

**SELL**

TP: Rs 4,199 | ▼ 26%

**PERSISTENT SYSTEMS**

| IT Services

| 23 January 2025

## Unveils ambitious FY31 target even before hitting FY27 goal

- 3QFY25 revenue/EBIT margin beat our sub-consensus estimate. It did not say discretionary demand has turned around but said it will deliver
- It unveiled a FY31 revenue target of US\$5bn while it is yet to hit its earlier goal of FY27 of US\$2bn with 200-300bps of margin increase
- Raise our FPS estimates for FY26/FY27 and increase our PE Target premium to TCS from 20% to 25%. Yet it remains a 'SELL'

### Both revenue and EBIT margin were better than our below consensus numbers:

Revenue growth QoQ in CC terms came in at 4.6% versus our estimate of 3% and EBIT margin was 14.9% versus our expectation of 14.1%.

**Persistent systems unveiled a revenue target of US\$5bn for FY31:** This is even before it hit the earlier target of US\$2bn by FY27. In FY25 it is likely to clock ~US\$1.4bn. The strategy seems to be to dig deeper into its current verticals of BFSI, health care & Life sciences and High-Tech and tapping into its top 100 clients. The FY31 revenue implies a 26% CAGR over FY27-FY31 versus 19% CAGR (FY23-FY27) when the US\$2bn target was set. Persistent Systems stated that the road to US\$5bn would be more IP/platform driven and revenue growth will be a bit more non-linear hinting at better margins.

**Strategy may have to change in our view:** The 26% CAGR over FY27-FY31 is an ambitious goal – especially if it is limited to growing through these three verticals. Most of its larger peers have grown by tapping into a broader set of verticals and by addressing a larger TAM. Very likely Persistent systems will do a course correction on its strategy over the next few years.

**Cautious industry demand commentary:** It said that it is too early to determine a shift towards discretionary deals in the pipeline. While there is a more optimistic mood in certain business segments, particularly in the US, due to government policies, this has yet to translate into a significant change in the pipeline or deal closures.

**Remains confident about navigating through whatever demand conditions exist:** Stated that irrespective of the environment the company has grown for 19 consecutive quarters largely due to better execution.

**Retain SELL but raise EPS and Target PE multiples:** The outperformance in 3QFY25 and the commentary makes us raise our EPS estimate for FY26/FY27 by 5/9%. We have increased the Target PE premium to TCS from 20% to 25% thereby raising the Target PE multiple to 30.8x compared to 29.6x earlier. While all these measures raise the Target price, it remains a SELL on expensive valuations.

**Girish Pai**

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### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PSYS IN/Rs 5,683
Market cap	US\$ 10.1bn
Free float	68%
3M ADV	US\$ 34.5mn
52wk high/low	Rs 6,789/Rs 3,232
Promoter/FPI/DII	31%/25%/26%

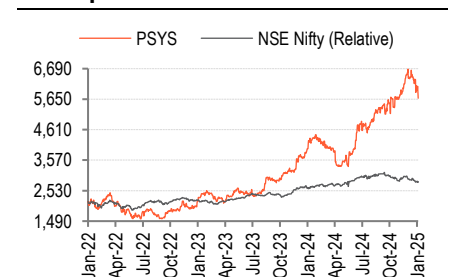
Source: NSE | Price as of 22 Jan 2025

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	98,217	1,19,498	1,48,289
EBITDA (Rs mn)	17,257	20,547	26,217
Adj. net profit (Rs mn)	11,435	13,797	17,606
Adj. EPS (Rs)	71.2	88.9	113.0
Consensus EPS (Rs)	71.2	87.6	110.4
Adj. ROAE (%)	25.6	24.6	25.9
Adj. P/E (x)	79.8	63.9	50.3
EV/EBITDA (x)	50.2	42.1	32.9
Adj. EPS growth (%)	18.1	24.9	27.1

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## Persistent Systems: Our take on the US\$5bn FY31 revenue target set by Persistent Systems

- On the 3QFY25 results call Persistent systems unveiled a revenue target of US\$5bn for FY31. This is even before it hit the earlier target of US\$2bn by FY27. In FY25 it is likely to clock ~US\$1.4bn.
- The US\$5bn target was set during a 'Huddle' in Pune in January 2025 when 350 of its top leaders gathered.
- Could not understand the rationale of setting a 7-year revenue target from now considering the ever-changing macro, tech and competitive landscape.
- The FY31 revenue implies a 26% CAGR over the FY27-FY31 timeframe versus the 19% CAGR (FY23-FY27) when the US\$2bn revenue number was articulated.
- Persistent Systems stated that the road to US\$5bn would be more IP/platform driven and revenue growth will be a bit more non-linear hinting at better margins.
- To achieve this target, there is a focus on dividing the large verticals (like healthcare, life sciences, financial services, and tech) into 12-15 sub-verticals to generate more growth engines
- It also talked about doubling down on its top 100 customers, which account for 80% of its current revenues, expanding alternate channels, including private equity and sourcing advisors, and enhancing focus on global capability centers.
- It also talked about infusing AI into every aspect of its vertical and service line offerings and leading with platformization of services.
- The 26% CAGR over FY27-FY31 is an ambitious goal – especially if it is limited to growing through these three verticals. Most of its larger peers have grown by tapping into a broader set of verticals and by addressing a larger TAM. Very likely Persistent systems will do a course correction on its strategy over the next few years.
- Persistent also reiterated that it will not take the inorganic route to bolster revenue. However, it hinted at a slightly largish target if it is Europe based where it wants to take the revenue exposure to teens compared to 8% currently.
- While Persistent Systems under Sandeep Kalra has executed well thus far, we believe it needs to
  - Deepen its domain capabilities. Even in the three verticals which it has highlighted. We believe it is more of a horizontal play currently than a balanced player with both vertical and horizontal capabilities. It is in the last 3-4 years that it has acquired some domain skills in the BFSI space for instance.
  - Widen its geographic footprint. Currently it is too North America/US centric (80% of revenue)
  - Focus on building its business with more service lines so that it can take on larger integrated deals which are typically multi-tower.

- We believe the platform-based AI approach is unlikely to be a unique one. We believe almost all the large and mid-sized players have the wherewithal to approach business in this fashion. Especially if they are willing to self-cannibalize to hold on to their clients.
- The incremental business from here on will have to be by dislodging incumbents with large India delivery footprints. No India based player is going to give up without a fight.

### Key points from the results and the analyst call

- Revenue stood at \$360.2 mn, growing 19.9% YoY and 4.3% QoQ. Revenue growth was 4.6% QoQ in constant currency terms better than our below consensus estimate of 3%
- The impact of furloughs on revenue was approximately 100 bps.
- From an industry perspective, growth (YoY) in USD terms was led by healthcare and life sciences (~+53%) and banking and financial services (~+22%), while software, high-tech, and emerging industries grew ~3.2%
- Integration of Starfish, Arka, and SoHo contributed 35 bps to the revenue in 3Q QoQ.
- The SoHo acquisition is part of a vendor consolidation exercise with a large customer, with most revenue already part of the run rate prior to the acquisition.
- EBIT margin was 14.9%, reflecting a 90-bps sequential improvement and a 35 bps YoY improvement. It was better than our below consensus number of 14.1%. The margin walk was like this.
- Furloughs and lower earn-out credit led to headwinds of 60 bps and 100 bps, respectively
- 140 bps improvement of tailwind came from (1) Utilization increased from 84.8% in 2QFY25 to 87.4% in 3QFY25 (2) rationalization of contractor costs with a large healthcare customer (3) operational initiatives.
- There was a cross-currency tailwind of 50 bps, while lower resale revenue and improved pricing added 40 bps to the margin.
- Lower ESOP costs resulted in a 20bps tailwind.
- TCV for the quarter was US\$594.1mn, with new bookings contributing US\$333.6mn. The ACV component of TCV stood at US\$428.3mn, with US\$195.6mn from new bookings
- A leading American financial services company selected Persistent to modernize its legacy systems in a \$150mn+, seven-year deal, the largest transformation deal in Persistent's history
- The company remains confident in its trajectory towards the medium-term aspiration of achieving \$2bn in revenue by FY27

- Utilization levels is over 87% as of now, but the comfortable range is still 83%–85%, with the company comfortable maintaining higher levels in the short run
- The margin aspiration to improve by 200-300 bps by FY27 remains intact.
- Margin improvement levers still available include pricing adjustments through COLA clauses, non-linear revenue from AI implementation, and optimization of SG&A costs. SG&A is higher compared to peers, providing room for further optimization. As the company continues to grow, margins are expected to improve. The company's ability to command premium pricing over the years, along with differentiated IP and operational execution, supports its margin trajectory.
- 3Q bookings tend to be strong due to the seasonality driven by North America's financial year, which aligns with the calendar year. Larger renewals typically occur in 3Q
- The FY27 US\$2 bn revenue aspiration is based on the current trajectory, with confidence in achieving it organically.
- Inorganic activity could include slightly larger acquisitions in Europe to increase market share, with the aim of growing from 8-9% to 12-15%. Otherwise, acquisitions will focus on technology and capability enhancements.
- The FY31 US\$5 bn revenue target requires a change in strategy, as continuing with the same approach will not deliver different results.
- Total headcount at the end of 3QFY25 was 23,941, increasing by ~700 QoQ
- TTM attrition was 12.6%, compared to 11.9% in 3QFY24
- Interim dividend of INR20 per share was declared for FY25

**View on the Indian IT services sector:** We reinitiated coverage on the Indian IT Services with UW stance through a report on 1 January, 2025 (**Slow is the (new/old) normal**).

Current valuations are disconnected with fundamentals. Since 1 June 2024, Nifty IT has outperformed Nifty significantly. However, consensus earnings for FY25 and FY26 have not moved much during this period. It has been an entirely PE expansion story. Tier-1 and Tier-2 Indian IT services stocks are trading at +1 SD and +2 SD above their five-year means respectively. The PE premium of Tier-2 to Tier-1 is at its historic peak.

Current high PE multiples imply sharp growth pickup in FY25-FY27E. We think it will be slower. We do not believe structurally Indian IT services industry will see the pandemic's 'compressed transformation' type of demand in the foreseeable future. We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR – seen during FY15-FY20.

10-year study of valuations and earnings growth indicates that Indian IT stocks are currently trading at +2.1 SD to +18.3 SD higher valuations compared to the mean multiples during the FY15-FY20 period. Yes, we would admit that certain companies have undergone a structural change for the better, but not to the extent that the bulls assume and not all of them.

## Multiple speed breakers post FY25 drives our underweight stance

- Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc all point to uncertainty in the coming days which may delay decision making.
- Higher for longer interest rate environment: One of reasons for optimism around the Indian IT service sector in recent quarters has been the view that US would achieve a soft landing in 2025 (which we define as 0.5- 1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the recent peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'. However, recent inflation prints, stronger GDP growth, and a higher fiscal deficit have raised concerns. With US 10-year yields rising to 4.7% from a September 2024 low of 3.6%, there are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US consumption 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 – value compressive in the near term: Gen AI has significantly boosted revenue in semiconductors, data centers, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arise due to heavy investment in surrounding services
- Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyperscalers, are increasing capex on AI-related data centers. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS
- 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 will reach \$85bn, double that in FY15. Due to the higher base now, growth may not be as rapid as it was when the base was lower
- The weak TCV for certain players in 1HFY25 and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26

**How we are valuing companies:** We are using PE methodology and using TCS as our industry benchmark. The target PE multiple used for TCS is 24.6x (which is the average PE multiple of TCS over the last 5 years less 1SD). This is by no means pessimistic. 24.6x is higher than the 23.6x multiple which was the mean multiple of the FY15-FY20 time frame when revenue growth was ~150bps faster. During the Global Financial Crisis (GFC) downturn, the stock traded in the single digit PE multiple territory. We are using a 1SD discount to the five-year PE as we believe that industry and TCS will see a 'slower for longer' growth situation.

### **Why use a PE multiple that is 1SD lower than 5-year mean of TCS:**

Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27.

While the strong consensus estimates seem to imply a soft-landing macro scenario in the US, the higher probability event is a 'no landing, higher-for-longer interest rate' scenario which we believe has a 50-60% probability. The probability of a recession is also not insignificant (20% based on Bloomberg estimates).

Some of the speed breakers are industry/technology related, and some are related to the macro and policy environment especially in the US which is the key market for Indian IT services firms. Besides the US, we believe the European market macro looks quite bad (Europe – including UK – forms about 30-40% of revenue for Indian IT services firms) and corporate IT spending would be muted

### **Tier- 2 valuation reflects growth gap between it and 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 the 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)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	3QFY25E	Dev (%)
<b>Net Sales (USD mn)</b>	<b>300.6</b>	<b>345.3</b>	<b>360.3</b>	<b>19.9</b>	<b>4.3</b>	<b>354.2</b>	<b>1.7</b>
<b>Net Sales</b>	<b>24,982</b>	<b>28,972</b>	<b>30,623</b>	<b>22.6</b>	<b>5.7</b>	<b>29,898</b>	<b>2.4</b>
Direct Cost	16,539	19,294	20,000	20.9	3.7	19,983	0.1
% of Sales	66.2	66.6	65.3			66.8	
Gross Margin	8,443	9,678	10,622	25.8	9.8	9,916	7.1
% of Sales	33.8	33.4	34.7			33.2	
SG&A	4,012	4,870	5,244	30.7	7.7	4,870	7.7
% of Sales	16.1	16.8	17.1			16.3	
<b>EBITDA</b>	<b>4,431</b>	<b>4,807</b>	<b>5,378</b>	<b>21.4</b>	<b>11.9</b>	<b>5,045</b>	<b>6.6</b>
<b>EBITDA Margin (%)</b>	<b>17.7</b>	<b>16.6</b>	<b>17.6</b>			<b>16.9</b>	
Depreciation and Amortisation	787	745	821			844	(2.7)
<b>EBIT</b>	<b>3,644</b>	<b>4,062</b>	<b>4,557</b>	<b>25.1</b>	<b>12.2</b>	<b>4,201</b>	<b>8.5</b>
<b>EBIT Margin (%)</b>	<b>14.6</b>	<b>14.0</b>	<b>14.9</b>			<b>14.1</b>	
Other Income, Net	181	177	118	(34.6)	(33.1)	197	(39.9)
Forex Gain/(Losses)	81	106	145	78.9	36.5	-	
PBT	3,906	4,345	4,820	23.4	10.9	4,398	9.6
Provision for Tax	1,032	1,095	1,091	5.7	(0.4)	1,109	(1.6)
Effective Tax Rate	26.4	25.2	22.6			25.2	
<b>PAT</b>	<b>2,874</b>	<b>3,250</b>	<b>3,730</b>	<b>29.8</b>	<b>14.8</b>	<b>3,290</b>	<b>13.4</b>
<b>NPM (%)</b>	<b>11.5</b>	<b>11.2</b>	<b>12.2</b>			<b>11.0</b>	

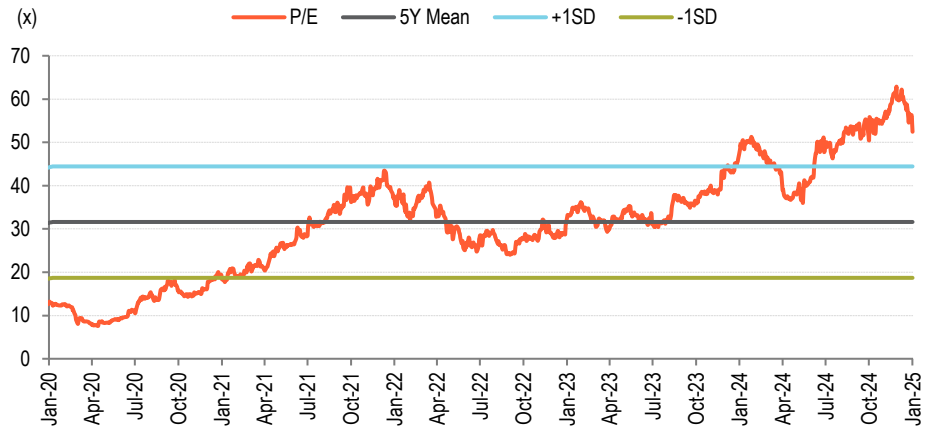
Source: Company, BOBCAPS Research

**Fig 2 – Revised Estimates**

	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.6	87.3	89.3	84.1	85.4	86.6	0.5	2.1	3.1
USD Revenue (USD mn)	1,412	1,699	1,982	1,396	1,645	1,887	1.2	3.3	5.0
USD Revenue Growth (%)	19.1	20.3	16.7	17.7	17.9	14.7			
Revenue (Rsmn)	1,19,498	1,48,289	1,76,955	1,17,307	1,40,579	1,63,469	1.9	5.5	8.2
EBIT (Rsmn)	17,437	22,641	28,894	16,836	21,335	26,113	3.6	6.1	10.6
EBIT Margin (%)	14.6	15.3	16.3	14.4	15.2	16.0			
PAT (Rsmn)	13,797	17,606	22,505	13,313	16,649	20,481	3.6	5.7	9.9
FDEPS (Rs)	88.9	113.0	144.4	86.1	107.5	132.2	3.3	5.1	9.2

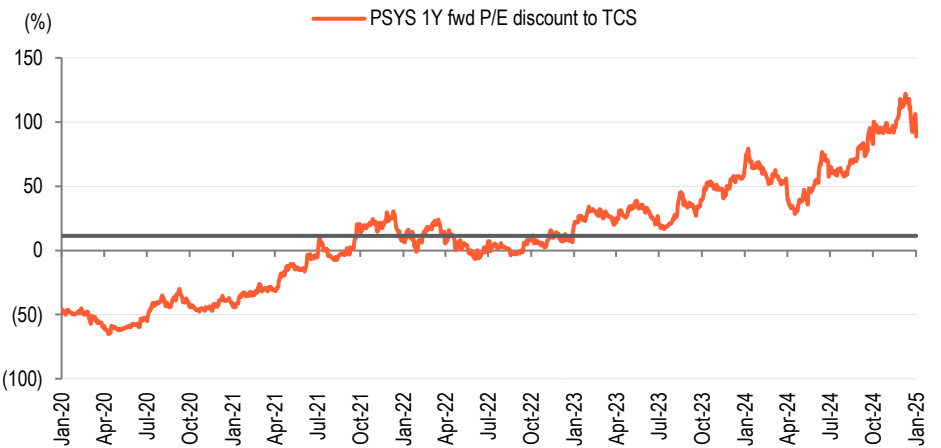
Source: Company, BOBCAPS Research

**Fig 3 – 5 Year PE trend**



Source: Company, BOBCAPS Research

**Fig 4 – Premium/ Discount to TCS**



Source: Company, BOBCAPS Research

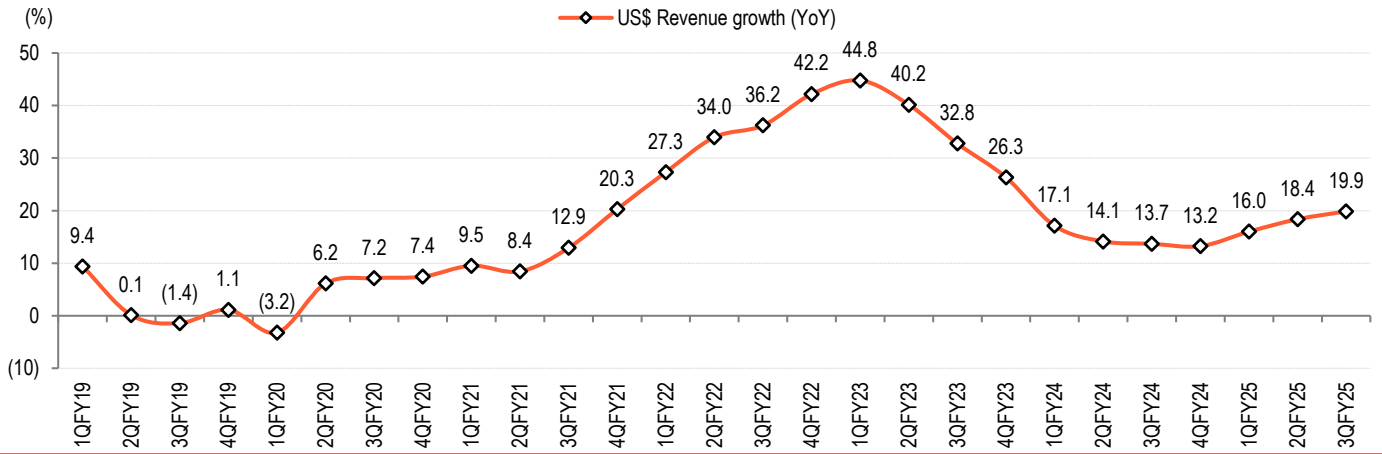


**Fig 5 – P&L at a glance**

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
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	84.6	87.3	89.3
Net Sales (USD mn)	238	274	308	352	429	471	481	502	566	766	1,036	1,186	1,412	1,699	1,982
YoY Growth (%)		15.2	12.4	14.2	22.0	9.7	2.2	4.3	12.9	35.2	35.3	14.5	19.1	20.3	16.7
<b>Net Sales</b>	<b>12,945</b>	<b>16,692</b>	<b>18,913</b>	<b>23,123</b>	<b>28,784</b>	<b>30,337</b>	<b>33,659</b>	<b>35,658</b>	<b>41,879</b>	<b>57,107</b>	<b>83,506</b>	<b>98,217</b>	<b>1,19,498</b>	<b>1,48,289</b>	<b>1,76,955</b>
<b>YoY Growth (%)</b>	<b>29.4</b>	<b>28.9</b>	<b>13.3</b>	<b>22.3</b>	<b>24.5</b>	<b>5.4</b>	<b>11.0</b>	<b>5.9</b>	<b>17.4</b>	<b>36.4</b>	<b>46.2</b>	<b>17.6</b>	<b>21.7</b>	<b>24.1</b>	<b>19.3</b>
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	78,997	99,915	1,20,923
% 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	66.1	67.4	68.3
<b>Gross Margin</b>	<b>5,634</b>	<b>7,174</b>	<b>7,596</b>	<b>8,819</b>	<b>10,266</b>	<b>10,633</b>	<b>12,281</b>	<b>12,164</b>	<b>14,229</b>	<b>19,213</b>	<b>28,191</b>	<b>32,986</b>	<b>40,502</b>	<b>48,374</b>	<b>56,032</b>
<b>% of sales</b>	<b>43.5</b>	<b>43.0</b>	<b>40.2</b>	<b>38.1</b>	<b>35.7</b>	<b>35.0</b>	<b>36.5</b>	<b>34.1</b>	<b>34.0</b>	<b>33.6</b>	<b>33.8</b>	<b>33.6</b>	<b>33.9</b>	<b>32.6</b>	<b>31.7</b>
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	19,955	22,157	23,166
% 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	16.7	14.9	13.1
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	20,547	26,217	32,865
% 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	17.7	18.6
Depreciation and Amortization	783	1,026	939	965	1,490	1,585	1,573	1,660	1,756	1,660	2,719	3,094	3,110	3,576	3,971
<b>EBIT</b>	<b>2,569</b>	<b>3,277</b>	<b>2,967</b>	<b>3,206</b>	<b>3,049</b>	<b>3,102</b>	<b>4,233</b>	<b>3,270</b>	<b>5,075</b>	<b>7,922</b>	<b>12,472</b>	<b>14,163</b>	<b>17,437</b>	<b>22,641</b>	<b>28,894</b>
<b>% of sales</b>	<b>19.8</b>	<b>19.6</b>	<b>15.7</b>	<b>13.9</b>	<b>10.6</b>	<b>10.2</b>	<b>12.6</b>	<b>9.2</b>	<b>12.1</b>	<b>13.9</b>	<b>14.9</b>	<b>14.4</b>	<b>14.6</b>	<b>15.3</b>	<b>16.3</b>
Other income (net)	61	150	932	750	958	1,190	631	1,254	1,020	1,321	(64)	813	841	992	1,315
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	18,278	23,633	30,208
-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	15.9	17.1
Provision for tax	754	934	993	983	992	1,062	1,347	1,121	1,588	2,339	3,198	3,541	4,480	6,026	7,703
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	24.5	25.5	25.5
<b>Net profit</b>	<b>1,876</b>	<b>2,493</b>	<b>2,906</b>	<b>2,974</b>	<b>3,015</b>	<b>3,231</b>	<b>3,517</b>	<b>3,403</b>	<b>4,507</b>	<b>6,904</b>	<b>9,211</b>	<b>11,435</b>	<b>13,797</b>	<b>17,606</b>	<b>22,505</b>
-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	26.0	27.6	27.8
<b>-Net profit margin (%)</b>	<b>14.5</b>	<b>14.9</b>	<b>15.4</b>	<b>12.9</b>	<b>10.5</b>	<b>10.6</b>	<b>10.4</b>	<b>9.5</b>	<b>10.8</b>	<b>12.1</b>	<b>11.0</b>	<b>11.6</b>	<b>11.5</b>	<b>11.9</b>	<b>12.7</b>

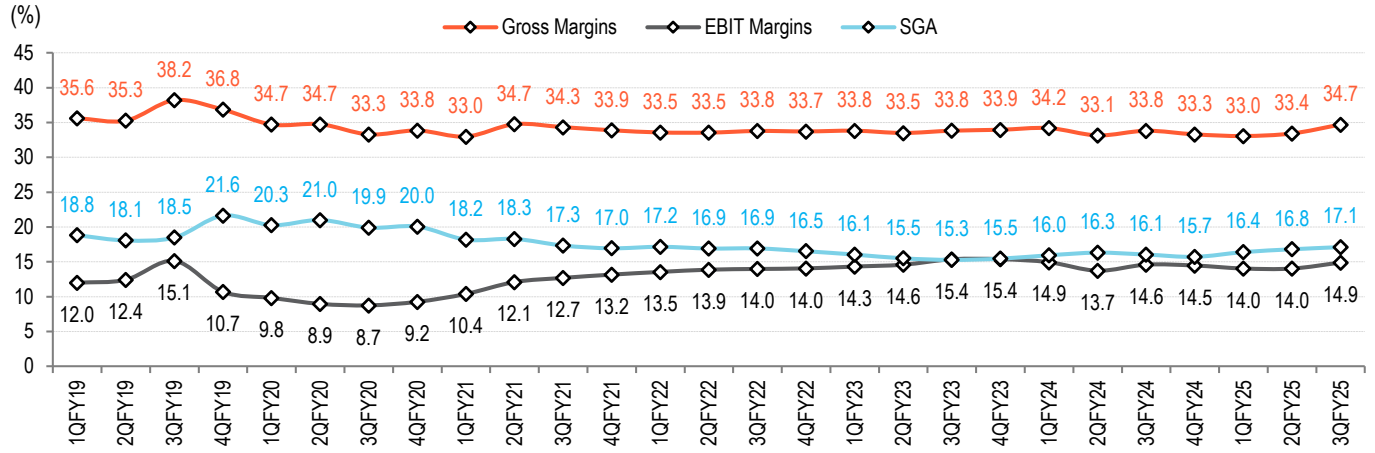
Source: Company, BOBCAPS Research

**Fig 6 – USD Revenue growth (YoY)**



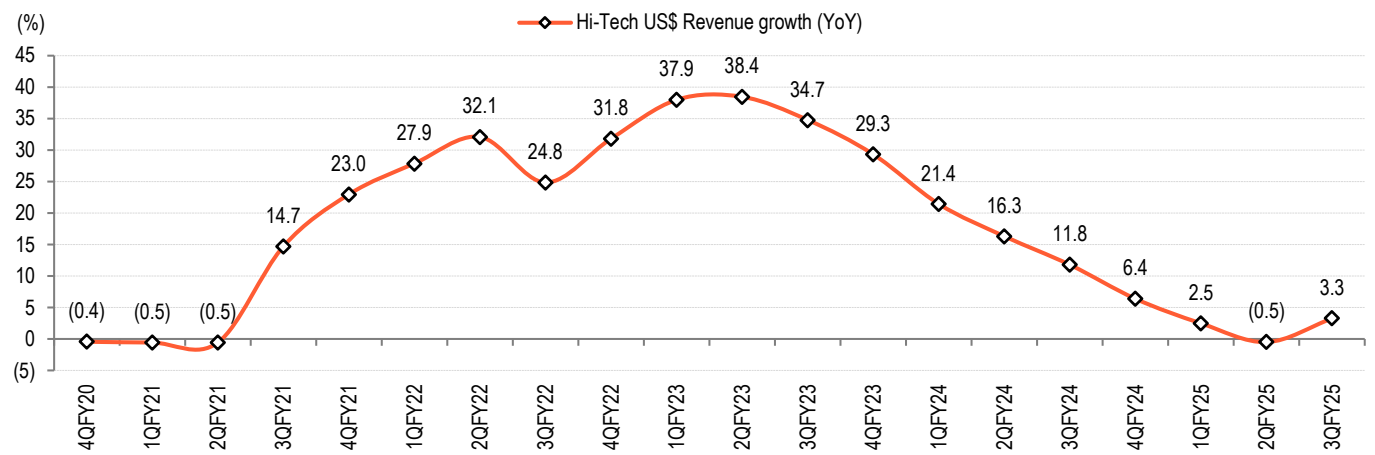
Source: Company, BOBCAPS Research

**Fig 7 – Gross Margin, SG&A and EBIT Margin**



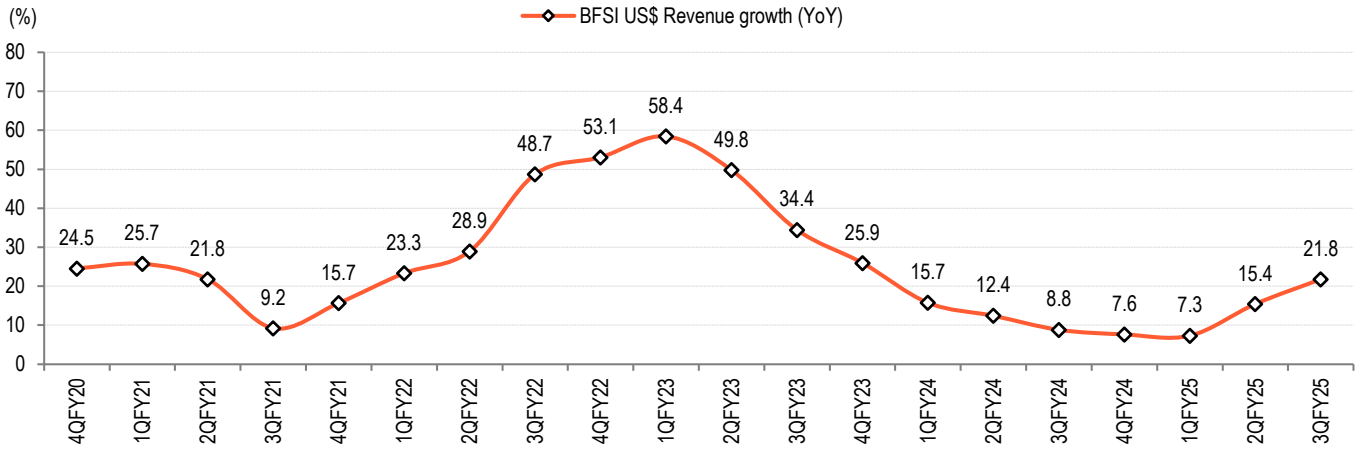
Source: Company, BOBCAPS Research

**Fig 8 – USD Revenue growth of Hi-Tech vertical (YoY)**



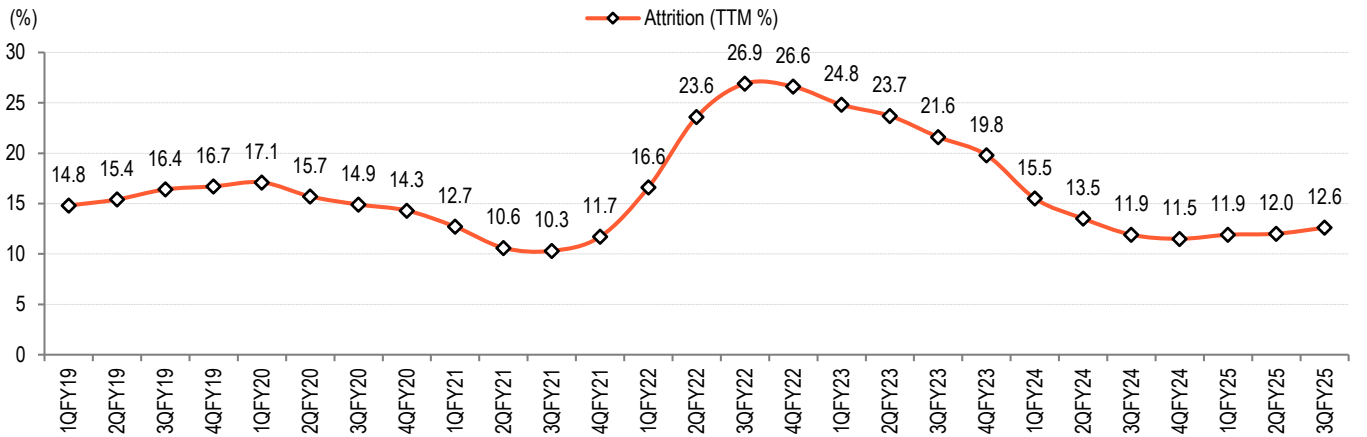
Source: Company, BOBCAPS Research

**Fig 9 – USD Revenue growth of BFSI vertical (YoY)**



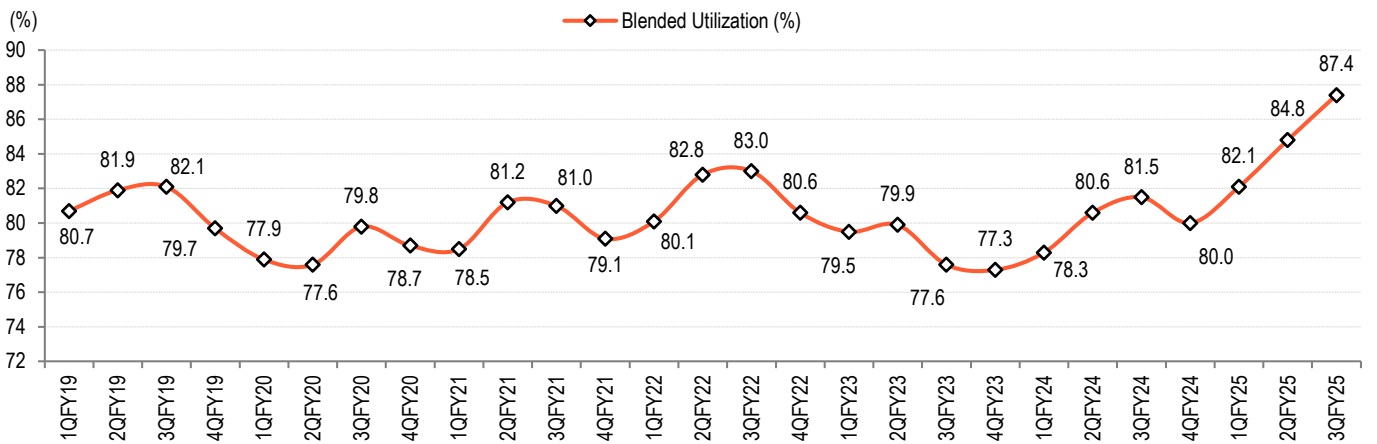
Source: Company, BOBCAPS Research

**Fig 10 – LTM Attrition Rate**



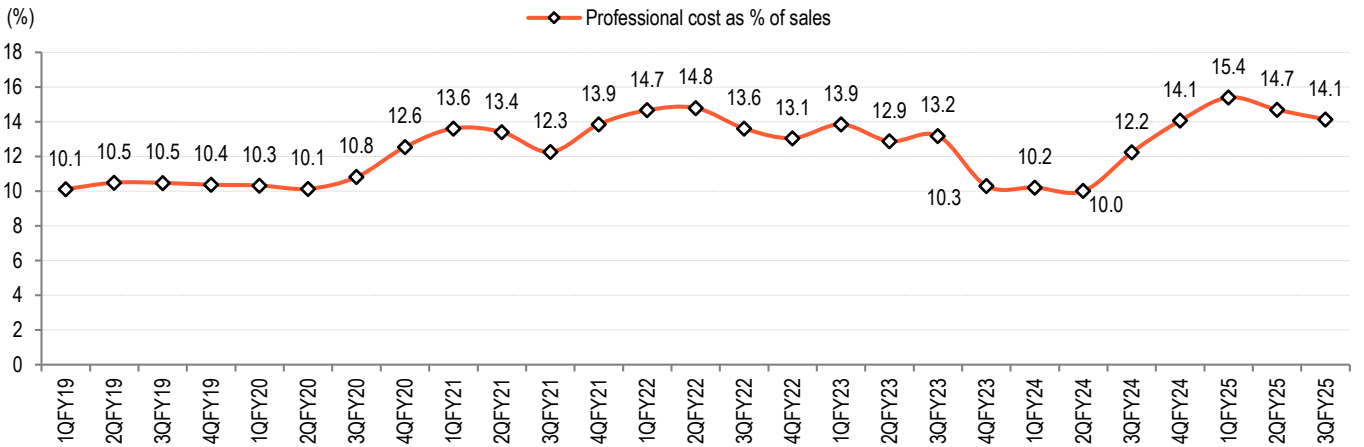
Source: Company, BOBCAPS Research

**Fig 11 – Employee Utilization (including trainees)**



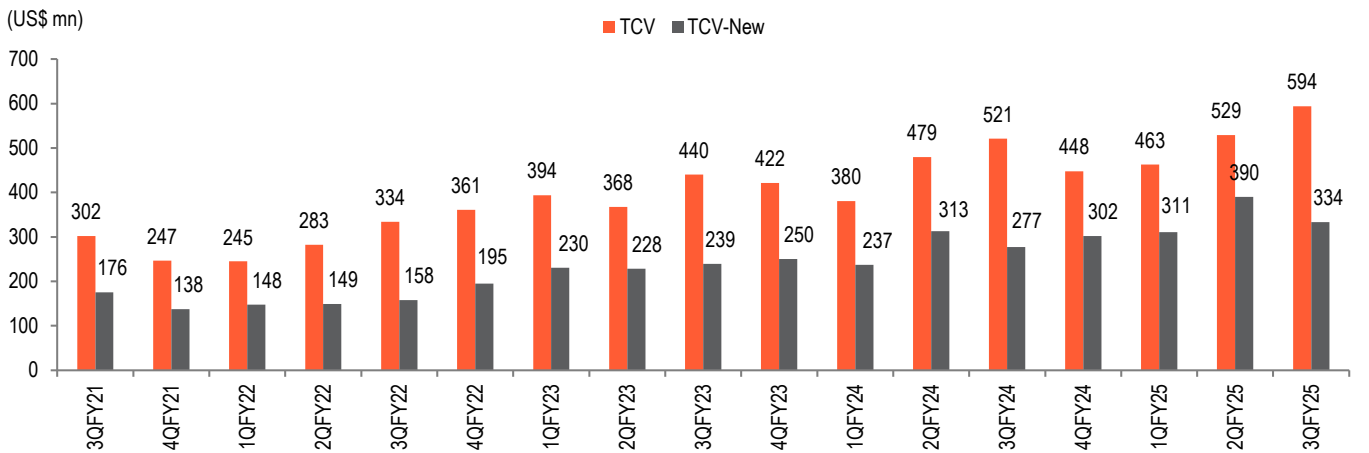
Source: Company, BOBCAPS Research

**Fig 12 – Subcontractor Cost as % of Revenue**



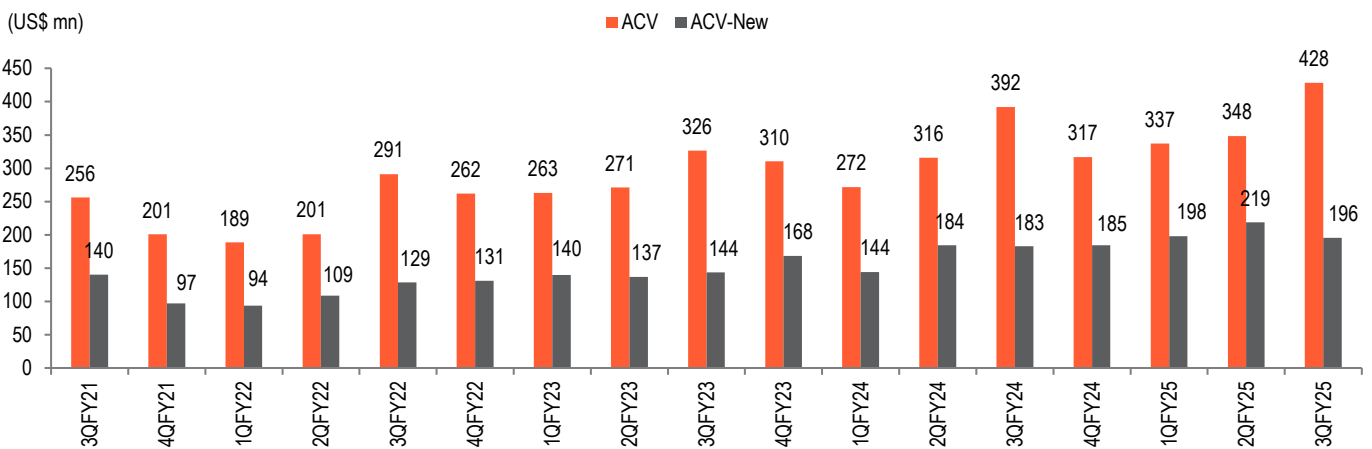
Source: Company, BOBCAPS Research

**Fig 13 – The TCV trend**



Source: Company, BOBCAPS Research

**Fig 14 – The ACV trend**



Source: Company, BOBCAPS Research

**Fig 15 – Quarterly Snapshot**

Year to 31 March	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Rs mn											
<b>INR/USD</b>	<b>77.8</b>	<b>80.2</b>	<b>82.1</b>	<b>82.1</b>	<b>82.1</b>	<b>82.7</b>	<b>83.1</b>	<b>83.3</b>	<b>83.4</b>	<b>83.9</b>	<b>85.0</b>
USD Revenue (USD mn)	242	256	264	275	283	292	301	311	328	345	360
INR Revenue	18,781	20,486	21,694	22,545	23,212	24,117	24,982	25,906	27,372	28,972	30,623
Gross Margin	6,348	6,858	7,334	7,651	7,933	7,990	8,443	8,620	9,043	9,678	10,622
SGA	3,015	3,178	3,318	3,488	3,704	3,938	4,012	4,075	4,491	4,870	5,244
EBITDA	3,333	3,680	4,016	4,163	4,229	4,052	4,431	4,545	4,552	4,807	5,378
Dep & Amortization	645	693	684	697	763	744	787	799	712	745	821
EBIT	2,688	2,987	3,332	3,466	3,466	3,308	3,644	3,745	3,840	4,062	4,557
Other income (net)	131	(31)	(104)	(60)	90	250	262	210	165	283	263
PBT	2,819	2,956	3,228	3,406	3,070	3,558	3,906	3,956	4,005	4,345	4,820
Tax	703	756	848	891	783	925	1,032	802	941	1,095	1,091
PAT	2,116	2,200	2,380	2,515	2,288	2,633	2,874	3,154	3,064	3,250	3,730
<b>YoY Growth (%)</b>											
USD Revenue	44.8	40.2	32.8	26.3	17.1	14.1	13.7	13.2	16.0	18.4	19.9
INR Revenue	52.7	51.6	45.4	37.6	23.6	17.7	15.2	14.9	17.9	20.1	22.6
Gross Profit	53.8	51.4	45.6	38.6	25.0	16.5	15.1	12.7	14.0	21.1	25.8
EBIT	61.4	59.4	60.0	50.7	29.0	10.8	9.4	8.1	10.8	22.8	25.1
Net Profit	39.9	36.0	34.9	25.1	8.1	19.7	20.8	25.4	33.9	23.4	29.8
<b>QoQ Growth (%)</b>											
USD Revenue	11.1	5.8	3.4	3.85	3.0	3.1	3.0	3.4	5.6	5.2	4.3
INR Revenue	14.7	9.1	5.9	3.9	3.0	3.9	3.6	3.7	5.7	5.8	5.7
EBIT	16.8	11.1	11.6	4.0	0.0	(4.6)	10.2	2.8	2.5	5.8	12.2
Net Profit	5.3	4.0	8.2	5.7	(9.0)	15.1	9.2	9.7	(2.9)	6.1	14.8
<b>Margins (%)</b>											
Gross Margin	33.8	33.5	33.8	33.9	34.2	33.1	33.8	33.3	33.0	33.4	34.7
SGA	16.1	15.5	15.3	15.5	16.0	16.3	16.1	15.7	16.4	16.8	17.1
EBITDA	17.7	18.0	18.5	18.5	18.2	16.8	17.7	17.5	16.6	16.6	17.6
EBIT	14.3	14.6	15.4	15.4	14.9	13.7	14.6	14.5	14.0	14.0	14.9
PBT	15.0	14.4	14.9	15.1	13.2	14.8	15.6	15.3	14.6	15.0	15.7
PAT	11.3	10.7	11.0	11.2	9.9	10.9	11.5	12.2	11.2	11.2	12.2

Source: Company, BOBCAPS Research

**Fig 16 – Key Metrics**

Key Metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>P and L (USD mn)</b>											
Revenue	242	256	264	275	283	292	301	311	328	345	360
EBIT	35	37	41	42	42	40	44	45	46	48	54
PAT	27	27	29	31	28	32	35	38	37	39	44
<b>P and L (Rs mn)</b>											
Revenue	18,781	20,486	21,694	22,545	23,212	24,117	24,982	25,906	27,372	28,972	30,623
EBITDA	3,333	3,680	4,016	4,163	4,229	4,052	4,431	4,545	4,552	4,807	5,378
PAT	2,116	2,200	2,380	2,515	2,288	2,633	2,874	3,154	3,064	3,250	3,730
<b>Geographical Mix (%)</b>											
North Americas	78.4	78.6	77.1	77.9	79.2	79.2	79.7	80.1	80.7	81.3	80.5
Europe	8.5	8.3	9	10.3	9.7	9.5	8.9	7.8	7.8	7.9	8.2
India	11.3	11.5	12.3	10.0	9.9	9.7	10.0	10.1	9.8	9.2	9.4
ROW	1.8	1.6	1.6	1.8	1.2	1.6	1.4	2	1.7	1.6	1.9
Utilization (%) (including Trainees)	79.5	79.9	77.6	77.3	78.3	80.6	81.5	80.0	82.1	84.8	87.4
<b>Revenue Mix (Delivery of IT services)</b>											
Revenue mix-Onsite	14.7	14.4	14.3	13.1	13.1	12.7	13.8	14.8	15.2	15.8	15.1
Revenue mix-Offshore	85.3	85.6	85.7	86.9	86.9	87.3	86.2	85.2	84.8	84.2	84.9
<b>Clients Concentration (%)</b>											
Top 5 clients	30.8	26.9	24.7	26.5	27.9	28.3	28.0	29.2	30.7	31.4	30.8
Top 10 clients	40.7	36.7	35.0	37.4	39.6	39.5	39.3	40.0	41.5	41.5	40.0
Top 20 clients	51.2	48.4	47.8	47.9	50.4	50.6	51.4	51.1	51.9	52.1	50.9
Top 50 clients	66.1	64.0	63.9	64.4	66.1	66.5	66.7	67.3	67.8	67.9	67.4
<b>Business Mix (%)</b>											
BFSI	33.7	32.8	32.6	32.3	33.3	32.3	31.2	30.7	30.8	31.5	31.7
Healthcare & Life Science	19.9	19.7	19.6	19.7	18.6	19.3	21.8	24.2	26.7	27.8	27.8
Tech. Cos. & Emerging Verticals	46.4	47.5	47.8	48.0	48.1	48.4	47.0	45.1	42.5	40.7	40.5
<b>Employee Metrics</b>											
Employees	21,638	22,476	22,598	22,889	23,130	22,842	23,336	23,850	23,519	23,237	23,941
Net addition of employees (QoQ)	3,039	838	122	291	241	(288)	494	514	(331)	(282)	704
Attrition LTM (%)	24.8	23.7	21.6	19.8	15.5	13.5	11.9	11.5	11.9	12.0	12.6
<b>Productivity Metrics</b>											
<b>Per Capita (Annualised) - (USD)</b>											
Revenue	44,649	45,483	46,794	47,977	48,923	51,085	51,518	52,140	55,818	59,441	60,193
EBIT	6,390	6,631	7,187	7,376	7,306	7,006	7,515	7,538	7,831	8,334	8,958
PAT	5,031	4,885	5,133	5,352	4,822	5,577	5,927	6,348	6,248	6,668	7,331
Direct and opex cost per capita	38,259	38,852	39,607	40,601	41,617	44,079	44,003	44,602	47,988	51,107	51,235

Source: Company, BOBCAPS Research

**Fig 17 – QoQ and YoY growth of various parameters**

(in US terms)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
<b>QoQ Growth (%)</b>											
Company	11.1	5.8	3.4	3.8	3.0	3.1	3.0	3.4	5.6	5.2	4.3
<b>Geography</b>											
North Americas	10.9	6.1	1.5	4.9	4.8	3.1	3.7	4.0	6.4	6.0	3.3
Europe	12.5	3.3	12.2	18.8	(3.0)	1.0	(3.5)	(9.3)	5.6	6.6	8.3
India	14.2	7.7	10.6	(15.6)	2.0	1.0	6.2	4.5	2.4	(1.2)	6.6
ROW	0.0	(5.9)	3.4	16.8	(31.3)	37.5	(9.9)	47.8	(10.3)	(1.0)	23.9
<b>Client Concentration</b>											
Top 1	(7.1)	(21.3)	(12.0)	30.5	13.0	3.1	(6.1)	(11.0)			
Top 5	5.3	(7.6)	(5.0)	11.4	8.5	4.6	1.9	7.9	11.0	7.6	2.3
Top 10	7.4	(4.6)	(1.4)	11.0	9.1	2.9	2.5	5.3	9.5	5.2	0.6
Top 20	9.2	0.0	2.2	4.1	8.4	3.5	4.7	2.8	7.2	5.6	1.9
Top 50		2.5	3.3	4.7	5.8	3.7	3.3	4.4	6.4	5.4	3.6
<b>Vertical Mix</b>											
BFSI	15.6	3.0	2.8	2.9	6.2	0.0	(0.5)	1.8	5.9	7.6	5.0
Healthcare & Life Science	6.8	4.8	2.9	4.4	(2.7)	7.0	16.4	14.8	16.5	9.5	4.3
Tech. Cos. & Emerging Verticals	10.0	8.3	4.1	4.3	3.3	3.8	0.0	(0.7)	(0.5)	0.8	3.8
<b>YoY Growth (%)</b>											
Company	44.8	40.2	32.8	26.3	17.1	14.1	13.7	13.2	16.0	18.4	19.9
<b>Geography</b>											
North Americas	43.9	40.0	29.3	25.2	18.3	15.0	17.5	16.4	18.2	21.5	21.1
Europe	29.5	32.2	44.0	54.9	33.7	30.6	12.4	(14.2)	(6.7)	(1.6)	10.4
India	66.9	53.5	49.8	14.8	2.6	(3.7)	(7.6)	14.4	14.8	12.3	12.7
ROW	44.8	12.1	32.8	13.7	(21.9)	14.1	(0.5)	25.8	64.4	18.4	62.7
<b>Client Concentration</b>											
Top 1	(0.4)	(27.8)	(43.9)	(16.1)	2.1	33.8	42.9	(2.6)			
Top 5	22.2	5.3	(9.2)	3.0	6.1	20.1	28.9	24.8	27.7	31.3	31.9
Top 10	26.2	13.3	3.3	12.2	14.0	22.9	27.7	21.1	21.6	24.4	22.0
Top 20				16.1	15.3	19.3	22.3	20.8	19.5	21.9	18.7
Top 50					17.1	18.6	18.7	18.3	19.0	20.9	21.1
<b>Vertical Mix</b>											
BFSI	58.4	49.8	34.4	25.9	15.7	12.4	8.8	7.6	7.3	15.4	21.8
Healthcare & Life Science	40.5	30.3	25.7	20.2	9.5	11.8	26.5	39.1	66.5	70.5	52.9
Tech. Cos. & Emerging Verticals	37.9	38.4	34.7	29.3	21.4	16.3	11.8	6.4	2.5	(0.5)	3.3

Source: Company, BOBCAPS Research

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>83,506</b>	<b>98,217</b>	<b>1,19,498</b>	<b>1,48,289</b>	<b>1,76,955</b>
EBITDA	15,191	17,257	20,547	26,217	32,865
Depreciation	2,719	3,094	3,110	3,576	3,971
EBIT	12,472	14,163	17,437	22,641	28,894
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	(64)	813	841	992	1,315
Exceptional items	0	0	0	0	0
EBT	12,409	14,976	18,278	23,633	30,208
Income taxes	3,198	3,541	4,480	6,026	7,703
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>9,211</b>	<b>11,435</b>	<b>13,797</b>	<b>17,606</b>	<b>22,505</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>9,211</b>	<b>11,435</b>	<b>13,797</b>	<b>17,606</b>	<b>22,505</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	0	0	0	0	0
Other current liabilities	14,932	18,511	23,857	29,110	34,494
Provisions	4,649	3,331	27	33	39
Debt funds	2,058	99	0	0	0
Other liabilities	4,902	2,218	2,702	2,702	2,702
Equity capital	764	770	779	779	779
Reserves & surplus	38,887	48,807	61,943	72,507	86,010
Shareholders' fund	39,651	49,577	62,722	73,286	86,789
<b>Total liab. and equities</b>	<b>66,191</b>	<b>73,736</b>	<b>89,308</b>	<b>1,05,131</b>	<b>1,24,024</b>
Cash and cash eq.	9,033	10,229	8,953	13,347	20,983
Accounts receivables	15,830	17,491	22,637	27,621	32,730
Inventories	0	0	0	0	0
Other current assets	8,562	11,902	18,257	22,277	26,397
Investments	6,396	8,266	11,207	13,207	15,207
Net fixed assets	16,230	11,302	12,781	13,205	13,234
CWIP	161	335	211	211	211
Intangible assets	7,184	10,913	12,145	12,145	12,145
Deferred tax assets, net	1,129	1,360	1,895	1,895	1,895
Other assets	1,667	1,938	1,224	1,224	1,224
<b>Total assets</b>	<b>66,191</b>	<b>73,736</b>	<b>89,308</b>	<b>1,05,131</b>	<b>1,24,024</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>12,605</b>	<b>8,911</b>	<b>8,353</b>	<b>17,437</b>	<b>22,638</b>
Capital expenditures	(4,653)	1,769	(3,943)	(4,000)	(4,000)
Change in investments	1,155	(2,179)	(3,301)	(2,000)	(2,000)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(3,498)</b>	<b>(410)</b>	<b>(7,244)</b>	<b>(6,000)</b>	<b>(6,000)</b>
Equities issued/Others	0	6	9	0	0
Debt raised/repaid	(743)	(1,958)	22	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(3,821)	(3,933)	(5,142)	(7,043)	(9,002)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(4,564)</b>	<b>(5,886)</b>	<b>(5,111)</b>	<b>(7,043)</b>	<b>(9,002)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(112)</b>	<b>1,196</b>	<b>(1,276)</b>	<b>4,394</b>	<b>7,636</b>
<b>Closing cash &amp; cash eq.</b>	<b>9,033</b>	<b>10,229</b>	<b>8,953</b>	<b>13,347</b>	<b>20,983</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	60.3	72.6	90.0	114.6	146.5
Adjusted EPS	60.3	71.2	88.9	113.0	144.4
Dividend per share	25.0	26.0	33.5	45.8	58.6
Book value per share	259.4	322.3	402.4	470.2	556.8

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	10.4	8.8	7.2	5.8	4.9
EV/EBITDA	56.9	50.2	42.1	32.9	26.2
Adjusted P/E	94.3	79.8	63.9	50.3	39.4
P/BV	21.9	17.6	14.1	12.1	10.2

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.2	75.6	75.5	74.5	74.5
Interest burden (PBT/EBIT)	99.5	102.3	104.8	104.4	104.5
EBIT margin (EBIT/Revenue)	14.9	14.4	14.6	15.3	16.3
Asset turnover (Rev./Avg TA)	213.6	215.0	212.4	217.7	220.8
Leverage (Avg TA/Avg Equity)	1.1	1.0	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>25.1</b>	<b>24.5</b>	<b>24.6</b>	<b>25.9</b>	<b>28.1</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	46.2	17.6	21.7	24.1	19.3
EBITDA	58.5	13.6	19.1	27.6	25.4
Adjusted EPS	33.6	18.1	24.9	27.1	27.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	18.2	17.6	17.2	17.7	18.6
EBIT margin	14.9	14.4	14.6	15.3	16.3
Adjusted profit margin	11.0	11.6	11.5	11.9	12.7
Adjusted ROAE	25.1	25.6	24.6	25.9	28.1
ROCE	23.7	23.4	23.4	24.8	26.9
<b>Working capital days (days)</b>					
Receivables	69	65	69	68	68
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA
<b>Ratios (x)</b>					
Gross asset turnover	5.1	8.7	9.3	11.2	13.4
Current ratio	1.7	1.8	2.1	2.2	2.3
Net interest coverage ratio	NA	NA	NA	NA	NA
<b>Adjusted debt/equity</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.2)</b>

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



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Trade Name: **www.barodaetrade.com**

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**BUY** – Expected return >+15%

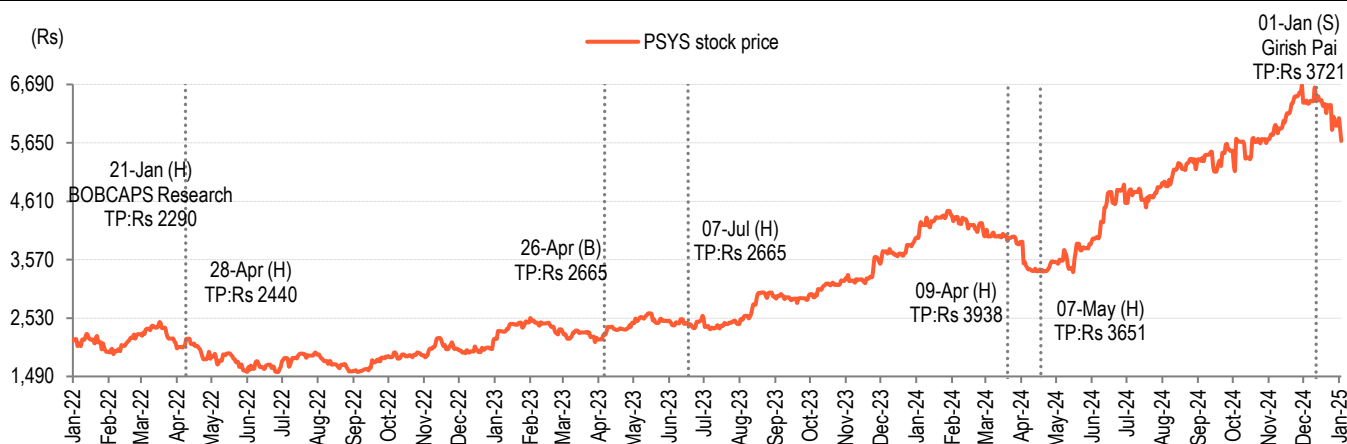
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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