

SELL

TP: Rs 3,749 | ▼ 23%

PERSISTENT SYSTEMS

| IT Services

| 29 June 2026

Big Deal, Bigger Risks

- On 27 June 2026, PSYS announced a very large acquisition (Nagarro - 75% of current revenue) and a large net new deal
- While Nagarro buy sets up PSYS to hit its US\$5bn revenue target by FY31, deal execution, generating synergies seem harder
- Our new estimates expect accretion to EPS but material return dilution. We see elevated risks (discussed below) and hence maintain 'SELL'

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Positives of the Nagarro deal: (1) PSYS becomes a more diversified player from geo, vertical and horizontal perspectives. (2) larger size and geo footprint, especially in Europe (Germany, France, Italy, Spain, Switzerland, the Middle East, Japan, and Israel, where PSYS currently has limited presence) makes the combined entity eligible to bid for larger deals in traditional IT/ITES business. (3) the acquisition seems complementary from a vertical and geo mix perspectives. (4) Valuation at ~1.27x TTM EV/sales seems reasonable, optically. (5) Even in an AI world, onsite and near shore employees are critical and Nagarro brings them to PSYS in Europe. (6) Combined entity has 350+ customers with revenue more than USD1mn with only single-digit number of customers overlapping. There is potential for cross sell

Negatives of the Nagarro deal: (1) This seems a traditional acquisition during tectonic changes in the IT services business model which is moving away from labor intensity due to considerable use of AI (2) the M&A firepower could have been used better for buying AI capabilities like Cyber Security or Data/Analytics or AI platforms (3) Nagarro has 68% revenue exposure to Time and material business makes it more susceptible to revenue deflation due to AI (4) if minority shareholders hold out even after PSYS gets 50% share of Nagarro, we believe the integration may not be as tight and extracting synergies may take longer and harder and could consume management bandwidth. (5) do not have clarity for below par EBIT margin – ~10% that Nagarro has had for multiple years. Suspect it is the very diversified nature of its vertical mix and its long tail of what seem like mid-market clients. (6) We believe ERP and CX skills are 'retro' skills and probably do not add as much value from a cross-sell standpoint into the PSYS client base. (7) post tax ROIC falls from ~40% in FY26 to ~15% in FY28 post all the changes we have made to our estimates (8) the 140% premium to underlying stock price seems excessive. Part of this has been due to the sharp correction that the sector and Nagarro specifically (~55% CYTD till 25 June 2026) has seen due to weaker demand and concerns around AI.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PSYS IN/Rs 4,842
Market cap	US\$ 8.0bn
Free float	69%
3M ADV	US\$ 36.7mn
52wk high/low	Rs 6,599/Rs 4,449
Promoter/FPI/DII	30%/22%/30%

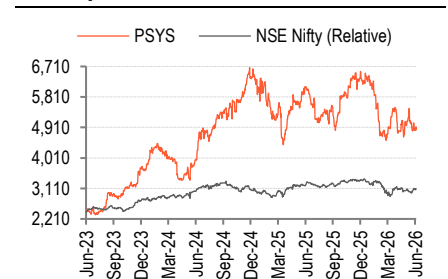
Source: NSE | Price as of 25 Jun 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	147,485	210,261	321,818
EBITDA (Rs mn)	27,955	37,488	54,988
Adj. net profit (Rs mn)	19,542	23,783	27,474
Adj. EPS (Rs)	118.9	150.8	174.2
Adj. ROAE (%)	27.6	28.0	27.7
Adj. P/E (x)	40.7	32.1	27.8
EV/EBITDA (x)	27.5	18.7	11.5
Adj. EPS growth (%)	31.8	26.8	15.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Assumptions: In our new estimates we have assumed the Nagarro deal will be fully consummated as of 1 Jan 2027 (that PSYS will have 100% of the outstanding shares by then) and we have combined the entities effective that date. Assume 1 Euro is 1.15 USD and that INR/USD rate is 95. Assume bridge loan of EURO1.4bn to have interest rate of 4.8% and that it would be rolled over into a normal long-term loan. That PSYS will not raise equity to pay back the loan. Assume 5% of Nagarro's value will be added to tangible assets of the combined company and the rest would be split between 70% to goodwill and 25% to intangible (to be amortized over 32 quarters). We have also added the Hi-tech large deal to our estimates from 2QFY27. Ideally it would be part of the organic growth assumed in FY27. So, we are being generous here. We have not assumed any material deflation in the revenue of Nagarro in FY28-FY29, giving again the benefit of the doubt. We have assumed that the combined entity will have lower EBIT margin than the current PSYS. All of these changes lead to EPS accretion in all the three years but at little less so in FY28

Valuation: We believe that unlike the tuck-in acquisitions PSYS has successfully handled in the past, Nagarro is much larger and harder to execute especially as it pertains to Europe where laws are not as business friendly as in the US. Besides there is the uncertainty around the open offer and that could suck up some management bandwidth of PSYS. We also see big revenue deflation risk due to Nagarro's T&M heavy revenue. We also think that cross sell may not be as effective as it may seem on paper as we believe most of the horizontal skills are 'retro'. PSYS's AI platform skill (SASVA) is the only big differentiator. We lower target PE multiple premium to TCS from 25% to 20% and work with Target PE of 20.2x June 2028 EPS to arrive at a Target price of Rs3749 (downside of ~23%) and maintain our 'SELL' stance. Our other issues with PSYS are given in the recent result note ([Link](#))

Acquisition

- PSYS announced on 27 June 2026 that it is acquiring Nagarro, a Munich-headquartered player in digital engineering with ~18,500 employees across 40+ countries, with exposure to industrial, consumer, TMT and BFSI verticals and a total revenue of €1 bn (CY25)
- PSYS announced the intention to launch a voluntary public takeover offer for all outstanding Nagarro shares at €81 per share
- All-cash offer represents a premium of ~140% to the undisturbed closing price on June 25, 2026, and ~94% to the three-month volume-weighted average price
- PSYS has already secured an approximately 21% stake in Nagarro, with the largest shareholder of Nagarro committing its entire stake under a binding agreement
- PSYS says that the acquisition is a good strategic fit, as it combines Persistent's AI-led engineering leadership, North American scale and partnership depth with Nagarro's European business, complementary verticals, AI expertise, and ERP and CX delivery, to create a ~US\$2.9 bn AI-led engineering powerhouse with 46,000+ employees across 40+ countries

Key points from the acquisition call

- PSYS expects the combination to benefit customers through greater scale, broader capabilities and stronger global delivery.
- Acquisition is fully aligned with PSYS's stated M&A strategy of expanding its European presence.
- Combined entity will operate as the Persistent-Nagarro Group. Transaction is expected to be value-accretive for shareholders of both companies.
- Management highlighted that the acquisition directly supports its long-term strategic priorities: Strengthens forward looking capabilities, strengthens positioning as a technology-focused services company, expands service offerings, broadens industry vertical exposure, significantly increases European presence and establishes stronger nearshore delivery capabilities in Europe
- Nagarro Overview
 - TTM Mar26 Revenue: €1,001mn (\$ 1,141.1mn)
 - 3-year CC revenue CAGR: 5.3%. Believe, organic CC revenue growth has been likely in the low single digits.
 - 5-year Revenue CAGR: 18.4%
 - TTM Mar26 Adj. EBITDA: €139mn (\$158.5mn)
 - TTM Mar26 Adj. EBITDA Margin: 13.9%
 - Headquartered in Munich, Germany and listed on Frankfurt Stock Exchange
 - Seasoned Management Board: Manas Human (CEO), Vikram Sehgal (COO), Annette Mainka (CRC) and Prateek Aggarwal (CFO, ex CFO of HCL Tech)
 - 18,500+ professionals across 40 countries (13,500+ in India, 3,000+ in Europe, 500+ in US and 1,500+ in Rest of the World)
 - A diversified digital engineering leader delivering full-stack solutions across digital engineering, intelligent enterprise, and experience & design
 - Strong European business with long-standing client relationships in Industrials and Consumer verticals
- Management identified cultural compatibility as one of the strongest investment theses because of the very large India based delivery staff. Entrepreneurial and engineering-led cultures are highly aligned. Nagarro already operates with a globally integrated workforce. Management believes integration risk is materially lower than a traditional onsite heavy European acquisition
- Management reiterated that the acquisition is not driven by cost synergies, but by capability enhancement and growth
- Geographic Diversification: Post acquisition: North America revenue mix reduces to approximately 62% (from 81% currently); Europe increases to approximately 22%

(from 9% currently); Remaining 16% will come from Rest of World markets (10% currently)

- Benefits include: Better geographic diversification; Expanded European delivery centers; Stronger nearshore delivery capability; Improved talent diversification
- Vertical Diversification: Nagarro adds meaningful exposure to: Industrial, Consumer and Public sector
- The combination also strengthens Persistent's presence across Middle east, Japan, Israel and other international markets

Strategic Benefits

- New dimension of scale: A global leader in AI-led digital engineering with ~US\$2.9bn run-rate revenue (4QFY26) and 46,000+ employees across 40+ countries. Greater global scale improves eligibility for large transformational deals
- Enhanced capabilities: Nagarro's AI, Digital, Product Design, ERP and CX capabilities complement Persistent's technology portfolio – the group strengthens the AI Forward Deployed Engineering capabilities, to accelerate client outcomes in AI-led transformation
- Stronger diversification: At-scale presence in North America (US\$1.7bn+) and Europe (US\$600mn+); Europe rising from ~9% to ~22% of pro-forma revenue
- Broader vertical depth: Scaled verticals with US\$750mn+ BFSI and TMT, US\$500mn+ HLS, US\$ 400mn+ Industrials; US\$300mn+ in Consumer; combined marquee client base
- Strong cultural fit: Two global organizations with entrepreneurial ethos, an engineering-first culture, and decades of trust with some of the world's most demanding clients
- Integration will be phased over time. Management expressed confidence in executing integration successfully.

Transaction Details:

- Persistent has agreed to acquire 100% of Nagarro at an Enterprise Value of ~€1.27bn, based on €81 per share in cash
- A premium of ~140% to the undisturbed closing price on June 25, 2026, and ~94% to three-month volume weighted average price
- Transaction values Nagarro at 1.27X times EV / Revenue; 9.12X times EV / EBITDA
- Persistent has already secured ~21% stake in Nagarro via a share purchase agreement
- Management Board has expressed their intent to tender their shares into the open offer

- Nagarro Board fully supports the transaction and has signed a Business Combination Agreement (BCA)
- Persistent extends voluntary public takeover offer for all outstanding shares at €81 per share in cash
- Minimum acceptance threshold for open offer: 50% + 1 share

Financing and related details

- Transaction to be funded through committed bridge financing from Barclays
- Interest: EURIBOR + Margin of 175 up to 250 bps (4.1% - 4.8%)
- Leverage (Net Debt / Combined EBITDA): ~1.9x to 2.5x based on open offer acceptance (50% + 1 share to 100%) and is expected to reduce below 1.0x by FY30
- Total amount of facility: Committed bridge financing facility of €1.4 bn (includes amount for refinancing of Nagarro's existing debt if required)
- Security: Corporate guarantee up to €1.54 bn provided by Persistent Systems Ltd. (additional amount provisions for outstanding accrued interest, if any)
- Goodwill and other intangibles: 70:30 ratio
- Amortization period for other intangibles: 8 years
- Expected to be Cash EPS accretive as well as Reported EPS accretive in Year 1 (excluding transaction expenses)
- Revenue and Cost synergies to be detailed post regulatory approvals

Other Points

- Cross-selling opportunities: Synergies extend beyond ERP and CX to vertical expansion, geographic reach and consulting capabilities. Acquisition adds industrial, consumer and public sector verticals, while strengthening delivery across Germany, France, Italy, Spain, Switzerland and other European markets. Management remains confident of scaling the combined entity through multiple synergy levers
- Management retention: Nagarro's management team is committed to remain with the business. Leadership will play an expanded role post integration, particularly across Europe and other core markets
- Nagarro's industrial/automotive exposure: Automotive is not the biggest segment for them. It is a broader industrial segment. Work is concentrated more on the digital side. Management does not view automotive slowdown as a material concern
- Margin outlook: Cost synergies will partly be reinvested into growth initiatives. Combined margins are not expected to be materially below Persistent's current margin profile. Management believes synergies can support margin expansion over time

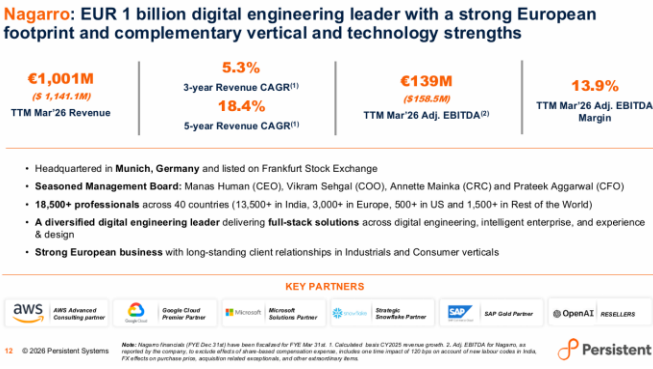
Issues that we foresee with the Nagarro deal

- Top 10 for Nagarro is at 26% and has about ~180 clients with revenue greater than 1m Euro. This indicates that it has a long tail of non-strategic mid-market clients. Not sure these are good clients for PSYS to cross sell into.
- EBIT margin of Nagarro has been lower (~10%) for many years now when its delivery mix seems quite similar to that India heritage players (73% of its employees are based in India) where EBIT margins are closer to mid-teen levels. We are not sure what the structural issue is. Whether utilization is being run at lower levels, whether stock-based compensation is high or SGA high due to a long tail of clients or is it too vertically diversified for its size.
- Time and material revenue is 68% in 2025 (extreme when compared to its average peer in India). We think that this revenue faces deflation due to AI

Large deal details

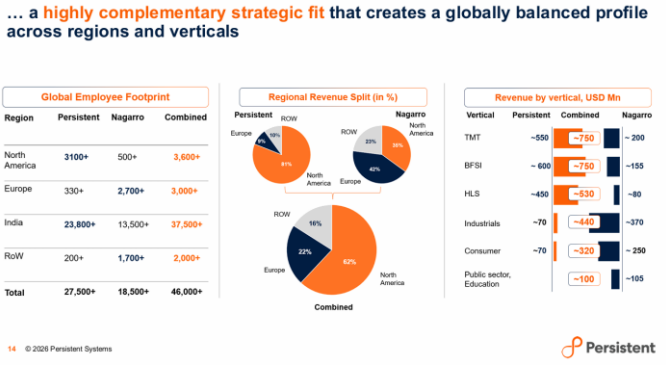
- PSYS has announced that it has entered into a long-term strategic services agreement with a US global technology leader.
- Work: Product Development, SRE Led operations, L2, production support, incident, problem, management, performance, optimization, and ongoing operational management of a portfolio of Enterprise software products.
- It is a 6.5 year strategic services agreement, focused on Product development, Product support, Cloud services operations and support. Total Contract Value: USD 650M+; Annual Contract Value: USD 125M+
- The agreement is aimed at expanding PSYS's presence across North America, Europe, and Asia Pacific and encompasses end to end operations, management, and support of a portfolio of enterprise Cloud services (this means very likely Microsoft or Google).
- Under this engagement, PSYS will leverage its domain expertise along with its advanced AI-driven platforms to deliver innovative, customized solutions for enterprise software and cloud services.
- We believe this deal entails rebadging employees from the Hi-Tech customer to PSYS. We believe that this deal will deliver below corporate level margins in the near term

Fig 1 – Nagarro’s key metrics at a glance



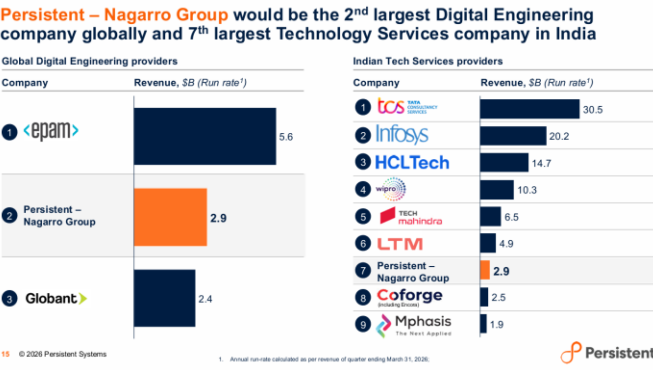
Source: Company

Fig 2 – Regional and vertical mix post-merger



Source: Company

Fig 3 – Persistent-Nagarro's competitive positioning globally



Source: Company

Fig 4 – Value creation for all stakeholders



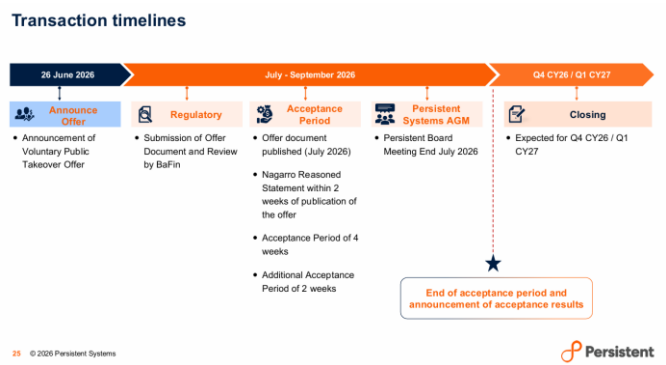
Source: Company

Fig 5 – Valuation



Source: Company

Fig 6 – Deal closure expected in 4QCY26/1QCY27



Source: Company

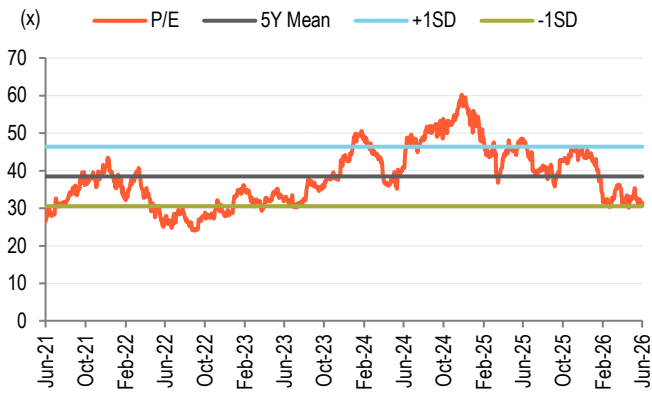
Fig 7 – Combined AI strategy

Persistent - Nagarro Group to be a combined AI powerhouse: deeper where we lead, complement across the enterprise, lead in Europe and physical world



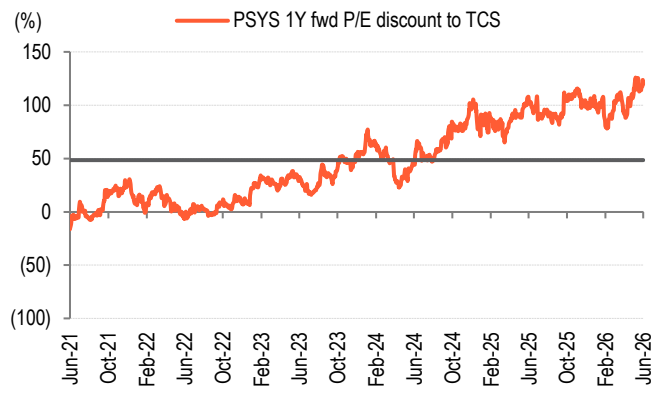
Source: Company

Fig 8 – 5 Year PE trend



Source: Bloomberg, BOBCAPS Research

Fig 9 – Premium/ Discount to TCS



Source: Bloomberg, BOBCAPS Research

Fig 10 – Revised Estimates

	New			Old			Change (%)		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
INR/USD	95.4	96.4	97.4	93.9	94.9	95.9	1.6	1.6	1.6
USD Revenue (USD mn)	2,203	3,339	3,760	1,886	2,154	2,460	16.8	55.0	52.8
USD Revenue Growth (%)	33.2	51.5	12.6	14.0	14.2	14.2			
Revenue (Rsmn)	210,261	321,818	366,124	177,105	204,405	235,886	18.7	57.4	55.2
EBIT (Rsmn)	31,464	43,998	53,017	29,049	34,197	39,146	8.3	28.7	35.4
EBIT Margin (%)	15.0	13.7	14.5	16.4	16.7	16.6			
PAT (Rsmn)	23,783	27,474	34,933	23,024	27,129	31,120	3.3	1.3	12.3
FDEPS (Rs)	150.8	174.2	221.4	145.9	172.0	197.3	3.3	1.3	12.3

Source: BOBCAPS Research

Fig 11 – P&L at a glance

(YE March) (Rsmn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Average INR/USD	61.3	65.6	67.1	64.5	70.0	71.1	74.0	74.5	80.5	82.8	84.7	89.0	95.4	96.4	97.4
Net Sales (USD mn)	308	352	429	471	481	502	566	766	1,036	1,186	1,409	1,655	2,203	3,339	3,760
YoY Growth (%)	12.4	14.2	22.0	9.7	2.2	4.3	12.9	35.2	35.3	14.5	18.8	17.4	33.2	51.5	12.6
Net Sales	18,913	23,123	28,784	30,337	33,659	35,658	41,879	57,107	83,506	98,217	119,387	147,485	210,261	321,818	366,124
YoY Growth (%)	13.3	22.3	24.5	5.4	11.0	5.9	17.4	36.4	46.2	17.6	21.6	23.5	42.6	53.1	13.8
Cost of Sales & Services	11,317	14,305	18,518	19,704	21,378	23,494	27,650	37,895	55,315	65,231	78,740	94,874	138,099	215,477	245,047
% of sales	59.8	61.9	64.3	65.0	63.5	65.9	66.0	66.4	66.2	66.4	66.0	64.3	65.7	67.0	66.9
Gross Margin	7,596	8,819	10,266	10,633	12,281	12,164	14,229	19,213	28,191	32,986	40,647	52,610	72,162	106,341	121,077
% of sales	40.2	38.1	35.7	35.0	36.5	34.1	34.0	33.6	33.8	33.6	34.0	35.7	34.3	33.0	33.1
SG& A	3,690	4,647	5,727	5,946	6,476	7,234	7,398	9,631	12,999	15,729	20,066	24,656	34,674	51,352	56,466
% of sales	19.5	20.1	19.9	19.6	19.2	20.3	17.7	16.9	15.6	16.0	16.8	16.7	16.5	16.0	15.4
EBITDA	3,906	4,171	4,539	4,687	5,805	4,930	6,830	9,582	15,191	17,257	20,581	27,955	37,488	54,988	64,610
% of sales	20.7	18.0	15.8	15.4	17.2	13.8	16.3	16.8	18.2	17.6	17.2	19.0	17.8	17.1	17.6
Depreciation and Amortization	939	965	1,490	1,585	1,573	1,660	1,756	1,660	2,719	3,094	3,069	4,030	6,024	10,991	11,593
% of sales	5.0	4.2	5.2	5.2	4.7	4.7	4.2	2.9	3.3	3.1	2.6	2.7	2.9	3.4	3.2
EBIT	2,967	3,206	3,049	3,102	4,233	3,270	5,075	7,922	12,472	14,163	17,512	23,925	31,464	43,998	53,017
% of sales	15.7	13.9	10.6	10.2	12.6	9.2	12.1	13.9	14.9	14.4	14.7	16.2	15.0	13.7	14.5
Other income	932	750	958	1,190	631	1,254	1,020	1,321	(64)	327	710	1,078	902	829	827
Interest expense													918	6,670	5,326
PBT	3,900	3,956	4,007	4,292	4,863	4,524	6,094	9,243	12,409	14,490	18,223	25,002	31,448	38,158	48,519
-PBT margin (%)	20.6	17.1	13.9	14.1	14.4	12.7	14.6	16.2	14.9	14.8	15.3	17.0	15.0	11.9	13.3
Provision for tax	993	983	992	1,062	1,347	1,121	1,588	2,339	3,198	3,541	4,222	5,461	7,666	10,684	13,585
Effective tax rate (%)	25.5	24.8	24.8	24.7	27.7	24.8	26.1	25.3	25.8	24.4	23.2	21.8	24.4	28.0	28.0
Net profit	2,906	2,974	3,015	3,231	3,517	3,403	4,507	6,904	9,211	10,949	14,001	19,542	23,783	27,474	34,933
-Growth (%)	16.6	2.3	1.4	7.2	8.9	-3.2	32.4	53.2	33.4	18.9	27.9	33.2	27.5	15.5	27.2
-Net profit margin (%)	15.4	12.9	10.5	10.6	10.4	9.5	10.8	12.1	11.0	11.1	11.7	13.2	11.3	8.5	9.5

Source: Company, BOBCAPS Research

Fig 12 – Balance Sheet at a glance

(YE March) (Rsmn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Equity capital	800	800	800	800	791	764	764	764	764	770	779	789	789	789	789
Reserves & surplus	13,255	15,593	18,193	20,472	22,656	23,093	27,192	32,918	38,887	48,807	62,411	77,590	90,670	105,781	124,994
Net worth	14,055	16,393	18,993	21,272	23,447	23,858	27,957	33,682	39,651	49,577	63,191	78,379	91,459	106,570	125,783
Deferred tax liability	3	-	111	-	-	-	-	-	-	-	150	326	326	326	326
Other liabilities	1	1	166	160	253	544	957	3,448	4,902	2,218	2,697	5,818	5,818	5,818	5,818
Total loans	25	26	22	17	12	46	44	2,801	2,058	99	-	-	152,950	124,950	96,950
Total liabilities	14,084	16,420	19,291	21,448	23,712	24,448	28,958	39,931	46,610	51,894	66,038	84,523	250,553	237,664	228,877
Goodwill	24	175	76	77	81	89	86	2,790	7,184	10,913	12,338	13,597	120,662	120,662	120,662
Intangible													38,238	33,458	28,678
Net block (incl CWIP)	4,093	4,453	5,573	5,097	4,242	4,530	4,605	13,617	16,391	11,637	13,846	15,339	22,137	16,321	9,903
Investments	6,735	6,175	6,839	8,797	7,641	9,786	9,996	8,224	6,396	8,266	9,803	16,148	16,148	16,148	16,148
Deferred tax asset	315	233	306	372	405	960	1,038	1,123	1,129	1,360	2,024	3,460	3,460	3,460	3,460
Other non-current assets	127	1,721	994	129	418	690	467	872	1,667	1,938	1,031	450	450	450	450
Other current assets	1,452	2,600	3,411	4,585	4,122	4,373	4,945	8,885	8,562	11,902	18,926	30,358	46,724	55,232	61,295
Debtors	3,586	4,275	4,754	4,847	4,923	5,922	5,709	9,484	15,830	17,491	19,142	22,231	39,677	46,901	52,050
Cash & bank balance	1,416	1,432	1,510	2,414	6,724	4,572	9,809	9,145	9,033	10,229	10,255	12,183	25,606	6,133	13,536
Total current assets	6,454	8,308	9,675	11,846	15,769	14,867	20,463	27,514	33,425	39,623	48,323	64,772	112,007	108,266	126,882
Total current liabilities	3,665	4,646	4,173	4,870	4,844	6,474	7,697	14,210	19,581	21,842	21,328	29,243	62,548	61,101	77,305
Net current assets	2,790	3,663	5,502	6,976	10,924	8,393	12,766	13,305	13,844	17,781	26,996	35,529	49,459	47,165	49,577
Total assets	14,084	16,420	19,291	21,448	23,712	24,448	28,958	39,931	46,610	51,894	66,038	84,523	250,553	237,664	228,877

Source: Company, BOBCAPS Research

Fig 13 – Ratios

(YE March)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Per Share (Rs)															
EPS	18.4	18.6	18.8	20.2	22.0	22.2	29.4	45.1	60.3	72.6	91.2	119.7	152.0	175.6	223.3
FDEPS	18.2	18.6	18.8	20.2	22.0	22.2	29.4	45.1	60.3	71.2	90.2	118.9	150.8	174.2	221.4
Dividend Per Share	3.5	4.0	4.5	5.0	5.6	6.0	10.0	15.5	25.0	26.0	34.9	54.8	68.4	79.0	100.5
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.5	0.5	0.7	1.1	1.4	1.6	2.1
Book Value	88	102	119	133	148	156	182	220	259	322	405	497	580	676	797
Dividend Payout Ratio (%)	23	26	25	25	30	27	34	34	41	36	38	46	45	45	45
Return ratios (%)															
RoE	22.1	19.5	17.0	16.0	15.7	14.4	17.4	22.4	25.1	24.5	24.8	26.3	28.0	27.7	30.1
Post Tax RoCE	16.8	15.8	12.9	11.5	13.7	10.4	14.5	18.4	23.7	23.4	23.8	26.1	14.7	13.3	16.8
Post Tax ROIC	35.9	32.7	23.4	22.4	31.9	26.4	42.3	43.3	40.8	37.2	36.1	39.5	18.8	15.4	18.9
Turnover Ratios															
Asset Turnover Ratio	1.3	1.4	1.5	1.4	1.4	1.5	1.5	1.6	2.0	2.0	1.9	1.9	0.9	1.4	1.6
Debtor Days (incl. unbilled Rev)	69	67	60	58	53	61	50	61	69	65	59	55	69	53	52
Working Capital Cycle Days	27	28	39	51	48	39	25	10	3	11	31	43	36	33	35
Valuation ratios (x)															
PER	266.5	260.5	256.9	239.8	219.6	218.2	164.8	107.4	80.3	68.0	53.7	40.7	32.1	27.8	21.9
P/BV	55.1	47.3	40.8	36.4	32.7	31.1	26.6	22.0	18.7	15.0	11.9	9.7	8.4	7.2	6.1
EV/EBTDA	189.1	177.1	162.7	157.4	126.3	149.2	106.9	76.6	48.2	41.8	35.8	26.7	23.6	15.9	13.0
EV/Sales	39.1	31.9	25.7	24.3	21.8	20.6	17.4	12.8	8.8	7.4	6.2	5.1	4.2	2.7	2.3
Net Debt/Equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.2)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	1.5	1.2	0.7
M-cap/Sales	39.1	32.0	25.7	24.4	22.0	20.8	17.7	13.0	8.9	7.5	6.3	5.1	3.6	2.4	2.1

Source: Company, BOBCAPS Research

We have an Underweight stance on Indian IT Services

We reinitiated coverage on the Indian IT Services with an Underweight stance through a report on 1 January 2025 (**Slow is the (new/old) normal**) and reiterated our view with updates on 12th March 2025 (**FY26 unlikely to be better than FY25**), 10th July 2025 (**Uncertainty stays and 'eating the tariff' may impact even FY27**) and 12 January 2026 (**A fourth slow year?**).

While both earnings and PE multiples have corrected since 1 Jan 2025, the industry's structural organic revenue growth from here on will be much lower vs ~7% CAGR seen during FY15-FY20; possibly ~3-5% CAGR over FY25-FY30 in constant currency (CC) terms. We also believe that release of advanced AI models will cause significant disruption to the industry rendering the sector to be a 'value trap'. We wrote about this in our 17 February 2026 report (**Existential threat, value trap or Temporary blip**) and through our 6 April 2026 report (**Narrative of FY27 being modestly better, set for its first test**).

Multiple speed breakers drive our Underweight stance

Trump policies raise uncertainty: While tariffs drove uncertainty in 2025, Trump's multiple proposals to address affordability crisis in the US ahead of the mid-terms in Nov'26 will be the key monitorable in 2026 (e.g.: freezing credit card interest rate at 10%, controlling prices of products and services, cash payments to citizens, buying of US\$200bn MBSs, etc.). There will be winners/ losers due to this in USA Inc and that could reflect in the IT spending outcomes.

Higher for longer interest rate environment: Lately, based on inflation prints and fears of a higher fiscal deficit, US 10Y yields have remained firm. There are fears of sustained high interest rates potentially reducing IT outsourcing demand; particularly in BFSI and Telecom, and dampen US demand in areas like housing, autos and retail.

Gen AI and GCCs are going to disrupt growth: We believe that AI/Gen AI will lead to compression of revenue for the industry in the next 24-36 months, as companies self-cannibalize to hold on to their existing clients. Rapid growth of the GCCs is a threat to outsourcing. While there seems to be collaboration between outsourcers and their clients in setting up these GCCs, there will be growth discontinuity when the business is insourced at some point.

Massive hyper scaler AI capex should accentuate re-alignment in IT spend:

Software players, including hyper scalers, are increasing capex on AI-related data centres. This will drive higher pricing, forcing enterprises to allocate more IT spend to Cloud/SaaS and move it away from the ones with lower bargaining power – global IT Services players.

Higher competition: Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players and Cognizant, likely slowing their growth vs FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue has reached US\$ 85bn, double that in FY15. Due to the higher base now, growth may not be as rapid.

How we are valuing companies: We are using PE methodology, as also TCS, as our industry benchmark. Target PE for TCS is 16.8x, which is the average PE multiple of TCS over the last 10 years less 1.5SD. We have been giving subjective premium/discount to the benchmark target PE to arrive at target PE multiples for the rest of our coverage.

Our target PE multiples are lower than those used by consensus/competitors. Through our choice of the benchmark target PE multiple, we seek to capture the mortality and relevance risk that players face in this era of advanced AI models.

Tier- 2 valuation reflects growth gap with Tier-1

Tier-2 set has been taking away market share from the Tier-1 set, due to better execution as well as their smaller size. And, unlike previous cycles, they have performed better than the Tier-1 set, largely on better management teams.

However, current PE premium to Tier-1s is excessive for certain stocks, because to deliver on the high consensus revenue growth expectations, they may be taking on more cost take-out projects that are likely to impact margins adversely.

Also, some of the Tier-2s have been underperforming on the growth front, being discretionary project-oriented businesses struggling to pivot to a cost-take-out-driven demand environment.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Total revenue	119,387	147,485	210,261	321,818	366,124
EBITDA	20,581	27,955	37,488	54,988	64,610
Depreciation	3,069	4,030	6,024	10,991	11,593
EBIT	17,512	23,925	31,464	43,998	53,017
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	710	1,078	902	829	827
Exceptional items	0	0	0	0	0
EBT	18,223	25,002	31,448	38,158	48,519
Income taxes	4,222	5,461	7,666	10,684	13,585
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	14,001	19,542	23,783	27,474	34,933
Adjustments	0	0	0	0	0
Adjusted net profit	14,001	19,542	23,783	27,474	34,933

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Accounts payables	0	0	0	0	0
Other current liabilities	17,299	28,672	61,530	59,898	75,970
Provisions	4,029	570	1,018	1,203	1,335
Debt funds	0	0	152,950	124,950	96,950
Other liabilities	2,848	6,144	6,144	6,144	6,144
Equity capital	779	789	789	789	789
Reserves & surplus	62,411	77,590	90,670	105,781	124,994
Shareholders' fund	63,191	78,379	91,459	106,570	125,783
Total liab. and equities	87,366	113,765	313,101	298,765	306,182
Cash and cash eq.	10,255	12,183	25,606	6,133	13,536
Accounts receivables	19,142	22,231	39,677	46,901	52,050
Inventories	0	0	0	0	0
Other current assets	18,926	30,358	46,724	55,232	61,295
Investments	9,803	16,148	16,148	16,148	16,148
Net fixed assets	13,805	15,232	22,030	16,214	9,796
CWIP	42	107	107	107	107
Intangible assets	12,338	13,597	120,662	120,662	120,662
Deferred tax assets, net	2,024	3,460	3,460	3,460	3,460
Other assets	1,031	450	450	450	450
Total assets	87,366	113,765	274,864	265,307	277,504

Cash Flows

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Cash flow from operations	8,433	17,789	30,218	27,955	56,844
Capital expenditures	(3,787)	(3,849)	(3,330)	(3,330)	(3,330)
Change in investments	(1,367)	(4,903)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(5,154)	(8,751)	(3,330)	(3,330)	(3,330)
Equities issued/Others	9	10	0	0	0
Debt raised/repaid	51	176	152,950	(28,000)	(28,000)
Interest expenses	0	0	0	0	0
Dividends paid	(5,387)	(8,574)	(10,702)	(12,363)	(15,720)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(5,327)	(8,389)	142,248	(40,363)	(43,720)
Chg in cash & cash eq.	26	1,928	13,423	(19,473)	7,403
Closing cash & cash eq.	10,255	12,183	25,606	6,133	13,536

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
Reported EPS	91.2	119.7	152.0	175.6	223.3
Adjusted EPS	90.2	118.9	150.8	174.2	221.4
Dividend per share	34.9	54.8	68.4	79.0	100.5
Book value per share	405.4	496.8	579.8	675.5	797.3

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
EV/Sales	6.4	5.2	3.3	2.0	1.8
EV/EBITDA	37.3	27.5	18.7	11.5	10.2
Adjusted P/E	53.7	40.7	32.1	27.8	21.9
P/BV	11.9	9.7	8.4	7.2	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Tax burden (Net profit/PBT)	76.8	77.4	75.6	72.0	72.0
Interest burden (PBT/EBIT)	104.1	100.8	100.0	86.7	91.5
EBIT margin (EBIT/Revenue)	14.7	16.2	15.0	13.7	14.5
Asset turnover (Rev./Avg TA)	211.3	207.7	130.0	135.1	161.0
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.9	2.4	2.0
Adjusted ROAE	24.8	26.3	28.0	27.7	30.1

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Revenue	21.6	23.5	42.6	53.1	13.8
EBITDA	19.3	35.8	34.1	46.7	17.5
Adjusted EPS	26.7	31.8	26.8	15.5	27.2
Profitability & Return ratios (%)					
EBITDA margin	17.2	19.0	17.8	17.1	17.6
EBIT margin	14.7	16.2	15.0	13.7	14.5
Adjusted profit margin	11.7	13.2	11.3	8.5	9.5
Adjusted ROAE	24.8	27.6	28.0	27.7	30.1
ROCE	23.8	26.1	14.7	13.3	16.8
Working capital days (days)					
Receivables	59	55	69	53	52
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA
Ratios (x)					
Gross asset turnover	8.6	9.7	9.5	19.8	37.4
Current ratio	2.3	2.2	1.8	1.8	1.6
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.2)	1.4	1.1	0.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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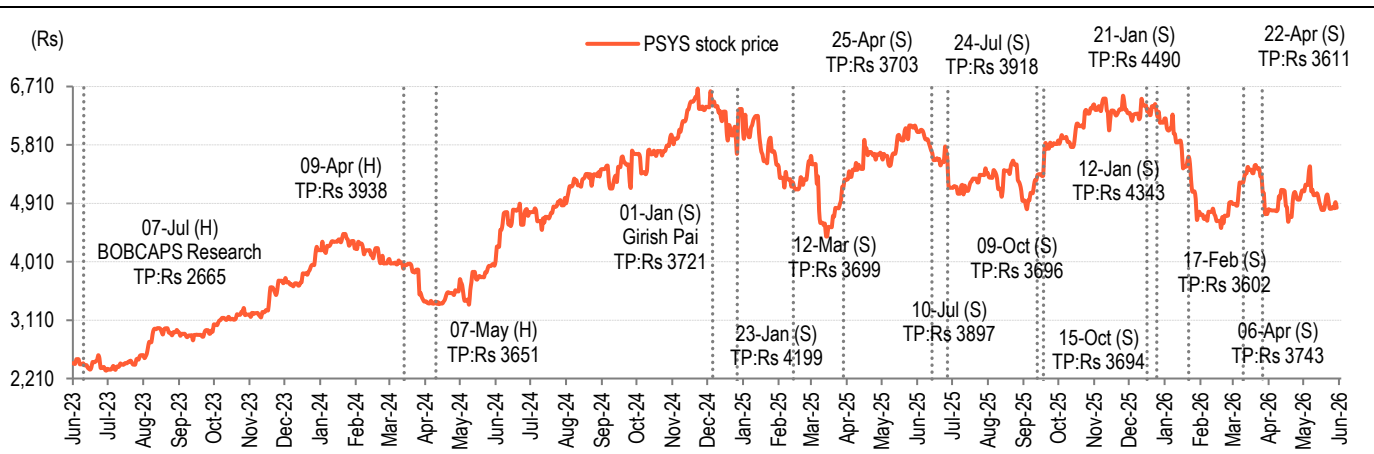
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- BUY** – Expected return >+15%
- HOLD** – Expected return from -6% to +15%
- SELL** – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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