

India

HOLD (no change)

Consensus ratings*: Buy 19 Hold 9 Sell 12

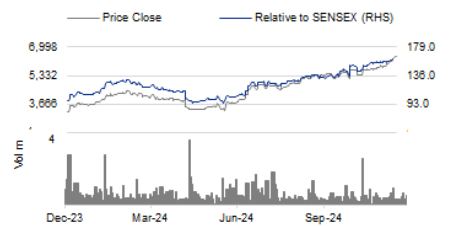
Current price: Rs6,436
 Target price: ▲ Rs6,863
 Previous target: Rs6,260
 Up/downside: 6.6%
 InCred Research / Consensus: 23.6%

Reuters: PERS.NS
 Bloomberg: PSYS IN
 Market cap: US\$11,819m
 Rs1,003,043m
 Average daily turnover: US\$32.2m
 Rs2729.3m
 Current shares o/s: 154.8m
 Free float: 69.0%

*Source: Bloomberg

Key changes in this note

- Expect 18% revenue CAGR over FY25F-27F.
- Expect 26.3% EBIT CAGR over FY25F-27F.
- Expect 25.1% PAT CAGR over FY25F-27F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.1	20.1	97.4
Relative (%)	9.0	22.4	68.9

Major shareholders	% held
Kotak Emerging Equity Scheme	3.4
Motilal Oswal Midcap Fund	3.1
HDFC Midcap opportunities fund	2.7

Research Analyst(s)



Abhishek SHINDADKAR
 T (91) 22 4161 1543
 E abhishek.shindadkr@incredresearch.com

Smit GOSRANI
 T (91) 02241611554
 E smit.gosrani@incredresearch.com

Persistent Systems Ltd

Beat and upgrade cycle likely to continue

- Green shoots in the hi-tech vertical drive FY26F revenue higher.
- On track to deliver the stated EBIT margin expansion in 2HFY25F.
- Earnings revision drives our target price higher to Rs6,863.

Generally enthused with business momentum

We met with the management of Persistent Systems (PSYS IN) for updates and were enthused with the business momentum and execution rigour. The traction in financial services (FSI) and healthcare verticals could aid 3Q/4QFY25F growth momentum while green shoots in the hi-tech vertical led by deal wins could help accelerate FY26F momentum. The EBIT margin expansion in 2HFY25F is on track and in line with the stated guidance, driven by growth leverage and operating efficiency. Put together, our current FY25F revenue growth estimate (19% yoy) appears just about right while the modest increase in FY26F assumes a recovery in the hi-tech vertical. This, coupled with the change in EBIT margin assumption, drives our target price higher to Rs6,863 (vs. Rs6,260 earlier) despite maintaining our target PE/G multiple.

Green shoots in hi-tech vertical drives FY26F revenue higher...

Recall, 'new' TCV/ACV wins were healthy (up 25.4%/10.3% qoq) in 2QFY25 and the ramp-up of those could aid 3QFY25F growth while the recovery in the hi-tech vertical (0.8%/-0.5%/-0.7/0.1% qoq in 2QFY25/1QFY25/4QFY24/3QFY24, respectively) aided by deal wins could aid the FY25F exit momentum. This, coupled with a seasonally healthy renewal deal momentum in 3QFY25F, could aid FY26F growth. Consequently, we now expect FY26F US\$ revenue to grow 18.4% yoy vs. 17.7% earlier.

...raising margin as well

Our discussions suggest that growth leverage and the absence of wage hike impact could help expand the EBIT margin in 2HFY25F, in line with the company's stated guidance. As a reminder, Persistent Systems requires an average ~15% EBIT margin in 2HFY25F to report FY24-like margin while SG&A optimization and artificial intelligence or AI-driven deals could aid its medium-term aspiration of a 200-300bp improvement. Hence, we increase our FY26F/27F estimates by 30/40bp to 15.5%/16.2%, respectively.

Earnings revision drives our target price higher to Rs6,863

We now expect an 18% US\$ revenue CAGR (17.6% earlier) over FY25F-27F and ~25% PAT (Rs) CAGR (~23.6%) over the same period. We retain our HOLD rating on the stock, but our revised estimates drive the target price higher to Rs6,863 (Rs6,260 earlier) despite maintaining the target PE/G discount at a 24% to the benchmark multiple of Tata Consultancy Services (TCS). Upside risks: Strong bookings and M&A-led revenue acceleration. Downside risk: Client-specific challenges.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	83,506	98,216	118,840	142,861	170,875
Operating EBITDA (Rsm)	15,191	17,243	20,428	25,858	32,125
Net Profit (Rsm)	9,211	10,935	13,850	17,422	21,671
Core EPS (Rs)	60.3	74.5	89.7	112.5	140.0
Core EPS Growth	33.4%	23.6%	20.5%	25.4%	24.4%
FD Core P/E (x)	106.80	90.27	71.73	57.19	45.97
DPS (Rs)	25.0	26.0	32.0	43.9	56.0
Dividend Yield	0.38%	0.40%	0.50%	0.68%	0.87%
EV/EBITDA (x)	64.18	56.50	47.71	37.50	29.86
P/FCFE (x)	256.22	126.66	100.79	72.88	56.01
Net Gearing	(22.3%)	(25.9%)	(32.0%)	(38.6%)	(45.1%)
P/BV (x)	24.81	19.98	17.04	14.42	12.13
ROE	25.1%	25.6%	25.6%	27.3%	28.7%
% Change In Core EPS Estimates			3.26%	3.49%	
InCred Research/Consensus EPS (x)					

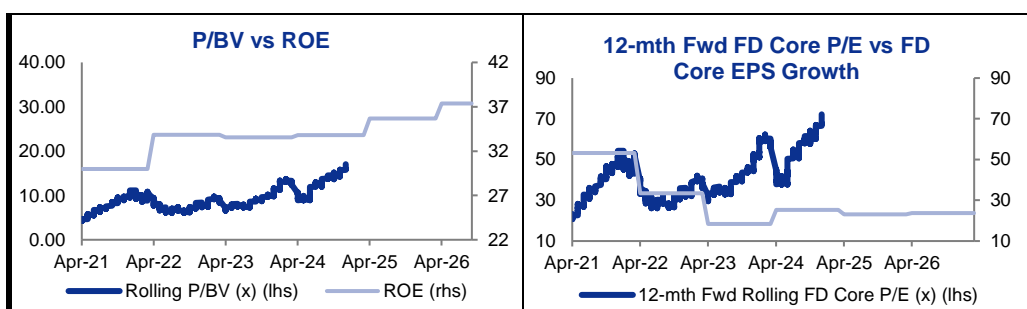
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Change in InCred estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	1,412	1,412	0.0	1,671	1,662	0.5	1,964	1,954	0.5
Revenue	1,18,840	1,18,216	0.5	1,42,861	1,42,084	0.5	1,70,875	1,69,955	0.5
EBIT	20,428	17,269	18.3	22,143	21,597	2.5	27,682	26,853	3.1
EBIT margin (%)	17.2	14.6	258bp	15.5	15.2	30bp	16.2	15.8	40bp
Net PAT	13,850	13,775	0.5	17,422	17,007	2.4	21,671	21,045	3.0
EPS (Rs)	89.5	89.0	0.5	112.5	109.9	2.4	140.0	135.9	3.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	83,506	98,216	118,840	142,861	170,875
Gross Profit	28,191	32,985	39,601	48,287	58,439
Operating EBITDA	15,191	17,243	20,428	25,858	32,125
Depreciation And Amortisation	(2,719)	(3,094)	(3,064)	(3,714)	(4,443)
Operating EBIT	12,472	14,149	17,364	22,143	27,682
Financial Income/(Expense)	(64)	813	982	1,086	1,213
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	12,409	14,962	18,345	23,229	28,895
Exceptional Items					
Pre-tax Profit	12,409	14,962	18,345	23,229	28,895
Taxation	(3,198)	(3,541)	(4,495)	(5,807)	(7,224)
Exceptional Income - post-tax		(486)			
Profit After Tax	9,211	10,935	13,850	17,422	21,671
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,211	10,935	13,850	17,422	21,671
Recurring Net Profit	9,211	11,421	13,850	17,422	21,671
Fully Diluted Recurring Net Profit	9,211	11,421	13,850	17,422	21,671

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	15,191	17,243	20,428	25,858	32,125
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,377)	(2,052)	(3,276)	(3,580)	(4,314)
(Incr)/Decr in Total Provisions	827	(1,145)			
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(64)				
Tax Paid	(3,405)	(3,414)	(4,495)	(5,807)	(7,224)
Cashflow From Operations	8,172	10,633	12,656	16,470	20,587
Capex	(4,333)	(2,839)	(2,800)	(2,800)	(2,800)
Disposals Of FAs/subsidiaries	12	49			
Acq. Of Subsidiaries/investments	(4,311)	(2,074)			
Other Investing Cashflow	4,418	169	982	1,086	1,213
Cash Flow From Investing	(4,213)	(4,695)	(1,818)	(1,714)	(1,587)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,981)	(4,084)	(4,954)	(6,795)	(8,669)
Preferred Dividends					
Other Financing Cashflow	(1,059)	(1,853)			
Cash Flow From Financing	(4,039)	(5,937)	(4,954)	(6,795)	(8,669)
Total Cash Generated	(80)	1	5,884	7,961	10,331
Free Cashflow To Equity	3,840	7,794	9,856	13,670	17,787
Free Cashflow To Firm	4,023	5,938	10,838	14,756	19,000

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	10,912	12,955	18,839	26,801	37,132
Total Debtors	20,376	23,282	27,927	33,429	39,985
Inventories					
Total Other Current Assets	3,891	4,994	4,994	4,994	4,994
Total Current Assets	35,179	41,232	51,761	65,224	82,111
Fixed Assets	7,220	7,062	6,799	5,884	4,241
Total Investments	4,516	5,539	5,539	5,539	5,539
Intangible Assets	16,355	15,488	15,488	15,488	15,488
Total Other Non-Current Assets	2,922	4,415	4,415	4,415	4,415
Total Non-current Assets	31,012	32,504	32,240	31,326	29,683
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	5,689	8,139	9,507	11,429	13,670
Other Current Liabilities	13,892	13,703	13,703	13,703	13,703
Total Current Liabilities	19,581	21,842	23,210	25,132	27,373
Total Long-term Debt	2,058	99	99	99	99
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,529	1,671	1,671	1,671	1,671
Total Non-current Liabilities	6,587	1,770	1,770	1,770	1,770
Total Provisions	373	547	547	547	547
Total Liabilities	26,541	24,159	25,528	27,449	29,691
Shareholders Equity	39,651	49,577	58,473	69,101	82,103
Minority Interests					
Total Equity	39,651	49,577	58,473	69,101	82,103

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	46.2%	17.6%	21.0%	20.2%	19.6%
Operating EBITDA Growth	58.5%	13.5%	18.5%	26.6%	24.2%
Operating EBITDA Margin	18.2%	17.6%	17.2%	18.1%	18.8%
Net Cash Per Share (Rs)	57.93	83.54	121.06	172.49	239.22
BVPS (Rs)	259.40	322.14	377.73	446.38	530.37
Gross Interest Cover	195.55				
Effective Tax Rate	25.8%	23.7%	24.5%	25.0%	25.0%
Net Dividend Payout Ratio	30.1%	26.7%	27.0%	29.2%	30.0%
Accounts Receivables Days	72.10	81.12	78.64	78.38	78.41
Inventory Days					
Accounts Payables Days	32.95	38.69	40.64	40.40	40.74
ROIC (%)	41.0%	34.6%	39.2%	45.6%	53.1%
ROCE (%)	23.7%	23.6%	24.2%	26.0%	27.4%
Return On Average Assets	20.7%	20.5%	22.3%	24.8%	26.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. While every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which is believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made (information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short-term views, etc.) that are inconsistent with and reach a different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based on any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.