b>20.1</b>	<b>5.8</b>	<b>28,935</b>	<b>0.1</b>
Direct Cost	16,127	18,329	19,294	19.6	5.3	19,682	(2.0)
% of Sales	66.9	67.0	66.6			68.0	
Gross Margin	7,990	9,043	9,678	21.1	7.0	9,254	4.6
% of Sales	33.1	33.0	33.4			32.0	
SG&A	3,938	4,491	4,870	23.7	8.4	4,760	2.3
% of Sales	16.3	16.4	16.8			16.4	
<b>EBITDA</b>	<b>4,052</b>	<b>4,552</b>	<b>4,807</b>	<b>18.6</b>	<b>5.6</b>	<b>4,494</b>	<b>7.0</b>
<b>EBITDA Margin (%)</b>	<b>16.8</b>	<b>16.6</b>	<b>16.6</b>			<b>15.5</b>	
Depreciation and Amortization	744	712	745			725	2.8
<b>EBIT</b>	<b>3,308</b>	<b>3,840</b>	<b>4,062</b>	<b>22.8</b>	<b>5.8</b>	<b>3,769</b>	<b>7.8</b>
<b>EBIT Margin (%)</b>	<b>13.7</b>	<b>14.0</b>	<b>14.0</b>			<b>13.0</b>	
Other Income, Net	166	173	177	6.4	2.6	178	(0.7)
Forex Gain/(Losses)	84	(7)	106	26.6	NA	-	
<b>PBT</b>	<b>3,558</b>	<b>4,005</b>	<b>4,345</b>	<b>22.1</b>	<b>8.5</b>	<b>3,948</b>	<b>10.1</b>
Provision for Tax	925	941	1,095	18.4	16.3	928	18.0
Effective Tax Rate	26.0	23.5	25.2			23.5	
<b>PAT</b>	<b>2,633</b>	<b>3,064</b>	<b>3,250</b>	<b>23.4</b>	<b>6.1</b>	<b>3,020</b>	<b>7.6</b>
<b>NPM (%)</b>	<b>10.9</b>	<b>11.2</b>	<b>11.2</b>			<b>10.4</b>	

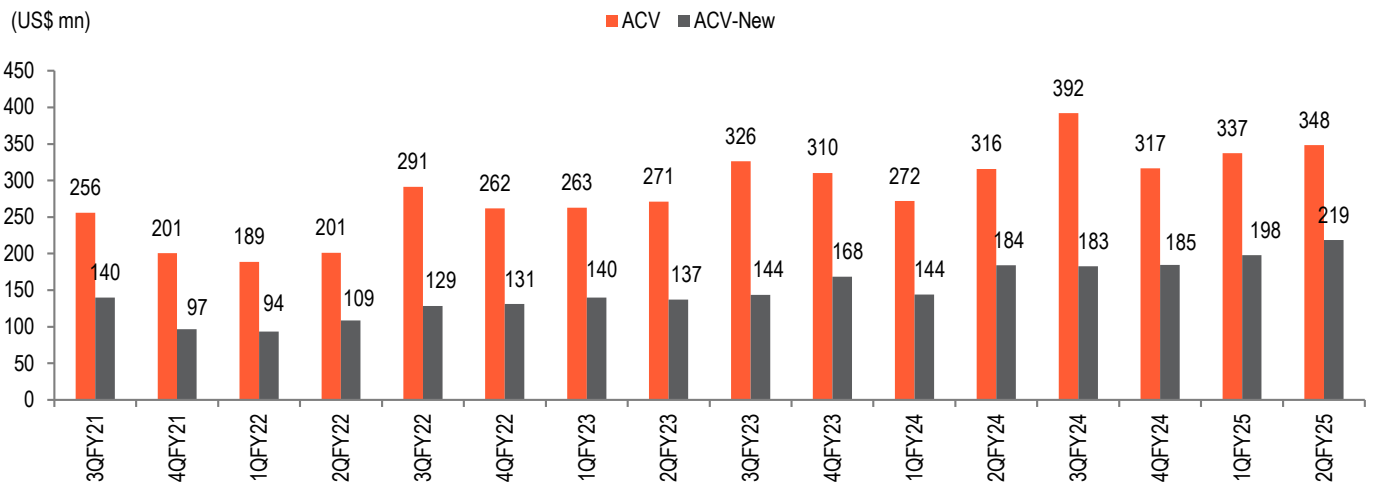
Source: Company, BOBCAPS Research

**Fig 2 – Deals booked picture – Total TCV and TCV-New**



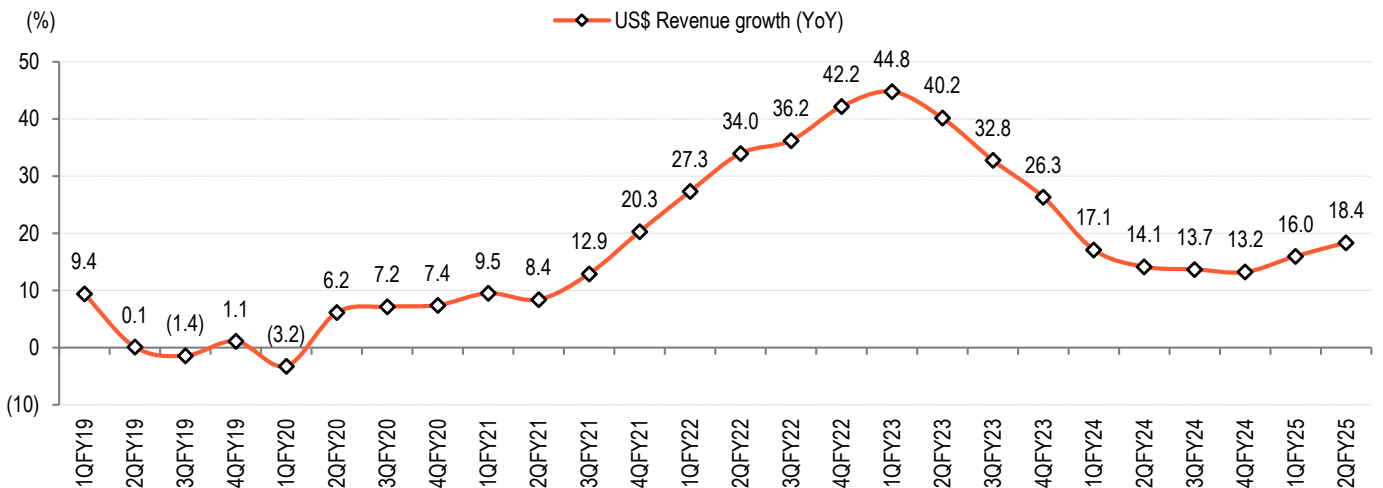
Source: Company, BOBCAPS Research

**Fig 3 – Total ACV and ACV-New**



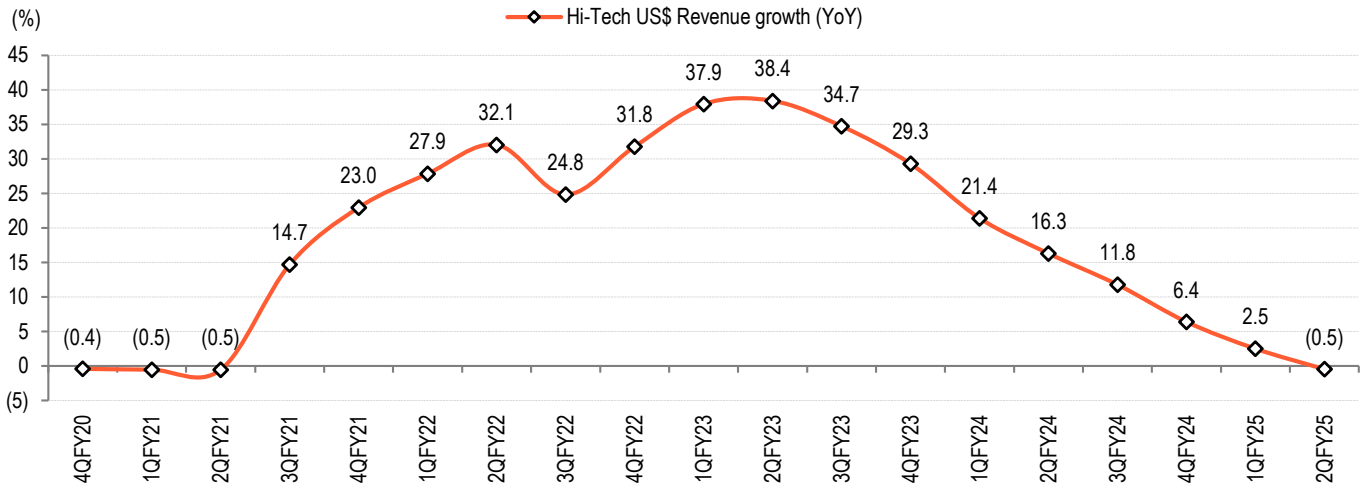
Source: Company, BOBCAPS Research

**Fig 4 – YoY USD Revenue growth**



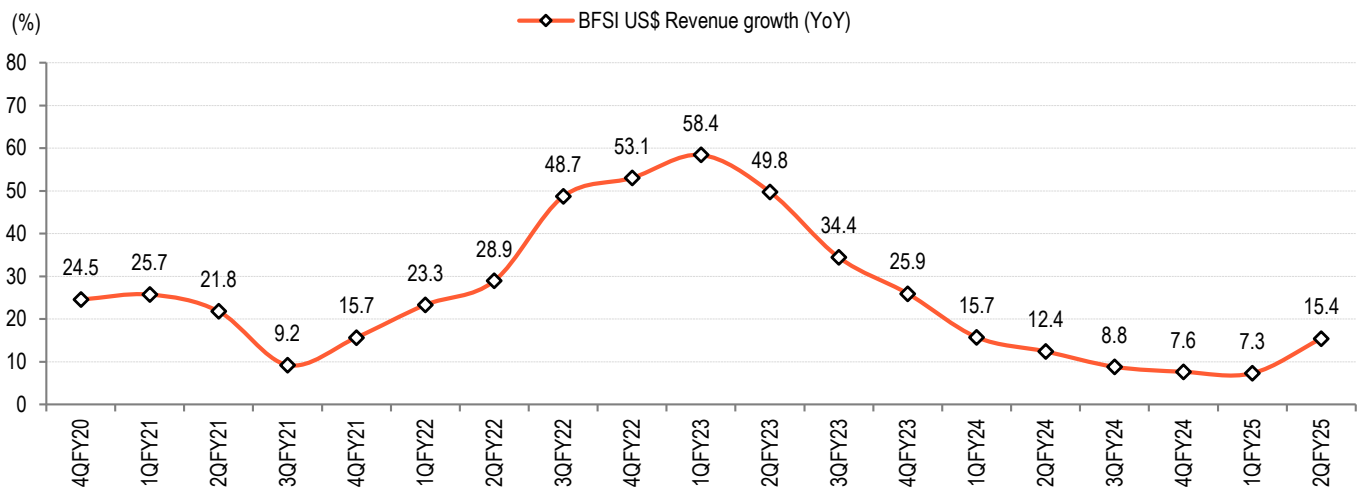
Source: Company, BOBCAPS Research

**Fig 5 – YoY USD Revenue growth of Hi-Tech vertical**



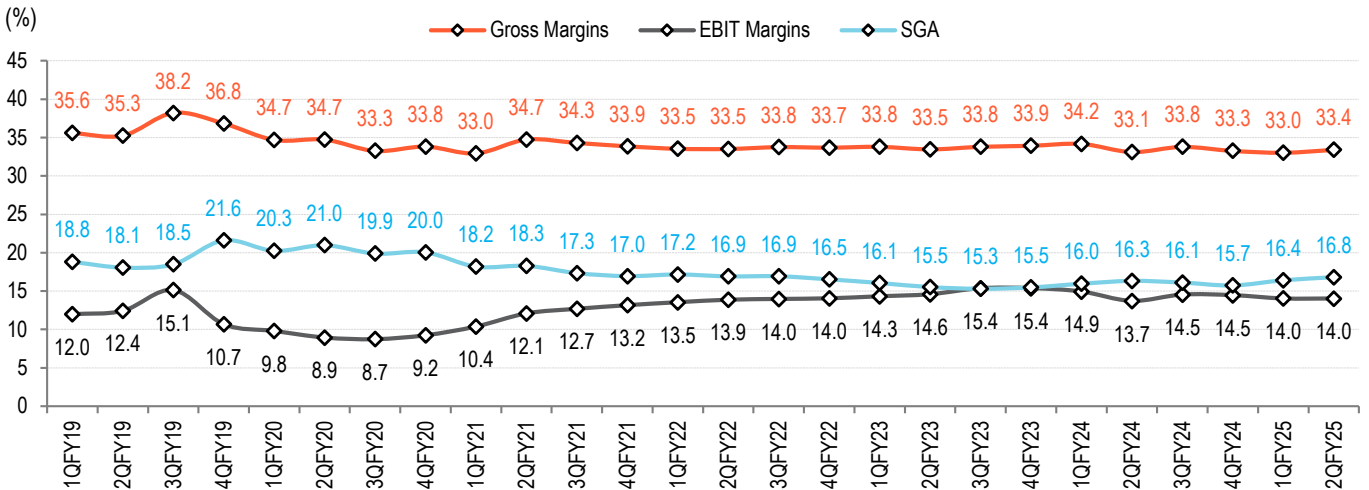
Source: Company, BOBCAPS Research

**Fig 6 – YoY USD Revenue growth of BFSI vertical**



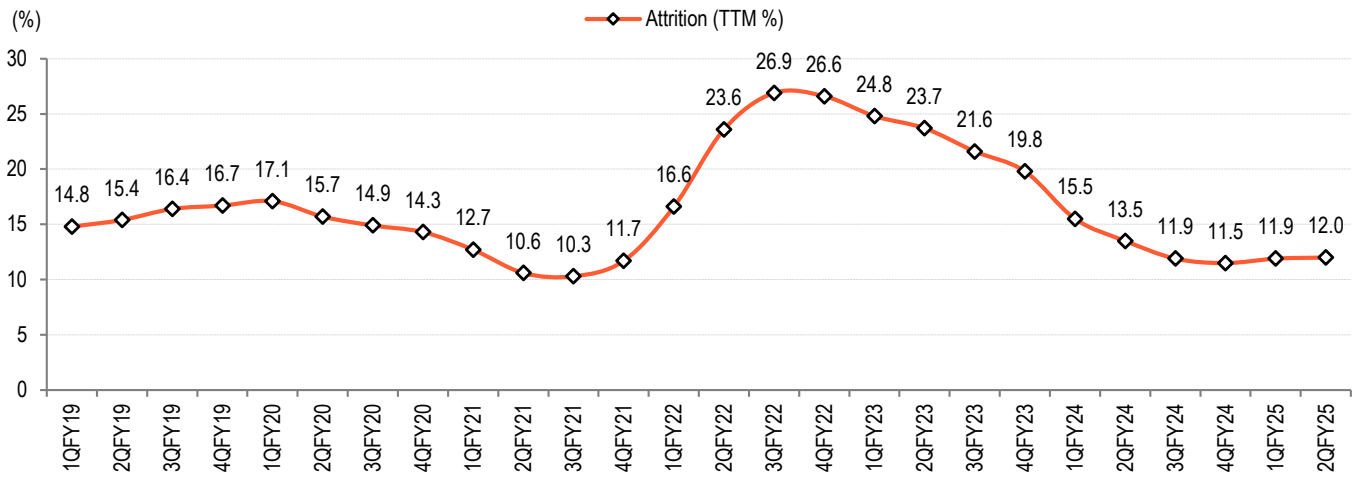
Source: Company, BOBCAPS Research

**Fig 7 – Gross Margin, SG&A and EBIT Margin**



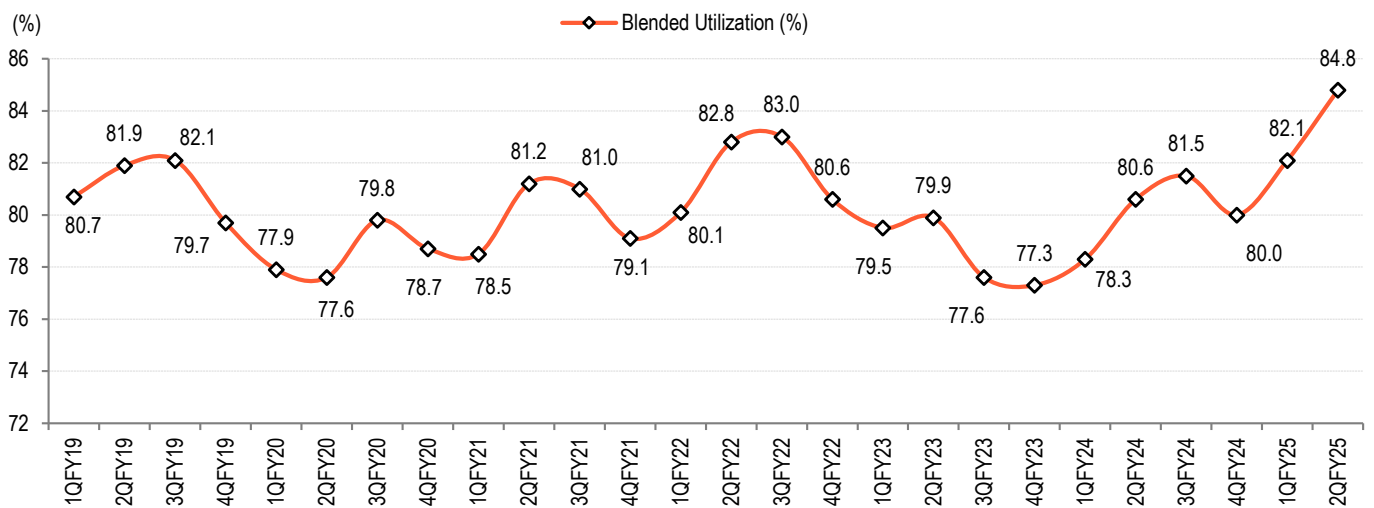
Source: Company, BOBCAPS Research

**Fig 8 – LTM Attrition Rate**



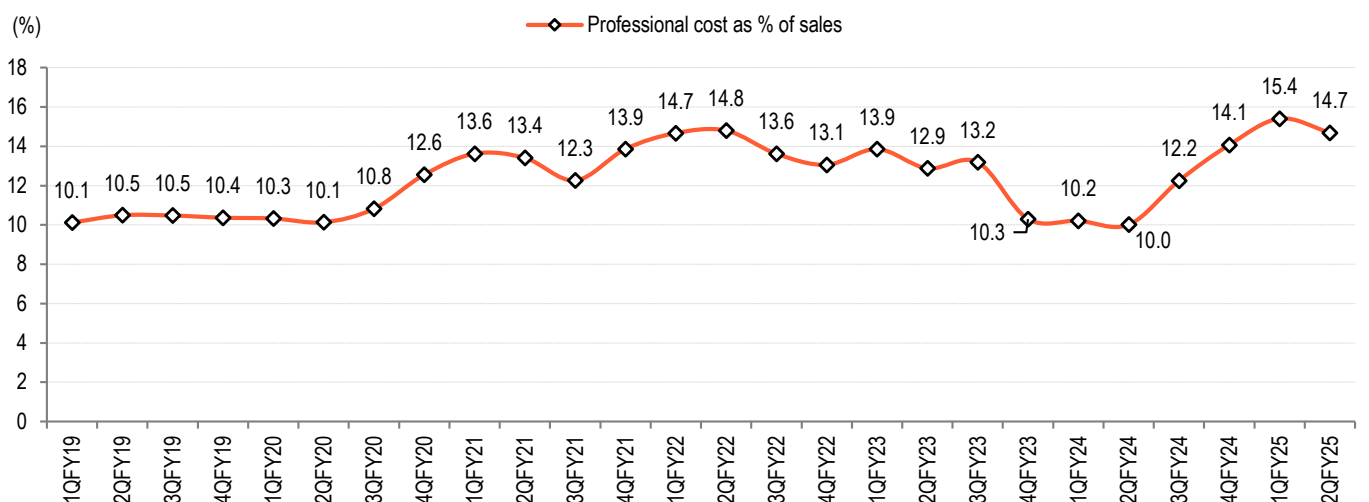
Source: Company, BOBCAPS Research

**Fig 9 – Employee Utilization (including trainees)**



Source: Company, BOBCAPS Research

**Fig 10 – Subcontractor Cost as % of Revenue**



Source: Company, BOBCAPS Research

**Fig 11 – Quarterly Snapshot**

Year to 31 March (Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>INR/US\$</b>	<b>77.8</b>	<b>80.2</b>	<b>82.1</b>	<b>82.1</b>	<b>82.1</b>	<b>82.7</b>	<b>83.1</b>	<b>83.3</b>	<b>83.4</b>	<b>83.9</b>
US\$ Revenue (US\$ mn)	242	256	264	275	283	292	301	311	328	345
INR Revenue	18,781	20,486	21,694	22,545	23,212	24,117	24,982	25,906	27,372	28,972
Gross Margin	6,348	6,858	7,334	7,651	7,933	7,990	8,443	8,620	9,043	9,678
SGA	3,015	3,178	3,318	3,488	3,704	3,938	4,025	4,075	4,491	4,870
EBITDA	3,333	3,680	4,016	4,163	4,229	4,052	4,418	4,545	4,552	4,807
Dep & Amortization	645	693	684	697	763	744	787	799	712	745
EBIT	2,688	2,987	3,332	3,466	3,466	3,308	3,631	3,745	3,840	4,062
Other income (net)	131	(31)	(104)	(60)	90	250	262	210	165	283
PBT	2,819	2,956	3,228	3,406	3,070	3,558	3,893	3,956	4,005	4,345
Tax	703	756	848	891	783	925	1,032	802	941	1,095
PAT	2,116	2,200	2,380	2,515	2,288	2,633	2,861	3,154	3,064	3,250
<b>YoY Growth (%)</b>										
USD Revenue	44.8	40.2	32.8	26.3	17.1	14.1	13.7	13.2	16.0	18.4
INR Revenue	52.7	51.6	45.4	37.6	23.6	17.7	15.2	14.9	17.9	20.1
Gross Profit	53.8	51.4	45.6	38.6	25.0	16.5	15.1	12.7	14.0	21.1
EBIT	61.4	59.4	60.0	50.7	29.0	10.8	9.0	8.1	10.8	22.8
Net Profit	39.9	36.0	34.9	25.1	8.1	19.7	20.2	25.4	33.9	23.4
<b>QoQ Growth (%)</b>										
USD Revenue	11.1	5.8	3.4	3.85	3.0	3.1	3.0	3.4	5.6	5.2
INR Revenue	14.7	9.1	5.9	3.9	3.0	3.9	3.6	3.7	5.7	5.8
EBIT	16.8	11.1	11.6	4.0	0.0	(4.6)	9.8	3.2	2.5	5.8
Net Profit	5.3	4.0	8.2	5.7	(9.0)	15.1	8.7	10.2	(2.9)	6.1
<b>Margins (%)</b>										
Gross Margin	33.8	33.5	33.8	33.9	34.2	33.1	33.8	33.3	33.0	33.4
SGA	16.1	15.5	15.3	15.5	16.0	16.3	16.1	15.7	16.4	16.8
EBITDA	17.7	18.0	18.5	18.5	18.2	16.8	17.7	17.5	16.6	16.6
EBIT	14.3	14.6	15.4	15.4	14.9	13.7	14.5	14.5	14.0	14.0
PBT	15.0	14.4	14.9	15.1	13.2	14.8	15.6	15.3	14.6	15.0
PAT	11.3	10.7	11.0	11.2	9.9	10.9	11.5	12.2	11.2	11.2

Source: Company, BOBCAPS Research

Fig 12 – Key Metrics

Key Metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>P and L (US\$ mn)</b>										
Revenue	242	256	264	275	283	292	301	311	328	345
EBIT	35	37	41	42	42	40	44	45	46	48
PAT	27	27	29	31	28	32	34	38	37	39
<b>P and L (Rs mn)</b>										
Revenue	18,781	20,486	21,694	22,545	23,212	24,117	24,982	25,906	27,372	28,972
EBITDA	3,333	3,680	4,016	4,163	4,229	4,052	4,418	4,545	4,552	4,807
PAT	2,116	2,200	2,380	2,515	2,288	2,633	2,861	3,154	3,064	3,250
<b>Geographical Mix (%)</b>										
North Americas	78.4	78.6	77.1	77.9	79.2	79.2	79.7	80.1	80.7	81.3
Europe	8.5	8.3	9	10.3	9.7	9.5	8.9	7.8	7.8	7.9
India	11.3	11.5	12.3	10.0	9.9	9.7	10.0	10.1	9.8	9.2
ROW	1.8	1.6	1.6	1.8	1.2	1.6	1.4	2	1.7	1.6
Utilization (%) (including Trainees)	79.5	79.9	77.6	77.3	78.3	80.6	81.5	80.0	82.1	84.8
<b>Revenue Mix (Delivery of IT services)</b>										
Revenue mix-Onsite	14.7	14.4	14.3	13.1	13.1	12.7	13.8	14.8	15.2	15.8
Revenue mix-Offshore	85.3	85.6	85.7	86.9	86.9	87.3	86.2	85.2	84.8	84.2
<b>Clients Concentration (%)</b>										
Top client	11.7	8.7	7.4	9.3	10.2	10.2	9.3	8.0		
Top 5 clients	30.8	26.9	24.7	26.5	27.9	28.3	28.0	29.2	30.7	31.4
Top 10 clients	40.7	36.7	35.0	37.4	39.6	39.5	39.3	40.0	41.5	41.5
Top 20 clients	51.2	48.4	47.8	47.9	50.4	50.6	51.4	51.1	51.9	52.1
Top 50 clients	66.1	64.0	63.9	64.4	66.1	66.5	66.7	67.3	67.8	67.9
<b>Business Mix (%)</b>										
BFSI	33.7	32.8	32.6	32.3	33.3	32.3	31.2	30.7	30.8	31.5
Healthcare & Life Science	19.9	19.7	19.6	19.7	18.6	19.3	21.8	24.2	26.7	27.8
Tech. Cos. & Emerging Verticals	46.4	47.5	47.8	48.0	48.1	48.4	47.0	45.1	42.5	40.7
<b>Employee Metrics</b>										
Employees	21,638	22,476	22,598	22,889	23,130	22,842	23,336	23,850	23,519	23,237
Net addition of employees (QoQ)	3,039	838	122	291	241	(288)	494	514	(331)	(282)
Attrition LTM (%)	24.8	23.7	21.6	19.8	15.5	13.5	11.9	11.5	11.9	12.0
<b>Productivity Metrics</b>										
<b>Per Capita (Annualised) - (US\$)</b>										
Revenue	44,649	45,483	46,794	47,977	48,923	51,085	51,518	52,140	55,818	59,441
EBIT	6,390	6,631	7,187	7,376	7,306	7,006	7,488	7,538	7,831	8,334
PAT	5,031	4,885	5,133	5,352	4,822	5,577	5,901	6,348	6,248	6,668
Direct and opex cost per capita	38,259	38,852	39,607	40,601	41,617	44,079	44,030	44,602	47,988	51,107

Source: Company, BOBCAPS Research

**Fig 13 – QoQ and YoY data on various parameters**

(in US terms)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>QoQ Growth (%)</b>										
Company	11.1	5.8	3.4	3.8	3.0	3.1	3.0	3.4	5.6	5.2
<b>Geography</b>										
North Americas	10.9	6.1	1.5	4.9	4.8	3.1	3.7	4.0	6.4	6.0
Europe	12.5	3.3	12.2	18.8	(3.0)	1.0	(3.5)	(9.3)	5.6	6.6
India	14.2	7.7	10.6	(15.6)	2.0	1.0	6.2	4.5	2.4	(1.2)
ROW	0.0	(5.9)	3.4	16.8	(31.3)	37.5	(9.9)	47.8	(10.3)	(1.0)
<b>Client Concentration</b>										
Top 1	(7.1)	(21.3)	(12.0)	30.5	13.0	3.1	(6.1)	(11.0)		
Top 5	5.3	(7.6)	(5.0)	11.4	8.5	4.6	1.9	7.9	11.0	7.6
Top 10	7.4	(4.6)	(1.4)	11.0	9.1	2.9	2.5	5.3	9.5	5.2
Top 20	9.2	0.0	2.2	4.1	8.4	3.5	4.7	2.8	7.2	5.6
Top 50		2.5	3.3	4.7	5.8	3.7	3.3	4.4	6.4	5.4
<b>Vertical Mix</b>										
BFSI	15.6	3.0	2.8	2.9	6.2	0.0	(0.5)	1.8	5.9	7.6
Healthcare & Life Science	6.8	4.8	2.9	4.4	(2.7)	7.0	16.4	14.8	16.5	9.5
Tech. Cos. & Emerging Verticals	10.0	8.3	4.1	4.3	3.3	3.8	0.0	(0.7)	(0.5)	0.8
<b>YoY Growth (%)</b>										
Company	44.8	40.2	32.8	26.3	17.1	14.1	13.7	13.2	16.0	18.4
<b>Geography</b>										
North Americas	43.9	40.0	29.3	25.2	18.3	15.0	17.5	16.4	18.2	21.5
Europe	29.5	32.2	44.0	54.9	33.7	30.6	12.4	(14.2)	(6.7)	(1.6)
India	66.9	53.5	49.8	14.8	2.6	(3.7)	(7.6)	14.4	14.8	12.3
ROW	44.8	12.1	32.8	13.7	(21.9)	14.1	(0.5)	25.8	64.4	18.4
<b>Client Concentration</b>										
Top 1	(0.4)	(27.8)	(43.9)	(16.1)	2.1	33.8	42.9	(2.6)		
Top 5	22.2	5.3	(9.2)	3.0	6.1	20.1	28.9	24.8	27.7	31.3
Top 10	26.2	13.3	3.3	12.2	14.0	22.9	27.7	21.1	21.6	24.4
Top 20				16.1	15.3	19.3	22.3	20.8	19.5	21.9
Top 50					17.1	18.6	18.7	18.3	19.0	20.9
<b>Vertical Mix</b>										
BFSI	58.4	49.8	34.4	25.9	15.7	12.4	8.8	7.6	7.3	15.4
Healthcare & Life Science	40.5	30.3	25.7	20.2	9.5	11.8	26.5	39.1	66.5	70.5
Tech. Cos. & Emerging Verticals	37.9	38.4	34.7	29.3	21.4	16.3	11.8	6.4	2.5	(0.5)

Source: Company, BOBCAPS Research



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**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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