

Persistent Systems

BSE SENSEX
81,184

S&P CNX
24,852

CMP: INR5,190

TP: INR6,300 (+21%)

Buy



Persistent

Bloomberg	PSYS IN
Equity Shares (m)	154
M.Cap.(INRb)/(USD\$b)	802.6 / 9.6
52-Week Range (INR)	5333 / 2788
1, 6, 12 Rel. Per (%)	12/14/48
12M Avg Val (INR M)	2707

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	116	137	163
EBIT Margin (%)	14.5	15.5	15.1
PAT	13.7	17.7	20.5
EPS (INR)	89.2	114.7	133.4
EPS Gr. (%)	18.9	28.5	16.3
BV/Sh. (INR)	379.2	448.7	529.5

Ratios

RoE (%)	25.6	28.0	27.5
RoCE (%)	23.2	25.1	24.7
Payout (%)	40.0	40.0	40.0

Valuations

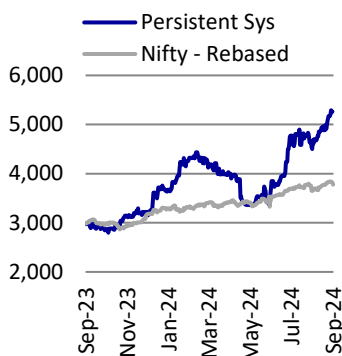
P/E (x)	58.3	45.3	39.0
P/BV (x)	13.7	11.6	9.8
EV/EBITDA (x)	39.0	30.9	26.2
Div Yield (%)	0.7	0.9	1.0

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	31.0	31.0	31.1
DII	28.2	25.9	28.0
FII	23.2	26.1	22.9
Others	17.5	17.0	18.0

FII Includes depository receipts

Stock Performance (1-year)



Worries on margins to recede

We recently met with the management team of PSYS to understand the company's strategic priorities and financial outlook for the coming years. **Key takeaways:** (1) PSYS is targeting a revenue of USD2b by FY27, and the management is optimistic about achieving this target despite a challenging business environment. (2) The company is implementing strict cost management strategies and has visible margin levers such as SG&A, offshoring and pyramid; it has already accounted for one-time expenses, which will no longer impact future margins. (3) PSYS is capitalizing on market opportunities, benefiting from vendor consolidation and focusing on high-demand areas like data, cloud, digital engineering, and platform engineering to strengthen its relationship with clients. (4) PSYS aims to diversify geographically to increase its European revenue share from 7-8% to 12%, while it is also exploring new sectors such as AI-driven solutions and enhancing its contact center capabilities.

Since our rating upgrade to BUY on 19th Jul'24 ([1QFY25 result note](#)), the stock has outperformed both the Nifty Index and the Nifty IT index (PSYS gained 15% vs. 3% for Nifty and 7% for NSE IT). We estimate an 18% USD revenue CAGR for PSYS over FY24-27, which, combined with margin expansion, could result in a ~21%+ EPS CAGR. This positions PSYS in a league of its own as a diversified product engineering and IT services player, justifying a premium valuation multiple.

Industry best revenue growth to sustain

- **Revenue and growth targets:** PSYS aims to reach a revenue milestone of USD2b by FY27. The management is confident of achieving this goal through strategic market expansion and wallet share gains despite a challenging environment.
- **Opportunities from large firms:** PSYS is capitalizing on increased opportunities arising from fatigue among larger firms, positioning itself to fill the gaps and capture additional market share.
- **Key strength areas:** The company will continue to focus on key strength areas such as data, cloud, digital engineering and platform engineering, allowing it to have a differentiated position among peers as well.

Multiple margin levers support our view on margins

- **Reduction in SG&A expenses:** A key lever for improving margins is the expected reduction in SG&A expenses going forward (as % of revenues). PSYS has invested ahead of time in SG&A and does not expect a significant ramp-up in these costs.
- **One-off costs/benefits:** The management has addressed all significant one-off costs/benefits to margins in FY25 and does not expect these items to impact margins in the future, barring employee and ESOP costs rationalization. For context, one-off benefits in 1Q include the reversal of earn-out credit pertaining to past acquisitions (60bp contribution), a change in the useful life of computer and networking assets (40bp) and employee benefit rationalization net of increased ESOP costs (10bp).

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- **Utilization level:** While the management indicated that this could serve as a margin lever going forward, its current utilization level of 82.1% is already elevated and we believe it would be difficult to take this up further.
- **Offshoring and lower subcontractor costs:** Additionally, the company expects increased offshoring in the recent large deal ramp-up in healthcare, which will help reduce subcontracting costs and further bolster margins.
- We expect margins to be flat in FY25, in line with management estimates. We expect 2H margin performance to be better than that in 1H. We expect ~100bp YoY margin expansion in FY26.

Cautious on demand - does not rule out a mild recession

- PSYS management indicated a cautiously optimistic outlook on overall demand, noting that while the business environment remains challenging and somewhat tepid, the company would continue to find growth opportunities through vendor consolidation, wallet share gains and benefits from fatigue among large-cap vendors. There is strong interest in their core offerings such as data, cloud, digital engineering, and platform engineering, which are key growth areas. The management also mentioned that it is not observing any material changes in client conversations. It expects hi-tech to be weaker for longer, whereas healthcare demand remains robust and would continue to lead the charge.

Valuation and View – Maintain BUY

- Since our rating upgrade to BUY on 19th Jul'24, the stock has outperformed both the benchmark Nifty Index and the Nifty IT index (PSYS gained 15% vs. 3% for Nifty and 7% for NSE IT).
- **We estimate an 18% USD revenue CAGR for PSYS over FY24-FY27**, which, combined with margin expansion, could result in a ~21%+ EPS CAGR. This positions PSYS in a league of its own as a diversified product engineering and IT services player, justifying a premium valuation multiple. That said, owing to its superior earnings growth trajectory, on PEG basis, we believe the valuation still has room for upside. We introduce FY27 estimates and roll over to Sep'26E EPS. **Reiterate BUY** with a TP of INR6,300, based on 50x Sep'26E EPS.

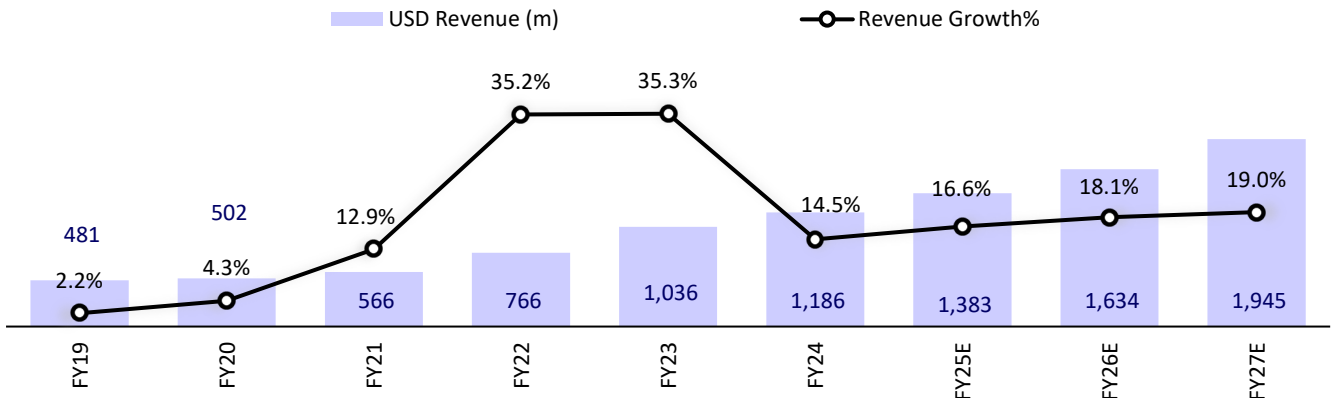
Exhibit 1: Revisions to our estimates

	Revised			Earlier			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.0	84.0	84.0	84.0	84.0	N.A.	0.0%	0.0%	N.A.
USD Revenue (m)	1,383	1,634	1,945	1,381	1,625	N.A.	0.2%	0.6%	N.A.
Growth (%)	16.6	18.1	19.0	16.4	17.7	N.A.	20bps	40bps	N.A.
EBIT margin (%)	14.5	15.5	15.1	14.5	15.5	N.A.	0bps	0bps	N.A.
PAT (INR m)	13,748	17,669	20,550	13,692	17,567	N.A.	0.4%	0.6%	N.A.
EPS	89.2	114.7	133.4	88.9	114.0	N.A.	0.4%	0.6%	N.A.

Source: MOFSL

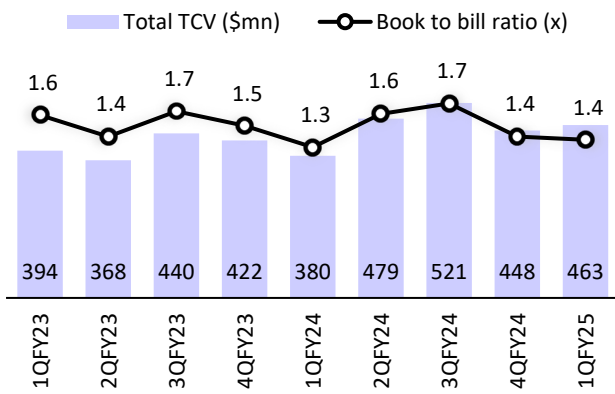
Story in charts

Exhibit 2: Revenue to grow at 18% CAGR over FY24-27



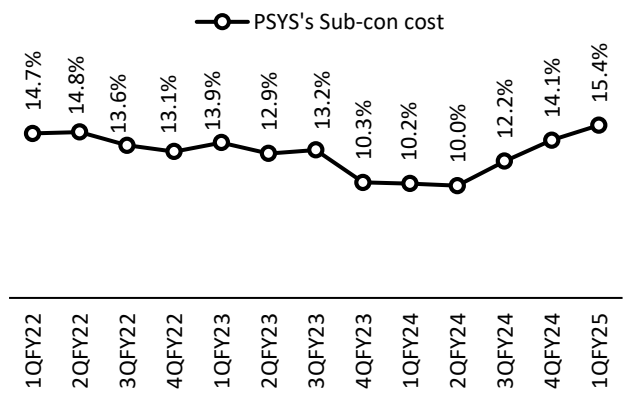
Source: Company, MOFSL

Exhibit 3: Total TCV reached USD462.8m in 1QFY25



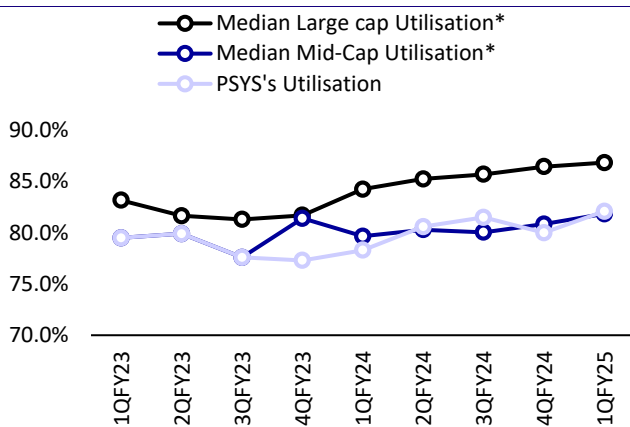
Source: Company, MOFSL

Exhibit 4: Sub-con cost is likely to serve as a margin lever going ahead



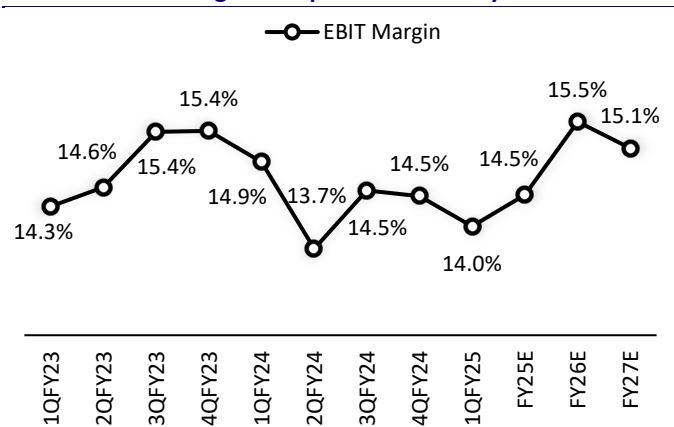
Source: Company, MOFSL

Exhibit 5: PSYS's utilization is close to median mid-cap utilization level



Source: MOFSL, Company; (*Note: Large cap companies includes INFO, WPRO, TECHM and LTIM whereas Mid cap companies includes MPPL, COFORGE, PSYS, CYL and ZENT)

Exhibit 6: EBIT margin to expand to 15.1% by FY27



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	35,658	41,879	57,107	83,506	98,216	1,16,004	1,37,289	1,63,360
Change (%)	5.9	17.4	36.4	46.2	17.6	18.1	18.3	19.0
Cost of Goods Sold	23,494	27,650	37,895	55,315	65,231	77,487	91,298	1,09,243
Gross Profit	12,164	14,229	19,212	28,191	32,985	38,517	45,992	54,117
Selling Expenses	7,234	7,398	9,556	12,999	15,742	18,672	21,143	25,157
EBITDA	4,930	6,830	9,656	15,191	17,243	19,845	24,849	28,960
% of Net Sales	13.8	16.3	16.9	18.2	17.6	17.1	18.1	17.7
Depreciation	1,660	1,756	1,660	2,719	3,094	3,016	3,570	4,247
EBIT	3,270	5,075	7,996	12,472	14,149	16,828	21,280	24,713
% of Net Sales	9.2	12.1	14.0	14.9	14.4	14.5	15.5	15.1
Other Income	1,254	1,020	1,321	233	813	874	1,373	1,634
PBT	4,523	6,094	9,317	12,705	14,962	17,702	22,652	26,346
Tax	1,121	1,588	2,339	3,198	3,541	3,955	4,984	5,796
Rate (%)	24.8	26.1	25.1	25.2	23.7	22.3	22.0	22.0
Extraordinary Item	0	0	75	297	486	0	0	0
Adjusted PAT	3,403	4,507	6,904	9,211	10,935	13,748	17,669	20,550
Change (%)	28.4	32.4	53.2	33.4	18.7	25.7	28.5	16.3

Balance Sheet								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	764	764	764	764	770	770	770	770
Other Reserves	23,093	27,192	32,918	38,887	48,807	57,055	67,657	79,987
Net Worth	23,858	27,957	33,682	39,651	49,577	57,826	68,427	80,757
Loans	46	44	4,889	4,947	99	99	99	99
Other liabilities	544	957	1,360	2,013	2,218	2,620	3,101	3,690
Capital Employed	24,448	28,958	39,931	46,610	51,894	60,545	71,627	84,546
Net Block	2,791	3,254	4,276	7,058	6,727	7,211	7,141	6,394
CWIP	166	122	1,071	161	335	335	335	335
Intangibles	1,661	1,315	11,060	16,355	15,488	15,488	15,488	15,488
Investments	4,621	3,621	3,878	4,516	5,539	5,539	5,539	5,539
Deferred Tax Assets	960	1,038	1,123	1,129	1,360	1,606	1,901	2,261
Other	866	602	4,394	1,792	3,056	3,609	4,271	5,082
Current Assets	19,856	26,703	28,339	35,179	41,232	50,380	63,106	78,701
Debtors	5,922	5,709	9,484	15,705	16,761	18,433	21,816	25,959
Investments	5,165	13,765	10,514	6,242	6,330	11,830	17,330	22,830
Cash & BB	4,572	2,419	2,978	4,670	6,625	6,515	7,864	10,759
Loans & Advances	14	71	16	-	-	-	-	-
Other Current Assets	4,183	4,739	5,347	8,562	11,515	13,601	16,096	19,153
Current Liab. & Prov	6,474	7,697	14,210	19,581	21,842	23,622	26,154	29,255
Trade payables	2,247	2,733	4,299	5,689	8,139	9,217	10,908	12,979
Other Liabilities	2,616	2,486	5,961	9,243	10,372	10,472	10,590	10,735
Provisions	1,611	2,478	3,950	4,649	3,331	3,934	4,656	5,540
Net Current Assets	13,382	19,006	14,130	15,598	19,390	26,758	36,952	49,447
Application of Funds	24,448	28,958	39,931	46,610	51,894	60,545	71,627	84,546

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	22.3	29.5	45.7	62.5	75.1	89.2	114.7	133.4
Cash EPS	33.1	41.0	56.5	80.4	95.4	108.8	137.9	161.0
Book Value	156.1	182.9	220.4	260.7	325.9	379.2	448.7	529.5
DPS	6.0	10.0	15.5	25.0	26.0	35.7	45.9	53.4
Payout %	26.9	33.9	33.9	40.0	34.6	40.0	40.0	40.0
Valuation (x)								
P/E	233.5	176.3	113.9	83.2	69.3	58.3	45.3	39.0
Cash P/E	157.0	126.9	92.0	64.7	54.5	47.8	37.7	32.3
EV/EBITDA	159.2	114.0	81.4	51.7	45.1	39.0	30.9	26.2
EV/Sales	22.0	18.6	13.8	9.4	7.9	6.7	5.6	4.6
Price/Book Value	33.3	28.4	23.6	19.9	16.0	13.7	11.6	9.8
Dividend Yield (%)	0.1	0.2	0.3	0.5	0.5	0.7	0.9	1.0
Profitability Ratios (%)								
RoE	14.4	17.4	22.6	25.9	25.6	25.6	28.0	27.5
RoCE	10.2	14.1	17.4	21.6	21.9	23.2	25.1	24.7
Turnover Ratios								
Debtors (Days)	61	50	61	69	62	58	58	58
Asset Turnover (x)	13.9	13.9	15.2	14.7	14.2	16.6	19.1	24.1

Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	4,597	5,781	8,857	13,935	14,265	16,764	21,238	24,797
Chg. in Working Capital	-1,369	1,578	-407	-4,377	-2,052	-2,375	-3,822	-4,682
Net Operating CF	3,229	7,359	8,450	9,558	12,213	14,389	17,416	20,116
Net Purchase of FA	-746	-1,251	-3,808	-4,290	-2,710	-3,500	-3,500	-3,500
Free Cash Flow	2,483	6,108	4,642	5,268	9,503	10,889	13,916	16,616
Net Purchase of Invest.	597	-4,166	-5,965	76	-1,985	-5,500	-5,500	-5,500
Net Cash from Inv.	-148	-5,417	-9,773	-4,213	-4,695	-9,000	-9,000	-9,000
Issue of shares	0	0	0	0	1,608	0	0	0
Proceeds from LTB/STB	-2,344	-3,044	3,810	-1,059	-3,461	0	0	0
Dividend Payments	-2,978	-1,070	-1,987	-2,981	-4,084	-5,499	-7,068	-8,220
Net CF from Finan.	-5,321	-4,114	1,823	-4,039	-5,937	-5,499	-7,068	-8,220
Net Cash Flow	-2,241	-2,171	499	1,305	1,581	-110	1,348	2,896
Exchange difference	84	19	59	387	374	0	0	0
Opening Cash Balance	6,729	4,572	2,420	2,979	4,671	6,626	6,516	7,865
Closing CashBalance	4,572	2,420	2,979	4,671	6,626	6,516	7,865	10,760

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