January 21, 2025

Persistent Systems Limited: Ratings assigned at [ICRA]AA+ (Stable)

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer ratings	-	[ICRA]AA+ (Stable); assigned
Total	**-**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings for Persistent Systems Limited (Persistent) factor in its established business position in the IT services industry, its presence across diversified business segments and its strong financial profile, marked by its robust capital structure, healthy cash accrual generation and strong liquidity position. Further, the company also benefits from its experienced management and senior leadership team, as well as its strong execution track record and well-established relationships with a strong customer base.

Persistent's consolidated revenues grew at a compounded annual growth rate (CAGR) of 28.9% over FY2020–FY2024 on account of broad-based growth across its verticals with its 'Healthcare & Life Sciences' (HLS) vertical growing at a CAGR of 32.8%, its 'Banking, Financial Services and Insurance' (BFSI)' vertical at 31.5% and 'Software, Hi Tech & Emerging Industries' at 25.7%. Its operating profit margins (OPM) also improved sequentially from 13.8% in FY2020 to 18.2% in FY2023, before witnessing some pressure to 16.3% in FY2024 on account of higher employee cost and increased investments in sales and marketing. The overall employee utilisation (including trainees) improved from 78.5% in FY2020 to 80.1% in FY2024 and further to 84.8% in Q2 FY2025. The trailing twelve-month (TTM) attrition lowered to 19.8% in FY2023 and further to 11.5% in FY2024 from the high of 26.6% in FY2022, in line with the industry trend. While the revenue growth momentum continued in H1 FY2025 with YoY growth of 19%, OPM continued to be pressured and declined to 14.7% as rapid growth in the HLS vertical caused short-term margin pressure due to a higher share of onsite employees for initial ramp up of projects. However, ICRA expects OPM to remain at FY2024 levels in FY2025 and improve gradually, going forward, supported by efforts towards cost optimisation and improvement in operational efficiency. Management is targeting 200-300 bps improvement in EBIT margins over the next 2-3 years.

Persistent booked healthy order wins, with the TTM Total Contract Value (TCV) and Annual Contract Value (ACV) growing by 14% YoY to $1,961 million and $1,395 million, respectively, for Q2 FY2025, consisting of a diversified mix of large and mid-sized deals, majorly in the HLS and BFSI segments. Notably, the share of new wins (across existing and new customers) in total TCV and ACV numbers is also increasing, which is a positive. Coupled with the company's focus on active adoption of newer technologies such as GenAI, this lends revenue visibility for the near to medium term. ICRA also notes that the company has been undertaking some tuck-in acquisitions with the intent of acquiring niche capabilities.

The ratings, however, remain constrained by Persistent's relatively moderate scale of operations compared to large domestic IT players and concentration in the US market (79.6% of revenue in FY2024), followed by India and Europe, which exposes the company to macroeconomic uncertainties in such key geographies. Additionally, industry participants, including Persistent, continue to face challenges like foreign currency fluctuations, talent acquisition and retention, though Persistent's policy of partially hedging its forex exposure mitigates the risk.

The Stable outlook on the rating reflects ICRA's opinion that despite the prevailing softness in demand and global headwinds, Persistent's debt coverage indicators and financial profile will remain adequately supported by its healthy orderbook position and its steady expansion across various industry verticals. Along with its cost optimisation measures, limited capital expenditure plans and strong liquidity position, this will help in limiting its dependance on debt.

Key rating drivers and their description

Credit strengths

Experienced management team, with an established operational track record – Persistent is successfully led by Dr. Anand Deshpande, who has more than 35 years of experience in the IT service industry. Mr. Sandeep Kalra (Chief Executive Officer), having spent more than 16 years with HCL Technologies Limited, joined Persistent in 2019 and is credited with the strong growth that Persistent has witnessed since FY2020. Both Dr. Anand and Mr. Sandeep are regarded highly in the IT services industry, having received several accolades. Further, the company benefits from its experienced senior leadership team and has a strong execution track record. The company has well-established relationships with a strong customer base present across varied industries and verticals and has low customer concentration with its top 10 customers contributing 39% of revenues in FY2024.

Strong revenue growth, healthy order book position provides revenue visibility – During FY2020-FY2024, Persistent's revenues have grown at a CAGR of 28.9%, with a revenue of $1.2 billion (at consolidated level) in FY2024. The company reported revenues of $674 million in H1 FY2025 and is currently tracking at an annual run-rate of $1.3 billion. Persistent booked healthy order wins, with the TTM TCV and ACV growing by 14% YoY to $1,961 million and $1,395 million, respectively, for Q2 FY2025, consisting of a diversified mix of large and mid-sized deals, majorly in the HLS and BFSI segments. Further, the increasing share of new wins (across existing and new customers) in total TCV and ACV numbers is a positive.

Strong financial profile characterised by healthy cash flow, robust capital structure and strong liquidity position – The company's financial profile is strong as reflected in its healthy internal accrual generation and robust liquidity position. Moreover, its capital structure remains strong because of low debt levels with total Debt (including lease liabilities) vis-à-vis tangible net worth of 0.1x and total outside liabilities over tangible net worth of 0.5x as on September 30, 2024. The liquidity position of the company is strong coupled with healthy debt coverage indicators as evidenced by interest coverage of 25.5x as on September 30, 2024. With expected continuation of momentum in revenue growth over the near term, Persistent is expected to maintain its strong financial profile.

Credit challenges

Relatively moderate scale of operations and geographical concentration risk, akin to other industry players – With an operating income of Rs. 9,821.6 crore (consolidated) in FY2024, Persistent's scale of operations remains moderate compared to some large domestic IT players, thereby restricting its pricing flexibility and margins. Moreover, in line with trends in the global IT services industry, Pesistent derives a significant portion (80% in FY2024) of its revenues from the US followed by India (10%), Europe (9%) and Rest of the World (1%). This further exposes the company's revenues and earnings to the structural and region-specific challenges in the US.

Industry specific challenges like intense competition, forex risk, high employee attrition and exposure to policies in key operating markets – Persistent's revenue and profit margin remain susceptible to demand softening and decline in discretionary spending by virtue of operating in the intensely competitive IT services industry. Moreover, its revenues and margins are also exposed to forex risks as revenues are derived from the international market. Nonetheless, the hedging mechanisms of the company mitigate this risk to some extent. Being in a highly labour-intensive business, the availability and retention of a skilled workforce continues to be a key challenge. However, in line with the industry trend, the company has witnessed significant reduction in attrition levels in recent quarters, supporting its business profile. Persistent also remains exposed to macroeconomic uncertainties and any adverse regulatory/ legislative changes in its key operating markets of the US, India and Europe.

Liquidity position: Strong

Persistent's liquidity profile is strong, supported by healthy internal accrual generation, significant cash and liquid investments of ~Rs. 1,163 crore (includes encumbered deposits for availing overdraft limits), along with unutilised working capital limits of ~Rs. 300 crore as on September 30, 2024. Moreover, the entire term loan outstanding of Rs. 96 crore as on September 30, 2024, will be repaid within the next 12 months. ICRA expects Persistent's cash flow to remain healthy in FY2025, with capex requirements (including technology and maintenance capex) accounting for around 2–2.5% of revenues.

ICRA expects the company to continue to scout for investment/acquisition opportunities to support its inorganic growth initiatives. While these are expected to be largely tuck-in acquisitions (as seen in the past), the impact of any large acquisition on Persistent's credit and liquidity profiles will be monitored on a case-to-case basis.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates significant improvement in its scale of business along with geographical diversification and sustained improvement in earnings, supported by growth across verticals, while maintaining its strong debt coverage indicators and liquidity position.

Negative factors – Negative pressure on Persistent's ratings could arise in case of sizeable debt-funded acquisitions, which could adversely impact the financial profile and liquidity position on a sustained basis. A specific credit metric that could lead to a downgrade of Persistent's ratings include Total Debt/OPBITDA exceeding 1.25 times, on a sustained basis.

ESG risks

Environmental considerations — Given its service-oriented business, Persistent's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social considerations — Like other Indian IT service companies, Persistent faces the risk of data breaches and cyber-attacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, the company remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. Any such changes could have the effect of heightening the competition among IT players for skilled workforce, leading to higher attrition rates and may have an adverse impact on profitability. Managing various facets of human capital, including skills, compensation, and training, is in any case a key differentiating factor among IT companies.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for IT – Software & Services
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Persistent Systems Limited. As on March 31, 2024, the company had 24 subsidiaries, which are listed in Annexure-II.

About the company

Incorporated in 1990 by Dr. Anand Deshpande, Persistent Systems Limited is engaged in the business of providing software and technology services. The company provides a range of services, including digital strategy and design, software product engineering, client experiences (CX) transformation, cloud and infrastructure, intelligent automation, enterprise information technology (IT) security, enterprise integration, application development and management, and data and analytics. The company serves various industries, including banking, financial services and insurance (BFSI), healthcare and life sciences (HLS), software and hi-tech, and telecom and media.

The company had an employee strength of more than 23,200 as of September 30, 2024, with a presence in more than 21 countries. As of September 30, 2024, around 86% of the employees operated from India, 12% from North America, 1% from Europe and 1% from the Rest of the world. Persistent is headquartered in Pune, Maharashtra, India.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	H1FY2025*
Operating income	8,350.6	9,821.6	5,634.3
PAT	921.1	1,093.5	631.4
OPBDIT/OI	18.2%	16.3%	14.7%
PAT/OI	11.0%	11.1%	11.2%
Total outside liabilities/Tangible net worth (times)	0.7	0.5	0.5
Total debt/OPBDIT (times)	0.4	0.3	0.3
Interest coverage (times)	32.1	34.3	25.5

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; * Limited audited result*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Rating history for past three years

Instrument	Current rating (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Issuer Ratings	Long Term	-	21-Jan-2025	[ICRA]AA+ (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Ratings	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Ratings	NA	NA	NA	-	{ICRA}AA+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Persistent's Ownership	Consolidation Approach
Persistent Systems, Inc	100.00%	Full Consolidation
Persistent Systems Pte Ltd	100.00%	Full Consolidation
Persistent Systems France SAS	100.00%	Full Consolidation
Persistent Telecom Solutions Inc	100.00%	Full Consolidation
Persistent Systems Malaysia Sdn. Bhd.	100.00%	Full Consolidation
Aepona Group Limited	100.00%	Full Consolidation
Persistent Systems UK Limited	100.00%	Full Consolidation
Persistent Systems Lanka (Private) Limited	100.00%	Full Consolidation
Persistent Systems Mexico, S.A. de C.V.	100.00%	Full Consolidation
Persistent Systems Israel Ltd.	100.00%	Full Consolidation
Persistent Systems Germany GmbH	100.00%	Full Consolidation
Persistent Systems Switzerland AG	100.00%	Full Consolidation
CAPIOT Software Private Limited	100.00%	Full Consolidation
Persistent Systems Australia Pty Ltd	100.00%	Full Consolidation
Software Corporation International	100.00%	Full Consolidation
Persistent Systems Costa Rica Limitada	100.00%	Full Consolidation
Glove IT Solutions Limitada	100.00%	Full Consolidation
MediaAgility India Private Limited	100.00%	Full Consolidation
MediaAgility Inc.	100.00%	Full Consolidation
DIGITALAGILITY S DE RL DE C	100.00%	Full Consolidation
MediaAgility UK Limited	100.00%	Full Consolidation
Media Agility Pte Ltd	100.00%	Full Consolidation
Persistent Systems S.R.L. Romania	100.00%	Full Consolidation
Persistent Systems Poland sp z.o.o.	100.00%	Full Consolidation
PSPL ESOP Management Trust	100.00%	Full Consolidation

Source: Company

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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