

Steady Q1; Robust TCV to drive growth...

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

Q1FY26 Performance: The revenues at US\$389.7 mn, was up 3.3% QoQ/ 19% YoY in CC terms. EBIT margins came in at 15.5%, down ~10 bps QoQ/ up ~150 bps YoY. PAT for the quarter stood at ₹425 crore, up 7.4% QoQ/38.7% YoY.

Investment Rationale

- Resilient growth amid macro headwinds; BFSI & Hi-Tech in focus:** Persistent delivered steady revenue growth in Q1, albeit tad lower than expectations. The growth was led by BFSI (+9% QoQ) and Hi-Tech (+3.6% QoQ), while Healthcare declined (-1.9% QoQ) due to client-specific offshore transitions. Management reaffirmed that BFSI will remain primary growth driver, followed by hi-tech & healthcare, with all 3 verticals projected to deliver positive contributions in FY26. **The management retained its US\$2 bn revenue target by FY27, implying a robust ~19% CAGR. Moreover, a healthy TCV of US\$520.8 mn (+12.5% YoY) and ACV of US\$385.3 mn (+14.2% YoY) provide strong near-term revenue visibility.** The broad-based growth and strong deal momentum reinforce confidence in its long-term execution capabilities. **We expect the company's US\$ revenue to grow at a CAGR of 18.3% over FY25-27E.**
- Stable margins show:** EBIT margin was stable at 15.5% (-10 bps QoQ), despite headwinds from offshoring of a client with retention of resources to de-risk transition & delayed ramp-ups (-100 bps), higher amortization (-40 bps), & currency impact (-40 bps) offset by lower ESOP cost (+230 bps). **Annual wage hikes were deferred by a quarter given the macro uncertainty. The company reiterated its ambition to improve margins by ~200-300 bps by FY27, driven by pricing, operational efficiencies, and scale.** Combined with efficient cost management and strategic hiring, Persistent is well-placed for sustainable, profitable growth. **Accordingly, we have baked in EBIT margins of 15.4%/ 16.3% for FY26E/FY27E.**
- Strategic AI-led differentiation via SASVA platform:** Continued investments in AI innovation and enterprise readiness has positioned Persistent to gain wallet share and stand out in a competitive digital transformation landscape. The pivot to an AI-first, platform-driven model is a key structural driver. Launch of **SASVA 3.0—a GenAI-based engineering platform, has strengthened its “AI for Tech” and “AI for Business” pillars.** With 55+ patents, SASVA is helping secure wins, especially in BFSI & regulated verticals.

Rating and Target Price

- Given its consistent execution & visibility-led growth outlook, we continue to **maintain BUY rating on the stock, with a revised target price of ₹6,050 (vs. ₹6,470 earlier); at multiple of 42x P/E on FY27E EPS**

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%	14,284	17,150	19.9%
EBITDA	1,519	1,724	2,058	33.1%	2,583	3,258	25.8%
EBITDA Margins (%)	18.2	17.6	17.2		18.1	19.0	
Net Profit	921	1,093	1,400	32.7%	1,753	2,212	25.7%
EPS (₹)	59.8	71.0	90.9		113.8	143.6	
P/E (x)	82.3	68.5	55.9		44.6	35.4	
RoCE (%)	27.3	28.8	27.6		29.0	30.5	
RoE (%)	23.2	22.1	22.2		23.0	23.9	

Source: Company, ICICI Direct Research



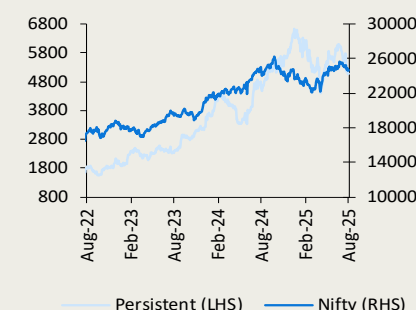
Particulars

Particular	Amount
Market Cap (₹ Crore)	78,256
Total Debt (₹ Crore)	216
Cash & Invests (₹ Crore)	1,364
EV (₹ Crore)	77,107
52 week H/L	6789/ 4149
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

Price Chart



Key risks

- Slower conversion of TCV to ACV to revenue
- Prolonged weakness in healthcare vertical

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Performance highlights and outlook

- **Revenue Performance** Persistent Systems reported Q1FY26 results with revenues at US\$389.7 mn, up 3.9% QoQ/18.7% YoY. In CC terms, revenue was up 3.3% QoQ/ 19% YoY. In rupee terms, the revenue stood at ₹3,334 crore, up 2.8% QoQ/21.8% YoY.
- **Margin Performance:** EBIT margins came in at 15.5%, down ~10 bps QoQ/ up ~150 bps YoY. The QoQ decline was on account of headwinds from absence of earnout reversal (-60 bps), transition costs w.r.t. onshore to offshore shifting with resource retention to de-risk transition & delayed ramp up in some projects (-100 bps), higher amortisation cost (-40 bps) and unfavorable currency movement (-40 bps) which were partially offset by lower ESOP cost (+230 bps). PAT for the quarter stood at ₹425 crore, up 7.4% QoQ/38.7% YoY.
- **Wage hike: Annual wage hikes were deferred by a quarter given the macro uncertainty.**
- **Segment performance:** Segment wise, BFSI (33.9% of the mix) and Software, hi-tech & Emerging (40.8% of the mix) grew by 9% and 3.6% while Healthcare (25.3% of the mix) de-grew by 1.9%.
 - **Healthcare:** Revenue declined in healthcare due to planned migration of key engagements from onsite to offshore delivery model, which, while initially disruptive, is expected to boost margins and improve cost efficiency over time. That said, the broader healthcare vertical faces external pressures such as tariff-driven supply chain issues—particularly in equipment manufacturing linked to China, and cuts in federal and research funding. **These headwinds are pushing clients to tighten budgets, focus on cost-saving, and consolidate vendors, indicating that while growth in this segment will continue, it may be more gradual.**
- **Geography Performance:** Geography wise Europe (9% of the mix), India (9.8% of the mix) and North America (79.8% of the mix) grew by 11.3%, 9.4% and 3% while ROW (1.4% of the mix) declined 19.2% QoQ.
- **TCV/ACV Performance:** TCV came at US\$520.8 mn (up 0.6% QoQ/12.5% YoY) with new bookings contributing US\$337 mn (up 2.4% QoQ/8.4% YoY). Notably, ACV came at US\$385.3 mn (up 10% QoQ/14.2% YoY) out of which new ACV contributed US\$211.8 mn (up 6.9% both QoQ and YoY).
- **Outlook: Management has reiterated its goal of reaching US\$2 billion in revenue by FY27, implying a robust ~19% CAGR over FY25-27. They also project a ~200–300 bps margin improvement during this period. The company emphasized a disciplined approach to growth which is profitable, sustainable, and margin-accretive, with no plans to fast-track at the cost of profitability.**
- **GenAI/AI:** Persistent is transitioning to an AI-first, platform-centric approach anchored around two key themes—**AI for Technology (aimed at enhancing engineering efficiency & modernizing tech infrastructure) and AI for Business (focused on enabling enterprise-wide AI adoption, including agentic AI).** This strategic realignment is a major structural tailwind.
 - The rollout of **SASVA 3.0**, a GenAI-powered engineering platform, reinforces both pillars. With a **growing patent portfolio (now over 55, up from 35 last quarter)**, SASVA is playing a critical role in winning new deals—particularly in BFSI and other regulated sectors—by highlighting Persistent's depth of capabilities beyond scale.
- **M&A:** While the company will continue to prioritize organic growth, it remains open to targeted, capability-led acquisitions that strengthen its service portfolio. **A larger scale acquisition could be considered in Europe, aligning with its ambition to raise the region's revenue contribution to 15% over the next few years.**

- **Attrition & Employee addition:** Total employee base for the quarter stood at 25,340 employees, an increase of 746 employees sequentially. Attrition for the quarter stood at 13.9%, up ~100 bps QoQ.
- **Dividend:** The company declared a final dividend of ₹15 per share.

Quarter Performance

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
Revenue (USD mn)	389.7	328.2	18.7	375.2	3.9	Revenue grew 3.3% QoQ and 19% YoY in CC terms
Revenue	3,333.6	2,737.2	21.8	3,242.1	2.8	
Employee expenses	2,157.6	1,832.9	17.7	2,111.7	2.2	
Gross Margin	1,176.0	904.3	30.0	1,130.4	4.0	
Gross margin (%)	35.3	33.0	224 bps	34.9	41 bps	
Other expenses	564.4	449.1	25.7	546.0	3.4	
EBITDA	611.6	455.2	34.4	584.4	4.7	
EBITDA Margin (%)	18.3	16.6	172 bps	18.0	32 bps	
Depreciation & amortisation	93.8	71.2	31.7	79.1	18.6	
EBIT	517.8	384.0	34.8	505.3	2.5	
EBIT Margin (%)	15.5	14.0	150 bps	15.6	-5 bps	Margins decline of 10 bps QoQ was on account of headwinds from absence of earnout reversal (-60 bps), transition costs w.r.t. onshore to offshore shifting with resource retention & delayed ramp up in some projects (-100 bps), higher amortisation cost (-40 bps) and unfavorable currency movement (-40bps) which were partially offset by lower ESOP cost (+230 bps).
Other income	37.6	16.5	127.6	-0.1	-47,100.0	
PBT	555.4	400.5	38.7	505.2	9.9	
Tax paid	130.5	94.1	38.6	109.4	19.2	
PAT	424.9	306.4	38.7	395.8	7.4	

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	14,284	17,150
Growth (%)	17.6	21.6	19.6	20.1
Employee & Subcon costs	6,523	7,874	9,276	11,147
Total Operating Expenditure	8,097	9,881	11,702	13,891
EBITDA	1,724	2,058	2,583	3,258
Growth (%)	13.5	19.4	25.5	26.2
Depreciation & Amortization	309	307	389	463
Other Income	81	71	98	115
Interest	-	-	-	-
PBT before Excp Items	1,496	1,822	2,291	2,911
Growth (%)	17.8	21.8	25.7	27.0
Tax	354	422	538	699
PAT before Excp Items	1,142	1,400	1,753	2,212
Exceptional items	49	-	-	-
PAT before MI	1,093	1,400	1,753	2,212
Minority Int & Pft. frm asso	-	-	-	-
PAT	1,093	1,400	1,753	2,212
Growth (%)	18.7	28.0	25.2	26.2
Diluted EPS	71	91	114	144
EPS (Growth %)	18.7	28.0	25.2	26.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore				
(Year-end March)	FY24	FY25	FY26E	FY27E
PBT	1,448	1,822	2,291	2,911
Depreciation & Amortization	309	307	389	463
WC changes	(205)	(623)	(241)	(9)
Other non cash adju.	11	162	(98)	(115)
CF from operations	1,221	1,157	1,804	2,551
Capital expenditure	(486)	(242)	(1,143)	(1,372)
Δ in investments	(43)	(249)	-	-
Other investing cash flow	60	57	98	115
CF from investing Activities	(469)	(434)	(1,045)	(1,257)
Issue of equity	161	185	-	-
Δ in debt funds	(223)	(206)	-	-
Dividends paid	(408)	(460)	(457)	(577)
Other financing cash flow	(123)	(147)	-	-
CF from Financial Activities	(594)	(628)	(457)	(577)
Δ in cash and cash bank bala	158	94	301	717
Effect of exchange rate chang	37	(88)	-	-
Opening cash	903	1,023	1,025	1,327
Cash c/f to balance sheet	1,023	1,025	1,327	2,043

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	7,536	9,171
Networth	4,958	6,319	7,614	9,249
Minority Interest	-	-	-	-
Long term Liabilities & provisi	232	285	286	288
Source of funds	5,189	6,604	7,900	9,537
Assets				
Net fixed assets	706	819	1,210	1,673
Net intangible assets	457	566	928	1,374
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	2,152	2,584
Current Investments	273	339	339	339
Cash & Cash equivalents	1,023	1,025	1,327	2,043
Other current assets	1,152	1,814	1,814	1,814
Trade payables	814	889	900	1,081
Current liabilities	1,370	1,244	1,295	1,536
Application of funds	5,189	6,604	7,900	9,537

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	113.8	143.6
Cash Per Share	66.4	66.6	86.1	132.7
BV	322.0	410.2	494.3	600.4
DPS	26.0	26.8	24.4	30.7
Operating Ratios (%)				
EBITDA Margin	17.6	17.2	18.1	19.0
PBT Margin	15.2	15.3	16.0	17.0
PAT Margin	11.1	11.7	12.3	12.9
Turnover Ratios				
Debtor days	62	56	55	55
Creditor days	30	27	23	23
Return Ratios (%)				
RoE	22.1	22.2	23.0	23.9
RoCE	28.8	27.6	29.0	30.5
RoIC	36.3	33.4	35.2	39.1
Valuation Ratios (x)				
P/E	68.5	55.9	44.6	35.4
EV / EBITDA	44.7	37.5	29.7	23.4
Market Cap / Sales	8.0	6.6	5.5	4.6
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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