Mix-bag Performance; Superior Execution

Est. Vs. Actual for Q2FY26: Revenue – INLINE; EBIT Margin – BEAT; PAT – INLINE

Change in Estimates YoY post Q2FY26:

FY26E/FY27E: Revenue: 2%/4%; EBIT: 2%/10%, PAT: 4%/14%

Recommendation Rationale

- **Growth Outlook**: The broader economic environment continues to remain challenging, with clients keeping tight control over discretionary budgets. The management remains optimistic about the continuation of the company's growth momentum and niche business verticals.
- **Deal Wins/Pipeline:** The Total Contract Value (TCV) stood at $609 Mn and $448 Mn in Annual Contract Value (ACV) as of Sep'25. The company is confident in its pipeline of larger deals with a healthy executable order book.
- **AI Strategy:** Persistent Systems has restructured its AI strategy around four key pillars, i.e AI for Technology, AI for business and Enterprise Data Readiness for AI.

Sector Outlook: Cautiously optimistic

Company Outlook & Guidance: The management remains confident in achieving its $2 Bn revenue target by FY27, supported by a combination of organic growth, core operational efficiencies, and an active acquisition strategy. For its longer-term aspiration of reaching $5 Bn revenue by FY31, the company plans to strategically expand into the manufacturing and retail verticals, thereby diversifying its growth engines and broadening its addressable market. Furthermore, the management is focusing on new areas within Healthcare services and BFSI, with an aim to deepen its presence across multiple sub-segments within these verticals.

Current Valuation: 44x FY27E P/E (Earlier Valuation: 51x FY27E P/E)

Current TP: Rs 6,160/share (Earlier TP: Rs 6,240/share)

Recommendation: We maintain our BUY rating on the stock.

Financial Performance

In Q2FY26, Persistent Systems reported revenue of Rs 3,581 Cr vs Rs 3,334 Cr in Q2FY25, registering a growth of 23.6% YoY and 7.4% QoQ. In CC terms, revenue grew by 4.4% QoQ to $406 Mn. EBIT stood at Rs 583 Cr vs Rs 406 Cr in Q2FY25, up 43.5% YoY and 12.6% QoQ, driven by strong topline growth. Net income came in at Rs 471 Cr vs Rs 325 Cr in Q2FY25, reflecting a growth of 45.1% YoY and 11% QoQ. However, attrition rose by 180 bps YoY to 13.8% from 12.0% in Q2FY25. The company reported a Total Contract Value (TCV) of $609 Mn, with $448 Mn in Annual Contract Value (ACV) as of Sep'25.

Key Financials (Consolidated)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	3,581	7.4	23.6	3,534	1.3
EBIT	583	12.6	43.5	556	4.9
EBIT Margin	16.3	75bps	226bps	15.7	56bps
Net Profit	471	11.0	45.1	462	2.1
EPS (Rs)	30.7	13.0	45.1	30.1	2.1

Source: Company, Axis Research

(CMP as of 14th October, 2025)

CMP (Rs)	5,356
Upside /Downside (%)	15%
High/Low (Rs)	6,789/4,149
Market cap (Cr)	83,471
Avg. daily vol. (6m) Shrs.	5,38,000
No. of shares (Cr)	16

Shareholding (%)

	Mar-25	Jun-25	Sep-25
Promoter	30.7	30.7	30.6
FIIs	24.4	24.2	21.2
MFs/UTI	21.7	22.3	23.7
Banks/FIs	0.0	0.0	0.0
Others	23.2	22.9	24.5

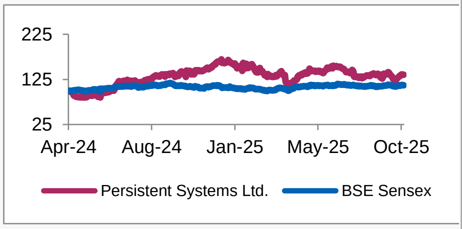
Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	11,939	14,543	17,671
EBIT	1,751	2,119	2,644
Net Profit	1,400	1,736	2,185
EPS (Rs)	89.8	111.4	140.2
PER (x)	59.5	48.0	38.2
P/BV (x)	13.2	11.1	9.1
EV/EBITDA (x)	40.3	32.7	26.0
ROE (%)	24.8	25.1	26.2

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	2%	4%
EBIT	2%	10%
PAT	4%	14%

Relative Performance



Source: AceEquity, Axis Securities

Results Gallery
Q1FY26

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Outlook

From a long-term perspective, we believe Persistent is well-placed for encouraging growth, given its multiple long-term contracts with the world's leading brands. Its improved revenue visibility gives us confidence in its business growth moving forward.

Valuation & Recommendation

From FY22–25, the company's Revenue/EBIT/PAT grew at a CAGR of 28%/30%/27%, respectively. The distinctive value proposition and ability to conclude important strategic deals amid an uncertain environment provide confidence in its execution capabilities. Therefore, **we maintain a BUY rating on the stock** and assign a 44x P/E multiple to its FY27E earnings to arrive at a TP of Rs 6,160/share, implying an upside of 15% from the CMP.

Key highlights

- **Robust Growth Across Segments and Geographies:** The TCV stood at $609 Mn, with new bookings at $351 Mn. ACV stood at $448 Mn, with new bookings contributing $254 Mn. On the segment front, growth was led by BFSI of 30% YoY, Software, Hi-Tech, and Emerging Industries of 15.5% YoY, and Healthcare Life Sciences of 6.6% YoY. The geographical performance contributed to growth across North America/Europe/India/ROW, which grew by 15.4%/37.9%/19%/19.8%, respectively.
- **Margin Expansion Driven by Cost Tailwinds:** EBIT margins improved to 16.3% during the quarter, supported by tailwinds from the elimination of software license costs related to a large multi-year customer engagement, which ended in Q2FY26 and will no longer impact margins in subsequent quarters. This contributed to the margin expansion by 80bps, further supported by favourable currency movements (60bps) and 30bps from planned offshoring.
- **Headcount Grows, Attrition Eases:** Total headcount reached 26,224, and attrition improved slightly to 13.8% while utilisation stood at 88.2% vs 84.8% YoY. The company doesn't foresee any significant impact of the new visa policy.
- **Wage Hike to Impact Margins; Partially Offset by Levers:** The company has rolled out a wage hike effective 1st October, 2025. The subsequent impact will be seen in next quarter's margins by 180 bps. As per the management, 80-100 bps are expected to be offset by margin levers such as offshoring and optimisation.
- **Key AI-Driven Deal Wins Across Verticals:** In terms of key deal wins, for the software and Hi-Tech vertical, the company was selected by a fast-growing cloud infrastructure provider in a large multi-year deal to accelerate its transformation to an enterprise-grade AI infrastructure and services provider, leveraging the SASVA platform. In the BFSI vertical, it secured a deal with a large US-based wealth management firm to reimagine its business operations using AI, which includes building a GenAI-based Relationship Management Assistant. Also, a deal with a leading American financial services player for IT and business process transformation using AI tools for tech debt remediation. In the Healthcare and services vertical, Persistent was chosen by one of the largest healthcare companies in the world to modernise its digital presence and engagement with commercial clients.
- **Driving AI Transformation with SASVA 3.0:** Persistent is pursuing an AI-led, platform-driven strategy focused on "AI for Technology" (enhancing engineering productivity), "AI for Business" (AI adoption and agentic AI development), and Enterprise Data Readiness for AI. The company launched SASVA 3.0 last quarter, an AI-powered digital engineering platform that has delivered notable productivity improvements and was built using SASVA itself.
- **ISO Certification, AI Awards, and ESG Rating Boost:** The company has been recommended for the ISO 42001 certification for its AI Management systems. Internally, the Persistent Assist agentic framework has won two CII National AI Awards 2025. The company also improved its MSCI ESG rating by two levels, from BBB to AA.
- **Focused Growth in Healthcare and BFSI:** The management is focusing on new areas within healthcare services and BFSI, with plans to deepen capabilities in these verticals before shifting focus to others.
- **Strong Growth and Margin Expansion Guidance Through FY27:** Despite macroeconomic headwinds, the management remains confident of achieving its $2 Bn revenue target by FY27 through a mix of organic and inorganic growth, driven by acquisitions and core efficiencies. The company targets operating margin improvement of 200–300 bps by FY27, supported by lower ESOP costs, improved pricing, better utilisation, and SG&A leverage. The ETR is expected to remain in the 23–23.5% band for FY26.

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

Change in Estimates (Rs Cr)

	New		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	14,543	17,671	14,272	17,036	2%	4%
EBIT	2,119	2,644	2,068	2,400	2%	10%
PAT	1,736	2,185	1,677	1,911	4%	14%

Source: Company, Axis Securities

Results Review (Rs Cr)

Y/E March	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
Net sales	**3,581**	**3,334**	**7.4**	**2,897**	**23.6**
Total Expenditure	2,898	2,722	6.5	2,416	19.9
EBITDA	**683**	**612**	**11.7**	**481**	**42.1**
EBITDA margin (%)	19.1	18.3	73bps	16.6	248bps
Depreciation	100	94	6.7	74	34.3
EBIT	**583**	**518**	**12.6**	**406**	**43.5**
EBIT margin (%)	16.3	15.5	75bps	14.0	226bps
Interest cost	18	17	5.4	18	(1.4)
Other income	52	55	(5.3)	47	11.3
Exceptional item	0	0	NA	18	NA
PBT	**583**	**518**	**12.6**	**406**	**43.5**
Tax	145	130	11.4	110	32.7
Profit after tax	**471**	**425**	**11.0**	**325**	**45.1**
Reported EPS	**30.7**	**27.2**	**13.0**	**21.2**	**45.1**
Adj. PAT	**471**	**425**	**11.0**	**325**	**45.1**
Adj. EPS	**30.7**	**27.2**	**13.0**	**21.0**	**46.4**

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Net sales	**8,351**	**9,822**	**11,939**	**14,543**	**17,671**
Change (YoY, %)	46	18	22	22	22
Operating expenses	6,832	8,146	9,881	**12,045**	**14,574**
EBITDA	**1,519**	**1,676**	**2,058**	**2,498**	**3,097**
Change (YoY, %)	58	10	23	21	24
Margin (%)	18	17	17	17	18
Depreciation	272	309	307	379	453
EBIT	**1,247**	**1,367**	**1,751**	**2,119**	**2,644**
Interest paid	47	47	67	77	89
Other income	71	128	138	221	283
Pre-tax profit	**1,270**	**1,448**	**1,822**	**2,263**	**2,838**
Tax	320	354	422	526	653
Effective tax rate (%)	25	24	23	23	23
Net profit	**951**	**1,094**	**1,400**	**1,736**	**2,185**
Exceptional items	0	0	0	0	0
Adjusted net profit	**951**	**1,094**	**1,400**	**1,736**	**2,185**
Change (YoY, %)	38	15	28	24	26
Adj.EPS	**121**	**70**	**90**	**111**	**140**
Dividend per share	30	18	22	35	35
Dividend Payout (%)	25	25	25	32	25

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Share capital	**76**	**77**	**78**	**78**	**78**
Reserves & surplus	3,889	4,881	6,241	7,430	9,068
Shareholders funds	3,965	4,958	6,319	7,508	9,146
Total Debt	159	161	216	216	216
Other liabilities	537	71	69	69	69
Current Liabilities & prov.	**2,013**	**2,184**	**2,133**	2,264	2,498
Current liabilities	1,548	1,851	1,730	1,931	2,165
Provisions	465	333	403	333	333
Total liabilities	2,709	2,416	2,418	**2,548**	**2,783**
Total equity & liabilities	**6,674**	**7,374**	**8,737**	**10,056**	**11,929**
Net fixed assets	486	442	435	356	204
Investments	452	554	642	642	642
Other non-current assets	2,289	2,254	2,634	2,141	2,248
Current assets	**3,447**	**4,123**	**5,026**	6,918	8,835
Inventories	-	-	-	-	-
Sundry Debtors	1,525	1,676	1,848	2,262	2,749
Cash & Liquid	903	1,023	1,025	2,232	3,373
Other Current Assets	1,018	1,424	2,153	2,424	2,714
Total assets	**6,673**	**7,374**	**8,737**	**10,057**	**11,929**

Source: Company, Axis Securities

Cash Flow **(Rs Cr)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Pre tax	**921**	**1,094**	**1,400**	**1,736**	**2,185**
Depreciation	272	309	307	379	453
Change in working capital	(32)	(386)	(952)	(555)	(542)
Other operating activities	(23)	(81)	(71)	(144)	(194)
Cash flow from operations (a)	**1,138**	**936**	**684**	**1,416**	**1,902**
Capital expenditure	(466)	(265)	(300)	(300)	282
Change in investments	(452)	(68)	(467)	494	(108)
Other investing activities	(294)	433	(187)	715	175
Cash flow from investing (b)	**(848)**	**(205)**	**(629)**	**415**	**457**
Equity raised/(repaid)	-	1	1	-	-
Debt raised/(repaid)	71	(464)	53	-	-
Dividend (incl. tax)	(230)	(273)	(350)	(547)	(547)
Change in minorities	-	-	-	-	-
Other financing activities	(442)	(487)	190	(702)	(1,889)
Cash flow from financing (c)	**(301)**	**(612)**	**(53)**	**(625)**	**(1,218)**
Net change in cash (a+b+c)	(10)	119	2	1,206	1,141
Opening cash balance	914	903	1,023	1,025	2,232
Closing cash balance	904	1,022	1,025	2,232	3,373

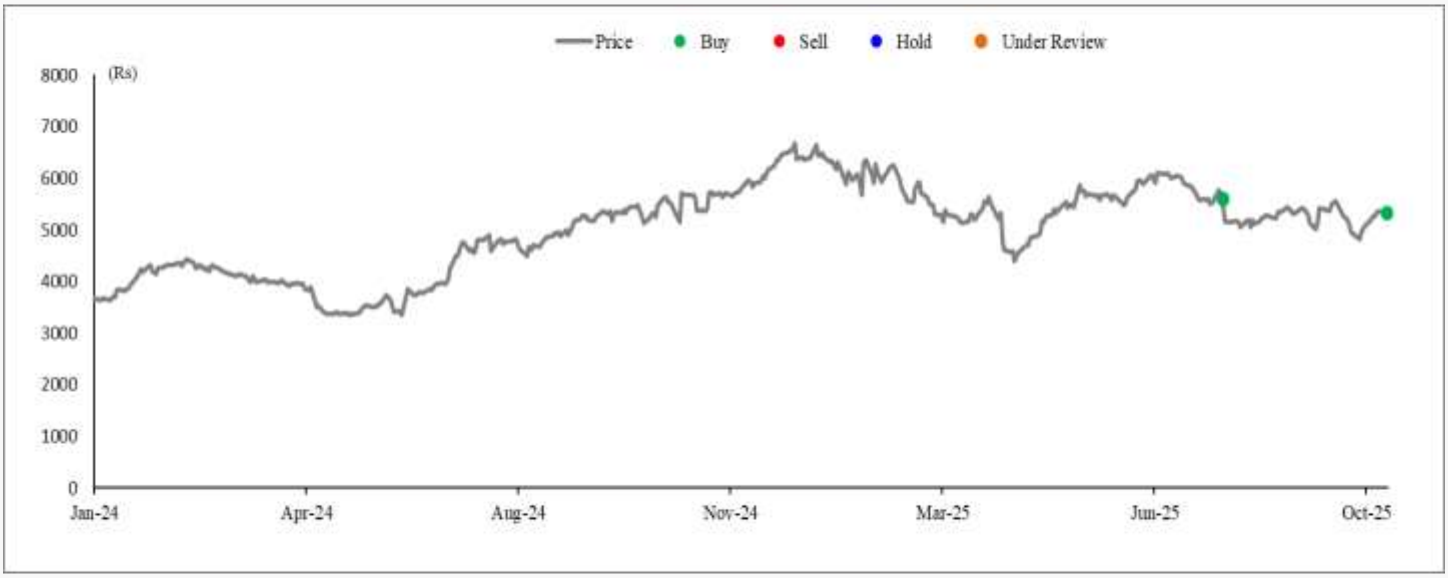
Source: Company, Axis Securities

Ratio Analysis **(%)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	519	318	405	482	587
Adj EPS (Rs)	121	70	90	111	140
Adj EPS growth (%)	0.3	-0.4	0.3	0.2	0.3
EBITDA margin (%)	18.2	17.1	17.2	17.2	17.5
Pre-tax margin (%)	15.2	14.7	15.3	15.6	16.1
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
ROCE (%)	22.8	22.9	24.6	24.9	26.2
ROE (%)	25.1	24.5	24.8	25.1	26.2
Financial leverage ratios					
Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0
Interest Coverage (x)	32.1	35.9	30.7	32.4	34.9
Interest / Debt (%)	0.3	0.3	0.4	0.4	0.4
Working Capital & Liquidity Ratio					
Inventory days	0.0	0.0	0.0	0.0	0.0
Receivable days	65.8	61.4	56.5	56.0	56.0
Payable days	24.5	29.8	26.8	27.0	27.0
Valuation ratio					
PER (x)	46.7	80.2	62.7	48.0	38.2
Adjusted PER (x)	46.7	80.2	62.7	48.0	38.2
P/BV (x)	10.9	17.7	13.9	11.1	9.1
EV/EBITDA (x)	27.8	51.9	42.4	32.7	26.0
Market Cap. / Sales (x)	5.2	8.9	7.4	5.8	4.7

Source: Company, Axis Securities

Persistent Systems Price Chart and Recommendation History



Date	Reco	TP	Research
24-Jul-25	BUY	6,240	Result Update
15-Oct-25	BUY	6,160	Result Update

Source: Axis Securities Research

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HOLD	Between 10% and -10%
SELL	Less than -10%
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