

Healthy growth trajectory to continue!

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

Q3FY26 Performance: The revenues at US\$422.5 mn, up 4% QoQ/17.3% YoY. In CC terms, revenue was up 4.1% QoQ. Adjusted EBIT margins stood at 16.7% (excluding a one-time impact of ~2.3% from new labour code), up ~40 bps QoQ/~180 bps YoY. Adjusted PAT (ex-one-off from new labour code) stood at ₹528 crore, up 12% QoQ/ 42% YoY.

Investment Rationale

- **Consistent growth engine with strong deal visibility:** Persistent continues to demonstrate a structurally strong growth profile (+4.1% QoQ CC) and robust booking momentum. Rising TCV (US\$674.5 mn - up 11% QoQ/13.5% YoY) and ACV (US\$501.9 mn - up 12% QoQ/17% YoY) reflects improving revenue visibility, driven by deeper participation in large, strategic client programs. Demand remains healthy across verticals, supported by application and data modernization themes in BFSI and healthcare. **The management noted that it remains firmly on track toward its US\$2 bn revenue aspiration by FY27, supported by rising demand for data, cloud and AI-led digital engineering. We expect the company's US\$ revenue to grow at a CAGR of 17.6% over FY26-28E.**
- **AI-led engagement model improves quality of earnings:** Reported EBIT margins at 14.4%, was down ~190 bps QoQ/~50 bps YoY while adjusted EBIT margins stood at 16.7% (excluding a one-time impact of ~2.3% arising from the New Labour Codes), up ~40 bps QoQ/~180 bps YoY. Notably, increasing shift toward AI-led, tool-plus-people engagement models is enhancing scalability, pricing constructs and deal quality. These engagements are moving beyond pilots into scaled, multi-year programs, strengthening client stickiness and improving margins over time. While near-term margins faced new labour code one-off and wage-related headwinds, the underlying business mix supports steady margin normalization. **Accordingly, we have baked in EBIT margins of 15.6%/16.5%/16.7% for FY26E/FY27E/FY28E.**
- **AI-led offerings strengthen competitive positioning:** Persistent's rapid integration of AI across its service offerings is enhancing differentiation and deal relevance. Through its own tech platforms such as SASVA and iAura it is embedding AI, data and automation into core client programs, enabling measurable productivity gains & faster outcomes. Its use of AI internally as a "customer zero" further accelerates adoption and improves delivery efficiency. Moreover, it's positioning in application modernization, cloud, data and AI aligns well with client priorities, supporting sustained wallet-share gains.

Rating and Target Price

- Given the strong execution, profitability and growth visibility, we continue to **maintain BUY rating on the stock, with a revised target price of ₹7,200 (vs. ₹6,570 earlier); at 41x P/E on FY28E EPS (vs. 44x P/E on FY27E EPS earlier).**

Key Financial Summary

(₹ Crore)	FY23	FY24	FY25	5 Year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-28E)
Net Sales	8,351	9,822	11,939	27.3%	14,629	17,549	20,628	20.0%
EBITDA	1,519	1,724	2,058	33.1%	2,685	3,387	4,012	24.9%
EBITDA Margins (%)	18.2	17.6	17.2		18.4	19.3	19.5	
Net Profit	921	1,093	1,400	32.7%	1,837	2,297	2,728	24.9%
EPS (₹)	59.1	70.2	89.8		117.9	147.4	175.0	
P/E (x)	100.2	83.4	68.0		51.9	41.5	34.9	
RoCE (%)	27.3	28.8	27.6		30.1	31.3	30.7	
RoE (%)	23.2	22.1	22.2		24.0	24.6	24.0	

Source: Company, ICICI Direct Research



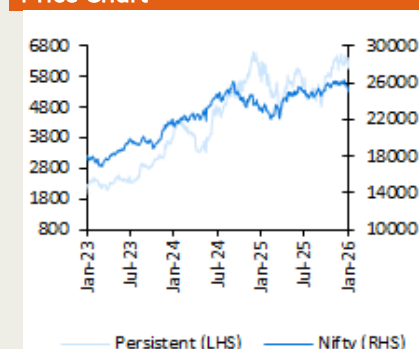
Particulars

Particular	Amount
Market Cap (₹ Crore)	94,757
Total Debt (₹ Crore)	216
Cash & Invests (₹ Crore)	1,364
EV (₹ Crore)	93,608
52 week H/L	6599/ 4148
Equity capital	77.9
Face value	5.0

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	31	31	31	30
FII	24	24	21	23
DII	27	28	31	30
Public	18	17	18	17

Price Chart



Key risks

- Slower conversion of TCV to ACV to revenue
- Lower than expected margin growth trajectory

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Performance highlights and outlook

- **Revenue Performance:** Persistent reported Q3FY26 results with revenues at US\$422.5 mn, up 4% QoQ/17.3% YoY. In CC terms, revenue was up 4.1% QoQ. In rupee terms, the revenue stood at ₹3,778.2 crore, up 5.5% QoQ/3.4% YoY.
- **Margin Performance:** Reported EBIT margins at 14.4%, was down ~190 bps QoQ/~50 bps YoY while adjusted EBIT margins stood at 16.7% (excluding a one-time impact of ~2.3% arising from the New Labour Codes), up ~40 bps QoQ/ ~180 bps YoY. The PAT stood at ₹439 crore, down 7% QoQ/ up 18% YoY while adjusted PAT (ex-one-off from new labour code) stood at ₹528 crore, up 12% QoQ/ 42% YoY.
- **Reported EBIT margin walkthrough:** Management highlighted improving engagement quality through AI-driven, tool-plus-people pricing models, which contributed ~150 bps to margins as recent wins scaled up. Margin tailwinds included ~30 bps from currency, ~20 bps from lower subcontracting and ~40 bps from utilization and SG&A optimization which indicate underlying operational health, which were offset by headwinds of ~180 bps from wage hikes, ~230 bps from one-time labour code provisioning and ~20 bps from furloughs resulting in reported QoQ 190 bps decline in EBIT margin.
- **Segment performance:** Segment wise on a QoQ basis all segments grew with Healthcare & Lifesciences (25.4% of the mix), BFSI (35% of the mix) and Software, hi-tech & Emerging (39.6% of the mix) reporting a growth of 4.8%, 4.6% and 3%.
- **Geography Performance:** Geography wise on a QoQ basis ROW (2.2% of the mix), and North America (81.5% of the mix) grew by 34.6% and 6.2% while India (7.8% of the mix) and Europe (8.5% of the mix) de-grew by 11.8% and 4.9%.
- **TCV/ACV Performance:** TCV came at US\$674.5 mn (up 11% QoQ/13.5% YoY) with new bookings contributing US\$369.1 mn. Notably, ACV came at US\$501.9 mn (up 12% QoQ/17% YoY) out of which new ACV contributed US\$255.8 mn (up 0.6% QoQ / 31% YoY).
- **Outlook: The management remains firmly on track toward its US\$2 bn revenue aspiration by FY27, supported by rising demand for data, cloud and AI-led digital engineering.**
- **GenAI/AI:** Persistent is witnessing robust momentum in AI-driven application modernisation and workflow productivity improvement. Its IP base continues to deepen, with the **SASVA AI platform now filing 105 patents, including 30 in Q3, and publishing over 20 research papers.** The company also introduced its first open-source ML solution on Apple, delivering LMS-like virtual performance with materially lower cost and latency for agent-based inference. It is further **strengthening strategic partnerships with hyperscalers and data platforms such as Google, Microsoft, Databricks and Snowflake, while simultaneously deploying AI internally through Persistent Assist.** Management indicates that AI coding tools deliver 20–25% productivity gains, while the SASVA platform automates the end-to-end software development lifecycle and integrates seamlessly with third-party coding tools to further enhance efficiency.
- **Attrition & Employee addition:** Total employee base for the quarter stood at 26,711 employees, an increase of 487 employees sequentially. Attrition for the quarter stood at 13.5%, down ~30 bps QoQ.
- **Dividend:** The company declared an interim dividend of ₹22 per share.

Exhibit 1: Quarter Performance

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Revenue (USD mn)	422.5	360.2	17.3	406.2	4.0	Revenue grew 4.1% QoQ in CC terms
Revenue	3,778.2	3,062.3	23.4	3,580.7	5.5	
Employee expenses	2,501.8	2,000.0	25.1	2,292.4	9.1	
Gross Margin	1,276.4	1,062.2	20.2	1,288.3	-0.9	
Gross margin (%)	33.8	34.7	-90 bps	36.0	-220 bps	
Other expenses	633.1	524.4	20.7	604.6	4.7	
EBITDA	643.3	537.8	19.6	683.8	-5.9	
EBITDA Margin (%)	17.0	17.6	-54 bps	19.1	-207 bps	
Depreciation & amortisation	100.6	82.1	22.5	100.1	0.5	
EBIT	542.7	455.7	19.1	583.7	-7.0	
EBIT Margin (%)	14.4	14.9	-52 bps	16.3	-194 bps	<p>- Management highlighted improving engagement quality through AI-driven, tool-plus-people pricing models, which contributed ~150 bps to margins as recent wins scaled up. Margin tailwinds included ~30 bps from currency, ~20 bps from lower subcontracting and ~40 bps from utilization and SG&A optimization which indicate underlying operational health, which were offset by headwinds of ~180 bps from wage hikes, ~230 bps from one-time labour code provisioning and ~20 bps from furloughs resulting in reported QoQ 190 bps decline in EBIT margin.</p> <p>- Adjusted EBIT margins stood at 16.7% (excluding a one-time impact of ~2.3% arising from the New Labour Codes), up ~40 bps QoQ/ ~180 bps YoY.</p>
Other income	22.2	26.3	-15.5	33.1	-32.8	
PBT	565.0	482.0	17.2	616.8	-8.4	
Tax paid	125.5	109.1	15.1	145.4	-13.6	
PAT	439.4	373.0	17.8	471.5	-6.8	Adjusted PAT (ex-one-off from new labour code) stood at ₹528 crore, up 12% QoQ/ 42% YoY.

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY26E			FY27E			FY28E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue (USD mn)	1,660	1,659	-0.1	1,966	1,961	-0.3	2,292
Revenue	14530	14629	0.7	17342	17549	1.2	20628
EBIT	2278	2277	-0.1	2896	2896	0.0	3441
EBIT Margin (%)	15.7	15.6	-12 bps	16.7	16.5	-20 bps	16.7
PAT	1831	1837	0.3	2299	2297	-0.1	2728
Diluted EPS (₹)	118.9	117.9	-0.8	149.2	147.4	-1.2	175.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Total Revenues	11,939	14,629	17,549	20,628
Growth (%)	21.6	22.5	20.0	17.5
Employee & Subcon costs	7,874	9,479	11,302	13,285
Total Operating Expenditure	9,881	11,944	14,162	16,616
EBITDA	2,058	2,685	3,387	4,012
Growth (%)	19.4	30.5	26.1	18.5
Depreciation & Amortization	307	409	491	571
Other Income	71	115	117	137
Interest	-	-	-	-
PBT before Excp Items	1,822	2,392	3,012	3,578
Growth (%)	21.8	31.3	25.9	18.8
Tax	422	555	716	850
PAT before Excp Items	1,400	1,837	2,297	2,728
Exceptional items	-	-	-	-
PAT before MI	1,400	1,837	2,297	2,728
Minority Int & Pft. frm asso	-	-	-	-
PAT	1,400	1,837	2,297	2,728
Growth (%)	28.0	31.2	25.0	18.8
Diluted EPS	90	118	147	175
EPS (Growth %)	28.0	31.2	25.0	18.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore				
(Year-end March)	FY25	FY26E	FY27E	FY28E
PBT	1,822	2,392	3,012	3,578
Depreciation & Amortization	307	409	491	571
WC changes	(623)	(242)	(9)	(10)
Other non cash adju.	162	(115)	(117)	(137)
CF from operations	1,157	1,888	2,662	3,153
Capital expenditure	(242)	(1,170)	(1,404)	(1,650)
Δ in investments	(249)	-	-	-
Other investing cash flow	57	115	117	137
CF from investing Activities	(434)	(1,055)	(1,287)	(1,513)
Issue of equity	185	-	-	-
Δ in debt funds	(206)	-	-	-
Dividends paid	(460)	(503)	(599)	(712)
Other financing cash flow	(147)	-	-	-
CF from Financial Activities	(628)	(503)	(599)	(712)
Δ in cash and cash bank bala	94	331	776	927
Effect of exchange rate chang	(88)	-	-	-
Opening cash	1,023	1,025	1,356	2,132
Cash c/f to balance sheet	1,025	1,356	2,132	3,059

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Liabilities				
Equity	78	78	78	78
Reserves & Surplus	6,241	7,575	9,273	11,288
Networth	6,319	7,653	9,351	11,366
Minority Interest	-	-	-	-
Long term Liabilities & provisi	285	286	288	290
Source of funds	6,604	7,940	9,638	11,656
Assets				
Net fixed assets	819	1,235	1,709	2,272
Net intangible assets	566	911	1,350	1,866
Goodwill	1,234	1,234	1,234	1,234
Other non current assets	451	451	451	451
Investments	642	642	642	642
Debtors	1,848	2,204	2,644	3,108
Current Investments	339	339	339	339
Cash & Cash equivalents	1,025	1,356	2,132	3,059
Other current assets	1,814	1,814	1,814	1,814
Trade payables	889	922	1,106	1,300
Current liabilities	1,244	1,324	1,569	1,828
Application of funds	6,604	7,940	9,638	11,656

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
Diluted EPS	89.8	117.9	147.4	175.0
Cash Per Share	65.8	87.0	136.8	196.3
BV	405.5	491.1	600.0	729.3
DPS	26.8	26.8	31.9	37.9
Operating Ratios (%)				
EBITDA Margin	17.2	18.4	19.3	19.5
PBT Margin	15.3	16.4	17.2	17.3
PAT Margin	11.7	12.6	13.1	13.2
Turnover Ratios				
Debtor days	56	55	55	55
Creditor days	27	23	23	23
Return Ratios (%)				
RoE	22.2	24.0	24.6	24.0
RoCE	27.6	30.1	31.3	30.7
RoIC	33.4	36.5	40.4	41.7
Valuation Ratios (x)				
P/E	67.7	51.6	41.3	34.7
EV / EBITDA	45.5	34.7	27.3	22.8
Market Cap / Sales	7.9	6.5	5.4	4.6
Solvency Ratios				
Current Ratio	1.7	1.8	1.7	1.6
Quick Ratio	1.7	1.8	1.7	1.6

Source: Company, ICICI Direct Research

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