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India | Equity Research | Company Update

Persistent Systems

Technology

Persistent -Starfish acquisition update: A tuck-in acquisition ticking all the boxes

PSYS acquired US-based Starfish for a total consideration of USD20.7mn, including USD15.4mn upfront cash payment. The remaining USD5.1mn will be paid as earnouts over the next two years based on achievement of certain performance threshold and USD0.2mn as payment to key employees contingent on continuity. EV/sales for the acquisition is at 2.5x. Despite being a tuck-in acquisition, this has multi-fold benefits for PSYS: 1) augmentation in AI driven portfolio, 2) augmentation in enterprise communication (BPO business platform), 3) access to fortune 500 clients for cross selling and 4) margin strengthening. We retain **ADD** rating on PSYS at TP: INR 4,720 based on 1) industry leading organic growth, 2) selected vertical focus and 3) software engineering capabilities.

Acquisition details

Starfish is a tuck-in acquisition forming 1% of PSYS' FY24 revenue. This is PSYS' 8th acquisition in last 5 years. In our view, this acquisition is favorable for PSYS as it augments to its AI offerings. We reckon that AI's impact (especially generative AI) on the BPO business will be most drastic and immediate among other service lines and this acquisition gives PSYS an opportunity to be ahead of the curve in contact centre automation domain. This gives PSYS access to fortune 500 clients, opening doors for cross-selling. Being a platform, Starfish also has a better than company margin profile and will likely be EPS accretive for PSYS.

What Starfish does

Starfish is a plug-in platform with data repository which connects CRM (i.e. Oracle etc) with communication systems (google cloud, AWS etc). It acts as a pipeline and aids easy transition from on-prem to cloud or from one vendor to another (by storing customer details, onboarding/offboarding). Enabled with AI plug-ins, this will help PSYS- better position itself in the soon to be heavily disrupted space of contact centre automation. PSYS has acquired 8 companies in last 5 years including Starfish (exhibit 1), spending a total of USD260.5mn over the years, acquiring revenues worth USD 123.13 (at the point of acquisition). The acquisition track record has been good with most subsidiaries getting integrated into PSYS. Media Agility in particular has performed well. PSYS has grown at FY22-24 USD revenue CAGR of 24%.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	83,506	98,216	1,14,939	1,34,804
EBITDA	15,191	17,244	19,659	26,226
EBITDA Margin (%)	18.2	17.6	17.1	19.5
Net Profit	9,211	11,295	12,757	17,282
EPS (INR)	61.8	74.9	84.3	114.2
EPS % Chg YoY	37.0	21.1	12.6	35.5
P/E (x)	74.3	61.3	54.5	40.2
EV/EBITDA (x)	21.9	39.9	35.0	26.2
RoCE (%)	23.0	22.3	22.7	28.7
RoE (%)	25.1	25.3	25.0	31.1

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Market Data

Market Cap (INR)	708bn
Market Cap (USD)	8,479mn
Bloomberg Code	PSYS IN
Reuters Code	PERS.BO
52-week Range (INR)	4,622 /2,317
Free Float (%)	68.0
ADTV-3M (mn) (USD)	29.4

Price Performance (%)	3m	6m	12m
Absolute	15.6	26.1	89.4
Relative to Sensex	7.3	14.0	66.7

Previous Reports

23-04-2024: [Q4FY24 results review](#)

23-01-2024: [Q3FY24 results review](#)

Exhibit 1: PSYS list of acquisition

Sr. No.	Date of announcement	Date of completion/consolidation of acquisition	Target Company	Consideration (USD mn)	Revenue (USD mn)	Margin profile of target companies	Target revenue as % of Persistent revenue as on date of acquisition	2 Yr Revenue CAGR	Valuation (EV/Sales)	Stake	Rationale for acquisition	Target company details
1	03-07-2024	in the next 4-6 weeks	Starfish	20.7	LTM (Mar'24): USD8.2 mn CY23: USD7mn CY22: USD7mn	Better than company average	1%		2.5	100%	The acquisition gives PSYS position in AI automated data communication solutions centre. It enhances multi-vendor communication management through automation with platforms such as Amazon Connect, Avaya, Cisco, Genesys, and Microsoft Teams. In addition, it integrates with key business applications like ServiceNow, Workday, and Microsoft Active Directory to streamline workflows and operations.	Starfish is a global software company providing enterprise communication solutions to the world's largest enterprises including Fortune 500 companies. Starfish is focused on Unified Communication/Contact Center technology domain
2	14-03-2022	04-05-2022	Media Agility	71.71	LTM (Dec'21): USD 25.5 mn FY21 (YE Mar'21): USD 19.7 mn FY20 (YE Mar'20): USD 14.2 mn FY19 (YE Mar'19): USD 9.6 mn	Gross margin and EBITDA margin are accretive	4%	43%	2.8	100%	The acquisition has enhanced Persistent's partnership with Google and is the foundation for a dedicated Google business unit.	MediaAgility is a global cloud transformation services provider with deep expertise in building scalable, cloud-based solutions as a Google Cloud Premier Partner. It has 500+ employees spread across India, US, Mexico, and UK. MediaAgility has been recognized as a Niche Player in the 2021 Gartner Magic Quadrant for Public Cloud IT Transformation Services.
3	10-02-2022	01-03-2022	Data Glove	90.5	CY21: USD48.96 mn CY20: USD38.51 mn CY19: USD37.30 mn	EBITDA margin similar to Persistent	6%	15%	1.8	100%	Persistent did this acquisition to enhance its partnership with Microsoft, strengthen expertise in Azure-based digital transformation and other offerings in the Microsoft stack, as well as expand its geographic footprint and talent pool (700 employees)	Incorporated in 2010, Data Glove Group specializes in providing services across the entire Microsoft Product Suite including Azure-based digital transformation, data modernization, cloud advisory services, business application innovation, workspace modernization and intelligent automation. 33% of its workforce is in Americas (Including 75 employees in Costa Rica). It has global right-shoring delivery model, including Costa Rica as a nearshore delivery center coupled with off-shore centers in Bengaluru, Hyderabad and Noida. Global clients across: Americas, Europe, India and Australia
4	29-09-2021	15-11-2021	Shree Partners	6.9	FY 2020-21: \$7.6 M FY 2019-20: \$8.7 M FY 2018-19: \$6.0 M	Gross margin is attractive, minimal margin impact at EBIT level	1.3%	13%	0.9	100%	The acquisition was outcome of a vendor consolidation exercise done by Persistent's strategic client and enhances Persistent's partnership with this strategic client which is a leader in the global claims management industry. Shree's expertise expands Persistent's BFSI footprint in the cloud, data, and infrastructure domains and adds a new delivery location for Persistent in National Capital Region (NCR), India	Incorporated in 2005, Shree Partners LLC along with Shree Infosoft Pvt. Ltd, provides data management and analytics, IT infrastructure management and support services to companies based predominantly out of the US.

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5	29-09-2021	01-10-2021	Software Corporation International	53	CY2020: USD17.08 mn CY2019: USD15.18 mn CY2018: USD13.32 mn	SCI Fusion EBIT margin slightly less (~50-75bps impact) than Persistent's margins	3.2%	13%	3.1	100%	SCI brings domain consulting capabilities and specializes in Payments solutions, integration, and support services for leading US Banks.	Software Corporation and Fusion360 have integrated business operations with deep domain expertise in Payments solutions, integration, and support services for an impressive portfolio of leading North American banks.
6	20-05-2021	20-05-2021	Sureline Systems	2.5	CY2020: USD2.69 mn	NA	0.5%	NA	0.9	Acquisition of critical assets of Sureline	The acquisition bolsters capabilities - Cloud Advisory Services, Cloud Migration and Modernization Offerings, Multi-Cloud Managed Services	Incorporated in 2010, Sureline Systems provides cloud migration and disaster recovery (DR) solutions
7	15-10-2020	29-10-2020	Capiot Software	8.34	FY 2019-20: USD 1.13 M FY 2018-19: USD 1.28 M FY 2017-18: USD 0.85 M	NA	0.2%	15%	7.4	100%	The acquisition will strengthen Persistent's enterprise integration capability with Capiot's strong track record of offerings using TIBCO, MuleSoft and Red Hat platforms	Incorporated in 2014 by TIBCO veterans, Capiot is a middleware-led data consultancy and integration specialist. The Company provides enterprise integration services by leveraging various integration platforms including TIBCO, MuleSoft, Red Hat and other opensource platforms. The Company derives more than 50% of its revenues from BFSI customers.
8	25-06-2019	02-07-2019	Youperience Euro and UK entity	4.8 Euro mn + GBP 1.1 mn	FY19: Euro 3.5 mn + CY18 GBP 586K	NA	0.9%	NA	1.5	100%	Acquisition strengthens Persistent's Salesforce practice in Europe and in the Salesforce Marketing Cloud domain	Youperience GmbH (Youperience) is a Salesforce Gold partner

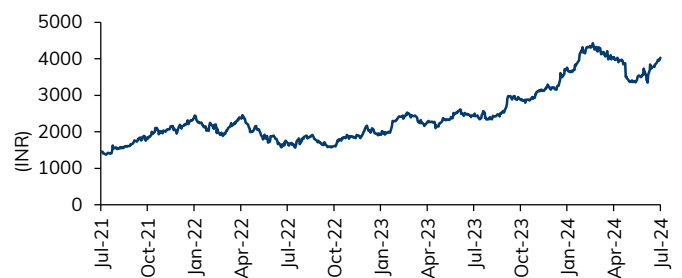
Source: I-Sec research, Company data

Exhibit 1: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	31.1	31.1	31.0
Institutional investors	50.0	50.8	50.8
MFs and others	24.1	22.4	21.0
FIs/Banks	0.1	0.0	0.0
Insurance	3.9	3.3	4.4
FIIIs	21.9	25.1	25.4
Others	18.9	18.1	18.2

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales (US\$ mn)	1,036	1,186	1,378	1,605
Net Sales (Rs. mn)	83,506	98,216	1,14,939	1,34,804
Operating Expense	68,315	80,972	95,280	1,08,578
EBITDA	15,191	17,244	19,659	26,226
EBITDA Margin (%)	18.2	17.6	17.1	19.5
Depreciation & Amortization	2,719	3,094	3,448	4,044
EBIT	12,472	14,150	16,211	22,182
Interest expenditure	-	-	-	-
Other Non-operating Income	529	813	913	1,015
Recurring PBT	13,002	14,963	17,124	23,197
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,198	3,668	4,367	5,915
PAT	9,804	11,295	12,757	17,282
Less: Minority Interest	-	-	-	-
Net Income (Reported)	9,211	11,295	12,757	17,282
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	9,211	11,295	12,757	17,282

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	33,299	39,623	42,697	50,144
of which cash & cash eqv.	9,033	10,229	9,713	12,196
Total Current Liabilities & Provisions	-	-	-	-
Net Current Assets	33,299	39,623	42,697	50,144
Investments	6,396	8,266	8,266	8,266
Net Fixed Assets	4,860	4,420	4,620	4,820
ROU Assets	2,198	2,307	2,307	2,307
Capital Work-in-Progress	161	335	335	335
Goodwill	7,184	10,913	10,913	10,913
Other assets	2,922	3,298	3,298	3,298
Deferred Tax Assets	-	-	-	-
Total Assets	66,191	73,736	77,010	84,657
Liabilities				
Borrowings	4,285	2,073	2,073	2,073
Deferred Tax Liability	-	-	-	-
provisions	5,022	3,878	3,878	3,878
other Liabilities	14,965	15,770	16,090	17,709
Minority Interest	-	-	-	-
Equity Share Capital	764	770	770	770
Reserves & Surplus*	38,887	48,807	51,762	57,789
Total Net Worth	39,651	49,577	52,532	58,559
Total Liabilities	66,191	73,736	77,010	84,657

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	23,212	24,117	24,982	25,905
% growth (YOY)	23.6	17.7	15.2	14.9
EBITDA	4,229	4,052	4,418	4,544
Margin %	18.2	16.8	17.7	17.5
Other Income	90	250	262	210
Extraordinaries	(360)	-	-	-
Adjusted Net Profit	2,288	2,633	2,861	3,154

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
CFO before WC changes	12,409	14,963	17,124	23,197
CFO after WC changes	10,609	12,008	13,872	19,853
Capital Commitments	(8,644)	(2,069)	(3,648)	(4,244)
Free Cashflow	18,201	12,776	15,689	21,211
Other investing cashflow	4,430	(671)	913	1,015
Cashflow from Investing Activities	(4,213)	(2,740)	(2,735)	(3,230)
Issue of Share Capital	-	6,615	-	-
Interest Cost	(473)	-	-	-
Inc (Dec) in Borrowings	(585)	(1,943)	-	-
Cash flow from Financing Activities	(4,039)	(5,651)	(9,821)	(11,255)
Dividend paid	(2,981)	(7,624)	(9,803)	(11,255)
Others	0	(2,700)	(19)	-
Chg. in Cash & Bank balance	1,316	2,315	(516)	2,483
Closing cash & balance	4,294	6,985	6,109	8,592

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	61.8	74.9	84.3	114.2
Diluted EPS	123.7	73.9	83.5	113.1
Cash EPS	160.3	94.2	106.0	139.5
Dividend per share (DPS)	100.3	41.6	53.5	61.4
Book Value per share (BV)	532.6	324.4	343.7	383.2
Dividend Payout (%)	81.1	56.2	64.0	54.3
Growth (%)				
Net Sales	46.2	17.6	17.0	17.3
EBITDA	58.5	13.5	14.0	33.4
EPS	37.0	21.1	12.6	35.5
Valuation Ratios (x)				
P/E	74.3	61.3	54.5	40.2
P/CEPS	28.7	48.8	43.3	32.9
P/BV	8.6	14.2	13.4	12.0
EV / EBITDA	21.9	39.9	35.0	26.2
P/S	4.1	7.1	6.1	5.2
Dividend Yield (%)	2.2	0.9	1.2	1.3
Operating Ratios				
EBITDA Margins (%)	18.2	17.6	17.1	19.5
EBIT Margins (%)	14.9	14.4	14.1	16.5
Effective Tax Rate (%)	24.6	24.5	25.5	25.5
Net Profit Margins (%)	11.7	11.5	11.1	12.8
Inventory Turnover Days	-	-	-	-
Fixed Asset Turnover (x)	18.5	20.1	23.7	26.7
Receivables Days	55	62	60	60
Payables Days	-	-	-	-
Working Capital Days	85	100	99	96
Net Debt / EBITDA (x)	(3.4)	(4.4)	(3.8)	(3.9)
Profitability Ratios				
RoCE (%)	23.0	22.3	22.7	28.7
RoC (%)	20.6	21.7	22.6	28.2
RoNW (%)	25.1	25.3	25.0	31.1

Source Company data, I-Sec research

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