MIRAE ASSET Sharekhan

Stock Update

Result Update

# Persistent Systems Ltd

## Steady Q1, Positioned for top Quartile growth

| IT & ITES | Sharekhan code: PERSISTENT |
|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 5,171 — Price Target: Rs. 6,600 ↓ |

↑ Upgrade ↔ Maintain ↓ Downgrade


**Summary**

- Reported revenue stood at $389.7 million, up 3.3% q-o-q in CC terms, missing our estimates of 4 % q-o-q growth in CC.
- EBIT margin fell ~10 bps q-o-q to 15.5% %, missing our estimate of 15.9%. TTM TCVs stood at $520.8 million, up 13%y-o-y.
- Managment maintained $2 billion revenue target for FY27-end and stuck to previous guidance of a 200-300 bps improvement in OPM.
- We maintain Buy rating with a revised PT of Rs 6,600 (48x FY27E EPS). At CMP, the stock trades at 45.9/37.6x FY26/27E EPS.


**Revenue stood at $389.7 million, up 3.3% q-o-q in CC terms, missing our 4% estimate. EBIT margins declined ~10 bps q-o-q to 15.5%, missing our estimate of 15.9% . Adjusted net profit stood at Rs 425 crore, up 7.4% q-o-q/38.7% y-o-y, but missed our estimates of Rs 434 crore. The company's total TTM TCVs stood at $520.8 million, up 1%/up 13%y-o-y. Book-to-bill stood at 1.3x (1.4x in Q4FY25). New business TTM TCVs stood at $337 million, down 2%q-o-q/8% y-o-y. Net headcount additions was 746 q-o-q, taking total headcount to 25,340. LTM attrition jumped up by 100 bps q-o-q to 13.9%. Utilisation (including trainees) improved 60 bps q-o-q to 88.7%. The company maintained its committment to reach $2 billion in revenue by the end of FY27 and stuck to its previous guidance of improving operating margins by 200-300 bps. The $2-billion revenue target by FY27, is supported by a strong deal pipeline, growing AI and platform traction and strategic acquisitions, positions Persistent for top-quartile growth amid macroeconomic uncertainties and cautious client spending. We maintain a Buy rating with a revised PT of Rs. 6,600 (valued at 48x FY27E EPS). At CMP, the stock trades at 45.9/37.6x FY26/27E EPS.**

**Key positives**

- BFSI vertical grew 9% q-o-q.
- Total TTM TCVs rose 135 y-o-y to $520.8 million.
- Utilisation (including trainees) rose 60 bps q-o-q to 88.7%
- Net headcount of 746 was added q-o-q, taking total to 25,340

**Key negatives**

- LTM attrition jumped by 100 bps q-o-q to 13.9%
- Sub-contractor expenses grew 2.3% q-o-q/13.7% y-o-y

**Management Commentary**

- There is increased caution among customers due to macroeconomic and geopolitical uncertainties. The environment has led to slower decision-making and a cautious approach
- BFSI and Technology verticals to lead growth in FY26, followed by Healthcare & Life Sciences.
- Tariff concerns, particularly with China, are affecting supply chains and costs, especially in the healthcare/medical equipment sector
- Company decided to postpone annual wage hikes by one quarter due to current uncertain business scenario
- Company plans tuck-in acquisitions and may pursue a larger acquisition specifically in Europe to achieve goal of a 15% revenue from that region
- Management expects the overall effective tax rate for the year to remain at 22.5-23.5% going forward

**Revision in earnings estimates –** We have revised our estimates to factor in Q1FY26 performance.

**Our Call**

**Valuation – Maintain Buy with revised PT of Rs. 6,600:** Persistent delivered steady quarter despite challenging macro with consistent growth sequentially, strong deal wins, lead by BFSI, Hi-tech verticals. The $2 billion revenue target by FY27,supported by a strong deal pipeline, growing AI and Platform traction and strategic acquisitions, positions Persistent for top-quartile growth amid macroeconomic uncertainties and cautious client spending. We expect sales/PAT CAGR at ~19%/23% over FY25-FY27E.We maintain Buy rating with a revised PT of Rs. 6,600 (valued at 48x FY27E EPS). At CMP, the stock trades at 45.9/37.6x FY26/27E EPS.

**Key Risks**

Rupee appreciation and/or adverse cross-currency movements. Macro headwinds, and recession in the US can moderate the pace of technology spends.

**Valuation (Consolidated)** Rs cr

| Particulars | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|
| Revenue | 9,821.6 | 11,938.7 | 14,280.6 | 16,802.0 |
| OPM (%) | 17.6 | 17.2 | 17.6 | 18.3 |
| Adjusted PAT | 1,142.1 | 1,400.1 | 1,749.1 | 2,130.8 |
| YoY growth (%) | 20.1 | 22.6 | 24.9 | 21.8 |
| Adjusted EPS (Rs.) | 75.1 | 90.6 | 112.8 | 137.4 |
| P/E (x) | 68.9 | 57.1 | 45.9 | 37.6 |
| P/B (x) | 8.0 | 12.8 | 10.9 | 9.3 |
| EV/EBITDA (x) | 45.4 | 37.9 | 31.4 | 25.9 |
| RoNW (%) | 25.6 | 24.8 | 25.5 | 26.5 |
| RoCE (%) | 28.7 | 30.0 | 31.4 | 32.8 |

*Source: Company; Mirae Asset Sharekhan estimates*

**3R MATRIX**

| | + | = | - |
|---|---|---|---|
| Right Sector (RS) | ✓ | | |
| Right Quality (RQ) | ✓ | | |
| Right Valuation (RV) | | ✓ | |

\+ Positive = Neutral – Negative

**What has changed in 3R MATRIX**

| | Old | | New |
|---|---|---|---|
| RS | | ↔ | |
| RQ | | ↔ | |
| RV | | ↔ | |

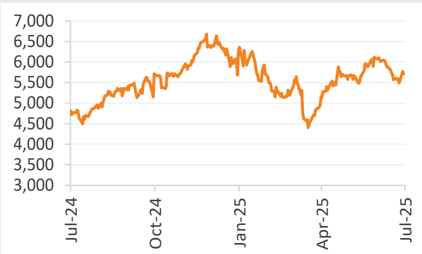
**Company details**

| | |
|---|---|
| Market cap: | Rs. 80,878 cr |
| 52-week high/low: | Rs. 6,789/4,164 |
| NSE volume: (No of shares) | 6.0 lakh |
| BSE code: | 533179 |
| NSE code: | PERSISTENT |
| Free float: (No of shares) | 10.9 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 30.6 |
| FII | 24.2 |
| DII | 27.8 |
| Others | 17.5 |

**Price chart**




*Source: NSE India, Mirae Asset Sharekhan Research*

**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -14. | 0.3 | 18.7 | 7.6 |
| Relative to Sensex | -15.1 | -2.7 | 26.6 | 5.0 |

*Source: Mirae Asset Sharekhan Research, Bloomberg*

## Key Highlights

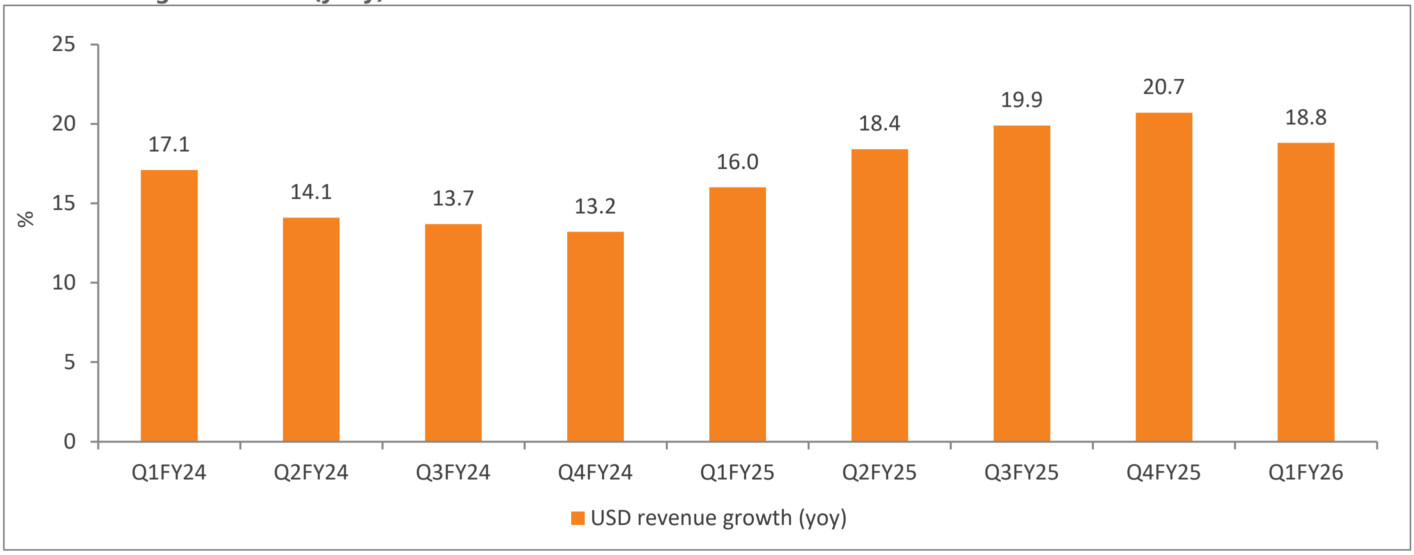
- **Revenue growth:** Revenue stood at $389.7 million, up 3.3% q-o-q in CC terms, missing our estimates of 4% q-o-q growth in CC terms. Revenue in rupee terms stood at Rs. 3,334 crore, up 2.8% q-o-q/21.8 % y-o-y.
- **Margin:** EBIT margin declined ~10 bps q-o-q to 15.5% but missed our estimate of 15.9%. Margins were impacted sequentially  by lower ESOP cost (+230 bps), absence of earnout reversal (-60 bps), delayed ramp-ups and on-site resource retention(-100 bps), higher amortisation (-40 bps),  unfavorable currency (-40 bps) resulting in 10 bps sequential decline.
- **Order bookings:**  The company's total TTM TCVs stood at $520.8 million, up 1%/up 13%y-o-y. Book-to-bill stood at 1.3x (1.4x in Q4FY25). New business TTM TCVs stood at $337 million, down 2%q-o-q/8% y-o-y. Annual contract value (ACV) was $385.3 million, up 10% q-o-q/14% y-o-y including $211.8 million from new bookings, up 7% q-o-q and y-o-y respectively.
- **Growth across verticals:** The largest vertical Software, hi-tech, and emerging industries grew 5.2% q-o-q while  BFSI grew 9 % q-o-q.Healthcare & Lifesciences declined 1.9% q-o-q.
- **Growth across geographies:** North America, Europe, India and RoW grew 3%/11.3%/and 9.4% q-o-q respectively while RoW declined 19.2% q-o-q, respectively.
- **Top clients:** Revenue from the top-5 clients, top-10 clients, top-20 clients, and top-50 clients grew 1%/ 3.4%/5.4%, and 5.8% q-o-q, respectively.
- **Client additions:** The company added two client in its $20 million+ and lost one clients each in 10million+ category and  $1 million+ revenue category sequentially.
- **Headcount & attrition:** Net headcount additions were 746 q-o-q, taking total headcount to 25,340. LTM attrition jumped by 100 bps q-o-q to 13.9% . Utilisation (including trainees) improved 60 bps q-o-q to 88.7%
- **Cash generation & DSO days:** Cash & investments stood at Rs 22,475 crore, up 17.6% y-o-y. DSO days stood at 56 from 58 in Q4FY25.
- **AI and platform Strategy:** The company launched SASVA 3.0, enhancing software development productivity with 55+ patents. AI-driven solutions like the underwriter agent for BFSI and Symmetra Agent for healthcare are gaining traction. The acquisition of Arrka bolstered digital trust capabilities.

**Results (Consolidated)** Rs cr

| Particulars | Q1FY26 | Q1FY25 | Q4FY25 | YoY (%) | QoQ (%) |
|---|---|---|---|---|---|
| **Revenues In USD (mn)** | **389.7** | **328.2** | **375.2** | **18.7** | **3.9** |
| **Revenues In INR** | **3,333.6** | **2,737.2** | **3,242.1** | **21.8** | **2.8** |
| Direct Costs | 2,157.6 | 1,832.9 | 2,111.7 | 17.7 | 2.2 |
| SG&A | 564.4 | 449.1 | 546.0 | 25.7 | 3.4 |
| **EBITDA** | **611.6** | **455.2** | **584.4** | **34.4** | **4.7** |
| Depreciation & amortization | 93.8 | 71.2 | 79.1 | 31.7 | 18.6 |
| **EBIT** | **517.8** | **384.0** | **505.3** | **34.8** | **2.5** |
| Forex gain/(loss) | 18.9 | -0.7 | -15.4 | -2,684.9 | -222.3 |
| Other Income | 18.7 | 17.3 | 15.4 | 8.6 | 22.0 |
| **PBT** | **555.4** | **400.5** | **505.2** | **38.7** | **9.9** |
| Tax Provision | 130.5 | 94.1 | 109.5 | 38.6 | 19.2 |
| **PAT** | **424.9** | **306.4** | **395.8** | **38.7** | **7.4** |
| Minority interest | 0.0 | 0.0 | 0.0 | | |
| **Net profit** | **424.9** | **306.4** | **395.8** | **38.7** | **7.4** |
| **Adjusted net profit** | **424.9** | **306.4** | **395.8** | **38.7** | **7.4** |
| EPS (Rs) | 27.4 | 19.9 | 25.6 | 37.8 | 7.0 |
| **Margin (%)** | | | | | |
| EBITDA | 18.3 | 16.6 | 18.0 | 172 | 32 |
| EBIT | 15.5 | 14.0 | 15.6 | 150 | -5 |
| NPM | 12.7 | 11.2 | 12.2 | 155 | 54 |
| Tax rate | 23.5 | 23.5 | 21.7 | -1 | 183 |

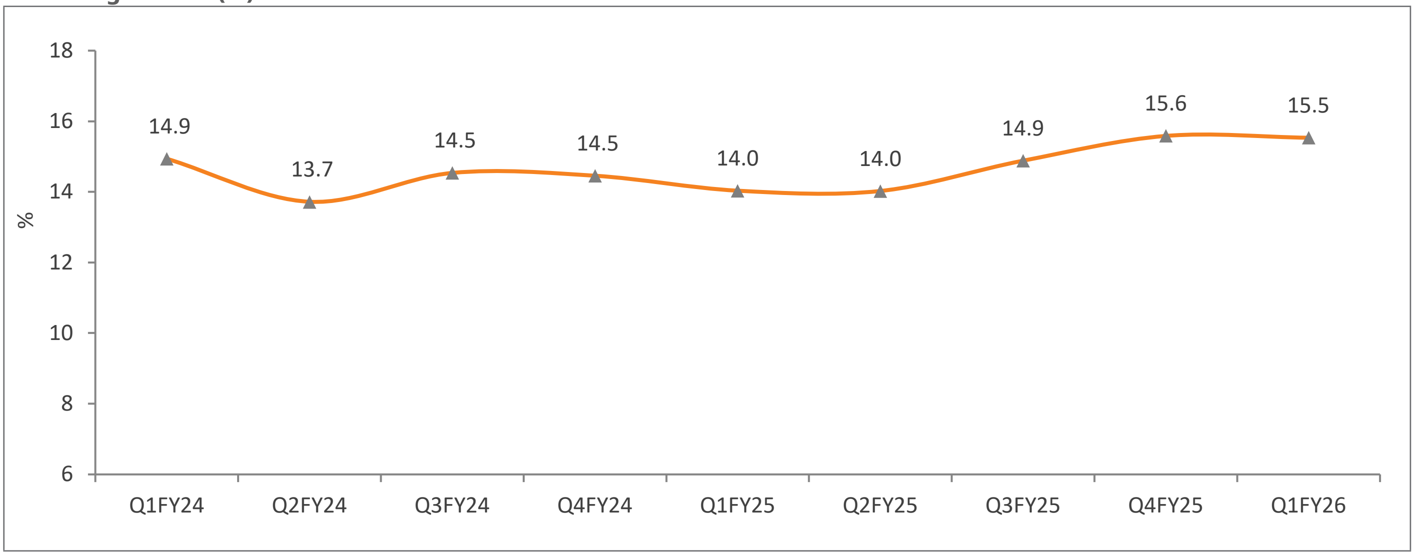
*Source: Company; Mirae Asset Sharekhan Research*

**USD revenue growth trend (y-o-y)**



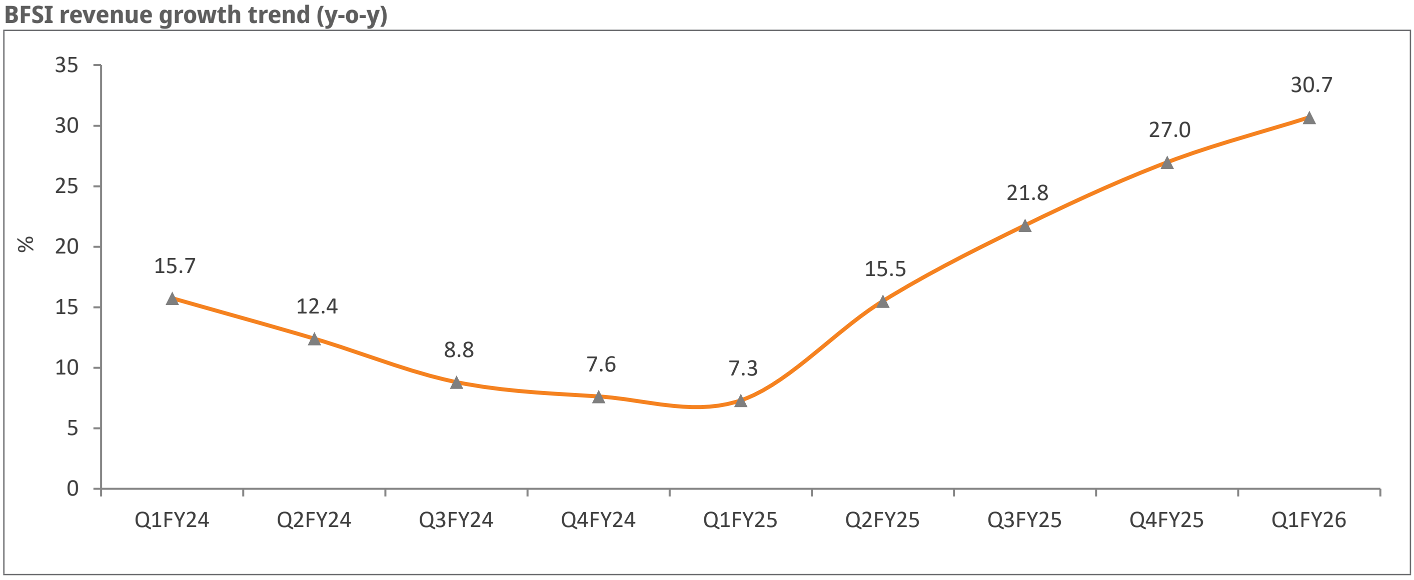

*Source: Company; Mirae Asset Sharekhan Research*

**EBIT margin trend (%)**



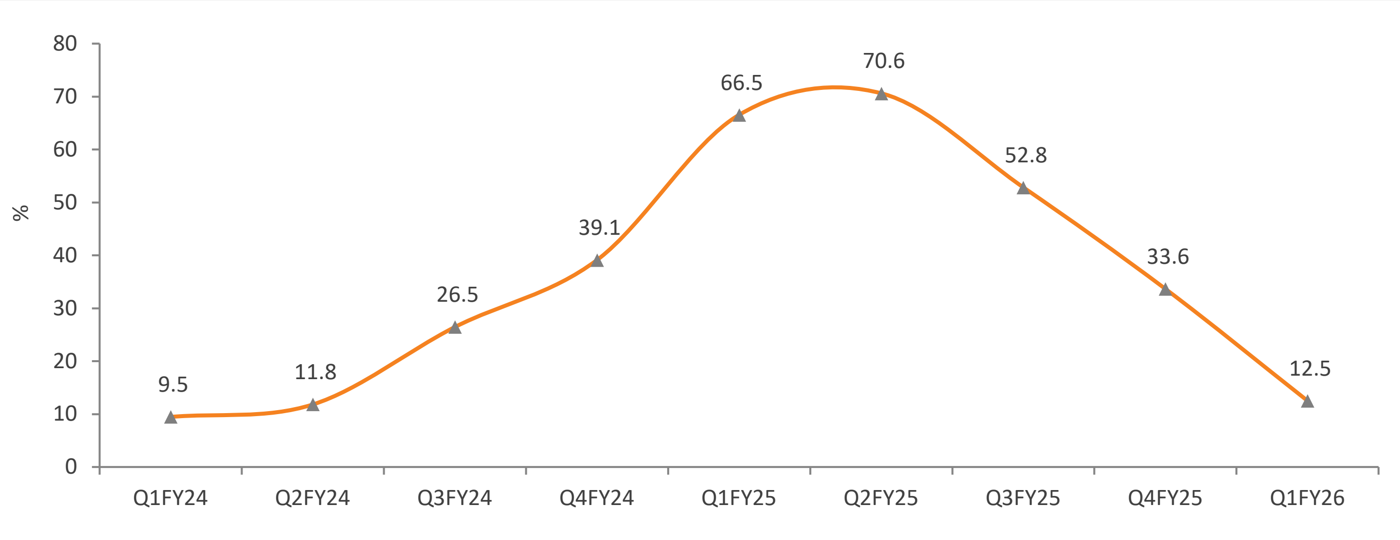

*Source: Company; Mirae Asset Sharekhan Research*

**BFSI revenue growth trend (y-o-y)**



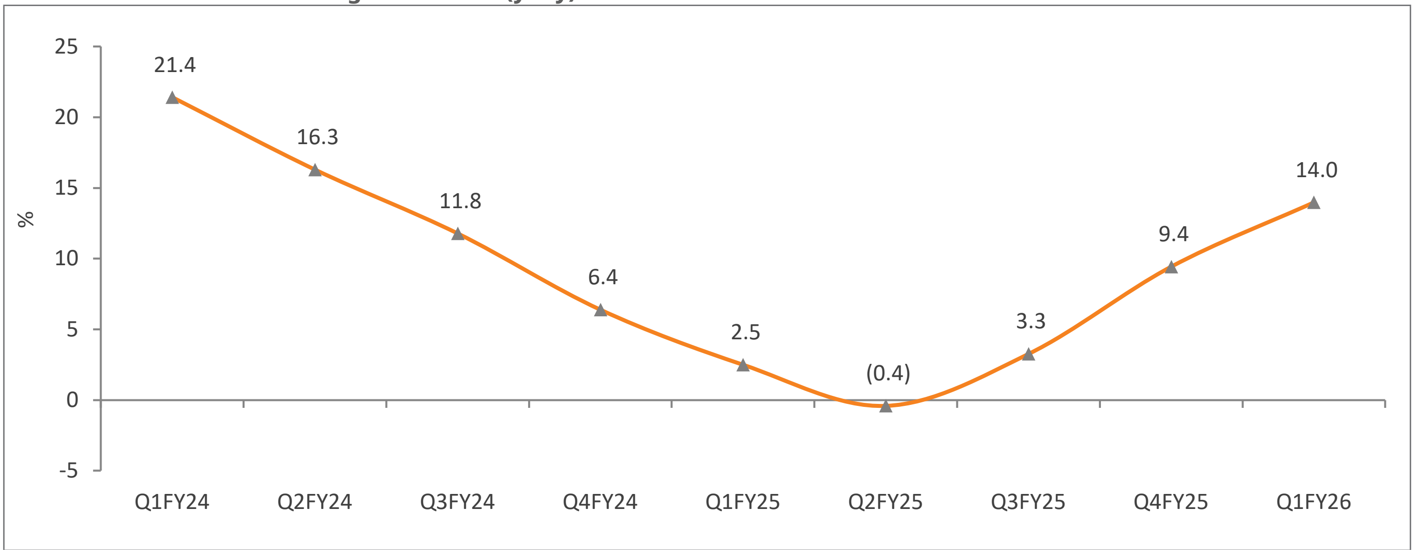

*Source: Company; Mirae Asset Sharekhan Research*

**Healthcare and life sciences revenue growth trend (y-o-y)**



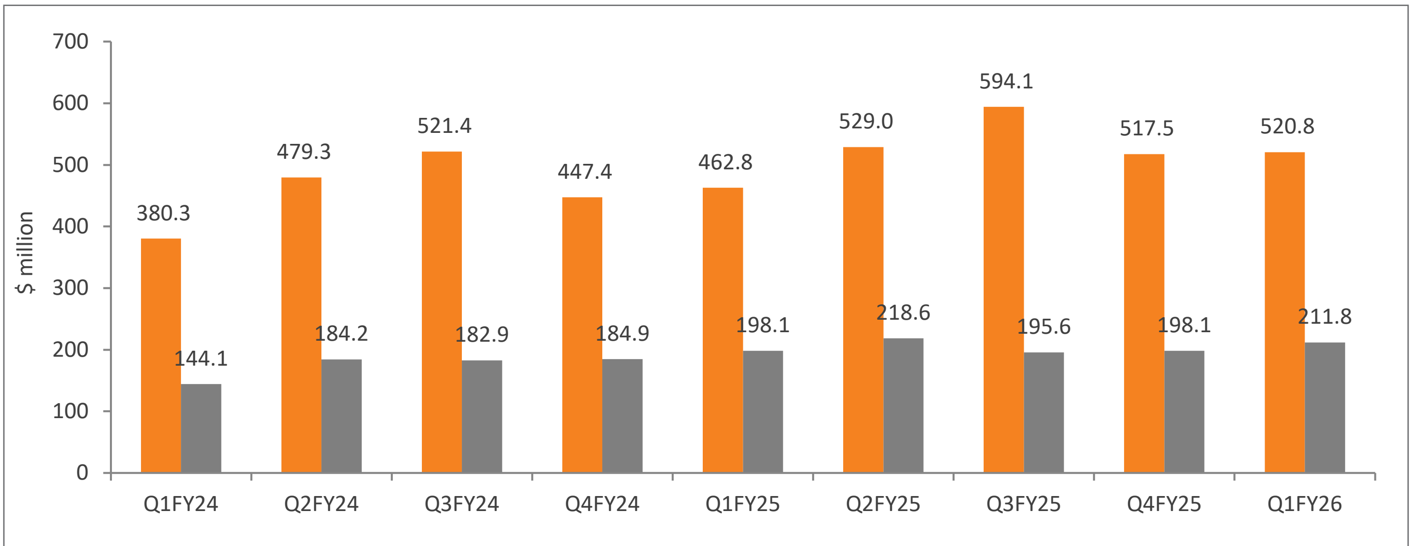

*Source: Company; Mirae Asset Sharekhan Research*

**Software and hi-tech revenue growth trend (y-o-y)**




*Source: Company; Mirae Asset Sharekhan Research*

**Total deal TCV and new business ACV trend**




*Source: Company; Mirae Asset Sharekhan Research*

## Outlook and Valuation

■ **Sector Outlook – Robust deal pipeline, cost optimisation, and technology modernisation opportunities to aid growth**

The Indian IT sector is poised for modest growth in FY2026, driven by stabilisation in key markets like the US and Europe, alongside increasing demand for AI, Cloud, and digital transformation services. Despite near-term challenges such as macroeconomic uncertainty, discretionary spending delays, and geopolitical volatility, the sector is expected to benefit from a robust deal pipeline and a shift toward cost optimisation and technology modernisation initiatives.

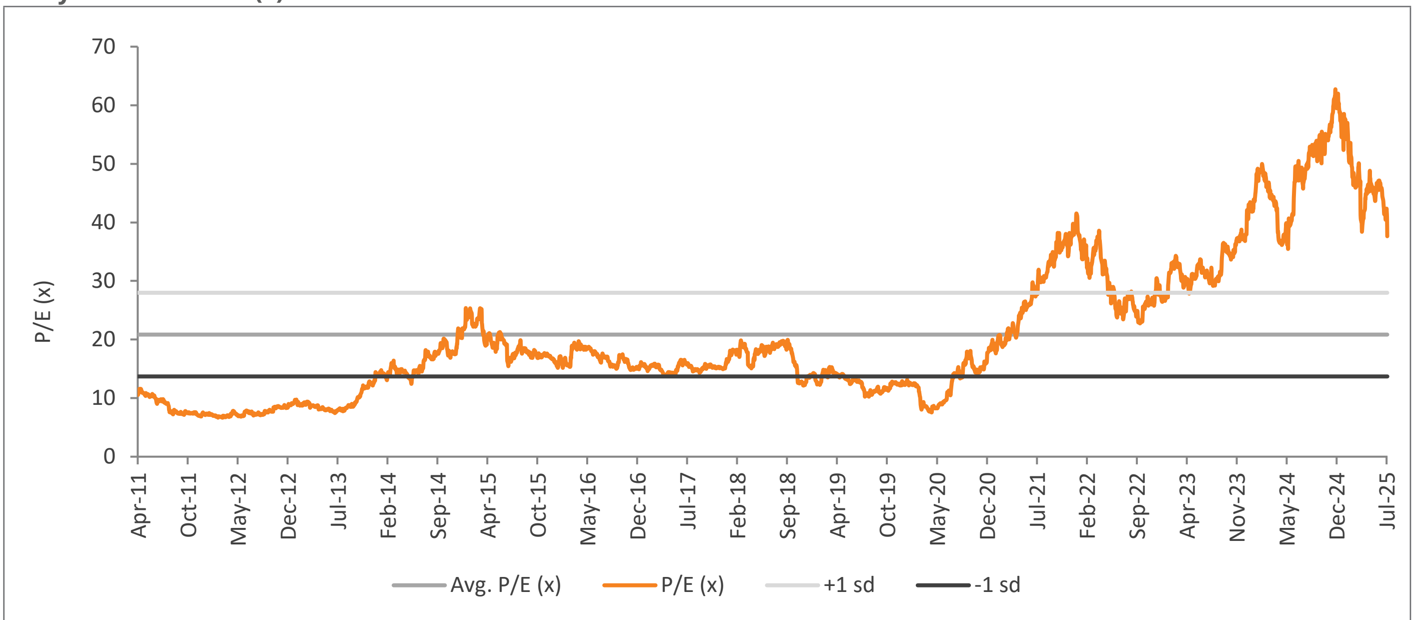
■ **Company Outlook – Well-positioned to capture the immense growth opportunity**

Persistent is well-placed to capture a significant chunk of spends in digital technologies as well as opportunities in vendor consolidation and cost optimisation. The company is confident of the trajectory towards achieving its $2 billion aspirational near term revenue target by FY27 and has set a new aspiration of reaching $5 billion in revenues by FY31. Management remains committed to a guidance of a 200-300 bps rise in margins by FY27.

■ **Valuation – Maintain Buy with revised PT of Rs. 6,600**

Persistent delivered steady quarter despite challenging macro with consistent growth sequentially, strong deal wins, lead by BFSI, Hi-tech verticals. The $2 billion revenue target by FY27,supported by a strong deal pipeline, growing AI and Platform traction and strategic acquisitions, positions Persistent for top-quartile growth amid macroeconomic uncertainties and cautious client spending. We expect sales/PAT CAGR at ~19%/23% over FY25-FY27E.We maintain Buy rating with a revised PT of Rs. 6,600 (valued at 48x FY27E EPS). At CMP, the stock trades at 45.9/37.6x FY26/27E EPS.

**One-year forward P/E (x) band**




*Source: Company; Mirae Asset Sharekhan Research*

## About company

Persistent Systems is a global IT services and digital company delivering software product development, AI-driven solutions, and digital transformation across BFSI, Healthcare & Life Sciences, and Technology verticals. With FY25 revenue US$1.41 billion and a workforce of 24,500, it serves Fortune 500 clients, generating 80% of revenue from North America.

## Investment theme

Large corporates have been allocating higher budgets towards digital transformation initiatives and IT spends are moving from ISV to the enterprise model. Persistent has restructured its business and aligned its sales resources to capitalise the benefits from clients' digital transformation journey. The alliance with top tech companies, hyperscalers and investments in new-age technologies (AI, gen AI ,IoT, Blockchain, artificial learning, and machine learning) are expected to help the company capture opportunities from these spends.

## Key Risks

1) Rupee appreciation and/or adverse cross-currency movements and 2) Macro headwinds, and recession in the U.S., can moderate the pace of technology spends.

## Additional Data

**Key management personnel**

| Name | Designation |
|---|---|
| Dr. Anand Deshpande | Founder, Chairman and MD |
| Sandeep Kalra | Executive Director and CEO |
| Vinit Teredesai | Chief Financial Officer (CFO) |

*Source: Company Website*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Motilal Oswal Asset Management Co | 5.57 |
| 2 | KOTAK MAHINDRA TRUSTEE CO | 4.89 |
| 3 | Vanguard Group Inc/The | 2.94 |
| 4 | Blackrock Inc | 2.75 |
| 5 | HDFC Asset Management Co Ltd | 2.49 |
| 6 | Kotak Mahindra Asset Management Co | 2.31 |
| 7 | FundRock Management Co SA | 2.22 |
| 8 | Nippon Life India Asset Management | 1.91 |
| 9 | Axis Asset Management Co Ltd/India | 1.64 |
| 10 | UTI Asset Management Co Ltd | 1.54 |

*Source: Bloomberg*

## Understanding the Mirae Asset Sharekhan 3R Matrix

| | |
|---|---|
| **Right Sector** | |
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| **Right Quality** | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet |
| **Right Valuation** | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Mirae Asset Sharekhan Research

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Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

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