

## Targeting USD 5bn revenue by FY31

22 January 2025

Persistent System's (PSYS IN) Q3 performance was strong on both revenue and margin. Revenue growth was aided by broad-based growth across verticals, and margin performance was helped by rationalization of costs and improved utilization. Deal wins improved and may help keep revenue growth momentum strong, going forward. PSYS maintained revenue guidance of USD 2bn by FY27 – It went one step ahead and is now targeting USD 5bn revenues by FY31. Growth levers for USD 5bn revenues are further mining of top-100 accounts, special focus on sub-verticals in three main verticals and continued partnership with hyperscalers to jointly develop AI solutions. PSYS also maintained that 200-300bps margin expansion is possible in the next 2-3 years. We do not see any risk to the USD 2 bn revenue, considering consistent strong performance in both revenue and margin. So, we raise TP to INR 6,090 (from INR 5,880), based on 40x FY27E EPS of INR 152. We recommend Accumulate.

**Broad-based growth across verticals and geographies:** PSYS reported strong growth of 4.6% QoQ in CC and 4.3% in USD, in Q3. In INR terms, growth was 5.7% QoQ and 22.6% YoY. Q3 growth was led by North America and Europe, as revenue from these markets rose 3.2% and 8.2% sequentially. RoW market recovered after weak growth in Q2 (up by 9.1% QoQ in Q3). Vertical-wise, BFSI and Healthcare aided growth, up by 4.9% and 4.3% QoQ respectively. TCV came in at USD 594.1mn, up 12% QoQ. LTM attrition was up 60bps QoQ to 12.6%. PSYS reported a net addition of 705 employees in Q3, taking its employee strength to 23.9K.

**Margin improved, led by operating leverage:** Q3 EBIT margin was up by 90bps to 14.9%. Headwinds for the quarter were furlough impact (-60bps), and lower earnout reversal (-100bps) – the absolute amount was INR 150mn. Tailwinds were improved utilization as also reduction in subcon cost (together +140bps), and depreciation in Rupee (+50bps). Additional tailwinds were 40bps and 20bps (pertained to lower ESOP costs). The management maintained that it is aiming for 200-300bps EBIT margin improvement in the next 2-3 years. Tailwinds are: i) pricing in terms of COLA adjustments ii) right-shoring of contracts and iii) rationalization of SG&A and sub con costs.

**Recommend Accumulate with TP raised to INR 6,090:** PSYS continues to impress with strong broad-based growth. We expect strong growth momentum to continue, barring quarterly fluctuations. We are now building in ~19% USD revenue and 20% INR revenue CAGR in FY24-27E, taking the total revenue to USD 2bn in FY27E (similar to guidance). We believe that rationalization of costs with strong revenue growth may help operating leverage. We build in 27% EBIT CAGR over the same period, factoring in ~17% EBIT margin in FY27E. With strong revenue and earnings in FY24-27E, probably the best in the industry, PSYS should command a premium multiple, in our view.

PSYS is trading at 48x/37x FY26E/27E earnings. We recommend **Accumulate** with TP raised to INR 6,090 (from INR 5,880, led by strong 9MFY25 performance in revenue and margins), based on 40x FY27E EPS of INR 147. Key downside risks are lower-than-expected revenue growth and margin expansion not panning out as per expectations.

### Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	83,506	98,216	118,808	142,355	169,761
YoY (%)	46.2	17.6	21.0	19.8	19.3
EBITDA (INR mn)	15,192	17,243	20,501	25,547	32,123
EBITDA margin (%)	18.2	17.6	17.3	17.9	18.9
Adj PAT (INR mn)	9,211	10,935	13,974	17,842	23,450
YoY (%)	33	19	28	28	31
Fully DEPS (INR)	61.9	72.4	90.7	118.2	152.2
RoE (%)	23.2	22.1	23.3	24.3	25.8
RoCE (%)	24.1	25.1	29.3	36.6	46.6
P/E (x)	91.9	78.5	62.7	48.1	37.3
EV/EBITDA (x)	29.0	25.2	20.8	16.2	12.4

Note: Pricing as on 22 January 2025; Source: Company, Elara Securities Estimate

Rating: **Accumulate**

Target Price: **INR 6,090**

Upside: **7%**

CMP: **INR 5,683**

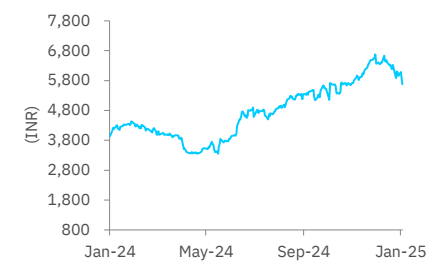
As on 22 January 2025

### Key data

Bloomberg	PSYS IN
Reuters Code	PERS.NS
Shares outstanding (mn)	156
Market cap (INR bn/USD mn)	886/10,259
Enterprise Value (INR bn/USD mn)	880/10,191
Avg daily volume 3M (INR mn/USD mn)	2,765/32
52 week high/low	6,789/3,232
Free float (%)	69

Note: as on 22 January 2025; Source: Bloomberg

### Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	31.0	31.0	30.7	30.7
% Pledged	-	-	-	-
FII	25.0	22.6	23.3	24.8
DII	25.9	28.2	27.4	26.3
Others	18.1	18.2	18.6	18.3

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(5.4)	(5.5)	7.3
Persistent Systems	10.2	19.4	43.5
NSE Mid-cap	(5.4)	(6.2)	10.5
NSE Small-cap	(4.9)	(7.5)	10.7

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## Financials (YE March)

<b>Income Statement (INR mn)</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Net Revenues	83,506	98,216	118,808	142,355	169,761
<b>EBITDA</b>	<b>15,192</b>	<b>17,243</b>	<b>20,501</b>	<b>25,547</b>	<b>32,123</b>
Less :- Depreciation & Amortization	2,719	3,094	3,088	3,076	3,076
<b>EBIT</b>	<b>12,473</b>	<b>14,149</b>	<b>17,413</b>	<b>22,471</b>	<b>29,047</b>
Add:- Non operating Income	366	728	651	853	1,407
<b>PBT</b>	<b>12,409</b>	<b>14,476</b>	<b>18,308</b>	<b>23,323</b>	<b>30,454</b>
Less :- Taxes	3,198	3,541	4,334	5,481	7,004
<b>Adjusted PAT</b>	<b>9,211</b>	<b>10,935</b>	<b>13,974</b>	<b>17,842</b>	<b>23,450</b>
<b>Reported PAT</b>	<b>9,211</b>	<b>10,935</b>	<b>13,974</b>	<b>17,842</b>	<b>23,450</b>
<b>Balance Sheet (INR mn)</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY26E</b>
Share Capital	764	770	770	770	770
Reserves	38,887	48,807	59,287	72,669	90,256
Borrowings	6,539	2,073	2,073	2,073	2,073
<b>Total Liabilities</b>	<b>46,192</b>	<b>51,653</b>	<b>62,134</b>	<b>75,515</b>	<b>93,103</b>
Gross Block	23,306	19,236	21,236	23,236	25,236
Less:- Accumulated Depreciation	7,076	7,934	11,022	14,098	17,173
Net Block	16,230	11,302	10,215	9,139	8,063
Investments	11,830	13,808	13,808	13,808	13,808
Cash & cash equivalents	4,673	6,628	14,913	27,348	43,658
Net Working Capital	4,985	6,921	10,204	12,226	14,580
Other Assets	8,474	12,995	12,995	12,995	12,995
<b>Total Assets</b>	<b>46,192</b>	<b>51,653</b>	<b>62,134</b>	<b>75,515</b>	<b>93,103</b>
<b>Cash Flow Statement (INR mn)</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY26E</b>
Cash profit adjusted for non-cash items	11,684	14,061	16,167	20,066	25,119
Add/Less : Working Capital Changes	(4,377)	(2,052)	(3,283)	(2,022)	(2,354)
Operating Cash Flow	9,556	12,213	12,883	18,043	22,765
Less:- Capex	(4,321)	(2,791)	(2,000)	(2,000)	(2,000)
<b>Free Cash Flow to Firm</b>	<b>5,235</b>	<b>9,423</b>	<b>10,883</b>	<b>16,043</b>	<b>20,765</b>
Financing Cash Flow	(4,039)	(5,937)	(3,493)	(4,461)	(5,862)
Investing Cash Flow	(4,213)	(4,695)	(1,105)	(1,147)	(593)
Net change in Cash	1,690	1,955	8,285	12,435	16,309
<b>Ratio Analysis</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY26E</b>
<b>Income Statement Ratios (%)</b>					
Revenue Growth	35.3	14.5	18.8	18.9	19.3
EBITDA Growth	58.5	13.5	18.9	24.6	25.7
PAT Growth	33.4	18.7	27.8	27.7	31.4
EBITDA Margin	18.2	17.6	17.3	17.9	18.9
Net Margin	11.0	11.1	11.8	12.5	13.8
<b>Return &amp; Liquidity Ratios</b>					
Net Debt/Equity (x)	0.0	(0.1)	(0.2)	(0.3)	(0.5)
ROE (%)	23.2	22.1	23.3	24.3	25.8
ROCE (%)	24.1	25.1	29.3	36.6	46.6
<b>Per Share data &amp; Valuation Ratios</b>					
Diluted EPS (INR/Share)	61.9	72.4	90.7	118.2	152.2
EPS Growth (%)	(31.5)	17.1	25.2	30.3	28.8
Book Value	266.3	328.4	389.9	486.5	590.9
DPS (INR/Share)	15.9	18.1	22.7	29.5	38.1
P/E Ratio (x)	91.9	78.5	62.7	48.1	37.3
EV/EBITDA (x)	29.0	25.2	20.8	16.2	12.4
Price/Book (x)	21.3	17.3	14.6	11.7	9.6
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.7

Note: Pricing as on 22 January 2025; Source: Company, Elara Securities Estimate

**Quarterly financials**

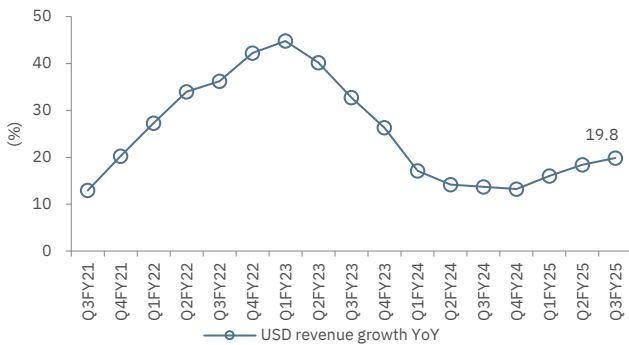
(INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Revenue (USD mn)	360.2	300.6	19.8	345.5	4.3	356	1.2
Revenue (INR mn)	30,623	24,982	22.6	28,972	5.7	30,071	1.8
Operating expenditure	25,245	20,564	22.8	24,164	4.5	24,898	1.4
Cost of revenues	20,000	16,539	20.9	19,294	3.7	19,997	0.0
SG&A expenses	5,244	4,025	30.3	4,870	7.7	4,902	7.0
EBITDA	5,378	4,418	21.7	4,807	11.9	5,172	4.0
Depreciation	821	787	4.3	745	10.2	809	1.5
EBIT	4,557	3,631	25.5	4,062	12.2	4,363	4.5
Other income	263	262		283		229	14.6
PBT	4,820	3,893	23.8	4,345	10.9	4,592	5.0
Total tax	1,091	1,032	5.7	1,095	(0.4)	1,171	(6.9)
Adjusted PAT	3,730	2,861	30.3	3,250	14.8	3,421	9.0
Reported EPS	24.2	18.6	30.3	21.1	14.8	22.2	9.0

Source: Company, Elara Securities Estimate

**Conference call highlights**

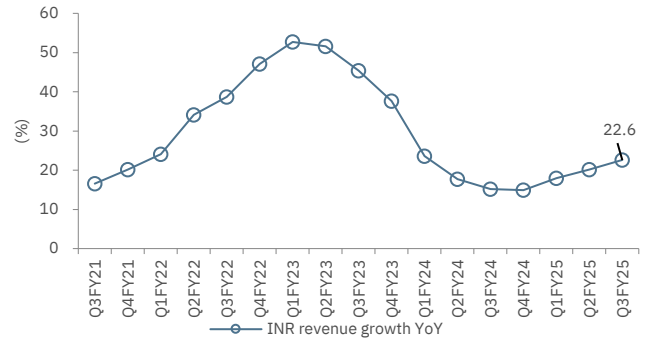
- ▶ **Revenue target at USD 5bn by FY31:** The top management as well as 300 global leaders from PSYS met for annual planning in Pune in Q3. The company reiterated its near-term target to reach USD 2bn revenues in FY27. PSYS is also finalizing its next roadmap to reach USD 5bn revenues by FY31. As per PSYS, building blocks to reach USD 5bn revenue are: i) continuation of strategy called T100 (further mining of focus 100 clients). PSYS generates 80% of its revenue from these clients, ii) further focus on its three verticals (focus on 12-15 sub verticals therein), iii) deepening relationship with hyperscalers to jointly develop industry-specific AI solutions iv) strengthening channel partner's network, including private equity for identifying and chasing deals.
- ▶ **Target mostly organic:** The journey towards USD 5bn revenue target will mostly be via the organic route. PSYS may seek some acquisitions in Europe, where the current revenue mix is 7-8%. It is planning to take it to ~15% in the next 2-3 years' timeframe. Per PSYS, historically, it has never acquired any company for revenue purposes – ARKAA was acquired to strengthen data privacy capability and Starfish to get contract management capability. Prior acquisitions were to fill capability gaps or enhance TAM.
- ▶ **Margin improvement levers:** PSYS has maintained its margin improvement target of 200-250bps in the next 2-3 years. Its utilization is higher than the comfortable range of 83-85%. So, utilization may not be an immediate lever for margin expansion. PSYS's SG&A expenses are higher than peers and there is scope to rationalize it further. Also, there is an opportunity in cost of living adjustments (COLA) in contract prices. PSYS has been jointly developing IP for some of its AI products and can command premium pricing (being leveraged for many years now).
- ▶ **Macros improving:** Per PSYS, macros are improving. It has been performing consistently post Covid, capturing cost optimization opportunities (especially, when the environment was tough) and revenue enhancement opportunities (when the market has improved). PSYS collaborated closely with its top-100 accounts, thus leveraging growth even during tough times.

**Exhibit 1: Consistent USD revenue growth**



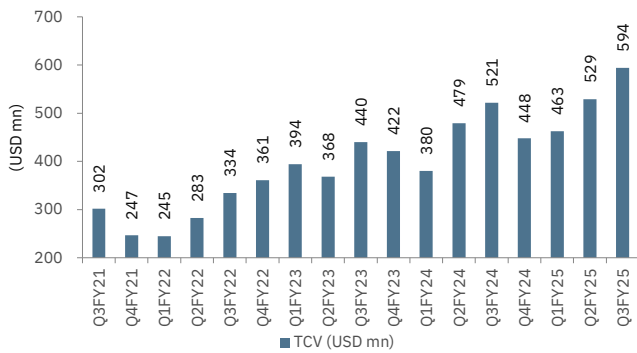
Source: Company, Elara Securities Research

**Exhibit 2: INR revenue trend**



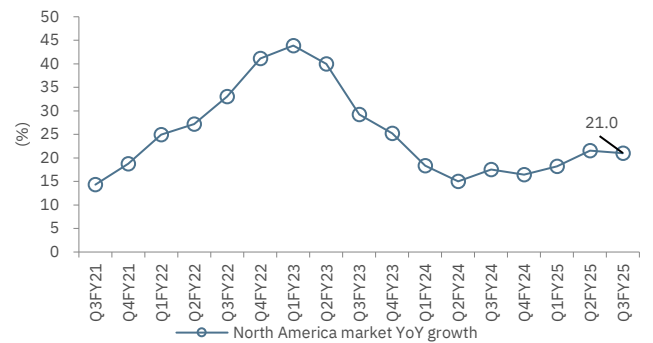
Source: Company, Elara Securities Research

**Exhibit 3: TCV continues to be strong**



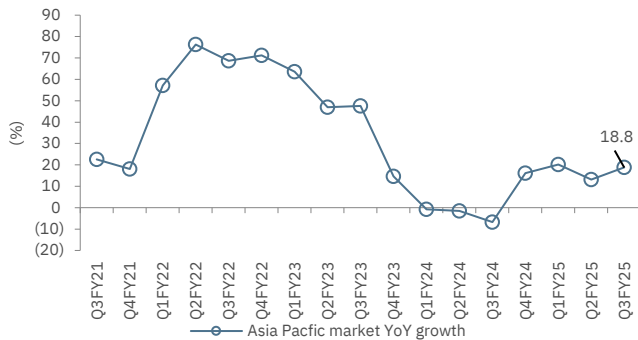
Source: Company, Elara Securities Research

**Exhibit 4: North America – Market trend**



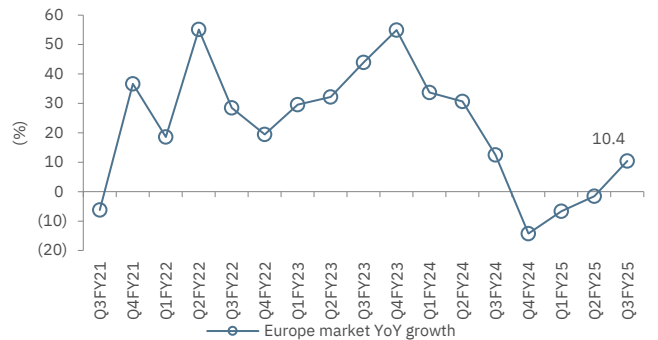
Source: Company, Elara Securities Research

**Exhibit 5: Asia Pacific – Market trend**



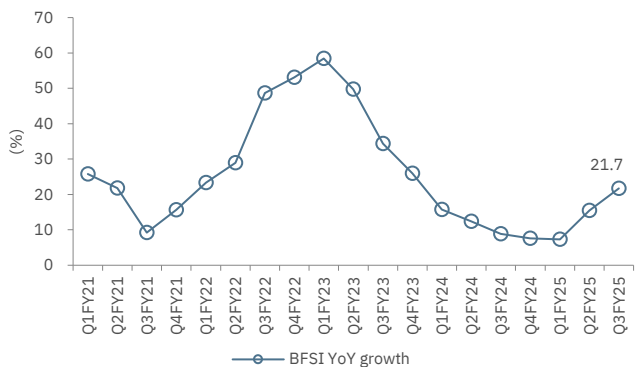
Source: Company, Elara Securities Research

**Exhibit 6: Europe – Market trend**



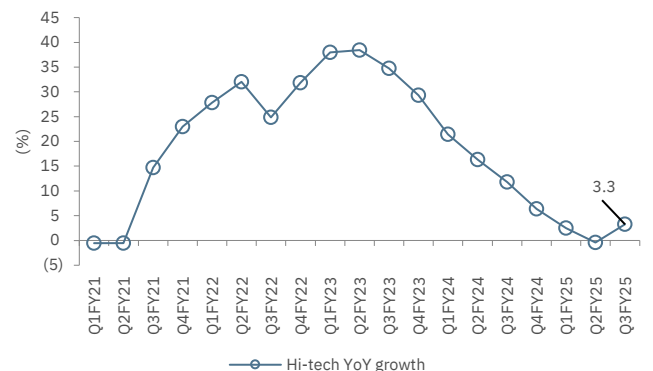
Source: Company, Elara Securities Research

**Exhibit 7: BFSI growth started improving**



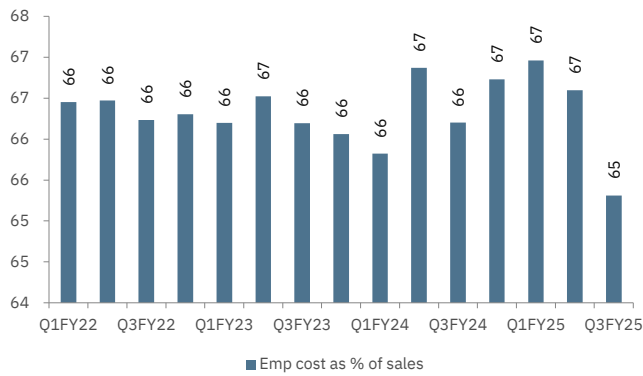
Source: Company, Elara Securities Research

**Exhibit 8: Hi-tech growth seen an uptick**



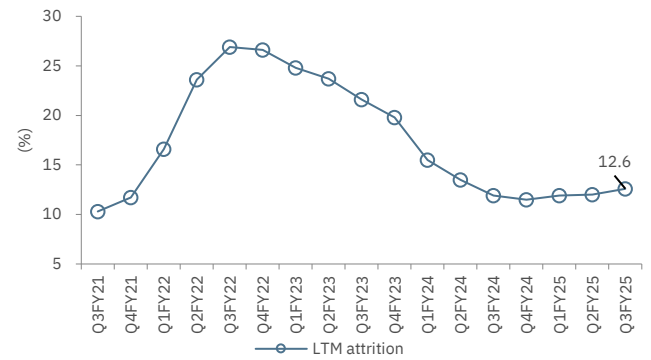
Source: Company, Elara Securities Research

**Exhibit 9: Employee cost trend**



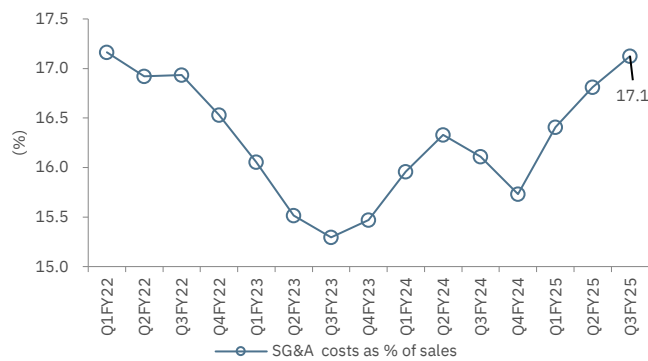
Source: Company, Elara Securities Research

**Exhibit 10: LTM attrition has picked up**



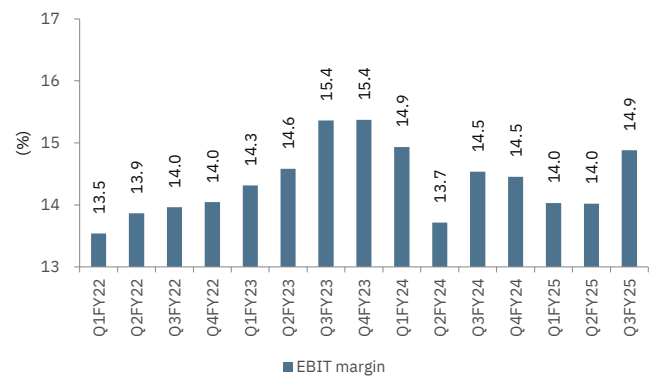
Source: Company, Elara Securities Research

**Exhibit 11: SG&A cost trend**



Source: Company, Elara Securities Research

**Exhibit 12: Margin continue to improve**



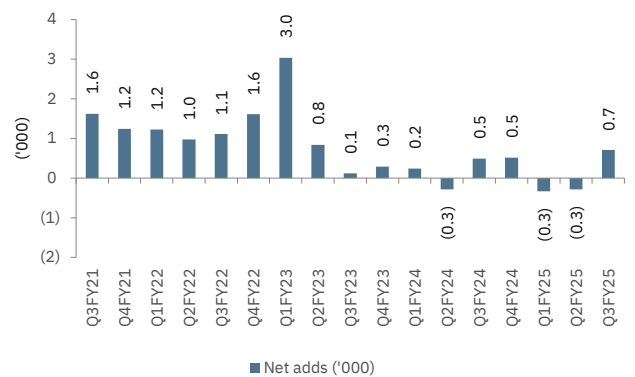
Source: Company, Elara Securities Research

**Exhibit 13: Employee base**



Source: Company, Elara Securities Research

**Exhibit 14: Net add after decline in H1**



Source: Company, Elara Securities Research

**Exhibit 15: Valuation summary**

<b>(INR)</b>	
Current trailing 12 months (TTM) EPS	86
Current market price (CMP)	5685
Target EPS	152
Target EPS period	FY27E
Target multiple (x)	40
Target price (per share)	6090
Upside (%)	7

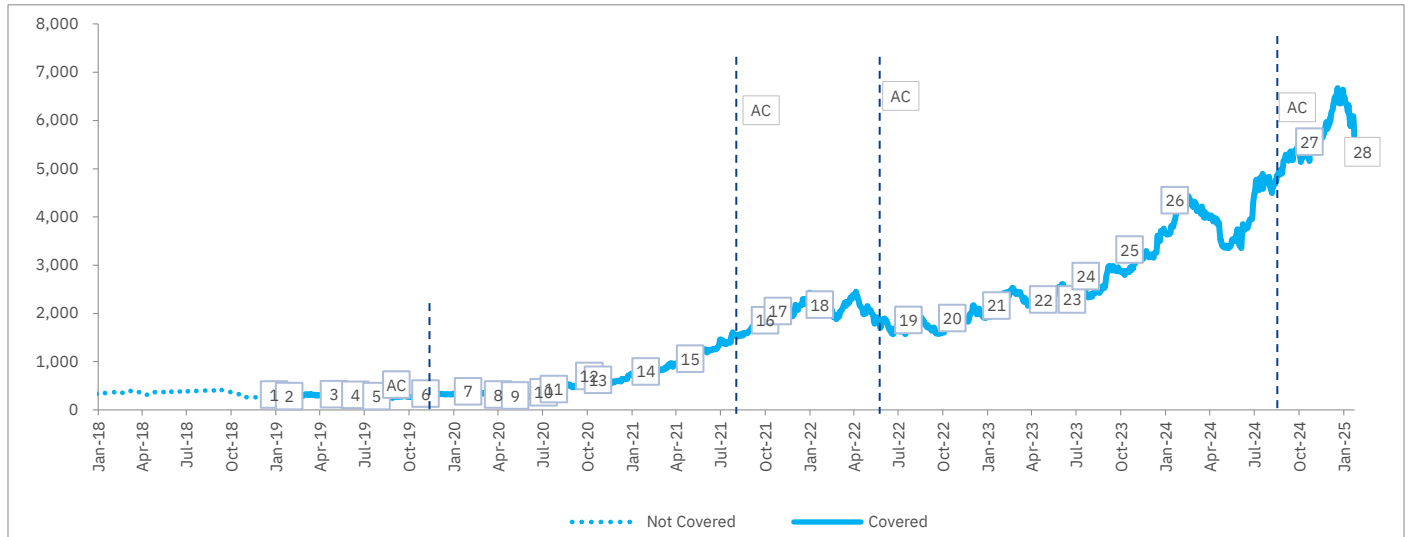
Note: Pricing as on 22 January 2025; Source: Elara Securities Estimate

**Exhibit 16: Change in estimates**

<b>(INR mn)</b>	<b>Earlier</b>			<b>Revised</b>			<b>% Change</b>		
	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Revenue in USD	1,407	1,650	1,931	1,409	1,675	1,997	0.1	1.5	3.4
Revenue in INR	117,916	138,629	162,177	118,808	142,355	169,761	0.8	2.7	4.7
EBIT	17,490	22,085	27,680	17,413	22,471	29,047	(0.4)	1.7	4.9
EBIT margin (%)	14.8	15.9	17.1	14.7	15.8	17.1			
PAT	13,849	17,594	22,658	13,974	17,842	23,450	0.9	1.4	3.5
EPS (INR)	89.9	116.6	147.1	90.7	118.2	152.2	0.9	1.4	3.5
<b>TP (INR)</b>			<b>5,880</b>			<b>6,090</b>			<b>3.5</b>

Source: Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
21	19-Jan-2023	Buy	INR 5,200	INR 4,258
22	25-Apr-2023	Buy	INR 5,460	INR 4,472
23	23-Jun-2023	Buy	INR 5,880	INR 4,805
24	21-Jul-2023	Accumulate	INR 5,290	INR 4,750
25	19-Oct-2023	Accumulate	INR 6,180	INR 5,849
26	22-Jan-2024	Accumulate	INR 8,300	INR 7,922
	3/28/2024*	Accumulate	INR 4150	INR 3,985
27	22-Oct-2024#	Accumulate	INR 5,880	INR 5,182
28	22-Jan-2025	Accumulate	INR 6,090	INR 5,683

\* Stock split 10:5; #AC=Analyst change

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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