

Broad based growth & AI strategy drive momentum...

About the stock Persistent Systems (Persistent) offers cloud, data, product & design led services to BFSI, healthcare & hi-tech verticals.

Q2FY26 Performance: The revenues at US\$406.2 mn, up 4.2% QoQ/17.6% YoY. In CC terms, revenue was up 4.4% QoQ. EBIT margins came in at 16.3%, was up ~80 bps QoQ/~230 bps YoY. The PAT stood at ₹471 crore, up 11% QoQ/45% YoY.

Investment Rationale

- Resilient growth amid macro headwinds:** Persistent delivered strong Q2 revenues of US\$406mn, up 4.2% QoQ/17.6% YoY, led by BFSI (+7% QoQ), Healthcare (+3.8% QoQ) and Hi-Tech (+2.2% QoQ). Growth was well-spread across North America, Europe, & RoW, while strategic client mining expanded high-value accounts. **Record TCV (US\$609mn- up 17% QoQ/15% YoY) & ACV (US\$448mn- up 16% QoQ/28.6% YoY) reflect robust deal traction & a strong pipeline, supporting sustained revenue momentum in FY27 assuming stable macro conditions. The management retained its US\$2 bn revenue target by FY27, supported by consistent deal momentum. We expect the company's US\$ revenue to grow at a CAGR of 18.1% over FY25-27E.**
- Operational discipline supporting margins:** EBIT margins expanded 80bps QoQ to 16.3%, driven by tailwinds from absence of software license cost for a completed engagement (+80 bps), favourable currency movement (+60 bps), planned offshoring in large customer in healthcare (+30 bps) which were partly offset by headwinds from higher provision for doubtful debts (-50 bps), lower utilisation (-20 bps) & higher depreciation & amortisation (-20 bps). **While wage hikes may cause a ~180 bps hit on margins, Persistent has multiple levers such as utilization, SG&A optimization, subcon cost & ESOP cost reduction to offset ~80–110bps. Management reiterated its target of ~200–300bps margin improvement over FY25–27 (100 bps already materialised), beyond which, focus will shift more toward growth investments & AI-related capabilities. Accordingly, we have baked in EBIT margins of 15.7%/16.7% for FY26E/FY27E.s**
- AI-Led Transformation for long-term differentiation:** Persistent's AI-led transformation through its **Sasva platform (filed 20 new patents)**, enterprise AI readiness offerings, & internal AI deployments is a key differentiator. With 50+ AI agents deployed & partnerships with Anthropic, the company is also embedding AI across delivery, legal, HR, finance, & supply chain. This positions Persistent well to capture next-gen digital transformation opportunities, drive higher client engagement, & create scalable new revenue streams.

Rating and Target Price

- Given its consistent execution & superior margin trajectory, despite industry wide pain, we continue to **maintain BUY rating on the stock, with a revised target price of ₹6,570 (vs. ₹6,050 earlier); at revised multiple of 44x P/E on FY27E EPS vs. 42x earlier.**

Key Financial Summary

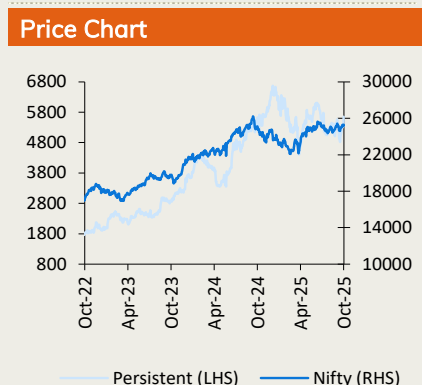
(₹ Crore)	FY23	FY24	FY25	5 Year CAGR (FY20-25)	FY26E	FY27E	2 Year CAGR (FY25-27E)
Net Sales	8,351	9,822	11,939	27.3%	14,530	17,342	20.5%
EBITDA	1,519	1,724	2,058	33.1%	2,678	3,364	27.9%
EBITDA Margins (%)	18.2	17.6	17.2		18.4	19.4	
Net Profit	921	1,093	1,400	32.7%	1,831	2,299	28.1%
EPS (₹)	59.8	71.0	90.9		118.9	149.2	
P/E (x)	92.3	76.8	62.7		48.0	38.2	
RoCE (%)	27.3	28.8	27.6		30.1	31.2	
RoE (%)	23.2	22.1	22.2		23.9	24.5	

Source: Company, ICICI Direct Research



Particulars	
Particular	Amount
Market Cap (₹ Crore)	87,807
Total Debt (₹ Crore)	216
Cash & Invests (₹ Crore)	1,364
EV (₹ Crore)	86,658
52 week H/L	6788/ 4148
Equity capital	77.9
Face value	5.0

Shareholding pattern				
	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	31	31	31	31
FII	23	25	24	24
DII	27	26	27	28
Public	19	18	18	17



- ### Key risks
- Slower conversion of TCV to ACV to revenue
 - Lower than expected ROI from AI investments

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Performance highlights and outlook

- **Revenue Performance:** Persistent reported Q2FY26 results with revenues at US\$406.2 mn, up 4.2% QoQ/17.6% YoY. In CC terms, revenue was up 4.4% QoQ. In rupee terms, the revenue stood at ₹3,580.7 crore, up 7.4% QoQ/23.6% YoY.
- **Margin Performance:** EBIT margins came in at 16.3%, up ~80 bps QoQ/ up ~230 bps YoY %, driven by tailwinds from absence of software license cost for a completed engagement (+80 bps), favourable currency movement (+60 bps), planned offshoring in large customer in healthcare (+30 bps) which were partly offset by headwinds from higher provision for doubtful debts (-50 bps), lower utilisation (-20 bps) & higher depreciation & amortisation (-20 bps). PAT for the quarter stood at ₹471 crore, up 11% QoQ/45% YoY.
- **Segment performance:** Segment wise on a QoQ basis, all segments grew with BFSI (34.8% of the mix), Healthcare & Lifesciences (25.2% of the mix) and Software, hi-tech & Emerging (40% of the mix) reporting a growth of 7%, 3.8% and 2.2%.
- **Geography Performance:** Geography wise on a QoQ basis, ROW (1.7% of the mix), Europe (9.3% of the mix), and North America (79.8% of the mix) grew by 26.6%, 7.7% and 4.2% while India (9.2% of the mix) declined 2.1%.
- **TCV/ACV Performance:** TCV came at US\$609.2 mn (up 17% QoQ/ 15% YoY) with new bookings contributing US\$350.8 mn. Notably, ACV came at US\$447.9 mn (up 16% QoQ/ 28.6% YoY) out of which new ACV contributed US\$254.4 mn (up 20% QoQ / 16.4% YoY).
- **Outlook:** The management retained its US\$2 bn revenue target by FY27, supported by consistent deal momentum. On margins front, management reiterated its target of ~200–300bps margin improvement over FY25–27 (100 bps already materialised), beyond which, focus will shift more toward growth investments & AI-related capabilities.
- **GenAI/AI:** Persistent is pursuing a platform-led AI strategy, with its GenAI platform optimizing the software lifecycle to deliver tangible efficiency gains. **The company has filed 20 new patents related to its SASVA platform, taking the total patent count to 75.** It is also reimagining domain workflows into Agentic AI solutions while embedding AI capabilities across internal operations. **Over 50 “Persistent Assist” agents have been deployed across delivery, legal, HR, finance, and supply chain functions.** Additionally, the company plans to ramp up AI investments and has entered into a **partnership with Anthropic.**
- **Attrition & Employee addition:** Total employee base for the quarter stood at 26,224 employees, an increase of 884 employees sequentially. Attrition for the quarter stood at 13.8%, down ~10 bps QoQ.

Quarter Performance

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
Revenue (USD mn)	406.2	345.5	17.6	389.7	4.2	Revenue grew 4.4% QoQ in CC terms
Revenue	3,580.7	2,897.2	23.6	3,333.6	7.4	
Employee expenses	2,292.4	1,929.4	18.8	2,157.6	6.2	
Gross Margin	1,288.3	967.8	33.1	1,176.0	9.6	
Gross margin (%)	36.0	33.4	258 bps	35.3	70 bps	
Other expenses	604.6	487.0	24.1	564.4	7.1	
EBITDA	683.8	480.7	42.2	611.6	11.8	
EBITDA Margin (%)	19.1	16.6	250 bps	18.3	75 bps	
Depreciation & amortisation	100.1	74.5	34.3	93.8	6.7	
EBIT	583.7	406.2	43.7	517.8	12.7	
EBIT Margin (%)	16.3	14.0	228 bps	15.5	77 bps	EBIT margins expanded 80bps QoQ to 16.3%, driven by tailwinds from absence of software license cost for a completed engagement (+80 bps), favorable currency movement (+60 bps), planned offshoring in large customer in healthcare (+30 bps) which were partly offset by headwinds from higher provision for doubtful debts (-50 bps), lower utilisation (-20 bps) & higher depreciation & amortisation (-20 bps).
Other income	33.1	28.3	17.0	37.6	-12.0	
PBT	616.8	434.5	42.0	555.4	11.1	
Tax paid	145.4	109.5	32.7	130.5	11.4	
PAT	471.5	325.0	45.1	424.9	11.0	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total Revenues	9,822	11,939	14,530	17,342
Growth (%)	17.6	21.6	21.7	19.4
Employee & Subcon costs	6,523	7,874	9,400	11,203
Total Operating Expenditure	8,097	9,881	11,852	13,978
EBITDA	1,724	2,058	2,678	3,364
Growth (%)	13.5	19.4	30.1	25.7
Depreciation & Amortization	309	307	399	468
Other Income	81	71	116	119
Interest	-	-	-	-
PBT before Excp Items	1,496	1,822	2,394	3,015
Growth (%)	17.8	21.8	31.4	25.9
Tax	354	422	563	716
PAT before Excp Items	1,142	1,400	1,831	2,299
Exceptional items	49	-	-	-
PAT before MI	1,093	1,400	1,831	2,299
Minority Int & Pft. frm asso	-	-	-	-
PAT	1,093	1,400	1,831	2,299
Growth (%)	18.7	28.0	30.8	25.5
Diluted EPS	71	91	119	149
EPS (Growth %)	18.7	28.0	30.8	25.5

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Liabilities				
Equity	77	78	78	78
Reserves & Surplus	4,881	6,241	7,594	9,293
Networth	4,958	6,319	7,672	9,371
Minority Interest	-	-	-	-
Long term Liabilities & provisi	232	285	286	288
Source of funds	5,189	6,604	7,958	9,659
Assets				
Net fixed assets	706	819	1,223	1,691
Net intangible assets	457	566	925	1,375
Goodwill	1,091	1,234	1,234	1,234
Other non current assets	442	451	451	451
Investments	554	642	642	642
Debtors	1,676	1,848	2,189	2,613
Current Investments	273	339	339	339
Cash & Cash equivalents	1,023	1,025	1,374	2,145
Other current assets	1,152	1,814	1,814	1,814
Trade payables	814	889	916	1,093
Current liabilities	1,370	1,244	1,316	1,552
Application of funds	5,189	6,604	7,958	9,659

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
PBT	1,448	1,822	2,394	3,015
Depreciation & Amortization	309	307	399	468
WC changes	(205)	(623)	(242)	(9)
Other non cash adju.	11	162	(116)	(119)
CF from operations	1,221	1,157	1,873	2,639
Capital expenditure	(486)	(242)	(1,162)	(1,387)
Δ in investments	(43)	(249)	-	-
Other investing cash flow	60	57	116	119
CF from investing Activities	(469)	(434)	(1,047)	(1,268)
Issue of equity	161	185	-	-
Δ in debt funds	(223)	(206)	-	-
Dividends paid	(408)	(460)	(478)	(600)
Other financing cash flow	(123)	(147)	-	-
CF from Financial Activities	(594)	(628)	(478)	(600)
Δ in cash and cash bank bala	158	94	349	771
Effect of exchange rate chang	37	(88)	-	-
Opening cash	903	1,023	1,025	1,374
Cash c/f to balance sheet	1,023	1,025	1,374	2,145

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
Diluted EPS	71.0	90.9	118.9	149.2
Cash Per Share	66.4	66.6	89.2	139.2
BV	322.0	410.2	498.0	608.3
DPS	26.0	26.8	25.5	32.0
Operating Ratios (%)				
EBITDA Margin	17.6	17.2	18.4	19.4
PBT Margin	15.2	15.3	16.5	17.4
PAT Margin	11.1	11.7	12.6	13.3
Turnover Ratios				
Debtor days	62	56	55	55
Creditor days	30	27	23	23
Return Ratios (%)				
RoE	22.1	22.2	23.9	24.5
RoCE	28.8	27.6	30.1	31.2
RoIC	36.3	33.4	36.5	40.4
Valuation Ratios (x)				
P/E	76.8	62.7	48.0	38.2
EV / EBITDA	50.3	42.1	32.2	25.4
Market Cap / Sales	8.9	7.4	6.0	5.1
Solvency Ratios				
Current Ratio	1.3	1.7	1.8	1.7
Quick Ratio	1.3	1.7	1.8	1.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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