RESULT REVIEW

SELL
TP: Rs 3,310 | ∀ 41%

PERSISTENT SYSTEMS | IT Services | 04 August 2026

1Q strong but has issues. Nagarro M&A too big a bite?

- **1QFY27 revenue grows 4.1% QoQ CC, driven by Hitech vertical/Top 5 accounts. Working capital deteriorates - OCF/PAT at ~24%**
- **Medium term worry - how PSYS will digest oversized (~23x size of the previous largest M&A, in revenue) lower quality Nagarro**
- **M&A risks and ~34xPE keeps us cautious. We stick to conservative Target PE multiple of 16.9x and maintain SELL**

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Revenue ahead of expectation but has issues: PSYS saw revenue growth of 4.1% QoQ CC, ahead of our estimate of 3.0%. Growth QoQ was narrow (Hitech and top 5 clients drove incremental growth) and was working capital intensive (OCF/PAT - ~24%). One of the key issues we see across various firms reporting 1QFY27 results has been deterioration in working capital (likely due to clients' capital commitments to AI). Total TCV at US$1.15bn (up 91% QoQ and 120% YoY) was the highest ever, driven by US$650mn large deal with a software player.

Organic growth will have to be increasingly driven by large deals. At its current size we believe the deals which will move the revenue needle will be ones that are in the ACV range of US$100-200mn. These in our view will have to be deals won against competition from Tier-1 players and which will likely require substantial productivity pass back and may be margin dilutive to some extent during the contract lives. The US$650mn won from a software player seems to be an internal spend on possibly a bunch of mature products that has been moved out along with the respective teams.

Execution risk increases as business scales on M&A: We believe that unlike the tuck-in acquisitions PSYS has successfully handled in the past, Nagarro is much larger (~23x Data Glove, which we believe was the largest acquisition by revenue thus far) and harder to execute especially as it pertains to Europe where laws are not as business friendly as in the US. We also see big revenue deflation risk due to Nagarro's T&M heavy revenue (68%). We also think that cross sell may not be as effective as it may seem on paper as we believe most of Nagarro's horizontal skills are 'retro'. PSYS's AI platform skill (SASVA) is the only big differentiator. Our concerns are captured in our post transaction note (Big Deal, Bigger Risks)

Valuation: We have raised our EPS estimates for FY27-FY29 by 2-6% largely on expectation of better margins. We maintain the Target PE at 16.9x (20% premium to benchmark) and the stock rating continues to be SELL. At 34x, 12m forward multiple believe the current valuation is excessive and the street is being over optimistic about its earnings prospects in the long term.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PSYS IN/Rs 5,575
Market cap	US$ 9.2bn
Free float	69%
3M ADV	US$ 41.0mn
52wk high/low	Rs 6,599/Rs 4,245
Promoter/FPI/DII	30%/21%/30%

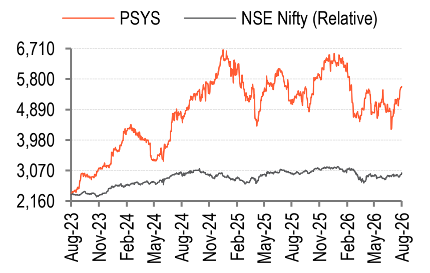
Source: NSE | Price as of 3 Aug 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	147,485	211,987	324,442
EBITDA (Rs mn)	27,955	38,208	56,492
Adj. net profit (Rs mn)	19,542	24,358	29,096
Adj. EPS (Rs)	118.9	153.9	183.8
Consensus EPS (Rs)	118.9	147.1	175.4
Adj. ROAE (%)	27.6	28.5	28.9
Adj. P/E (x)	46.9	36.2	30.3
EV/EBITDA (x)	31.6	21.2	13.1
Adj. EPS growth (%)	31.8	29.5	19.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Key Points from the quarter and the earnings call

- 1QFY27 Revenue stood at US$452.5mn, growing 4.1% QoQ (beating our estimate of 3%) and 16.5% YoY in CC terms
- North America revenue grew 15.1% YoY, Europe 9.5%, India 15.8% and Rest of World 117.2% on a small base
- Healthcare and Life Sciences grew 16.4% YoY, BFSI 16.3% and Software, High-tech and Emerging Industries 15.7%
- EBIT Margin stood at 16% (against our estimate of 16.5%), declining ~29 bps QoQ and growing 43 bps YoY
- Margin Headwinds QoQ:
    - Lower utilization impacted EBIT margin by 60 bps as most new hires were onboarded towards the end of the quarter to support expected ramp-up of large deals signed during the quarter and expected to close in 2Q
    - Continued investments in AI-led delivery models, including higher tool usage versus 4QFY26, with tools deployed across delivery engagements and capability building to support AI-assisted code generation and improve engineering productivity. Higher purchase costs were largely offset by efficiencies in personnel effort, resulting in a net 20 bps headwind in direct costs, including both personnel and purchase costs
- Margin Tailwinds QoQ:
    - Favourable currency movement provided 30 bps benefit
    - Lower doubtful debt provisions improved EBIT margin by 20 bps
- Utilization (including trainees) stood at 86.5% from 88% QoQ
    - Management said that the decline reflected proactive hiring to support ramp-up of large deals
- Total Headcount stood at 28,640, net addition of 1,138 people
- Cost of Technical subcontractors hit a new peak of 15.5%
- TCV stood at US$1,146.2mn, growing 91% QoQ and 120% YoY. It includes the US$650mn contract (over 6.5 years) from a US global technology leader
    - TTM TCV stood at US$3030.7mn, growing 26% QoQ and 40% YoY
- ACV stood at US$536.8mn, growing 21% QoQ and 39% YoY
    - TTM ACV stood at US$1,931,7, growing 9% QoQ and 28% YoY

Other Points:

- Wage hikes rolled out globally to all eligible employees effective July 1, 2026, in line with the annual wage hike cycle. This is supposed to impact margins QoQ by 180-200bps which the company says will be offset by operating efficiencies.

- Other income net of finance stood at INR414.9 mn versus INR136.3 mn in 4QFY26, primarily due to mark-to-market gains on mutual fund investments and reversal of earn-out credits for past acquisitions
- Foreign exchange loss of INR1,052.7 mn was primarily due to rupee volatility, as receivables recorded at higher exchange rates were revalued at lower rates as of June 30, 2026. The reported loss also includes mark-to-market adjustments on hedging contracts
- Outstanding forward contracts as of June 30, 2026 stood at US$500 mn at an average exchange rate of INR/USD 93.30
- PAT margin stood at 11.2%, decline of ~180 bps QoQ and ~150bps YoY. This was primarily due to the foreign exchange loss during the quarter
- Operating cash flow to PAT stood at 24.2% versus 77.0% in the previous quarter
    - Lower operating cash flow to PAT was primarily due to delayed collections of US$23 mn, most of which were collected in the first week of July, and delayed tax refunds of US$10 mn, of which US$7 mn were received during the first month of 2Q
    - Adjusted for delayed collections and tax refunds, operating cash flow to PAT would have been 83.2%
    - Operating cash flow to PAT is expected to normalize over the coming quarters
    - LTM operating cash flow to PAT stood at 76.2%
- Business combination agreement signed with Nagarro in June to create an AI-led global engineering company with over US$2.9 bn revenue run-rate and 46,000 professionals across more than 40 countries
    - Nagarro is a digital engineering company with AI and digital engineering capabilities across multiple verticals, with ~EUR1 bn revenue in CY2025, headquartered in Munich and listed on the Frankfurt Stock Exchange
    - Combined entity will have a more balanced geographic mix with North America at 62%, Europe at 22% and Rest of World at 16%
    - Transaction strengthens nearshore European delivery presence across Romania, Portugal, Hungary and Poland
    - Combined entity will have over US$750 mn annual revenue in both BFSI and TMT, over US$500 mn in Healthcare and Life Sciences, over US$400 mn in Industrial and over US$300 mn in Consumer
    - Industrial and Consumer become scaled verticals while strengthening existing vertical positions
    - Combination brings strong cultural alignment, entrepreneurial ethos, engineering-first culture and longstanding relationships with marquee customers

  - Open Offer document has been submitted to BaFin and is under review, with publication expected in the coming week. Open Offer acceptance period will remain open for four weeks from the launch date
  - Committed bridge financing has been secured, with long-term financing being arranged to replace the bridge loan
  - Shareholder approval is expected at the AGM, with voting results to be announced by August 5, 2026
  - All regulatory and transaction processes are progressing as planned
  - Deal closure is expected by 4QCY26 or by 1QCY27
- AI strategy continues to be built around Engineering Hyper Productivity, Business Hyper Productivity and Enterprise Data Readiness
- Next phase of enterprise AI is expected to be driven by combining foundation models with enterprise business knowledge, operational data, processes, human interactions and governance to deliver trusted business outcomes at scale
- Enterprise Context is positioned as the emerging system of intelligence for AI, similar to ERP as the system of record and CRM as the system of engagement
- Management believes long-term AI differentiation will increasingly shift from foundation models to the enterprise context built around them, which remains the key investment and innovation focus for Persistent
- India revenue includes business from India-domiciled customers as well as GCCs of global customers. An increasing number of global customers are routing procurement through their India GCCs, and this trend is expected to continue
- Geographic performance remains healthy across regions
- A very small portion of US$650mn strategic deal has already come in during the previous quarter
  - No significant ramp-up is required. Some transition from different geographies to India will take place over a period of time. Headcount has already been increased. Teams have already been taken over in the interim, with no further ramp-up required from a revenue perspective
- Management remains confident of returning to around 100% OCF to PAT during the year
- Higher purchase of software licenses was primarily due to continued investments in AI tools. Higher purchase costs also reflected regular seasonal consumption of tools, contributing to the increase in overall purchase costs
- The large deal has already started contributing to revenue. Revenue is expected to reach around 75%-80% of peak level in the current quarter
- Intangibles under development include investments in both internally developed platforms and purchased software

- Management remains confident of maintaining and managing EBIT margin within the 16%-17% operating range
- Top customer in the High-tech vertical grew strongly during the quarter
- Healthcare vertical has delivered strong growth over the last several years and is coming off a high growth base
  - Healthy deal pipeline across scientific instruments, medical devices, pharma and pharma ecosystem including the clinical research organizations and the payers
  - Provider segment remains relatively tepid compared to the other healthcare segments
  - Management expects healthy growth in the Healthcare vertical on a full year basis
- Customers use a mix of frontier models and open-source models depending on the engagement
  - In fixed-bid and outcome-based engagements, responsibility includes manpower and tooling required to deliver outcomes. Management said that the Tool costs should be viewed as part of the overall cost of service delivery
- Management said that Persistent has outperformed the Indian listed peer group by more than 3.5% over the last 16+ quarters. Outperformance reflects disproportionate market share gains. Market share gains include vendor consolidation wins against larger peers, mid-tier players and US and Europe based service providers
- Many deal pursuits are proactively originated with customers, while others come through RFPs. Customer pitches include AI capabilities across industry verticals and service lines. Some project wins are driven by customers looking for challenger partners, including mid-sized firms such as Persistent
- Delayed collections during the quarter and delayed tax refunds were the key reasons for the increase in receivables and weaker cash flow

We have an Underweight stance on Indian IT Services

We reinitiated coverage on the Indian IT Services with an Underweight stance through a report on 1 January 2025 (**Slow is the (new/old) normal**) and reiterated our view with updates on 12th March 2025 (**FY26 unlikely to be better than FY25**), 10th July 2025 (**Uncertainty stays and 'eating the tariff' may impact even FY27**) and 12 January 2026 (**A fourth slow year?**).

While both earnings and PE multiples have corrected since 1 Jan 2025, the industry's structural organic revenue growth from here on will be much lower vs ~7% CAGR seen during FY15-FY20; possibly ~2-3% CAGR over FY25-FY30 in constant currency (CC) terms.

We believe the release of advanced AI models will cause significant disruption to the industry rendering the sector to be a 'value trap'. We wrote about this in our 17 February 2026 report (**Existential threat, value trap or Temporary blip**) and through our 6 April 2026 report (**Narrative of FY27 being modestly better, set for its first test**).and the 9 July 2026 one (**'Show me the growth' phase will keep valuations compressed**)

Multiple speed breakers drive our Underweight stance

Gen AI and GCCs are going to disrupt growth: We believe that AI/Gen AI will lead to compression of revenue for the industry in the next 12-24 months, as companies self-cannibalize to hold on to their existing clients. Rapid growth of the GCCs is a threat to outsourcing. While there seems to be collaboration between outsourcers and their clients in setting up these GCCs, there will be growth discontinuity when the business is insourced at some point.

Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyper scalers, are increasing capex on AI-related data centres. This will drive higher pricing, forcing enterprises to allocate more IT spend to Cloud/SaaS and move it away from the ones with lower bargaining power – global IT Services players.

Higher competition: Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players and Cognizant, likely slowing their growth vs FY15-FY20. This is besides the fact that by FY26, Tier-1 revenue has reached US$ 85bn, double that in FY15 (6.5% CAGR). Due to the higher base now, growth may not be as rapid. In AI reinvention services we see a new set of competitors come in the forms of AI deployment companies from Anthropic, Open AI, Microsoft, Google etc. While professional services companies of software players did not make much of an impact in the past, we believe the situation could be different this time. With the requirement of a large army of offshore bodies being taken away by AI models, we believe players with high technical skills and deep domain and workflow expertise will become competitors. We will have several players from other industries as well senior management personnel from current incumbents to step out and startup companies and compete with the incumbents.

How we are valuing companies: We are using PE methodology. However, we are moving away from the earlier stance that we had taken of using TCS as our industry benchmark and using 16.8x (average PE multiple of TCS over the last 10 years less 1.5SD) as the Target PE multiple. We have been giving subjective premium/discount to this benchmark target PE to arrive at target PE multiples for the rest of our coverage

Considering the underperformance of TCS in terms of growth in FY26 and the likelihood of that repeating in the foreseeable future we have decided to shift from using TCS as the benchmark and move to Tier-1 PE multiple based valuation. That too using the valuation seen in the FY15-FY20 timeframe when the Tier-1 USD revenue CAGR was ~7% in organic terms. Our analysis indicates that Tier-1 (consisting of TCS, Infosys, HCLT, Wipro and Tech Mahindra) were collectively trading at mean multiple of 17.6x forward EPS with an SD of 1.7. We are using 14.1x as the benchmark multiple for the basis of valuation which is mean multiple of Tier-1 companies during this period less 2SD. We have been giving subjective premium/discount to this benchmark target PE to arrive at target PE multiples for the rest of our coverage

Our target PE multiples are lower than those used by consensus/competitors**.** Through our choice of the benchmark target PE multiple, we seek to capture the mortality and relevance risk that players face in this era of advanced AI models.

Tier- 2 valuation reflects growth gap with Tier-1

Tier-2 set has been taking away market share from the Tier-1 set, due to better execution as well as their smaller size. And, unlike previous cycles, they have performed better than the Tier-1 set, largely on better management teams.

However, current PE premium to Tier-1s is excessive for certain stocks, because to deliver on the high consensus revenue growth expectations, they may be taking on more cost take-out projects that are likely to impact margins adversely.

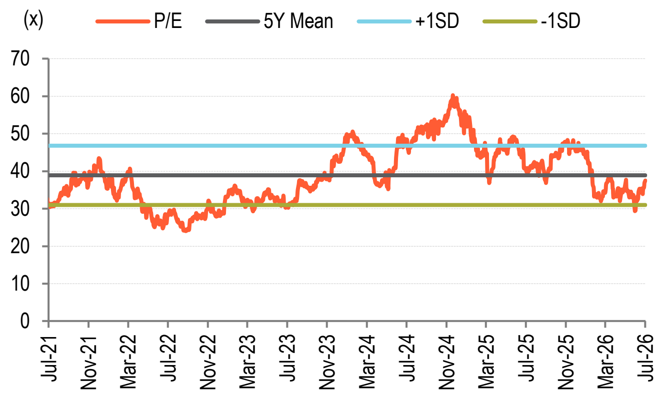
Also, some of the Tier-2s have been underperforming on the growth front, being discretionary project-oriented businesses struggling to pivot to a cost-take-out-driven demand environment.

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E March (Rsmn)	1QFY26	4QFY26	1QFY27	YoY(%)	QoQ (%)	1QFY27E	Dev (%)
Net Sales (USD mn)	**389.9**	**436.1**	**452.4**	**16.0**	**3.7**	**447.6**	**1.1**
Net Sales	33,336	40,559	43,032	29.1	6.1	42,525	1.2
Direct Cost	21,576	26,247	27,915	29.4	6.4	27,431	1.8
% of Sales	64.7	64.7	64.9			64.5	
Gross Margin	11,760	14,312	15,117	28.5	5.6	15,094	0.2
% of Sales	35.3	35.3	35.1			35.5	
SG&A	5,644	6,635	7,095	25.7	6.9	6,963	1.9
% of Sales	16.9	16.4	16.5			16.4	
EBITDA	6,116	7,677	8,022	31.2	4.5	8,131	(1.3)
EBITDA Margin (%)	18.3	18.9	18.6			19.1	
Depreciation and Amortisation	938	1,085	1,153			1,123	2.6
EBIT	**5,178**	**6,592**	**6,869**	**32.7**	**4.2**	**7,008**	**(2.0)**
EBIT Margin (%)	**15.5**	**16.3**	**16.0**			**16.5**	
Other Income, Net	187	136	415	121.5	204.4	131	216.7
Forex Gain/(Losses)	189	12	(1,053)	(657.9)	(8946.2)	50	
PBT	5,554	6,740	6,231	12.2	(7.6)	7,189	(13.3)
Provision for Tax	1,305	1,447	1,401	7.4	(3.2)	1,653	(15.3)
Effective Tax Rate	23.5	21.5	22.5			23.0	
PAT	**4,249**	**5,293**	**4,830**	**13.7**	**(8.7)**	**5,535**	**(12.7)**
NPM (%)	**12.7**	**13.0**	**11.2**			**13.0**	

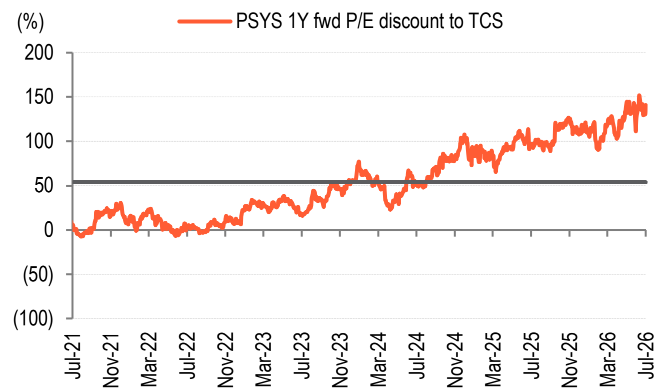
Source: Company, BOBCAPS Research

Fig 2 – 5 Year PE trend



Source: Bloomberg, BOBCAPS Research

Fig 3 – Premium/ Discount to TCS



Source: Bloomberg, BOBCAPS Research

Fig 4 – Revised Estimates

	New			Old			Change (%)		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
INR/USD	95.5	96.5	97.5	95.4	96.4	97.4	0.1	0.1	0.1
USD Revenue (USD mn)	2,219	3,363	3,786	2,203	3,339	3,760	0.7	0.7	0.7
USD Revenue Growth (%)	34.1	51.5	12.6	33.2	51.5	12.6			
Revenue (Rsmn)	211,987	324,442	369,106	210,112	321,818	366,124	0.9	0.8	0.8
EBIT (Rsmn)	32,096	45,486	54,588	31,477	43,977	52,994	2.0	3.4	3.0
EBIT Margin (%)	15.1	14.0	14.8	15.0	13.7	14.5			
PAT (Rsmn)	24,358	29,096	36,593	23,791	27,458	34,916	2.4	6.0	4.8
FDEPS (Rs)	153.9	183.8	231.1	150.8	174.1	221.3	2.0	5.6	4.4

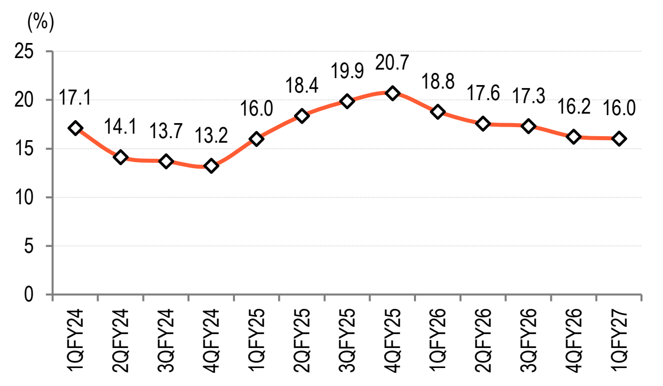
Source: BOBCAPS Research

Fig 5 – P&L at a glance

(YE March) Rsmn	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Average INR/USD	65.6	67.1	64.5	70.0	71.1	74.0	74.5	80.5	82.8	84.7	89.0	95.5	96.5	97.5
Net Sales (USD mn)	**352**	**429**	**471**	**481**	**502**	**566**	**766**	**1,036**	**1,186**	**1,409**	**1,655**	**2,219**	**3,363**	**3,786**
YoY Growth (%)	**14.2**	**22.0**	**9.7**	**2.2**	**4.3**	**12.9**	**35.2**	**35.3**	**14.5**	**18.8**	**17.4**	**34.1**	**51.5**	**12.6**
Net Sales	23,123	28,784	30,337	33,659	35,658	41,879	57,107	83,506	98,217	119,387	147,485	211,987	324,442	369,106
YoY Growth (%)	22.3	24.5	5.4	11.0	5.9	17.4	36.4	46.2	17.6	21.6	23.5	43.7	53.0	13.8
Cost of Sales & Services	14,305	18,518	19,704	21,378	23,494	27,650	37,895	55,315	65,231	78,740	94,874	138,448	215,623	245,465
% of sales	61.9	64.3	65.0	63.5	65.9	66.0	66.4	66.2	66.4	66.0	64.3	65.3	66.5	66.5
Gross Margin	8,819	10,266	10,633	12,281	12,164	14,229	19,213	28,191	32,986	40,647	52,610	73,540	108,819	123,641
% of sales	38.1	35.7	35.0	36.5	34.1	34.0	33.6	33.8	33.6	34.0	35.7	34.7	33.5	33.5
SG& A	4,647	5,727	5,946	6,476	7,234	7,398	9,631	12,999	15,729	20,066	24,656	35,332	52,327	57,538
% of sales	20.1	19.9	19.6	19.2	20.3	17.7	16.9	15.6	16.0	16.8	16.7	16.7	16.1	15.6
EBITDA	4,171	4,539	4,687	5,805	4,930	6,830	9,582	15,191	17,257	20,581	27,955	38,208	56,492	66,103
% of sales	18.0	15.8	15.4	17.2	13.8	16.3	16.8	18.2	17.6	17.2	19.0	18.0	17.4	17.9
Depreciation and Amortization	965	1,490	1,585	1,573	1,660	1,756	1,660	2,719	3,094	3,069	4,030	6,111	11,006	11,515
% of sales	4.2	5.2	5.2	4.7	4.7	4.2	2.9	3.3	3.1	2.6	2.7	2.9	3.4	3.1
EBIT	**3,206**	**3,049**	**3,102**	**4,233**	**3,270**	**5,075**	**7,922**	**12,472**	**14,163**	**17,512**	**23,925**	**32,096**	**45,486**	**54,588**
% of sales	**13.9**	**10.6**	**10.2**	**12.6**	**9.2**	**12.1**	**13.9**	**14.9**	**14.4**	**14.7**	**16.2**	**15.1**	**14.0**	**14.8**
Other income	750	958	1,190	631	1,254	1,020	1,321	(64)	327	710	1,078	928	1,595	1,561
Interest expense												918	6,670	5,326
PBT	3,956	4,007	4,292	4,863	4,524	6,094	9,243	12,409	14,490	18,223	25,002	32,106	40,411	50,824
-PBT margin (%)	17.1	13.9	14.1	14.4	12.7	14.6	16.2	14.9	14.8	15.3	17.0	15.1	12.5	13.8
Provision for tax	983	992	1,062	1,347	1,121	1,588	2,339	3,198	3,541	4,222	5,461	7,748	11,315	14,231
Effective tax rate (%)	24.8	24.8	24.7	27.7	24.8	26.1	25.3	25.8	24.4	23.2	21.8	24.1	28.0	28.0
Net profit	**2,974**	**3,015**	**3,231**	**3,517**	**3,403**	**4,507**	**6,904**	**9,211**	**10,949**	**14,001**	**19,542**	**24,358**	**29,096**	**36,593**
-Growth (%)	**2.3**	**1.4**	**7.2**	**8.9**	**(3.2)**	**32.4**	**53.2**	**33.4**	**18.9**	**27.9**	**33.2**	**30.6**	**19.4**	**25.8**
-Net profit margin (%)	**12.9**	**10.5**	**10.6**	**10.4**	**9.5**	**10.8**	**12.1**	**11.0**	**11.1**	**11.7**	**13.2**	**11.5**	**9.0**	**9.9**

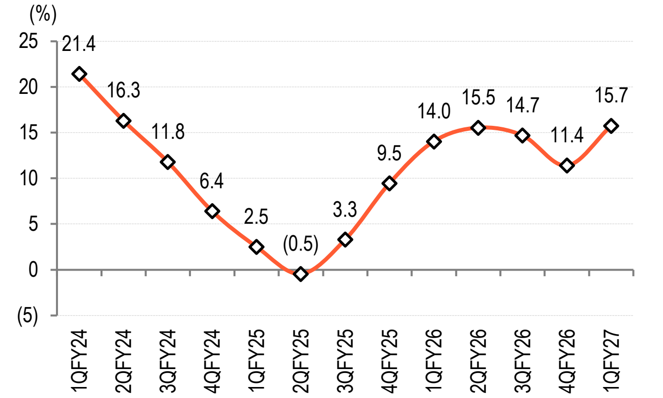
Source: Company, BOBCAPS Research

Fig 6 – USD Revenue growth (YoY)



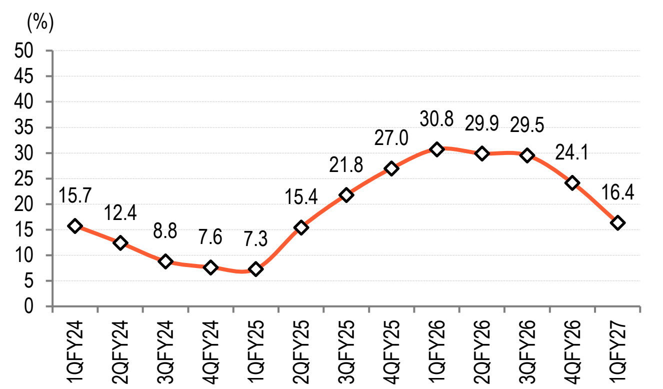
Source: Company, BOBCAPS Research

Fig 7 – USD Revenue growth of Hi-Tech vertical (YoY)



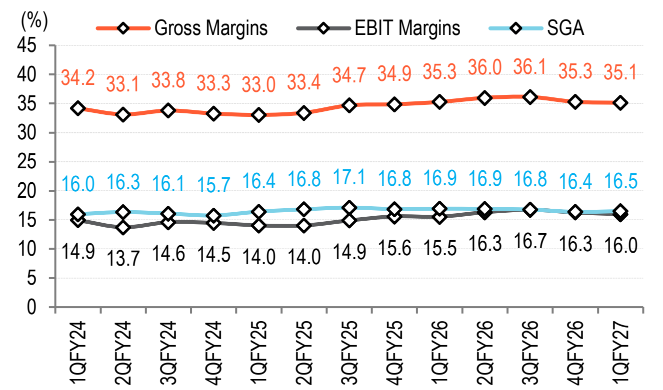
Source: Company, BOBCAPS Research

Fig 8 – USD Revenue growth of BFSI vertical (YoY)



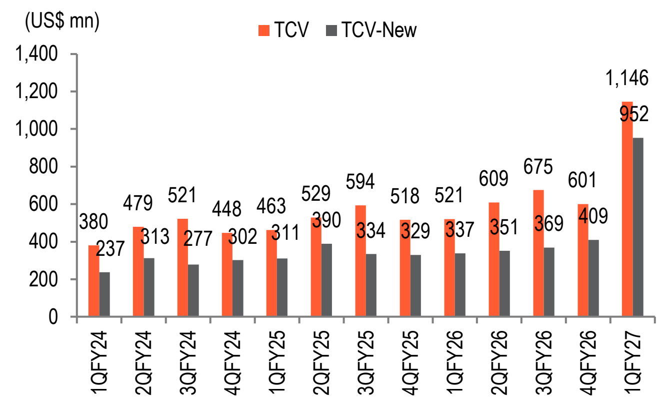
Source: Company, BOBCAPS Research

Fig 9 – Gross Margin, SG&A and EBIT Margin



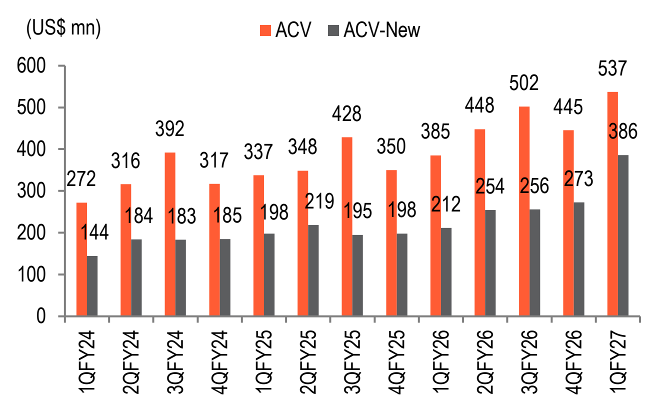
Source: Company, BOBCAPS Research

Fig 10 – The TCV trend



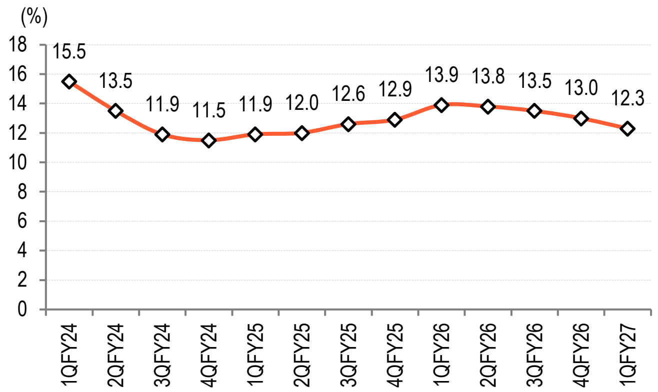
Source: Company, BOBCAPS Research

Fig 11 – The ACV trend



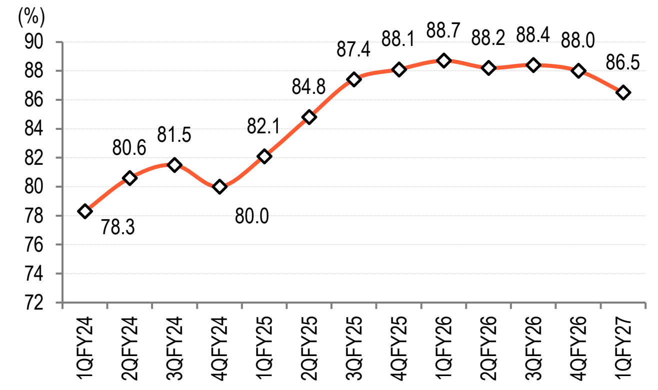
Source: Company, BOBCAPS Research

Fig 12 – TTM Attrition Rate (%)



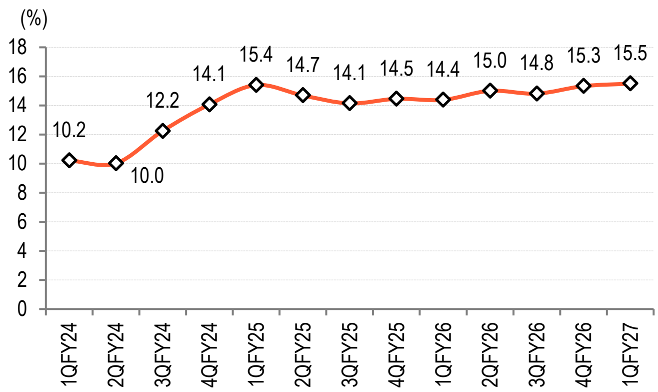
Source: Company, BOBCAPS Research

Fig 13 – Employee Utilization (including trainees)



Source: Company, BOBCAPS Research

Fig 14 – Subcontractor Cost (Professional Cost) as % of Revenue



Source: Company, BOBCAPS Research

Fig 15 – Quarterly Snapshot

Year to 31 March	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27
Rsmn													
INR/USD	82.1	82.7	83.1	83.3	83.4	83.9	85.0	86.4	85.5	88.2	89.4	93.0	95.1
USD Revenue (USD mn)	283	292	301	311	328	345	360	375	390	406	423	436	452
INR Revenue	23,212	24,117	24,982	25,906	27,372	28,972	30,623	32,421	33,336	35,807	37,782	40,559	43,032
Gross Margin	7,933	7,990	8,443	8,620	9,043	9,678	10,622	11,304	11,760	12,883	13,655	14,312	15,117
SGA	3,704	3,938	4,012	4,075	4,491	4,870	5,244	5,460	5,644	6,046	6,331	6,635	7,095
EBITDA	4,229	4,052	4,431	4,545	4,552	4,807	5,378	5,844	6,116	6,838	7,324	7,677	8,022
Dep & Amorization	763	744	787	799	712	745	821	791	938	1,001	1,006	1,085	1,153
EBIT	3,466	3,308	3,644	3,745	3,840	4,062	4,557	5,053	5,178	5,837	6,318	6,592	6,869
Other income (net)	90	250	262	210	165	283	263	(1)	376	331	222	148	(638)
PBT	3,070	3,558	3,906	3,956	4,005	4,345	4,820	5,052	5,554	6,168	5,650	6,740	6,231
Tax	783	925	1,032	802	941	1,095	1,091	1,095	1,305	1,454	1,255	1,447	1,401
PAT	2,288	2,633	2,874	3,154	3,064	3,250	3,730	3,958	4,249	4,715	4,395	5,293	4,830
YoY Growth (%)													
USD Revenue	17.1	14.1	13.7	13.2	16.0	18.4	19.9	20.7	18.8	17.6	17.3	16.2	16.0
INR Revenue	23.6	17.7	15.2	14.9	17.9	20.1	22.6	25.1	21.8	23.6	23.4	25.1	29.1
Gross Profit	25.0	16.5	15.1	12.7	14.0	21.1	25.8	31.1	30.0	33.1	28.5	26.6	28.5
EBIT	29.0	10.8	9.4	8.1	10.8	22.8	25.1	34.9	34.8	43.7	38.6	30.5	32.7
Net Profit	8.1	19.7	20.8	25.4	33.9	23.4	29.8	25.5	38.7	45.1	17.8	33.7	13.7
QoQ Growth (%)													
USD Revenue	3.0	3.1	3.0	3.4	5.6	5.2	4.3	4.2	3.9	4.1	4.1	3.2	3.7
INR Revenue	3.0	3.9	3.6	3.7	5.7	5.8	5.7	5.9	2.8	7.4	5.5	7.4	6.1
EBIT	0.0	(4.6)	10.2	2.8	2.5	5.8	12.2	10.9	2.5	12.7	8.2	4.3	4.2
Net Profit	(9.0)	15.1	9.2	9.7	(2.9)	6.1	14.8	6.1	7.4	10.9	(6.8)	20.4	(8.7)
Margins (%)													
Gross Margin	34.2	33.1	33.8	33.3	33.0	33.4	34.7	34.9	35.3	36.0	36.1	35.3	35.1
SGA	16.0	16.3	16.1	15.7	16.4	16.8	17.1	16.8	16.9	16.9	16.8	16.4	16.5
EBITDA	18.2	16.8	17.7	17.5	16.6	16.6	17.6	18.0	18.3	19.1	19.4	18.9	18.6
EBIT	14.9	13.7	14.6	14.5	14.0	14.0	14.9	15.6	15.5	16.3	16.7	16.3	16.0
PBT	13.2	14.8	15.6	15.3	14.6	15.0	15.7	15.6	16.7	17.2	15.0	16.6	14.5
PAT	9.9	10.9	11.5	12.2	11.2	11.2	12.2	12.2	12.7	13.2	11.6	13.0	11.2

Source: Company, BOBCAPS Research

Fig 16 – Segmental Information

Segmental Information	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27
Revenues													
Banking, Financial Services and Insurance	7,737	7,791	7,786	7,959	8,432	9,117	9,692	10,468	11,301	12,456	13,213	13,963	14,631
Healthcare & Life Sciences	4,309	4,657	5,448	6,278	7,311	8,065	8,483	8,692	8,427	9,027	9,605	10,663	10,911
Software, Hi-Tech and Emerging Industries	11,166	11,668	11,748	11,668	11,629	11,789	12,447	13,261	13,608	14,324	14,964	15,934	17,491
Total	23,212	24,117	24,982	25,905	27,372	28,972	30,623	32,421	33,336	35,807	37,782	40,559	43,032
QoQ Revenue Growth %													
Banking, Financial Services and Insurance	6.1	0.7	(0.1)	2.2	5.9	8.1	6.3	8.0	8.0	10.2	6.1	5.7	4.8
Healthcare & Life Sciences	(2.9)	8.1	17.0	15.2	16.5	10.3	5.2	2.5	(3.0)	7.1	6.4	11.0	2.3
Software, Hi-Tech and Emerging Industries	3.2	4.5	0.7	(0.7)	(0.3)	1.4	5.6	6.5	2.6	5.3	4.5	6.5	9.8
Total	3.0	3.9	3.6	3.7	5.7	5.8	5.7	5.9	2.8	7.4	5.5	7.4	6.1
YoY Revenue Growth %													
Banking, Financial Services and Insurance	21.9	17.4	11.9	9.2	9.0	17.0	24.5	31.5	34.0	36.6	36.3	33.4	29.5
Healthcare & Life Sciences	15.8	20.6	31.6	41.5	69.7	73.2	55.7	38.4	15.3	11.9	13.2	22.7	29.5
Software, Hi-Tech and Emerging Industries	28.1	16.8	10.9	7.9	4.2	1.0	6.0	13.6	17.0	21.5	20.2	20.2	28.5
Total	23.6	17.7	15.2	14.9	17.9	20.1	22.6	25.2	21.8	23.6	23.4	25.1	29.1
Segment Profit													
Banking, Financial Services and Insurance	2,995	2,990	2,658	2,768	2,781	3,388	3,623	3,695	3,885	4,348	4,483	4,969	5,213
Healthcare & Life Sciences	2,068	2,178	1,979	2,269	2,699	3,109	3,608	3,354	3,041	3,460	3,532	3,996	4,014
Software, Hi-Tech and Emerging Industries	2,584	2,939	3,498	3,016	2,789	3,234	3,920	4,378	4,900	5,244	4,957	5,491	6,044
Total	7,646	8,108	8,135	8,053	8,268	9,730	11,150	11,427	11,827	13,053	12,973	14,455	15,271
Segment Profit Margin (%)													
Banking, Financial Services and Insurance	38.7	38.4	34.1	34.8	33.0	37.2	37.4	35.3	34.4	34.9	33.9	35.6	35.6
Healthcare & Life Sciences	48.0	46.8	36.3	36.1	36.9	38.5	42.5	38.6	36.1	38.3	36.8	37.5	36.8
Software, Hi-Tech and Emerging Industries	23.1	25.2	29.8	25.9	24.0	27.4	31.5	33.0	36.0	36.6	33.1	34.5	34.6
Total	32.9	33.6	32.6	31.1	30.2	33.6	36.4	35.2	35.5	36.5	34.3	35.6	35.5

Source: Company, BOBCAPS Research

Fig 17 – Key Metrics

Key Metrics	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27
P and L (USD mn)													
Revenue	283	292	301	311	328	345	360	375	390	406	423	436	452
EBIT	42	40	44	45	46	48	54	58	61	66	71	71	72
PAT	28	32	35	38	37	39	44	46	50	53	49	57	51
P and L (Rs mn)													
Revenue	23,212	24,117	24,982	25,906	27,372	28,972	30,623	32,421	33,336	35,807	37,782	40,559	43,032
EBITDA	4,229	4,052	4,431	4,545	4,552	4,807	5,378	5,844	6,116	6,838	7,324	7,677	8,022
PAT	2,288	2,633	2,874	3,154	3,064	3,250	3,730	3,958	4,249	4,715	4,395	5,293	4,830
Geographical Mix (%)													
North Americas	79.2	79.2	79.7	80.1	80.7	81.3	80.5	80.5	79.8	79.8	81.5	81.4	79.1
Europe	9.7	9.5	8.9	7.8	7.8	7.9	8.2	8.4	9	9.3	8.5	8.1	8.5
India	9.9	9.7	10.0	10.1	9.8	9.2	9.4	9.3	9.8	9.2	7.8	8.3	9.8
ROW	1.2	1.6	1.4	2	1.7	1.6	1.9	1.8	1.4	1.7	2.2	2.2	2.6
Utilization (%) (including Trainees)	78.3	80.6	81.5	80.0	82.1	84.8	87.4	88.1	88.7	88.2	88.4	88.0	86.5
Revenue Mix (Delivery of IT services)													
Revenue mix-Onsite	13.1	12.7	13.8	14.8	15.2	15.8	15.1	14.8	14.5	14.1	14.2	14.6	15.2
Revenue mix-Offshore	86.9	87.3	86.2	85.2	84.8	84.2	84.9	85.2	85.5	85.9	85.8	85.4	84.8
Clients Concentration (%)													
Top 5 clients	27.9	28.3	28.0	29.2	30.7	31.4	30.8	32.7	31.8	32.9	32.9	31.5	33.2
Top 10 clients	39.6	39.5	39.3	40.0	41.5	41.5	40.0	42.2	42.0	43.2	43.7	42.1	43.0
Top 20 clients	50.4	50.6	51.4	51.1	51.9	52.1	50.9	53.0	53.8	54.4	54.8	53.6	53.7
Top 50 clients	66.1	66.5	66.7	67.3	67.8	67.9	67.4	68.7	70.0	70.1	70.5	69.7	70.7
Business Mix (%)													
BFSI	33.3	32.3	31.2	30.7	30.8	31.5	31.7	32.3	33.9	34.8	35.0	34.5	34.0
Healthcare & Life Science	18.6	19.3	21.8	24.2	26.7	27.8	27.8	26.8	25.3	25.2	25.4	26.3	25.3
Tech. Cos. & Emerging Verticals	48.1	48.4	47.0	45.1	42.5	40.7	40.5	40.9	40.8	40.0	39.6	39.2	40.7
Emplolyee Metrics													
Employees	23,130	22,842	23,336	23,850	23,519	23,237	23,941	24,594	25,340	26,224	26,711	27,502	28,640
Net addition of employees (QoQ)	241	(288)	494	514	(331)	(282)	704	653	746	884	487	791	1,138
Attrition LTM (%)	15.5	13.5	11.9	11.5	11.9	12.0	12.6	12.9	13.9	13.8	13.5	13.0	12.3
Productivity Metrics													
Per Capita (Annualised) - (USD)													
Revenue	48,923	51,085	51,518	52,140	55,818	59,441	60,193	61,030	61,546	61,925	63,288	63,431	63,184
EBIT	7,306	7,006	7,515	7,538	7,831	8,334	8,958	9,512	9,560	10,095	10,583	10,309	10,088
PAT	4,822	5,577	5,927	6,348	6,248	6,668	7,331	7,450	7,845	8,154	7,361	8,277	7,094
Direct and opex cost per capita	41,617	44,079	44,003	44,602	47,988	51,107	51,235	51,519	51,986	51,829	52,705	53,123	53,097

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Total revenue	**119,387**	**147,485**	**211,987**	**324,442**	**369,106**
EBITDA	20,581	27,955	38,208	56,492	66,103
Depreciation	3,069	4,030	6,111	11,006	11,515
EBIT	17,512	23,925	32,096	45,486	54,588
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	710	1,078	928	1,595	1,561
Exceptional items	0	0	0	0	0
EBT	18,223	25,002	32,106	40,411	50,824
Income taxes	4,222	5,461	7,748	11,315	14,231
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**14,001**	**19,542**	**24,358**	**29,096**	**36,593**
Adjustments	0	0	0	0	0
Adjusted net profit	**14,001**	**19,542**	**24,358**	**29,096**	**36,593**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Accounts payables	0	0	0	0	0
Other current liabilities	17,299	28,672	62,032	60,386	76,588
Provisions	4,029	570	509	602	668
Debt funds	0	0	152,950	124,950	96,950
Other liabilities	2,848	6,144	9,251	9,251	9,251
Equity capital	779	789	789	789	789
Reserves & surplus	62,411	77,590	91,949	107,952	128,078
Shareholders' fund	63,191	78,379	92,738	108,740	128,867
Total liab. and equities	**87,366**	**113,765**	**317,480**	**303,929**	**312,324**
Cash and cash eq.	10,255	12,183	16,429	(3,726)	3,786
Accounts receivables	19,142	22,231	46,495	54,960	60,993
Inventories	0	0	0	0	0
Other current assets	18,926	30,358	53,197	62,882	69,785
Investments	9,803	16,148	15,071	15,071	15,071
Net fixed assets	13,805	15,232	22,037	15,271	7,997
CWIP	42	107	186	186	186
Intangible assets	12,338	13,597	120,647	120,647	120,647
Deferred tax assets, net	2,024	3,460	4,588	4,588	4,588
Other assets	1,031	450	592	592	592
Total assets	**87,366**	**113,765**	**279,243**	**270,471**	**283,645**

Cash Flows

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Cash flow from operations	**8,433**	**17,789**	**18,897**	**27,068**	**56,766**
Capital expenditures	(3,787)	(3,849)	(4,556)	(4,556)	(4,556)
Change in investments	(1,367)	(4,903)	181	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(5,154)**	**(8,751)**	**(4,375)**	**(4,556)**	**(4,556)**
Equities issued/Others	9	10	0	0	0
Debt raised/repaid	51	176	154,368	(28,000)	(28,000)
Interest expenses	0	0	0	0	0
Dividends paid	(5,387)	(8,574)	(10,961)	(13,093)	(16,467)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**(5,327)**	**(8,389)**	**143,407**	**(41,093)**	**(44,467)**
Chg in cash & cash eq.	**26**	**1,928**	**2,216**	**(22,316)**	**5,352**
Closing cash & cash eq.	**10,255**	**12,183**	**14,399**	**(5,887)**	**1,626**

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
Reported EPS	91.2	119.7	155.7	186.0	233.9
Adjusted EPS	90.2	118.9	153.9	183.8	231.1
Dividend per share	34.9	54.8	70.1	83.7	105.3
Book value per share	405.4	496.8	585.8	686.8	814.0

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
EV/Sales	7.4	6.0	3.8	2.3	2.1
EV/EBITDA	42.9	31.6	21.2	13.1	11.5
Adjusted P/E	61.8	46.9	36.2	30.3	24.1
P/BV	13.8	11.2	9.5	8.1	6.8

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Tax burden (Net profit/PBT)	76.8	77.4	75.9	72.0	72.0
Interest burden (PBT/EBIT)	104.1	100.8	100.0	88.8	93.1
EBIT margin (EBIT/Revenue)	14.7	16.2	15.1	14.0	14.8
Asset turnover (Rev./Avg TA)	211.3	207.7	130.0	134.4	159.4
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.9	2.4	1.9
Adjusted ROAE	24.8	26.3	28.5	28.9	30.8

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Revenue	21.6	23.5	43.7	53.0	13.8
EBITDA	19.3	35.8	36.7	47.9	17.0
Adjusted EPS	26.7	31.8	29.5	19.4	25.8
Profitability & Return ratios (%)					
EBITDA margin	17.2	19.0	18.0	17.4	17.9
EBIT margin	14.7	16.2	15.1	14.0	14.8
Adjusted profit margin	11.7	13.2	11.5	9.0	9.9
Adjusted ROAE	24.8	27.6	28.5	28.9	30.8
ROCE	23.8	26.1	14.9	13.6	17.0
Working capital days (days)					
Receivables	59	55	80	62	60
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA
Ratios (x)					
Gross asset turnover	8.6	9.7	9.6	21.2	46.2
Current ratio	2.3	2.2	1.9	1.9	1.7
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.2)	1.5	1.2	0.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Website: **https://www.bobcaps.in/**
CIN: **U65999MH1996GOI098009**

Logo:

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Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

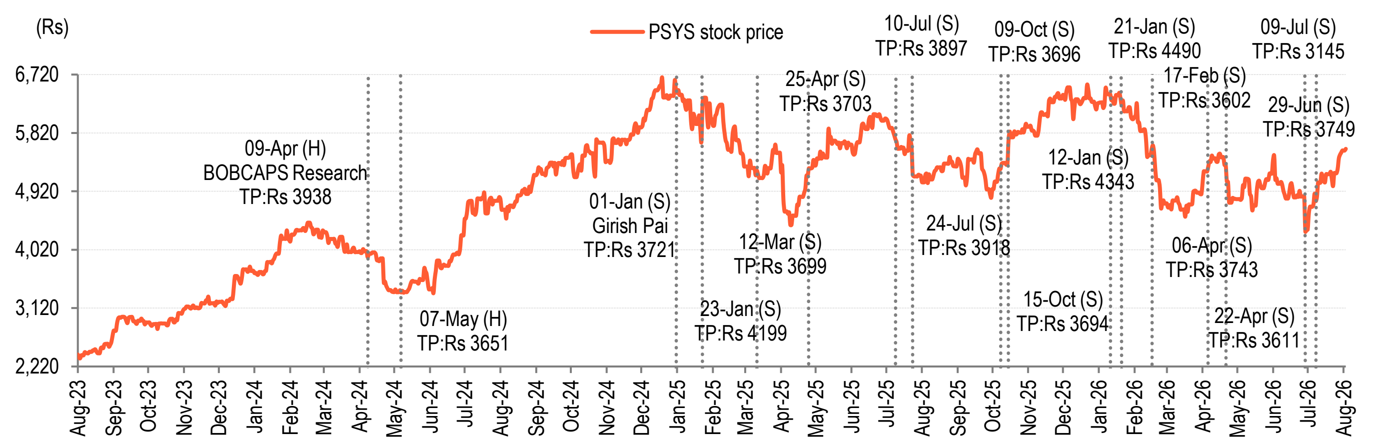
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): PERSISTENT SYSTEMS (PSYS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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