

India

HOLD (previously ADD)

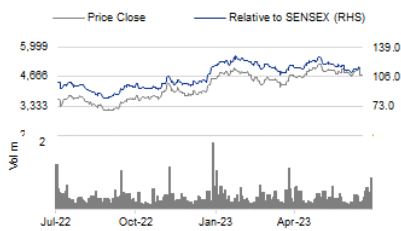
Consensus ratings*: Buy 19 Hold 10 Sell 8

| | |
|------------------------------|--------------------------|
| Current price: | Rs4,750 |
| Target price: | Rs5,100 |
| Previous target: | Rs5,100 |
| Up/downside: | 7.4% |
| InCred Research / Consensus: | -0.5% |
| Reuters: | |
| Bloomberg: | PSYS IN |
| Market cap: | US\$5,032m Rs365,363m |
| Average daily turnover: | US\$25.5m Rs1851.6m |
| Current shares o/s: | 76.4m |
| Free float: | 69.0% |

*Source: Bloomberg

Key changes in this note

- Retain 14.1% US\$ revenue CAGR over FY23-25F.
- Retain 17.8% EBIT CAGR over FY23-25F.
- Expect 22.5% PAT CAGR over FY23-25F.



Source: Bloomberg

| | | | |
|--------------------------|-------|-------|------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | (0.9) | 10.7 | 31.0 |
| Relative (%) | (6.4) | (0.3) | 10.2 |

| | |
|--------------------------------|--------|
| Major shareholders | % held |
| Kotak Emerging Equity Scheme | 4.4 |
| Axis Midcap Fund | 3.4 |
| HDFC Midcap opportunities fund | 3.2 |

Brokers Poll 2023

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InCred Research

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Persistent Systems Ltd

Taking a pause

- We are taking a pause after being constructive on the stock since the management restructuring.
- Structural drivers are in place but good earnings in a difficult demand environment are priced-in. Hence, we downgrade rating to HOLD from ADD.
- M&A contribution-led revenue upgrade is a key upside risk to our thesis.

1QFY24 results summary

Persistent Systems or PSYS IN continues to be among our top structural stories, given the growth runway in a sizeable market opportunity and the clarity of thought of its existing leadership. A 3% sequential growth in the current environment is noteworthy and reflects portfolio strength, but moderated qoq growth aspiration (2-4% vs. 3-5% earlier) suggests the tough demand scenario has finally caught up. While a 2-4% qoq is top quartile growth, its already baked in the estimates and is unlikely to drive EPS upgrade, which coupled with a rich valuation (~25.5x FY25F consensus EPS), implies a limited room for returns from the stock in the near term. Consequently, we downgraded our rating to HOLD (from ADD).

Deal-win momentum moderates

Total TCV was down 9.8% qoq and 3.5% yoy to US\$380.3m, with new deal wins down 5.2% qoq but up 3% yoy at US\$237m and renewals down 16.5% qoq and 12.6% yoy to US\$143.1m. Total ACV was down 12.4% qoq but up 3.4% yoy at US\$271.9m, with new wins down 14.4% qoq but up 3.1% yoy at US\$144.1m and renewals down 10.1% qoq but up 3.7% yoy at US\$127.8m.

Headroom exits to improve margins

EBIT margin was down 44bp qoq but up 62bp yoy at 14.9% (67bp below our estimate). High visa cost (-40bp), doubtful debt provision (-10bp), increase in facility expenses (-20bp) and increased amortization were key headwinds. Headwinds from a wage hike in 2QFY24F (average 7.5% hike in India and 3.5% to 4% outside India) would be partly offset by cost rationalization while the deployment of freshers across projects and increase in the utilization rate are likely to be key margin tailwinds in the medium term. We retain our average FY24F-25F EBIT margin assumption of 15.2%.

Downgrade rating to HOLD with unchanged target price of Rs5,100

We continue to model in a 14.1% US\$ revenue CAGR over FY23-25F and a 22.5% PAT (Rs) CAGR. We have also retained our target price of Rs5,100, as our target PE/G multiple remains unchanged at 1.25x to arrive at a target P/E of 28x. However, we have downgraded our rating on PSYS to HOLD (from ADD), given the limited room for an upside in the near term. Strong cash conversion (average OCF/EBITDA at 81% over FY19-23), payout ratio improving and net cash at Rs129/share are anchors to valuation. M&A-led revenue growth upgrade is a key upside risk while moderation in deal velocity, client-specific ramp-downs, and senior leadership attrition are key downside risks.

Financial Summary

| | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 41,879 | 57,107 | 83,506 | 98,212 | 113,401 |
| Operating EBITDA (Rsm) | 6,830 | 9,582 | 15,191 | 17,905 | 20,922 |
| Net Profit (Rsm) | 4,507 | 6,904 | 9,211 | 11,846 | 13,832 |
| Core EPS (Rs) | 58.8 | 90.3 | 120.5 | 155.0 | 181.0 |
| Core EPS Growth | 35.3% | 53.7% | 33.4% | 28.6% | 16.8% |
| FD Core P/E (x) | 80.81 | 52.58 | 39.41 | 30.64 | 26.24 |
| DPS (Rs) | 20.0 | 31.0 | 50.0 | 55.0 | 63.4 |
| Dividend Yield | 0.42% | 0.65% | 1.03% | 1.13% | 1.33% |
| EV/EBITDA (x) | 50.96 | 36.77 | 23.31 | 19.66 | 16.47 |
| P/FCFE (x) | 65.68 | 81.94 | 94.54 | 72.03 | 32.83 |
| Net Gearing | (57.7%) | (31.7%) | (22.3%) | (22.9%) | (32.5%) |
| P/BV (x) | 12.98 | 10.78 | 9.15 | 7.66 | 6.44 |
| ROE | 17.4% | 22.4% | 25.1% | 27.2% | 26.7% |
| % Change In Core EPS Estimates | | | | (1.24%) | (1.65%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

| Y/E Mar (Rs m) | 1QFY24 | 1QFY23 | YoY (%) | 4QFY23 | QoQ (%) | 1QFY24F | Var. (%) |
|---------------------|--------|--------|----------|--------|----------|---------|----------|
| Revenue (US\$ m) | 282.9 | 241.5 | 17.1 | 274.6 | 3.0 | 283.2 | (0.1) |
| Revenue (Rs m) | 23,212 | 18,781 | 23.6 | 22,545 | 3.0 | 23,277 | (0.3) |
| US\$-Rs realization | 82.0 | 77.8 | 5.5 | 82.1 | (0.1) | 82.2 | (0.2) |
| EBITDA | 4,229 | 3,333 | 26.9 | 4,163 | 1.6 | 4,376 | (3.3) |
| EBITDA Margin (%) | 18.2 | 17.7 | 47 bp | 18.5 | (25 bp) | 18.8 | (58 bp) |
| EBIT | 3,466 | 2,688 | 29.0 | 3,466 | 0.0 | 3,631 | (4.5) |
| EBIT Margin (%) | 14.9 | 14.3 | 62 bp | 15.4 | (44 bp) | 15.6 | (67 bp) |
| Depreciation | 763 | 645 | 18.3 | 697 | 9.5 | 745 | 2.5 |
| Net other income | 90 | 131 | (30.9) | -60 | (250.7) | 198 | (54.3) |
| PBT | 3,557 | 2,819 | 26.2 | 3,406 | 4.4 | 3,829 | (7.1) |
| Provision for tax | 783 | 703 | 11.4 | 891 | (12.1) | 973 | (19.5) |
| % tax rate | 22.0 | 24.9 | (292 bp) | 26.2 | (414 bp) | 25.4 | (339 bp) |
| Net Profit | 2,288 | 2,116 | 8.1 | 2,515 | (9.0) | 2,506 | (8.7) |
| EPS (Rs) | 29.8 | 27.7 | 7.5 | 32.9 | (9.6) | 32.8 | (9.3) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- Services revenue grew by 2.7% qoq while intellectual property or IP revenue grew by 8.8% qoq.
- Although the demand environment is stable, a few instances of decision-making delay led to some deals getting pushed to subsequent quarters. Management expects to close the pushed-up deals in the coming quarters. The next one-to-two quarters could be tepid, given the uncertainty.
- PSYS remains watchful of the macroeconomic situation. The company retained its 3-5% qoq growth guidance in a good demand environment and 2-4% in a challenging one.
- In the BFSI vertical, customer conversation suggests the next quarter could be a tad soft.
- In the HLS vertical, the decline was restricted to the instrument and medical devices segment. The largest deal from the payer-tech segment could spur growth in the coming quarters.
- Top customer growth, up 13.4% qoq, was aided by digital transformation initiatives. The company expects meaningful opportunities in the medium term.
- Generative AI: PSYS aims to stay ahead of the curve. Strengthens partnership with leading hyper-scalers for their generative AI roadmap and has developed playbooks across hyper-scalers. The company plans to train 16,000+ employees in the medium term. Discussing Gen-AI projects with 50+ clients. Adoption likely to increase significantly over the medium term.
- Annual bonus payout (Rs1,886m), software purchases & health insurance premium renewals (Rs890m), increase in goods and services tax or GST receivables and purchase of furniture & fit-outs for the new centre in Pune (Rs570m) impacted working capital. Unbilled receivables were up due to the delay from a few customers, but already collected and invoiced in Jul 2023.
- Fully integrated M&As of previous two years. The company is winning joint deals and driving synergy. Active in the M&A market again.
- New offices have been set up in Jaipur, Poland and Texas. Facility expansion planned at Kolkata, Kochi and Chennai.
- The company is unlocking many productivity benefits internally by leveraging AI.

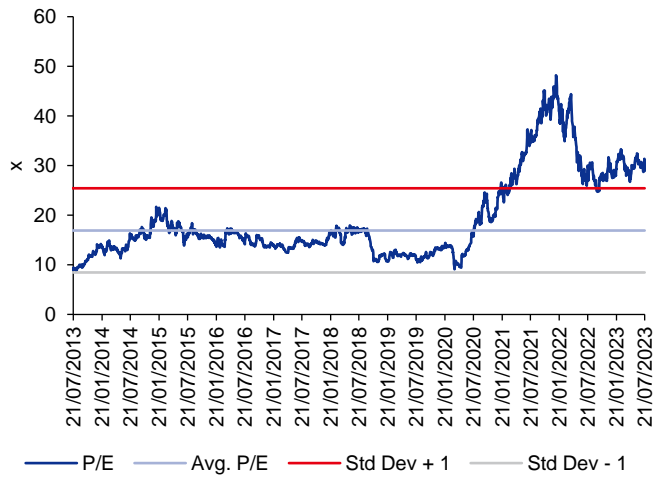
Figure 2: Operating metrics trend

| Operating trends | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue (US\$ m) | 166.8 | 182.3 | 199.1 | 217.3 | 241.5 | 255.6 | 264.4 | 274.6 | 282.9 |
| Growth YoY (%) | 27.3 | 34.0 | 36.2 | 42.2 | 44.8 | 40.2 | 32.8 | 26.4 | 17.1 |
| Growth QoQ (%) | 9.2 | 9.3 | 9.2 | 9.2 | 11.1 | 5.8 | 3.4 | 3.9 | 3.0 |
| Revenue (Rs m) | 12,299 | 13,512 | 14,917 | 16,379 | 18,781 | 20,486 | 21,694 | 22,545 | 23,212 |
| Growth YoY (%) | 24.1 | 34.1 | 38.7 | 47.1 | 52.7 | 51.6 | 45.4 | 37.6 | 23.6 |
| Growth QoQ (%) | 10.5 | 9.9 | 10.4 | 9.8 | 14.7 | 9.1 | 5.9 | 3.9 | 3.0 |
| EBIT Margin (%) | 13.5 | 13.9 | 14.0 | 14.0 | 14.3 | 14.6 | 15.4 | 15.4 | 14.9 |
| US\$-INR realized rate | 73.7 | 74.1 | 74.9 | 75.4 | 77.8 | 80.2 | 82.1 | 82.1 | 82.0 |
| Headcount | 14,904 | 15,879 | 16,989 | 18,599 | 21,638 | 22,476 | 22,598 | 22,889 | 23,130 |
| Utilization - trainees (%) | 80.1 | 82.8 | 83.0 | 80.6 | 79.5 | 79.9 | 77.6 | 77.3 | 78.3 |
| LTM Attrition (%) | 16.6 | 23.6 | 26.9 | 26.6 | 24.8 | 23.7 | 21.6 | 19.8 | 15.5 |
| Geography (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| North America | 78.9 | 78.7 | 79.2 | 78.6 | 78.4 | 78.6 | 77.1 | 77.9 | 79.2 |
| Europe | 9.5 | 8.8 | 8.3 | 8.4 | 8.5 | 8.3 | 9.0 | 10.3 | 9.7 |
| India | 9.8 | 10.5 | 10.9 | 11 | 11.3 | 11.5 | 12.3 | 10 | 9.9 |
| ROW | 1.8 | 2.0 | 1.6 | 2.0 | 1.8 | 1.6 | 1.6 | 1.8 | 1.2 |
| Geography (US\$ m) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| North America | 131.6 | 143.5 | 157.7 | 170.8 | 189.4 | 200.9 | 203.8 | 213.9 | 224.1 |
| Europe | 15.8 | 16.0 | 16.5 | 18.3 | 20.5 | 21.2 | 23.8 | 28.3 | 27.4 |
| India | 16.3 | 19.1 | 21.7 | 23.9 | 27.3 | 29.4 | 32.5 | 27.5 | 28.0 |
| ROW | 3.0 | 3.6 | 3.2 | 4.3 | 4.3 | 4.1 | 4.2 | 4.9 | 3.4 |
| Geography YoY (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| North America | 24.9 | 27.2 | 33.0 | 41.1 | 43.9 | 40.0 | 29.3 | 25.2 | 18.3 |
| Europe | 18.6 | 55.1 | 28.5 | 19.5 | 29.6 | 32.2 | 44.0 | 54.9 | 33.7 |
| India | 57.9 | 73.7 | 72.7 | 75.8 | 67.0 | 53.5 | 49.8 | 14.9 | 2.6 |
| ROW | 52.8 | 91.4 | 45.3 | 49.7 | 44.8 | 12.2 | 32.8 | 13.7 | -21.9 |
| Geography QoQ (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| North America | 8.7 | 9.0 | 9.9 | 8.3 | 10.9 | 6.1 | 1.4 | 5.0 | 4.7 |
| Europe | 3.7 | 1.3 | 3.0 | 10.5 | 12.5 | 3.3 | 12.1 | 18.9 | -3.0 |
| India | 20.2 | 17.1 | 13.4 | 10.2 | 14.2 | 7.7 | 10.6 | -15.5 | 2.0 |
| ROW | 3.4 | 21.4 | -12.6 | 36.4 | 0.0 | -5.9 | 3.4 | 16.9 | -31.3 |
| Incremental revenue (US\$ m) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| North America | 10.6 | 11.9 | 14.2 | 13.1 | 18.5 | 11.5 | 2.9 | 10.1 | 10.1 |
| Europe | 0.6 | 0.2 | 0.5 | 1.7 | 2.3 | 0.7 | 2.6 | 4.5 | -0.8 |
| India | 2.7 | 2.8 | 2.6 | 2.2 | 3.4 | 2.1 | 3.1 | -5.1 | 0.5 |
| ROW | 0.1 | 0.6 | -0.5 | 1.2 | 0.0 | -0.3 | 0.1 | 0.7 | -1.5 |
| Vertical (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| BFSI | 30.8 | 30.7 | 32.2 | 32.4 | 33.7 | 32.8 | 32.6 | 32.3 | 33.3 |
| Healthcare & Life Science | 20.5 | 21.2 | 20.7 | 20.7 | 19.9 | 19.7 | 19.6 | 19.7 | 18.6 |
| Software, Hitech & Emerging Industries | 48.7 | 48.1 | 47.1 | 46.9 | 46.4 | 47.5 | 47.8 | 48.0 | 48.1 |
| Business unit (US\$ m) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| BFSI | 51.4 | 56.0 | 64.1 | 70.4 | 81.4 | 83.8 | 86.2 | 88.7 | 94.2 |
| Healthcare & Life Science | 34.2 | 38.7 | 41.2 | 45.0 | 48.1 | 50.4 | 51.8 | 54.1 | 52.6 |
| Software, Hitech & Emerging Industries | 81.2 | 87.7 | 93.8 | 101.9 | 112.1 | 121.4 | 126.4 | 131.8 | 136.1 |
| Business unit YoY (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| BFSI | 23.3 | 28.9 | 48.7 | 53.1 | 58.4 | 49.8 | 34.4 | 26.0 | 15.7 |
| Healthcare & Life Science | 32.5 | 47.2 | 47.6 | 52.5 | 40.6 | 30.3 | 25.7 | 20.3 | 9.5 |
| Software, Hitech & Emerging Industries | 27.8 | 32.0 | 24.8 | 31.8 | 38.0 | 38.4 | 34.7 | 29.3 | 21.4 |
| Business unit QoQ (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| BFSI | 11.7 | 8.9 | 14.5 | 9.8 | 15.6 | 3.0 | 2.8 | 2.9 | 6.2 |
| Healthcare & Life Science | 15.9 | 13.0 | 6.6 | 9.2 | 6.8 | 4.8 | 2.9 | 4.4 | -2.7 |
| Software, Hitech & Emerging Industries | 5.1 | 8.0 | 6.9 | 8.7 | 10.0 | 8.3 | 4.1 | 4.3 | 3.2 |
| Incremental revenue (US\$ m) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| BFSI | 5.4 | 4.6 | 8.1 | 6.3 | 11.0 | 2.4 | 2.3 | 2.5 | 5.5 |
| Healthcare & Life Science | 4.7 | 4.5 | 2.6 | 3.8 | 3.1 | 2.3 | 1.5 | 2.3 | -1.5 |
| Software, Hitech & Emerging Industries | 3.9 | 6.5 | 6.1 | 8.1 | 10.1 | 9.3 | 4.9 | 5.4 | 4.3 |
| Clients (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| Top | 17.0 | 16.9 | 17.5 | 14.0 | 11.7 | 8.7 | 7.4 | 9.3 | 10.2 |
| Top 2-5 | 19.5 | 18.9 | 18.6 | 18.5 | 19.1 | 18.2 | 17.3 | 17.2 | 17.7 |
| Top 6-10 | 10.2 | 9.6 | 8.9 | 9.6 | 9.9 | 9.8 | 10.3 | 10.9 | 11.7 |
| Non-top 10 | 53.3 | 54.6 | 55 | 57.9 | 59.3 | 63.3 | 65.0 | 62.6 | 60.4 |
| Clients (US\$ m) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| Top | 28.4 | 30.8 | 34.8 | 30.4 | 28.3 | 22.2 | 19.6 | 25.5 | 28.9 |
| Top 2-5 | 32.5 | 34.5 | 37.0 | 40.2 | 46.1 | 46.5 | 45.7 | 47.2 | 50.1 |
| Top 6-10 | 17.0 | 17.5 | 17.7 | 20.9 | 23.9 | 25.0 | 27.2 | 29.9 | 33.1 |
| Non-top 10 | 88.9 | 99.5 | 109.5 | 125.8 | 143.2 | 161.8 | 171.8 | 171.9 | 170.9 |
| Clients YoY (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| Top | 22.3 | 16.7 | 28.9 | 11.2 | -0.3 | -27.8 | -43.9 | -16.1 | 2.1 |
| Top 2-5 | 7.5 | 14.1 | 31.3 | 42.2 | 41.8 | 35.0 | 23.5 | 17.5 | 8.5 |
| Top 6-10 | 58.4 | 44.5 | 31.8 | 37.9 | 40.5 | 43.1 | 53.7 | 43.5 | 38.4 |
| Non-top 10 | 33.1 | 47.8 | 41.4 | 53.3 | 61.1 | 62.5 | 56.9 | 36.6 | 19.3 |
| Clients QoQ (%) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| Top | 3.7 | 8.7 | 13.1 | -12.7 | -7.1 | -21.3 | -12.0 | 30.5 | 13.0 |
| Top 2-5 | 15.1 | 5.9 | 7.5 | 8.6 | 14.7 | 0.8 | -1.7 | 3.3 | 6.0 |
| Top 6-10 | 12.5 | 2.9 | 1.2 | 17.7 | 14.6 | 4.8 | 8.7 | 9.9 | 10.6 |
| Non-top 10 | 8.3 | 12.0 | 10.0 | 14.9 | 13.8 | 13.0 | 6.2 | 0.0 | -0.6 |
| Incremental revenue (US\$ m) | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| Top | 1.0 | 2.5 | 4.0 | -4.4 | -2.2 | -6.0 | -2.7 | 6.0 | 3.3 |
| Top 2-5 | 4.3 | 1.9 | 2.6 | 3.2 | 5.9 | 0.4 | -0.8 | 1.5 | 2.8 |
| Top 6-10 | 1.9 | 0.5 | 0.2 | 3.1 | 3.0 | 1.1 | 2.2 | 2.7 | 3.2 |
| Non-top 10 | 6.9 | 10.6 | 10.0 | 16.3 | 17.4 | 18.6 | 10.0 | 0.1 | -1.0 |
| Client metrics | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |

| | | | | | | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| US\$ 30 m+ | 2 | 2 | 2 | 2 | 3 | 3 | 5 | 5 | 5 |
| US\$ 20-30 m | 2 | 2 | 2 | 2 | 1 | 3 | 2 | 4 | 5 |
| US\$ 10-20 m | 5 | 5 | 6 | 6 | 7 | 6 | 9 | 8 | 7 |
| US\$ 5-10 m | 12 | 13 | 14 | 15 | 15 | 18 | 18 | 17 | 21 |
| US\$ 1-5 m | 76 | 84 | 90 | 93 | 104 | 116 | 118 | 126 | 129 |
| Per employee analysis | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 |
| Revenue (US\$ m) - TTM | 601.8 | 648.1 | 701.0 | 765.5 | 840.3 | 913.5 | 978.8 | 1036.1 | 1077.5 |
| Employees (average TTM) | 12,018 | 13,182 | 14,229 | 15,374 | 16,951 | 18,522 | 19,850 | 20,853 | 21,195 |
| Revenue per employee (TTM) | 50,077 | 49,162 | 49,266 | 49,796 | 49,569 | 49,321 | 49,309 | 49,684 | 50,835 |

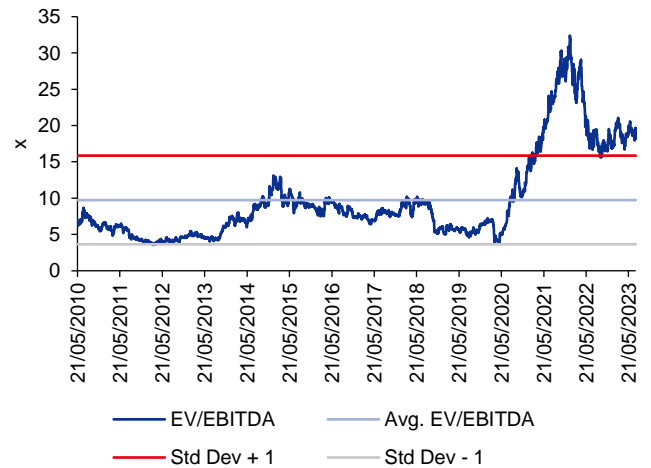
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward P/E of ~28x



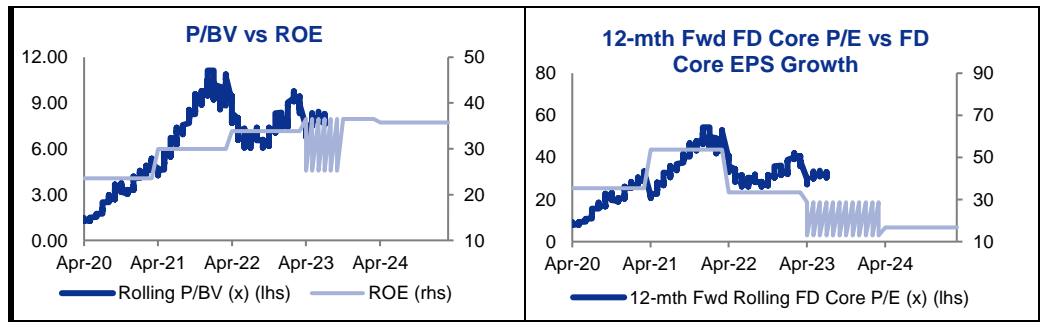
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: One-year forward EV/EBITDA of ~18x



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|---|---------------|---------------|---------------|---------------|----------------|
| Total Net Revenues | 41,879 | 57,107 | 83,506 | 98,212 | 113,401 |
| Gross Profit | 14,229 | 19,212 | 28,191 | 32,928 | 38,273 |
| Operating EBITDA | 6,830 | 9,582 | 15,191 | 17,905 | 20,922 |
| Depreciation And Amortisation | (1,756) | (1,660) | (2,719) | (3,105) | (3,629) |
| Operating EBIT | 5,075 | 7,921 | 12,472 | 14,800 | 17,294 |
| Financial Income/(Expense) | 986 | 1,321 | (64) | 1,080 | 1,247 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | 34 | | | | |
| Profit Before Tax (pre-EI) | 6,094 | 9,243 | 12,409 | 15,880 | 18,541 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 6,094 | 9,243 | 12,409 | 15,880 | 18,541 |
| Taxation | (1,588) | (2,339) | (3,198) | (4,033) | (4,709) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 4,507 | 6,904 | 9,211 | 11,846 | 13,832 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 4,507 | 6,904 | 9,211 | 11,846 | 13,832 |
| Recurring Net Profit | 4,507 | 6,904 | 9,211 | 11,846 | 13,832 |
| Fully Diluted Recurring Net Profit | 4,507 | 6,904 | 9,211 | 11,846 | 13,832 |

Cash Flow

| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 6,830 | 9,582 | 15,191 | 17,905 | 20,922 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | 1,578 | (407) | (4,377) | (2,206) | (2,159) |
| (Incr)/Decr in Total Provisions | | 1,476 | 827 | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | | | (64) | | |
| Tax Paid | (1,582) | (2,367) | (3,405) | (4,033) | (4,709) |
| Cashflow From Operations | 6,826 | 8,284 | 8,172 | 11,666 | 14,054 |
| Capex | (1,281) | (3,854) | (4,333) | (6,627) | (3,000) |
| Disposals Of FAs/subsidiaries | 30 | 46 | 12 | | |
| Acq. Of Subsidiaries/Investments | (448) | (6,154) | (4,311) | | |
| Other Investing Cashflow | (3,717) | 189 | 4,418 | 1,080 | 1,247 |
| Cash Flow From Investing | (5,417) | (9,773) | (4,213) | (5,546) | (1,753) |
| Debt Raised/(repaid) | | | | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (1,070) | (1,987) | (2,981) | (4,103) | (4,841) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (373) | 3,810 | (1,059) | | |
| Cash Flow From Financing | (1,443) | 1,823 | (4,039) | (4,103) | (4,841) |
| Total Cash Generated | (33) | 333 | (80) | 2,017 | 7,461 |
| Free Cashflow To Equity | 5,545 | 4,430 | 3,840 | 5,039 | 11,054 |
| Free Cashflow To Firm | 1,410 | (1,490) | 4,023 | 6,120 | 12,302 |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Total Cash And Equivalents | 16,184 | 13,491 | 10,912 | 12,929 | 20,390 |
| Total Debtors | 7,882 | 12,615 | 20,376 | 23,080 | 26,649 |
| Inventories | | | | | |
| Total Other Current Assets | 2,637 | 2,233 | 3,891 | 3,891 | 3,891 |
| Total Current Assets | 26,703 | 28,339 | 35,179 | 39,900 | 50,929 |
| Fixed Assets | 3,376 | 5,347 | 7,220 | 10,741 | 10,112 |
| Total Investments | 3,621 | 3,878 | 4,516 | 4,516 | 4,516 |
| Intangible Assets | 1,315 | 11,060 | 16,355 | 16,355 | 16,355 |
| Total Other Non-Current Assets | 1,640 | 5,517 | 2,922 | 2,922 | 2,922 |
| Total Non-current Assets | 9,952 | 25,802 | 31,012 | 34,534 | 33,905 |
| Short-term Debt | | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 2,733 | 4,299 | 5,689 | 6,187 | 7,598 |
| Other Current Liabilities | 4,964 | 9,911 | 13,892 | 13,892 | 13,892 |
| Total Current Liabilities | 7,697 | 14,210 | 19,581 | 20,079 | 21,490 |
| Total Long-term Debt | 44 | 2,801 | 2,058 | 2,058 | 2,058 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 716 | 3,203 | 4,529 | 4,529 | 4,529 |
| Total Non-current Liabilities | 760 | 6,004 | 6,587 | 6,587 | 6,587 |
| Total Provisions | 241 | 246 | 373 | 373 | 373 |
| Total Liabilities | 8,699 | 20,459 | 26,541 | 27,039 | 28,449 |
| Shareholders Equity | 27,957 | 33,682 | 39,651 | 47,395 | 56,385 |
| Minority Interests | | | | | |
| Total Equity | 27,957 | 33,682 | 39,651 | 47,395 | 56,385 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-21A | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
| Revenue Growth | 17.4% | 36.4% | 46.2% | 17.6% | 15.5% |
| Operating EBITDA Growth | 38.6% | 40.3% | 58.5% | 17.9% | 16.9% |
| Operating EBITDA Margin | 16.3% | 16.8% | 18.2% | 18.2% | 18.4% |
| Net Cash Per Share (Rs) | 211.18 | 139.88 | 115.87 | 142.26 | 239.89 |
| BVPS (Rs) | 365.80 | 440.71 | 518.87 | 620.21 | 737.86 |
| Gross Interest Cover | | | 195.55 | | |
| Effective Tax Rate | 26.1% | 25.3% | 25.8% | 25.4% | 25.4% |
| Net Dividend Payout Ratio | 25.1% | 25.6% | 30.1% | 25.8% | 26.1% |
| Accounts Receivables Days | 69.17 | 65.50 | 72.10 | 80.75 | 80.03 |
| Inventory Days | | | | | |
| Accounts Payables Days | 32.87 | 33.87 | 32.95 | 33.20 | 33.49 |
| ROIC (%) | 37.2% | 64.6% | 41.0% | 35.4% | 35.0% |
| ROCE (%) | 14.5% | 18.4% | 23.7% | 24.2% | 23.9% |
| Return On Average Assets | 15.9% | 18.2% | 20.7% | 21.4% | 22.1% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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