

SELL

TP: Rs 3,694 | ▼ 31%

PERSISTENT SYSTEMS

| IT Services

| 15 October 2025

Margin beat, TCV/ACV strong. Valuation challenging

- 2QFY26 performance was strong. Growth leader among the Tier-2. And very consistent. Margins outperformed on lower Software cost
- Likely to reach its US\$2bn revenue goal in FY27. 200-300bps EBIT margin expansion may be slight bit of a challenge
- Believe current PE multiple excessive. Believe Margin expansion from here will be anemic. Maintain estimates and Target PE. Retain Sell

Strong 2QFY26 performance: Delivered 4.4% QoQ CC revenue growth (our estimate 4%). Driven by strong growth in BFSI and healthcare. EBIT margin at 16.3%, a positive surprise (our estimate 15.5%) on the back of lower software license costs (+80bps QoQ).

Strong execution along with AI capabilities seem to be driving out performance: Strong execution on both delivery as well as sales fronts and the SASVA platform (backed by 75 patents) seem to be the key differentiator that has led to PSYS delivering Tier-2 leading revenue growth and margins.

Cost takeout and vendor consolidation deals will impact margins for Tier-2 players: With very little discretionary spending and the market largely driven by cost take out and vendor consolidation driven deals and clients wanting to work with vendors who can provide multi-tower services at the lowest cost, Tier-2 players like PSYS are at small disadvantage. This will force them to bid aggressively, impacting margins. This is already visible in the form of delayed salary hike in FY26, keeping utilization (including trainees) high at ~88-89%, reversing some of its earn out provisions (FY25), changing depreciation policy (FY25), etc.

Margin may not be a big lever to drive EPS growth from here on: Believe EBIT margins at 15-16% are high when compared to its peer set (which are at 13-15%) and even some of the Tier-1 companies. EPS growth, which benefited from margin expansion during the last 5 years, will now be solely dependent on revenue growth

At 42x valuation is not appealing: We broadly maintain estimates for FY27/FY28 and attach a 23.8x Sept 27 EPS to arrive at TP of Rs3694. The 23.8x is at a 25% premium to the target PE multiple given to TCS, our industry benchmark. At 42x 12 forward multiple believe the valuation is excessive and the street is being over optimistic about its earnings prospects in the medium to long term.

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Key changes

Target	Rating
▼	◀ ▶

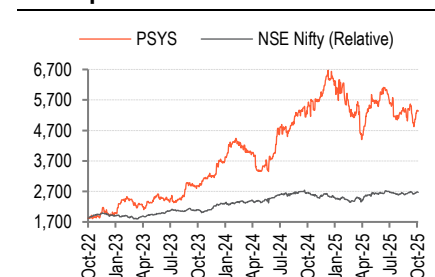
Ticker/Price	PSYS IN/Rs 5,338
Market cap	US\$ 9.4bn
Free float	68%
3M ADV	US\$ 30.9mn
52wk high/low	Rs 6,789/Rs 4,149
Promoter/FPI/DII	31%/21%/31%

Source: NSE | Price as of 14 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	119,387	144,728	173,993
EBITDA (Rs mn)	20,581	27,038	32,872
Adj. net profit (Rs mn)	14,001	18,236	21,917
Adj. EPS (Rs)	90.2	116.7	140.2
Consensus EPS (Rs)	90.2	113.2	137.4
Adj. ROAE (%)	24.8	26.3	26.8
Adj. P/E (x)	59.2	45.8	38.1
EV/EBITDA (x)	40.8	31.1	25.8
Adj. EPS growth (%)	26.7	29.3	20.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Key Points from the quarter and the earnings call

- Revenue stood at US\$406.2mn, growing 4.4% QoQ in CC terms (broadly in line with our estimate of 4% QoQ CC growth)
- TTM revenue crossed US\$1.5 bn with an annualized run rate exceeding US\$1.6 bn. It is moving towards its revenue goal of US\$2bn in FY27. Though we think it may require an acquisition to cross that line in that time-frame.
- EBIT margin was 16.3% (against our estimate of 15.5%), an improvement of ~77 bps QoQ and ~230 bps YoY
 - Margin Tailwinds: Software license costs related to a large multi-year customer engagement starting 2Q FY26 went to 0 and improved margins by 80 bps; Favorable currency movement contributed +60 bps; Planned offshoring for a large healthcare customer added +30 bps
 - Margin Headwinds: Higher provision for doubtful debts negatively impacted margin by 50 bps; Utilization declined by 50 bps to 88.2%, resulting in a 20 bps margin impact; Increased CapEx on facility and IT led to 20 bps rise in depreciation and amortization expenses
- PAT margin was 13.2%, growing 42 bps QoQ and 195 bps YoY
- Wage increments rolled out effective October 1, 2025; Expected margin impact of 180 bps in 3Q due to wage hikes
 - Offset of 80-100 bps of wage hike impact expected through offshoring, higher utilization, subcontractor rationalization, SG&A optimization, and ESOP cost reduction
 - Wage hikes are in line with industry standards; The increase is similar to what was provided to employees last year
- TCV for the quarter was US\$609.2 mn (+17% QoQ, +15% YoY); New bookings in TCV terms were US\$350.8mn (+4% QoQ, -10% YoY)
- ACV was US\$447.9mn (+16% QoQ, +29% YoY), including US\$254.4 mn from new bookings (up 20% QoQ and +16% YoY)
- Bookings include deals of all sizes, both new and renewals across existing and new clients
- Quarterly revenue realization is driven by prior ACV bookings and multi-year TCV conversions
- Growth led by BFSI segment, followed by Software, Hi-Tech, and Emerging Industries and Healthcare Life Sciences: YoY growth by segment: BFSI 30%, Software 15.5%, Emerging Industries and Healthcare Life Sciences 6.6%
- Attrition rate stood at 13.8%; Utilization stood at 88.2%, down 50 bps QoQ
 - Utilization is expected to stay in current range for the next few quarters. Company comfortable with current utilization range

- Medium term target utilization band remains between 83% to 85%
- Aspiration of reaching US\$2 bn in revenue by end of FY27 maintained

Demand Environment:

- Macro environment remains uncertain but stable, no significant directional change. Clients are increasingly adapting to the current environment
- Deal pipeline remains broad-based and healthy, reflected in strong order wins
- BFSI continues to lead growth, driven by deal wins, ramp-ups, and strong pipeline; Hi-Tech showing positive momentum with recent wins and good pipeline; Healthcare returning to growth after a brief pause due to offshoring
- Execution capability seen as key differentiator in current environment

Other Points:

- AI-led platform-driven strategy built on three core pillars: AI for Technology, AI for Business, and Enterprise Data Readiness for AI
 - **AI for Technology:** Drives engineering hyper productivity for software companies and enterprises, accelerating AI engineering for efficiency and faster time to market. SASVA includes the on-premise deployment for regulated industries and optimized GPU infrastructure. It filed 20 new patents for SASVA in the quarter, and the overall count is 75. Persistent partnered with Digital Ocean and Anthropic for best-in-class models to drive solutions across AI for technology as well as business.
 - **AI for business:** Delivers domain-based business hyper productivity by reimagining workflows, including autonomous AI agents across functions and industries
 - **Enterprise data readiness for AI:** Builds secure AI-ready data foundations with enhanced quality governance and overall data lifecycle management
- These pillars are further powered by foundational managed AI services that include AI infrastructure services for scalability, workforce transformation for upscaling and operating ownerships and responsible AI for security, privacy and overall AI governance
- Bookings were broad-based and not concentrated in one or two clients
- Margin improvement of 230 bps YoY aligns with the stated goal of 200–300 bps expansion over prior baseline
 - Expecting about 100 basis points margin improvement in FY26 and another 100 basis points in FY27. This keeps the original guidance of 200-300 basis points margin expansion over 2-3 years on track
 - Beyond that, the focus will shift more towards growth, while still looking for opportunities to optimize margins where possible
- Europe growth driven by Hi-Tech clients, including one large account that significantly ramped up

- Key BFSI drivers include large consolidation deal won against a tier 1 player and ramp-up of a Fortune 100 financial services client. Additional momentum from fintech and banking clients with steady ramp-up of existing accounts.
- No specific client-related issues in healthcare; Large healthcare deals undergoing ramp-up, offshoring, and optimization phases. Healthcare is expected to return to growth over time as per earlier guidance. Healthy pipeline in healthcare segment with no concerns around specific clients
- No negative impact from AI on renewals observed so far; company's proactive positioning expected to sustain momentum
- Current software license and support cost (around 6%) reflect the structure of recent deals. No specific trend reversal expected soon - these levels are likely to continue for the next few quarters.
 - The industry is shifting from "Software as a Service" to "Service as a Software"
 - Therefore, license and support costs could remain elevated or even increase depending on how bundled solutions develop
- Healthcare vertical has faced headwinds due to recent government spending changes (One big beautiful bill)
 - Clients are adapting by optimizing supply chains and cost structures.
 - Persistent is seeing a good deal pipeline.
 - Healthcare is not one single vertical but made up of four sub-verticals: scientific instruments & medical devices, pharma, payers, and providers. Persistent is sub-verticalizing healthcare with dedicated teams, aiming to reach US\$100mn revenue per quarter in each sub-vertical over the next 4-5 years. Strategy focuses on deepening capabilities within existing verticals rather than diversifying into new verticals at this stage
- AI and pricing: It's not about pricing deflation per unit but rather scope inflation or deflation. AI-led transformations and solutions like SASVA help do work faster and with less manpower, reducing overall cost. Billing rates and realizations are consistently increasing, so no significant pricing deflation is seen currently
- Tech segment margins have improved significantly due to deal wins leveraging AI and platforms like SASVA. This approach uses fewer resources but delivers better value, allowing higher realizations, driving profitability up
- There are structural industry shifts like H1B rules, but Persistent hasn't relied on H1Bs. Headcount changes in regions like the US depend on deal needs—sometimes more onsite initially, then optimized later. Going forward, no major shift in geographic headcount mix is expected; India will remain a key base, with some possible small changes in nearshore/onshore, but overall percentages won't change significantly.
- The total headcount reached 26,224, +884 from the last quarter. TTM Attrition at 13.8% is much above the recent low of 11.5% in 4QFY24.

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 that view with an update on 12th March 2025 (**FY26 unlikely to be better than FY25**). We also put out a recent update (**Uncertainty stays and 'eating the tariff' may impact even FY27**) where we indicate the tariff decisions of 7 July 2025 on 14 countries, post the 90-day pause, prolongs the current phase of uncertainty.

Consequently, we see Tier-1 growth to remain at low single digit level for FY26 and 'eating the tariff' may lead to adverse impact on FY27

While both earnings and PE multiples have corrected since 1 Jan 2025, we believe the industry's structural organic revenue growth from here on will be lower than the ~7% CAGR seen during FY15-FY20, possibly ~5% CAGR over FY25-FY30 in constant currency (CC) terms.

Multiple speed breakers post FY25 drive our Underweight stance

Trump policies raise uncertainty: The tariffs, the higher fiscal deficit from the 'one big, beautiful bill' (OBBA), the crackdown on illegal and legal immigration (the latter through the major new hurdles put in for H1-B visas), etc all point to uncertainty in the coming days which may delay decision making

Higher for longer interest rate environment: Lately, based on inflation prints and fears of a higher fiscal deficit, US 10-year yields have remained firm. There are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US demand in areas like housing, autos and retail.

Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.

Gen AI and GCCs are going to disrupt growth: We also believe that AI/Gen AI will lead to compression of revenue for the industry in the next 24-36 months as companies self-cannibalize to hold on to their existing clients. We also believe that the rapid growth of the GCCs is a threat to outsourcing. While there seems to be collaboration between the 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 those who have lower bargaining power – the 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 compared to FY15-

FY20. This is besides the fact that by FY25, Tier-1 revenue has reached US\$ 85bn, double that in FY15. Due to the higher base now, growth may not be as rapid.

How we are valuing companies: We are using PE methodology and using TCS as our industry benchmark. The target PE used for TCS now is 19x, which is the average PE multiple of TCS over the last 10 years less 1SD. Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus EPS expectations for FY27.

Tier- 2 valuation reflects growth gap with Tier-1

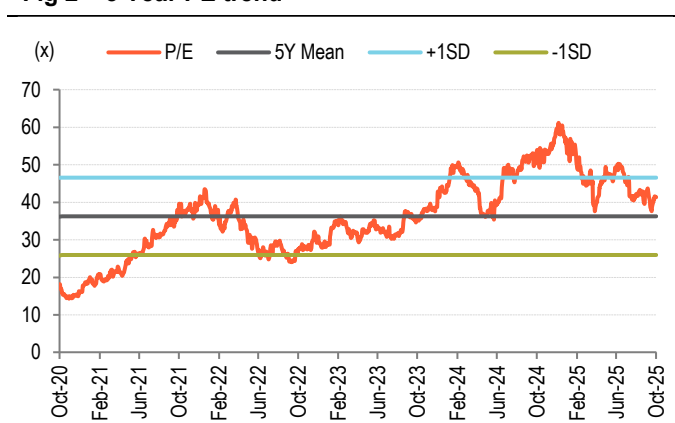
The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

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

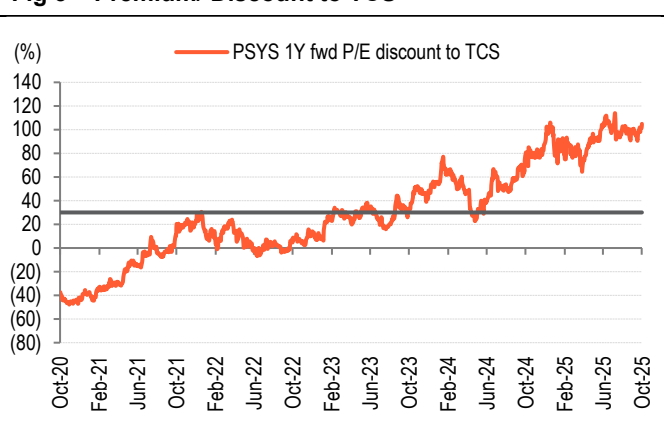
Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E March (Rs mn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)	2QFY26E	Dev (%)
Net Sales (USD mn)	345.3	389.9	406.0	17.6	4.1	406.1	0.0
Net Sales	28,972	33,336	35,807	23.6	7.4	35,290	1.5
Direct Cost	19,294	21,576	22,924	18.8	6.2	22,994	(0.3)
% of Sales	66.6	64.7	64.0			65.2	
Gross Margin	9,678	11,760	12,883	33.1	9.6	12,296	4.8
% of Sales	33.4	35.3	36.0			34.8	
SG&A	4,870	5,644	6,046	24.1	7.1	5,872	3.0
% of Sales	16.8	16.9	16.9			16.6	
EBITDA	4,807	6,116	6,838	42.2	11.8	6,424	6.4
EBITDA Margin (%)	16.6	18.3	19.1			18.2	
Depreciation and Amortisation	745	938	1,001			957	4.6
EBIT	4,062	5,178	5,837	43.7	12.7	5,467	6.8
EBIT Margin (%)	14.0	15.5	16.3			15.5	
Other Income, Net	177	187	59	(66.7)	(68.6)	117	(49.5)
Forex Gain/(Losses)	106	189	272	156.6	44.1	-	
PBT	4,345	5,554	6,168	42.0	11.1	5,584	10.5
Provision for Tax	1,095	1,305	1,454	32.7	11.4	1,312	10.8
Effective Tax Rate	25.2	23.5	23.6			23.5	
PAT	3,250	4,249	4,715	45.1	10.9	4,272	10.4
NPM (%)	11.2	12.7	13.2			12.1	

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 (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
INR/USD	87.3	89.3	91.1	87.0	89.3	91.1	0.4	-	-
USD Revenue (USD mn)	1,657	1,949	2,290	1,643	1,942	2,287	0.9	0.4	0.1
USD Revenue Growth (%)	17.6	17.6	17.5	16.6	18.2	17.8			
Revenue (Rsmn)	144,728	173,993	208,601	143,027	173,368	208,311	1.2	0.4	0.1
EBIT (Rsmn)	23,008	28,327	34,516	22,203	27,843	34,074	3.6	1.7	1.3
EBIT Margin (%)	15.9	16.3	16.5	15.5	16.1	16.4			
PAT (Rsmn)	18,236	21,917	26,733	17,584	21,831	26,773	3.7	0.4	(0.2)
FDEPS (Rs)	116.7	140.2	171.0	112.6	139.8	171.4	3.6	0.3	(0.3)

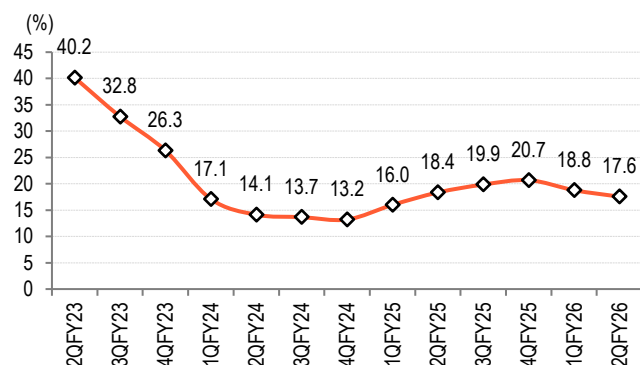
Source: Company, BOBCAPS Research

Fig 5 – P&L at a glance

(YE March)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Average INR/USD	57.4	60.8	61.3	65.6	67.1	64.5	70.0	71.1	74.0	74.5	80.5	82.8	84.7	87.3	89.3	91.1
Net Sales (USD mn)	238	274	308	352	429	471	481	502	566	766	1,036	1,186	1,409	1,657	1,949	2,290
YoY Growth (%)		15.2	12.4	14.2	22.0	9.7	2.2	4.3	12.9	35.2	35.3	14.5	18.8	17.6	17.6	17.5
Net Sales	12,945	16,692	18,913	23,123	28,784	30,337	33,659	35,658	41,879	57,107	83,506	98,217	119,387	144,728	173,993	208,601
YoY Growth (%)	29.4	28.9	13.3	22.3	24.5	5.4	11.0	5.9	17.4	36.4	46.2	17.6	21.6	21.2	20.2	19.9
Cost of Sales & Services	7,311	9,517	11,317	14,305	18,518	19,704	21,378	23,494	27,650	37,895	55,315	65,231	78,740	94,337	114,449	136,657
% of sales	56.5	57.0	59.8	61.9	64.3	65.0	63.5	65.9	66.0	66.4	66.2	66.4	66.0	65.2	65.8	65.5
Gross Margin	5,634	7,174	7,596	8,819	10,266	10,633	12,281	12,164	14,229	19,213	28,191	32,986	40,647	50,391	59,544	71,944
% of sales	43.5	43.0	40.2	38.1	35.7	35.0	36.5	34.1	34.0	33.6	33.8	33.6	34.0	34.8	34.2	34.5
SG& A	2,283	2,872	3,690	4,647	5,727	5,946	6,476	7,234	7,398	9,631	12,999	15,729	20,066	23,353	26,672	32,399
% of sales	17.6	17.2	19.5	20.1	19.9	19.6	19.2	20.3	17.7	16.9	15.6	16.0	16.8	16.1	15.3	15.5
EBITDA	3,352	4,303	3,906	4,171	4,539	4,687	5,805	4,930	6,830	9,582	15,191	17,257	20,581	27,038	32,872	39,544
% of sales	25.9	25.8	20.7	18.0	15.8	15.4	17.2	13.8	16.3	16.8	18.2	17.6	17.2	18.7	18.9	19.0
Depreciation and Amortization	783	1,026	939	965	1,490	1,585	1,573	1,660	1,756	1,660	2,719	3,094	3,069	4,030	4,545	5,028
EBIT	2,569	3,277	2,967	3,206	3,049	3,102	4,233	3,270	5,075	7,922	12,472	14,163	17,512	23,008	28,327	34,516
% of sales	19.8	19.6	15.7	13.9	10.6	10.2	12.6	9.2	12.1	13.9	14.9	14.4	14.7	15.9	16.3	16.5
Other income (net)	61	150	932	750	958	1,190	631	1,254	1,020	1,321	(64)	813	710	845	348	458
PBT	2,630	3,427	3,900	3,956	4,007	4,292	4,863	4,524	6,094	9,243	12,409	14,976	18,223	23,853	28,675	34,975
-PBT margin (%)	20.3	20.5	20.6	17.1	13.9	14.1	14.4	12.7	14.6	16.2	14.9	15.2	15.3	16.5	16.5	16.8
Provision for tax	754	934	993	983	992	1,062	1,347	1,121	1,588	2,339	3,198	3,541	4,222	5,617	6,757	8,242
Effective tax rate (%)	28.7	27.3	25.5	24.8	24.8	24.7	27.7	24.8	26.1	25.3	25.8	23.6	23.2	23.5	23.6	23.6
Net profit	1,876	2,493	2,906	2,974	3,015	3,231	3,517	3,403	4,507	6,904	9,211	11,435	14,001	18,236	21,917	26,733
-Growth (%)	32.3	32.9	16.6	2.3	1.4	7.2	8.9	(3.2)	32.4	53.2	33.4	18.9	27.9	30.3	20.2	22.0
-Net profit margin (%)	14.5	14.9	15.4	12.9	10.5	10.6	10.4	9.5	10.8	12.1	11.0	11.6	11.7	12.6	12.6	12.8

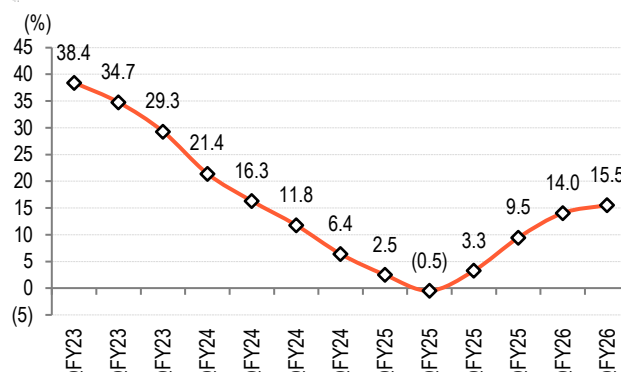
Source: Company, BOBCAPS Research

Fig 6 – USD Revenue growth (YoY)



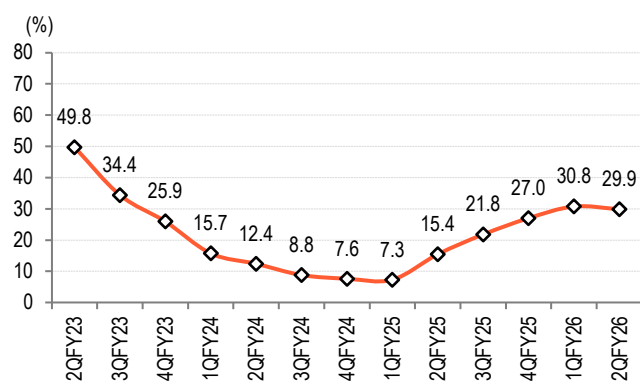
Source: Company, BOBCAPS Research

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



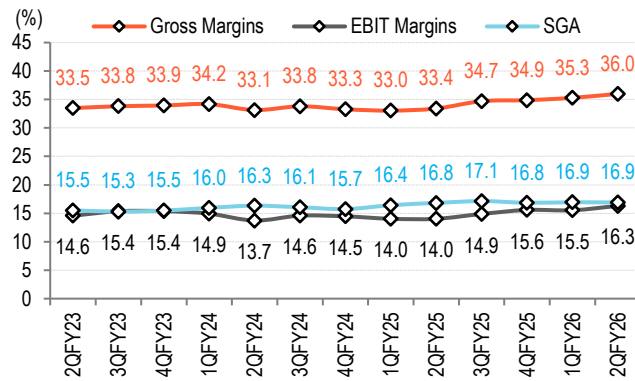
Source: Company, BOBCAPS Research

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



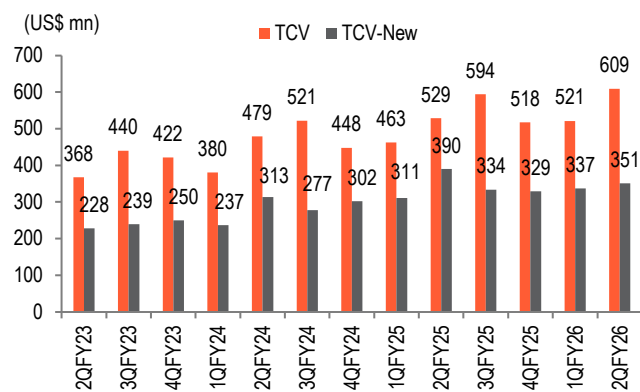
Source: Company, BOBCAPS Research

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



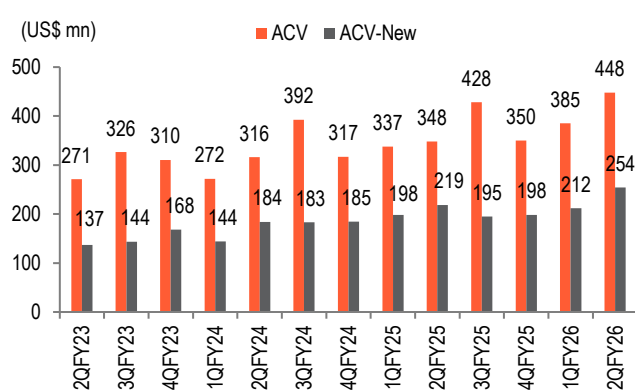
Source: Company, BOBCAPS Research

Fig 10 – The TCV trend



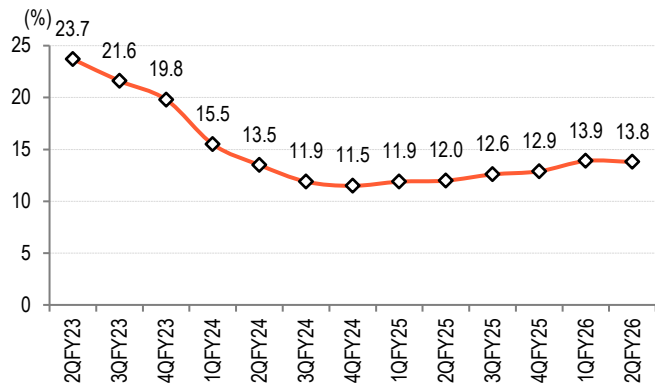
Source: Company, BOBCAPS Research

Fig 11 – The ACV trend



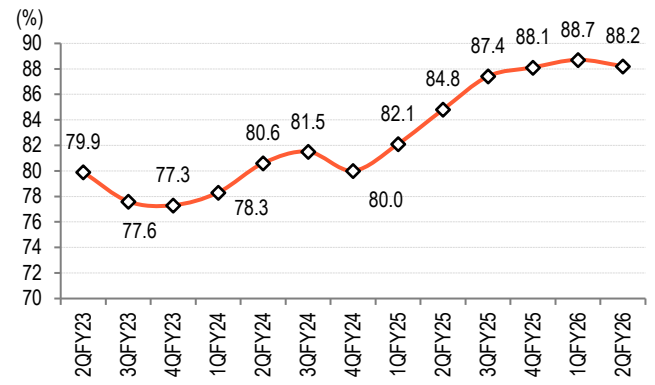
Source: Company, BOBCAPS Research

Fig 12 – TTM Attrition Rate (%)



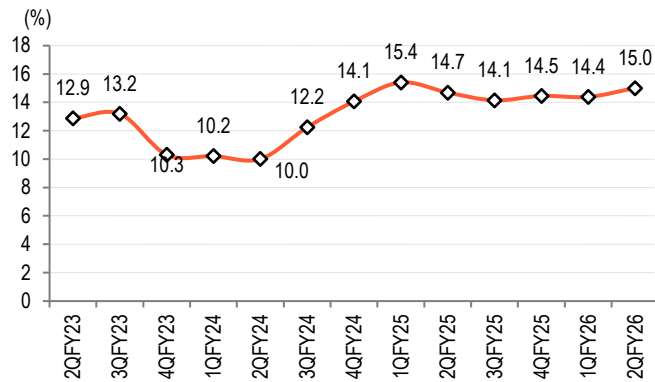
Source: Company, BOBCAPS Research

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	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Rsmn													
INR/USD	80.2	82.1	82.1	82.1	82.7	83.1	83.3	83.4	83.9	85.0	86.4	85.5	88.2
USD Revenue (USD mn)	256	264	275	283	292	301	311	328	345	360	375	390	406
INR Revenue	20,486	21,694	22,545	23,212	24,117	24,982	25,906	27,372	28,972	30,623	32,421	33,336	35,807
Gross Margin	6,858	7,334	7,651	7,933	7,990	8,443	8,620	9,043	9,678	10,622	11,304	11,760	12,883
SGA	3,178	3,318	3,488	3,704	3,938	4,012	4,075	4,491	4,870	5,244	5,460	5,644	6,046
EBITDA	3,680	4,016	4,163	4,229	4,052	4,431	4,545	4,552	4,807	5,378	5,844	6,116	6,838
Dep & Amorization	693	684	697	763	744	787	799	712	745	821	791	938	1,001
EBIT	2,987	3,332	3,466	3,466	3,308	3,644	3,745	3,840	4,062	4,557	5,053	5,178	5,837
Other income (net)	(31)	(104)	(60)	90	250	262	210	165	283	263	(1)	376	331
PBT	2,956	3,228	3,406	3,070	3,558	3,906	3,956	4,005	4,345	4,820	5,052	5,554	6,168
Tax	756	848	891	783	925	1,032	802	941	1,095	1,091	1,095	1,305	1,454
PAT	2,200	2,380	2,515	2,288	2,633	2,874	3,154	3,064	3,250	3,730	3,958	4,249	4,715
YoY Growth (%)													
USD Revenue	40.2	32.8	26.3	17.1	14.1	13.7	13.2	16.0	18.4	19.9	20.7	18.8	17.6
INR Revenue	51.6	45.4	37.6	23.6	17.7	15.2	14.9	17.9	20.1	22.6	25.1	21.8	23.6
Gross Profit	51.4	45.6	38.6	25.0	16.5	15.1	12.7	14.0	21.1	25.8	31.1	30.0	33.1
EBIT	59.4	60.0	50.7	29.0	10.8	9.4	8.1	10.8	22.8	25.1	34.9	34.8	43.7
Net Profit	36.0	34.9	25.1	8.1	19.7	20.8	25.4	33.9	23.4	29.8	25.5	38.7	45.1
QoQ Growth (%)													
USD Revenue	5.8	3.4	3.85	3.0	3.1	3.0	3.4	5.6	5.2	4.3	4.2	3.9	4.1
INR Revenue	9.1	5.9	3.9	3.0	3.9	3.6	3.7	5.7	5.8	5.7	5.9	2.8	7.4
EBIT	11.1	11.6	4.0	0.0	(4.6)	10.2	2.8	2.5	5.8	12.2	10.9	2.5	12.7
Net Profit	4.0	8.2	5.7	(9.0)	15.1	9.2	9.7	(2.9)	6.1	14.8	6.1	7.4	10.9
Margins (%)													
Gross Margin	33.5	33.8	33.9	34.2	33.1	33.8	33.3	33.0	33.4	34.7	34.9	35.3	36.0
SGA	15.5	15.3	15.5	16.0	16.3	16.1	15.7	16.4	16.8	17.1	16.8	16.9	16.9
EBITDA	18.0	18.5	18.5	18.2	16.8	17.7	17.5	16.6	16.6	17.6	18.0	18.3	19.1
EBIT	14.6	15.4	15.4	14.9	13.7	14.6	14.5	14.0	14.0	14.9	15.6	15.5	16.3
PBT	14.4	14.9	15.1	13.2	14.8	15.6	15.3	14.6	15.0	15.7	15.6	16.7	17.2
PAT	10.7	11.0	11.2	9.9	10.9	11.5	12.2	11.2	11.2	12.2	12.2	12.7	13.2

Source: Company, BOBCAPS Research

Fig 16 – Key Metrics

Key Metrics	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
P and L (USD mn)													
Revenue	256	264	275	283	292	301	311	328	345	360	375	390	406
EBIT	37	41	42	42	40	44	45	46	48	54	58	61	66
PAT	27	29	31	28	32	35	38	37	39	44	46	50	53
P and L (Rs mn)													
Revenue	20,486	21,694	22,545	23,212	24,117	24,982	25,906	27,372	28,972	30,623	32,421	33,336	35,807
EBITDA	3,680	4,016	4,163	4,229	4,052	4,431	4,545	4,552	4,807	5,378	5,844	6,116	6,838
PAT	2,200	2,380	2,515	2,288	2,633	2,874	3,154	3,064	3,250	3,730	3,958	4,249	4,715
Geographical Mix (%)													
North Americas	78.6	77.1	77.9	79.2	79.2	79.7	80.1	80.7	81.3	80.5	80.5	79.8	79.8
Europe	8.3	9	10.3	9.7	9.5	8.9	7.8	7.8	7.9	8.2	8.4	9	9.3
India	11.5	12.3	10.0	9.9	9.7	10.0	10.1	9.8	9.2	9.4	9.3	9.8	9.2
ROW	1.6	1.6	1.8	1.2	1.6	1.4	2	1.7	1.6	1.9	1.8	1.4	1.7
Utilization (%) (including Trainees)	79.9	77.6	77.3	78.3	80.6	81.5	80.0	82.1	84.8	87.4	88.1	88.7	88.2
Revenue Mix (Delivery of IT services)													
Revenue mix-Onsite	14.4	14.3	13.1	13.1	12.7	13.8	14.8	15.2	15.8	15.1	14.8	14.5	14.1
Revenue mix-Offshore	85.6	85.7	86.9	86.9	87.3	86.2	85.2	84.8	84.2	84.9	85.2	85.5	85.9
Clients Concentration (%)													
Top 5 clients	26.9	24.7	26.5	27.9	28.3	28.0	29.2	30.7	31.4	30.8	32.7	31.8	32.9
Top 10 clients	36.7	35.0	37.4	39.6	39.5	39.3	40.0	41.5	41.5	40.0	42.2	42.0	43.2
Top 20 clients	48.4	47.8	47.9	50.4	50.6	51.4	51.1	51.9	52.1	50.9	53.0	53.8	54.4
Top 50 clients	64.0	63.9	64.4	66.1	66.5	66.7	67.3	67.8	67.9	67.4	68.7	70.0	70.1
Business Mix (%)													
BFSI	32.8	32.6	32.3	33.3	32.3	31.2	30.7	30.8	31.5	31.7	32.3	33.9	34.8
Healthcare & Life Science	19.7	19.6	19.7	18.6	19.3	21.8	24.2	26.7	27.8	27.8	26.8	25.3	25.2
Tech. Cos. & Emerging Verticals	47.5	47.8	48.0	48.1	48.4	47.0	45.1	42.5	40.7	40.5	40.9	40.8	40.0
Employee Metrics													
Employees	22,476	22,598	22,889	23,130	22,842	23,336	23,850	23,519	23,237	23,941	24,594	25,340	26,224
Net addition of employees (QoQ)	838	122	291	241	(288)	494	514	(331)	(282)	704	653	746	884
Attrition LTM (%)	23.7	21.6	19.8	15.5	13.5	11.9	11.5	11.9	12.0	12.6	12.9	13.9	13.8
Productivity Metrics													
Per Capita (Annualised) - (USD)													
Revenue	45,483	46,794	47,977	48,923	51,085	51,518	52,140	55,818	59,441	60,193	61,030	61,546	61,925
EBIT	6,631	7,187	7,376	7,306	7,006	7,515	7,538	7,831	8,334	8,958	9,512	9,560	10,095
PAT	4,885	5,133	5,352	4,822	5,577	5,927	6,348	6,248	6,668	7,331	7,450	7,845	8,154
Direct and opex cost per capita	38,852	39,607	40,601	41,617	44,079	44,003	44,602	47,988	51,107	51,235	51,519	51,986	51,829

Source: Company, BOBCAPS Research

Fig 17 – QoQ and YoY growth of various parameters

(in US terms)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
QoQ Growth (%)													
Company	5.8	3.4	3.8	3.0	3.1	3.0	3.4	5.6	5.2	4.3	4.2	3.9	4.1
Geography													
North Americas	6.1	1.5	4.9	4.8	3.1	3.7	4.0	6.4	6.0	3.3	4.2	3.0	4.1
Europe	3.3	12.2	18.8	(3.0)	1.0	(3.5)	(9.3)	5.6	6.6	8.3	6.7	11.3	7.6
India	7.7	10.6	(15.6)	2.0	1.0	6.2	4.5	2.4	(1.2)	6.6	3.0	9.5	(2.2)
ROW	(5.9)	3.4	16.8	(31.3)	37.5	(9.9)	47.8	(10.3)	(1.0)	23.9	(1.3)	(19.2)	26.4
Client Concentration													
Top 1	(21.3)	(12.0)	30.5	13.0	3.1	(6.1)	(11.0)						
Top 5	(7.6)	(5.0)	11.4	8.5	4.6	1.9	7.9	11.0	7.6	2.3	10.6	1.0	7.7
Top 10	(4.6)	(1.4)	11.0	9.1	2.9	2.5	5.3	9.5	5.2	0.6	9.9	3.4	7.1
Top 20	0.0	2.2	4.1	8.4	3.5	4.7	2.8	7.2	5.6	1.9	8.5	5.5	5.3
Top 50	2.5	3.3	4.7	5.8	3.7	3.3	4.4	6.4	5.4	3.6	6.2	5.9	4.3
Vertical Mix													
BFSI	3.0	2.8	2.9	6.2	0.0	(0.5)	1.8	5.9	7.6	5.0	6.1	9.1	6.9
Healthcare & Life Science	4.8	2.9	4.4	(2.7)	7.0	16.4	14.8	16.5	9.5	4.3	0.4	(1.9)	3.7
Tech. Cos. & Emerging Verticals	8.3	4.1	4.3	3.3	3.8	0.0	(0.7)	(0.5)	0.8	3.8	5.2	3.6	2.1
YoY Growth (%)													
Company	40.2	32.8	26.3	17.1	14.1	13.7	13.2	16.0	18.4	19.9	20.7	18.8	17.6
Geography													
North Americas	40.0	29.3	25.2	18.3	15.0	17.5	16.4	18.2	21.5	21.1	21.3	17.5	15.4
Europe	32.2	44.0	54.9	33.7	30.6	12.4	(14.2)	(6.7)	(1.6)	10.4	30.0	37.1	38.4
India	53.5	49.8	14.8	2.6	(3.7)	(7.6)	14.4	14.8	12.3	12.7	11.1	18.8	17.6
ROW	12.1	32.8	13.7	(21.9)	14.1	(0.5)	25.8	64.4	18.4	62.7	8.6	(2.2)	24.9
Client Concentration													
Top 1	(27.8)	(43.9)	(16.1)	2.1	33.8	42.9	(2.6)						
Top 5	5.3	(9.2)	3.0	6.1	20.1	28.9	24.8	27.7	31.3	31.9	35.2	23.1	23.2
Top 10	13.3	3.3	12.2	14.0	22.9	27.7	21.1	21.6	24.4	22.0	27.3	20.2	22.4
Top 20			16.1	15.3	19.3	22.3	20.8	19.5	21.9	18.7	25.2	23.1	22.8
Top 50				17.1	18.6	18.7	18.3	19.0	20.9	21.1	23.2	22.7	21.4
Vertical Mix													
BFSI	49.8	34.4	25.9	15.7	12.4	8.8	7.6	7.3	15.4	21.8	27.0	30.8	29.9
Healthcare & Life Science	30.3	25.7	20.2	9.5	11.8	26.5	39.1	66.5	70.5	52.9	33.7	12.6	6.6
Tech. Cos. & Emerging Verticals	38.4	34.7	29.3	21.4	16.3	11.8	6.4	2.5	(0.5)	3.3	9.5	14.0	15.5

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	98,217	119,387	144,728	173,993	208,601
EBITDA	17,257	20,581	27,038	32,872	39,544
Depreciation	3,094	3,069	4,030	4,545	5,028
EBIT	14,163	17,512	23,008	28,327	34,516
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	813	710	845	348	458
Exceptional items	0	0	0	0	0
EBT	14,976	18,223	23,853	28,675	34,975
Income taxes	3,541	4,222	5,617	6,757	8,242
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	11,435	14,001	18,236	21,917	26,733
Adjustments	0	0	0	0	0
Adjusted net profit	11,435	14,001	18,236	21,917	26,733

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	0	0	0	0	0
Other current liabilities	18,511	17,299	23,848	28,808	34,375
Provisions	3,331	4,029	2,157	2,606	3,110
Debt funds	99	0	0	0	0
Other liabilities	2,218	2,848	3,431	3,431	3,431
Equity capital	770	779	782	782	782
Reserves & surplus	48,807	62,411	74,494	87,645	103,684
Shareholders' fund	49,577	63,191	75,276	88,427	104,466
Total liab. and equities	73,736	87,366	104,713	123,271	145,382
Cash and cash eq.	10,229	10,255	13,484	20,910	31,216
Accounts receivables	17,491	19,142	22,701	27,422	32,722
Inventories	0	0	0	0	0
Other current assets	11,902	18,926	22,553	27,242	32,507
Investments	8,266	9,803	14,375	16,375	18,375
Net fixed assets	11,302	13,805	14,415	14,138	13,377
CWIP	335	42	166	166	166
Intangible assets	10,913	12,338	12,782	12,782	12,782
Deferred tax assets, net	1,360	2,024	2,637	2,637	2,637
Other assets	1,938	1,031	1,600	1,600	1,600
Total assets	73,736	87,366	104,713	123,271	145,382

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	8,911	8,433	20,580	22,460	27,267
Capital expenditures	1,769	(3,787)	(4,012)	(4,267)	(4,267)
Change in investments	(2,179)	(1,367)	(6,035)	(2,000)	(2,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(410)	(5,154)	(10,047)	(6,267)	(6,267)
Equities issued/Others	6	9	3	0	0
Debt raised/repaid	(1,958)	51	44	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(3,933)	(5,387)	(7,795)	(8,767)	(10,693)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(5,886)	(5,327)	(7,748)	(8,767)	(10,693)
Chg in cash & cash eq.	1,196	26	3,229	7,425	10,307
Closing cash & cash eq.	10,229	10,255	13,484	20,910	31,216

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	72.6	91.2	117.4	140.9	171.9
Adjusted EPS	71.2	90.2	116.7	140.2	171.0
Dividend per share	26.0	34.9	50.1	56.4	68.7
Book value per share	322.3	405.4	481.4	565.5	668.1

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	8.5	7.0	5.8	4.9	4.1
EV/EBITDA	48.6	40.8	31.1	25.8	21.7
Adjusted P/E	75.0	59.2	45.8	38.1	31.2
P/BV	16.6	13.2	11.1	9.4	8.0

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	75.6	76.8	76.5	76.4	76.4
Interest burden (PBT/EBIT)	102.3	104.1	103.7	101.2	101.3
EBIT margin (EBIT/Revenue)	14.4	14.7	15.9	16.3	16.5
Asset turnover (Rev./Avg TA)	215.0	211.3	208.5	212.1	215.9
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	24.5	24.8	26.3	26.8	27.7

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	17.6	21.6	21.2	20.2	19.9
EBITDA	13.6	19.3	31.4	21.6	20.3
Adjusted EPS	18.1	26.7	29.3	20.1	22.0

Profitability & Return ratios (%)

EBITDA margin	17.6	17.2	18.7	18.9	19.0
EBIT margin	14.4	14.7	15.9	16.3	16.5
Adjusted profit margin	11.6	11.7	12.6	12.6	12.8
Adjusted ROAE	25.6	24.8	26.3	26.8	27.7
ROCE	23.4	23.8	25.3	26.4	27.3

Working capital days (days)

Receivables	65	59	57	58	57
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA

Ratios (x)

Gross asset turnover	8.7	8.6	10.0	12.3	15.6
Current ratio	1.8	2.3	2.3	2.4	2.6
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)

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

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BUY – Expected return >+15%

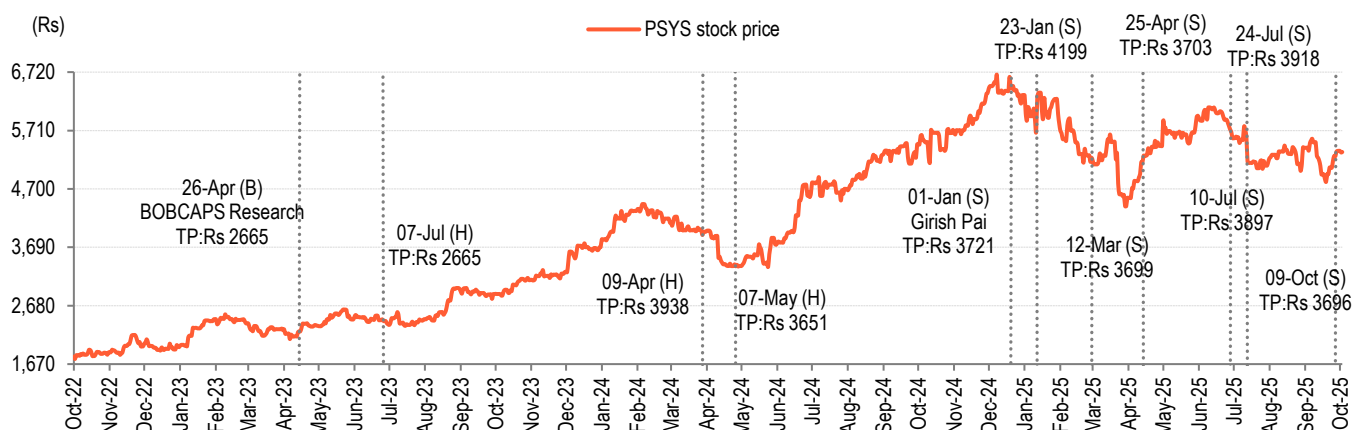
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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



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