

Margin miss; elevated costs weigh on near-term profitability

Information Technology ▶ Result Update ▶ October 16, 2026

CMP (Rs): 5,840 | TP (Rs): 6,000

PSYS's 2Q operating performance was a mixed bag. Revenue grew 7.8% qoq CC, broadly in line with our estimate. Revenue growth was largely driven by ramp up of the large deal won in 2Q and a consolidation deal in BFSI. EBITM declined by 100bps qoq to 15%, below our estimate of 15.5%. Deal-win TCV remained healthy at \$633.4bn (book-to-bill: 1.3x), while new deal wins came in at \$367.1mn. 2Q included ~\$20mn in one-off costs related to the Nagarro acquisition, with another \$25–30mn expected over the next two quarters, thus weighing on reported EPS growth through to FY27. The management aims to sustain EBITM at 16–17% while prioritizing growth and investments, with the impact from large-deal amortization (a ~90bps impact in 2Q) expected to gradually reduce as costs are optimized and revenue scales up. Considering the aforementioned factors, we cut FY27E EPS by ~11% and increase FY29E EPS by 0.7%, while keeping FY28E EPS largely unchanged. Incorporating Nagarro and revising currency assumptions, we retain ADD on PSYS while increasing our TP by ~5% to Rs6,000 from Rs5,700, at 30x Sep-28E EPS.

Results summary

Revenue grew 7.8% qoq, and to \$487.6mn in CC terms, broadly in line with our expectation of \$488mn (8.0% CC). EBITM (ex one-off Nagarro integration expenses) declined by 100bps qoq to 15% due to headwinds from net-wage hike (-140bps; gross impact of -180bps cushioned by lower ESOP cost), lower utilization (-20bps), and amortization from a large deal (-90bps), partially offset by tailwinds from lower SG&A and favorable currency movements (150bps combined). Headcount grew ~3.3% qoq to 29,598. Utilization declined by 70bps qoq to 85.8%, primarily due to proactive hiring to support ramp-up of large deals. Attrition declined by 40bps qoq to 11.9% vs 12.3% in 1QFY27. What we like: Continued growth momentum, healthy deal wins, strong cash conversion (OCF/EBITDA ~94%). What we do not like: Margin miss, softness in Europe.

Growth led by Software and Hi-Tech, along with North America

Revenue growth was driven by Software, Hi-Tech, and Emerging Industries (13.3% qoq in USD terms; 70% of incremental revenue qoq) and BFSI (6.8%), while Healthcare and Life Sciences were flat sequentially (0.1%). Among geographies, growth was led by North America (10.9% qoq in USD terms; 111% of incremental revenue qoq) and India (1.2%), while Europe (-10.0%) and RoW (-4.7%) declined sequentially.

Update on Nagarro acquisition

The company has secured more than 90% of Nagarro's share capital and voting rights through the takeover offer, and plans to squeeze out remaining minority shareholders of Nagarro upon closing. The company expects the transaction to close by 4QFY27, after receiving approvals from the RBI and FDI authorities in Austria and Spain. Nagarro-related one-time costs of an additional \$25–30mn would weigh on reported profit over coming 2–3 quarters (~\$20mn impact seen in 2Q). PSYS expects the transaction to be cash EPS-accretive in Y1, ex one-time transaction-related expenses of ~\$50mn.

Target Price – 12M	Sep-27
Change in TP (%)	5.3
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	2.7

Stock Data	PSYS IN
52-week High (Rs)	6,599
52-week Low (Rs)	4,243
Shares outstanding (mn)	158.1
Market-cap (Rs bn)	924
Market-cap (USD mn)	9,716
Net-debt, FY27E (Rs mn)	(28,498.7)
ADTV-3M (mn shares)	0.7
ADTV-3M (Rs mn)	3,081.8
ADTV-3M (USD mn)	32.4
Free float (%)	67.6
Nifty-50	22,997.3
INR/USD	95.1

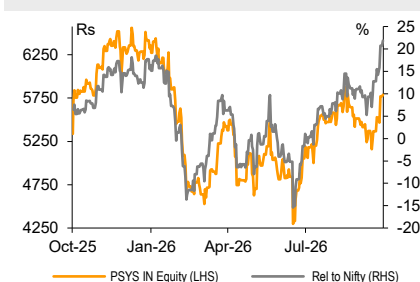
Shareholding, Sep-26

Promoters (%)	30.3
FPIs/MFs (%)	20.8/32.0

Price Performance

(%)	1M	3M	12M
Absolute	6.6	15.1	2.0
Rel. to Nifty	7.2	20.5	12.3

1-Year share price trend (Rs)



Persistent Systems: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	119,387	147,484	187,466	332,094	375,853
EBITDA	20,582	27,954	35,464	56,870	65,867
Adj. PAT	14,002	19,331	21,998	30,106	36,932
Adj. EPS (Rs)	89.8	122.5	139.4	182.0	223.3
EBITDA margin (%)	17.2	19.0	18.9	17.1	17.5
EBITDA growth (%)	22.8	35.8	26.9	60.4	15.8
Adj. EPS growth (%)	26.6	36.4	13.8	30.5	22.7
RoE (%)	24.8	27.3	25.8	24.5	22.2
RoIC (%)	37.1	42.6	44.0	25.4	19.6
P/E (x)	65.0	49.4	45.7	32.1	26.2
EV/EBITDA (x)	43.2	31.9	25.2	18.0	15.1
P/B (x)	14.4	11.8	10.0	6.3	5.4
FCFF yield (%)	1.1	1.8	0.6	(11.6)	3.8

Source: Company, Emkay Research

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Earnings call KTAs

- Hi-Tech (particularly mid-market ISVs) is leading in terms of AI adoption, seeing maximum productivity demands, while BFSI and HLS are progressing more cautiously due to regulatory constraints.
- Vendor consolidation and modernization (data and legacy systems) continues to be a significant theme in pockets of the financial services sector.
- Softness in Europe was largely driven by two client-specific factors: i) a client's program ramp-down following its acquisition by a larger company, and ii) planned completion of a fixed-price engagement.
- Growth in Software, Hi-Tech, and Emerging Industries was largely driven by a large new reinvention deal with a tech client.
- PSYS signed a \$650mn/6.5Y deal with a global tech company which included end-to-end takeover of the engineering roadmap of a portfolio of 20 products, along with associated third-party licenses and cloud spend. This investment in third-party tools and licenses led to an increase in the quarterly amortization of ~\$4mn, weighing on 2Q EBITM by ~90bps. Management expects this drag to remain at base levels for the next few quarters before gradually easing, as spending is optimized and revenue is scaled up.
- EBITM could also remain under pressure from upfront third-party license and cloud costs, related amortization, and investments in proprietary AI platforms (SASVA, iAURA, and GenAI Hub). While Management expects revenue ramp-up and cost optimization to gradually mitigate these headwinds, additional software-reinvention wins could keep software-license costs elevated. PSYS aims to improve profitability by replacing third-party licenses with AI-built custom components, optimizing cloud consumption and re-architecting products to reduce infra costs.
- *Software Reinvention Services*, an offering by PSYS, targets both growth (by bringing products to market faster) and cost (by improving the economics of established products).
- PSYS is optimizing spending on people, tools, and cloud infra. It is reducing non-labor costs by replacing third-party tools with custom agentic applications, and labor cost by automating workflows across functions via agentic systems.
- AI is helping optimize costs for enterprises by reducing cloud consumption, managing token costs through FinOps, intelligent model routing, and lowering SG&A spend.
- Nagarro has over 200 clients generating >\$1mn in revenue, with only 10 overlapping with PSYS's client base, indicating significant cross-selling potential.
- The increase in intangible assets under development has been due to build out of internal IP tools with reference to AI such as SASVA, iAURA, and GenAI Hub, and includes a significant amount of people-related costs.
- The ESOP vesting condition is linked to 12% revenue and EPS growth. However, one-time costs related to the Nagarro transaction could weigh on reported EPS. Given this, the Board plans to seek shareholder approval to treat these costs as an exception while assessing vesting.

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

Exhibit 1: Quarterly snapshot

Particular (Rs mn)	2QFY27	1QFY27	qoq (%)	2QFY26	yoy (%)
Net sales (\$ mn)	487.6	452.4	7.8	406.2	20.0
Net sales	46,639	43,032	8.4	35,807	30.3
Operating expenses	37,995	35,011	8.5	28,976	
EBITDA	8,644	8,022	7.8	6,831	26.5
- Margin (%)	18.5	18.6	-10	19.1	-50
Depreciation	1,667	1,153		1,000	
EBIT	6,977	6,869	1.6	5,830	19.7
- Margin (%)	15.0	16.0	-100	16.3	-130
Other income (net)	-587	-638		338	
Exceptional items	-1853	0		0	
Share of profit /(loss) of an associate					
PBT	4,537	6,231	-27.2	6,168	-26.4
Tax provided	1,022	1,401		1,454	
PAT	3,515	4,830	-27.2	4,715	
Non-controlling interest					
Reported net profit	3,515	4,830		4,715	
Emkay net profit	5,369	4,830	11.1	4,715	13.9
Reported EPS (Rs)	22.3	30.6	-27.2	30.1	-26.1

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (\$ mn)	487.6	488.1	482.3	-0.1%	1.1%	Revenue came broadly in line with expectations.
Revenue	46,639	46,666	45,719	-0.1%	2.0%	
EBIT	6,977	7,243	7,138	-3.7%	-2.3%	EBITM was below expectations.
EBIT margin	15.0%	15.5%	15.6%	-60 bps	-70 bps	
PAT	3,515	5,424	5,536	-35.2%	-36.5%	Profit was below expectations due to margin miss and lower other income.

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY27E			FY28E			FY29E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (\$ mn)	1,971.1	1969.4	-0.1%	3,498.2	3495.7	-0.1%	3,917.9	3915.1	-0.1%
yoy growth	19.1%	19.0%		77.5%	77.5%		12.0%	12.0%	
Revenue	186,571	187,466	0.5%	332,331	332,094	-0.1%	376,122	375,853	-0.1%
EBIT	29,881	29,242	-2.1%	42,517	42,519	0.0%	50,595	50,595	0.0%
EBIT margin (%)	16.0	15.6		12.8	12.8		13.5	13.5	
Net profit	22,496	20,145	-10.5%	30,148	30,106	-0.1%	36,692	36,932	0.7%
EPS (Rs)	142.6	127.7	-10.5%	182.2	182.0	-0.1%	221.8	223.3	0.7%

Source: Company, Emkay Research

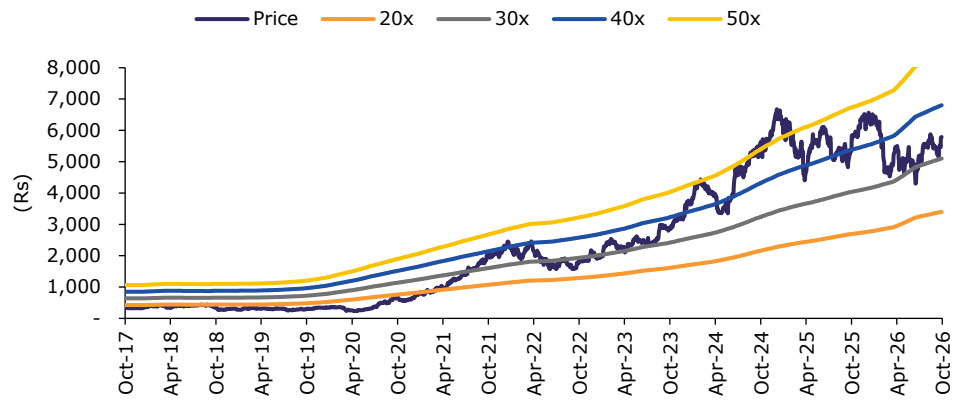
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Exhibit 4: Key operating metrics – Persistent Systems

Metric	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27	2QFY27	\$ mn	qoq chg	yoy chg
Revenue (\$ mn)	346	360	375	390	406	423	436	452	488		7.8%	20.0%
Revenue by industry (%)												
BFSI	31.5	31.7	32.3	33.9	34.8	35.0	34.5	34.0	33.7	164	6.8%	16.2%
Healthcare and Life Sciences	27.8	27.8	26.8	25.3	25.2	25.4	26.3	25.3	23.5	115	0.1%	11.9%
Software, Hi-Tech, and Emerging Industries	40.7	40.5	40.9	40.8	40.0	39.6	39.2	40.7	42.8	209	13.3%	28.4%
Revenue by geography (%)												
North America	81.3	80.5	80.5	79.8	79.8	81.5	81.4	79.1	81.4	397	10.9%	22.4%
Europe	7.9	8.2	8.4	9.0	9.3	8.5	8.1	8.5	7.1	35	-10.0%	-8.4%
India	9.2	9.4	9.3	9.8	9.2	7.8	8.3	9.8	9.2	45	1.2%	20.0%
Rest of the world	1.6	1.9	1.8	1.4	1.7	2.2	2.2	2.6	2.3	11	-4.7%	62.4%
Revenue concentration (LTM, %)												
Top 5 clients	31.4	30.8	32.7	31.8	32.9	32.9	31.5	33.2	38.1	186	23.7%	39.0%
Top 10 clients	41.5	40.0	42.2	42.0	43.2	43.7	42.1	43.0	46.8	228	17.3%	30.0%
Top 20 clients	52.1	50.9	53.0	53.8	54.4	54.8	53.6	53.7	56.6	276	13.6%	24.9%
Top 50 clients	67.9	67.4	68.7	70.0	70.1	70.5	69.7	70.7	72.4	353	10.4%	24.0%
Top 100 clients	81.0	80.6	82.1	82.8	82.8	82.5	82.5	83.7	83.8	409	7.9%	21.5%
Client engagement size (no of)												
>\$75mn	3	3	4	4	4	4	4	4	4			
\$20-75mn	6	6	6	8	8	8	8	8	9			
\$10-20mn	11	12	11	10	13	16	17	20	21			
\$5-10mn	22	25	34	34	31	33	33	28	26			
\$1-5mn	141	142	136	135	135	134	139	154	158			
>\$1mn	183	188	191	191	191	195	201	214	218			
Deal wins TCV (\$ mn)												
Total TCV	529	594	518	521	609	675	601	1,146	634		-44.7%	4.0%
New	390	334	329	337	351	369	409	952	367		-61.4%	4.6%
Deal wins ACV (\$ mn)												
Total ACV	348	428	350	385	448	502	445	537	481		-10.4%	7.4%
New	219	196	198	212	254	256	273	386	262		-32.0%	3.1%
DSO (days)												
Billed	68	64	58	56	54	56	53	61	50			
Unbilled	24	22	23	20	21	20	27	25	24			
Employees												
Technical	21,675	22,407	23,072	23,787	24,608	25,077	25,849	26,905	27,814		3.4%	13.0%
Sales and Business Development	492	489	485	496	510	520	543	579	603		4.1%	18.2%
Rest	1,070	1,046	1,037	1,057	1,106	1,114	1,110	1,156	1,181		2.2%	6.8%
Effort mix (%)												
Global delivery centers	15.8	15.1	14.8	14.5	14.1	14.2	14.6	15.2	15.7			
India	84.2	84.9	85.2	85.5	85.9	85.8	85.4	84.8	84.3			
Utilization (%)	84.8	87.4	88.1	88.7	88.2	88.4	88.0	86.5	85.8			
Attrition (%)	12.0	12.6	12.9	13.9	13.8	13.5	13.0	12.3	11.9			

Source: Company, Emkay Research

Exhibit 5: PSYS – One-year forward PER



Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

Persistent Systems: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	119,387	147,484	187,466	332,094	375,853
Revenue growth (%)	21.6	23.5	27.1	77.1	13.2
EBITDA	20,582	27,954	35,464	56,870	65,867
EBITDA growth (%)	22.8	35.8	26.9	60.4	15.8
Depreciation & Amortization	3,069	4,030	6,222	14,351	15,272
EBIT	17,513	23,925	29,242	42,519	50,595
EBIT growth (%)	28.2	36.6	22.2	45.4	19.0
Other operating income	-	-	-	-	-
Other income	1,382	1,804	(131)	1,890	1,854
Financial expense	671	727	1,167	5,311	4,486
PBT	18,223	25,002	27,945	39,098	47,964
Extraordinary items	0	(680)	(1,853)	0	0
Taxes	4,221	5,671	5,947	8,993	11,032
Minority interest	-	-	-	-	-
Income from JV/Associates	-	-	-	-	-
Reported PAT	14,002	18,651	20,145	30,106	36,932
PAT growth (%)	28.0	33.2	8.0	49.4	22.7
Adjusted PAT	14,002	19,331	21,998	30,106	36,932
Diluted EPS (Rs)	89.8	122.5	139.4	182.0	223.3
Diluted EPS growth (%)	26.6	36.4	13.8	30.5	22.7
DPS (Rs)	35.0	40.0	40.0	55.0	67.0
Dividend payout (%)	39.0	33.8	31.3	30.2	30.0
EBITDA margin (%)	17.2	19.0	18.9	17.1	17.5
EBIT margin (%)	14.7	16.2	15.6	12.8	13.5
Effective tax rate (%)	23.2	22.7	21.3	23.0	23.0
NOPLAT (pre-IndAS)	13,456	18,498	23,020	32,740	38,958
Shares outstanding (mn)	156	158	158	165	165

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	779	789	789	827	827
Reserves & Surplus	62,411	77,590	91,424	152,293	178,142
Net worth	63,191	78,379	92,213	153,121	178,969
Minority interests	-	-	-	-	-
Non-current liab. & prov.	(1,874)	(3,134)	(3,134)	(3,134)	(3,134)
Total debt	0	0	0	78,375	63,375
Total liabilities & equity	64,426	80,019	93,854	233,136	243,985
Net tangible fixed assets	4,351	3,969	4,360	7,098	7,502
Net intangible assets	4,923	5,522	12,420	46,071	38,054
Net ROU assets	3,799	5,472	6,926	13,510	11,901
Capital WIP	-	-	-	-	-
Goodwill	12,338	13,597	13,597	96,845	96,845
Investments [JV/Associates]	-	-	-	-	-
Cash & equivalents	20,058	28,330	28,499	20,212	33,823
Current assets (ex-cash)	39,099	53,040	57,442	100,830	113,958
Current Liab. & Prov.	20,916	30,286	29,690	51,730	58,399
NWC (ex-cash)	18,184	22,754	27,752	49,099	55,558
Total assets	64,426	80,019	93,854	233,136	243,985
Net debt	(20,058)	(28,330)	(28,499)	58,163	29,552
Capital employed	64,426	80,019	93,854	233,136	243,985
Invested capital	40,569	46,217	58,429	199,414	198,260
BVPS (Rs)	405.5	496.9	584.6	925.6	1,081.9
Net Debt/Equity (x)	(0.3)	(0.4)	(0.3)	0.4	0.2
Net Debt/EBITDA (x)	(1.0)	(1.0)	(0.8)	1.0	0.4
Interest coverage (x)	28.1	35.4	24.9	8.4	11.7
RoCE (%)	32.9	36.3	34.1	27.4	22.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
PBT (ex-other income)	18,223	24,112	27,945	39,098	47,964
Others (non-cash items)	4,694	5,596	5,188	13,012	13,786
Taxes paid	(5,114)	(6,249)	(5,947)	(8,993)	(11,032)
Change in NWC	(6,233)	(5,788)	(4,520)	(21,347)	(6,459)
Operating cash flow	11,569	17,671	20,812	21,770	44,259
Capital expenditure	(1,931)	(1,952)	(15,367)	(140,573)	(6,050)
Acquisition of business	(490)	(1,065)	0	0	0
Interest & dividend income	570	498	1,034	1,340	1,486
Investing cash flow	(4,344)	(6,099)	(13,754)	(134,233)	(4,564)
Equity raised/(repaid)	1,846	499	0	39,900	0
Debt raised/(repaid)	(2,061)	0	0	78,375	(15,000)
Payment of lease liabilities	-	-	-	-	-
Interest paid	-	-	-	-	-
Dividend paid (incl tax)	(4,600)	(5,790)	(6,310)	(9,098)	(11,083)
Others	(1,466)	(2,191)	0	0	0
Financing cash flow	(6,282)	(7,482)	(6,310)	109,177	(26,083)
Net chg in Cash	943	4,091	748	(3,287)	13,611
OCF	11,569	17,671	20,812	21,770	44,259
Adj. OCF (w/o NWC chg.)	17,803	23,459	25,332	43,117	50,718
FCFF	9,638	15,719	5,445	(118,803)	38,209
FCFE	9,537	15,491	5,311	(122,774)	35,209
OCF/EBITDA (%)	56.2	63.2	58.7	38.3	67.2
FCFE/PAT (%)	68.1	83.1	26.4	(407.8)	95.3
FCFF/NOPLAT (%)	71.6	85.0	23.7	(362.9)	98.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	65.0	49.4	45.7	32.1	26.2
EV/CE(x)	14.1	11.4	9.7	4.4	4.1
P/B (x)	14.4	11.8	10.0	6.3	5.4
EV/Sales (x)	7.5	6.1	4.8	3.1	2.6
EV/EBITDA (x)	43.2	31.9	25.2	18.0	15.1
EV/EBIT(x)	50.8	37.3	30.5	24.1	19.7
EV/IC (x)	21.9	19.3	15.3	5.1	5.0
FCFF yield (%)	1.1	1.8	0.6	(11.6)	3.8
FCFE yield (%)	1.0	1.7	0.6	(13.3)	3.8
Dividend yield (%)	0.6	0.7	0.7	0.9	1.1
DuPont-RoE split					
Net profit margin (%)	11.7	13.1	11.7	9.1	9.8
Total asset turnover (x)	2.1	2.2	2.3	2.2	1.7
Assets/Equity (x)	1.0	1.0	0.9	1.2	1.4
RoE (%)	24.8	27.3	25.8	24.5	22.2
DuPont-RoIC					
NOPLAT margin (%)	11.3	12.5	12.3	9.9	10.4
IC turnover (x)	3.3	3.4	3.6	2.6	1.9
RoIC (%)	37.1	42.6	44.0	25.4	19.6
Operating metrics					
Core NWC days	55.6	56.3	54.0	54.0	54.0
Total NWC days	55.6	56.3	54.0	54.0	54.0
Fixed asset turnover	2.8	3.1	3.3	2.6	1.9
Opex-to-revenue (%)	82.8	81.0	81.1	82.9	82.5

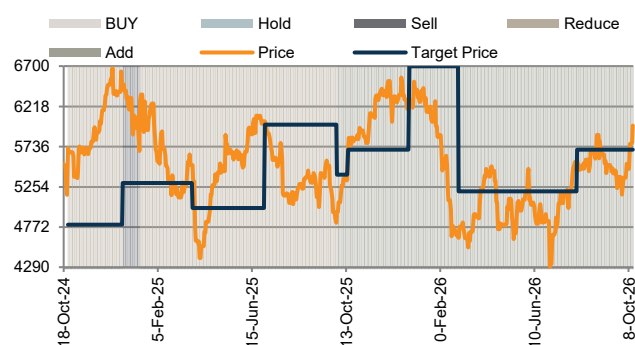
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
01-Oct-26	5,367	5,700	Add	Dipeshkumar Mehta
03-Aug-26	5,575	5,700	Add	Dipeshkumar Mehta
01-Jul-26	4,330	5,200	Add	Dipeshkumar Mehta
28-Jun-26	4,842	5,200	Add	Dipeshkumar Mehta
22-Apr-26	5,073	5,200	Add	Dipeshkumar Mehta
31-Mar-26	4,877	5,200	Add	Dipeshkumar Mehta
05-Mar-26	4,642	5,200	Add	Dipeshkumar Mehta
18-Feb-26	5,521	6,700	Add	Dipeshkumar Mehta
20-Jan-26	6,343	6,700	Add	Dipeshkumar Mehta
01-Jan-26	6,283	6,700	Add	Dipeshkumar Mehta
15-Oct-25	5,725	5,700	Add	Dipeshkumar Mehta
01-Oct-25	4,955	5,400	Add	Dipeshkumar Mehta
24-Jul-25	5,174	6,000	Reduce	Dipeshkumar Mehta
01-Jul-25	6,039	6,000	Reduce	Dipeshkumar Mehta
25-Apr-25	5,274	5,000	Reduce	Dipeshkumar Mehta
31-Mar-25	5,514	5,000	Reduce	Dipeshkumar Mehta
23-Jan-25	6,288	5,300	Reduce	Dipeshkumar Mehta
01-Jan-25	6,437	5,300	Sell	Dipeshkumar Mehta
23-Oct-24	5,719	4,800	Reduce	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

This report is intended for Team White Marquee Solutions (team.emkay@whitemarquesolutions)

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REDUCE	5% upside to 15% downside
SELL	>15% downside

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