

Persistent Systems

BSE Sensex 77,100 S&P CNX 24,056

CMP: INR4,842 TP: INR6,200 (+28%) Buy



Bloomberg	PSYS IN
Equity Shares (m)	158
M.Cap.(INRb)/(USD\$b)	763.7 / 8.1
52-Week Range (INR)	6599 / 4449
1, 6, 12 Rel. Per (%)	-4/-16/-16
12M Avg Val (INR M)	3323

Financials & Valuations (INR b)

Y/E Mar	FY26	FY27E	FY28E
Sales	147.5	178.3	209.7
EBIT Margin (%)	16.2	16.7	16.8
Adj. PAT	19.3	23.7	27.9
Adj. EPS (INR)	123.3	150.1	177.1
EPS Gr.(%)	36.7	21.7	18.0
BV/Sh.(INR)	503.6	591.3	698.3

Ratios

RoE (%)	27.3	27.7	27.7
RoCE (%)	24.6	24.6	24.6
Payout (%)	40.0	40.0	40.0

Valuations

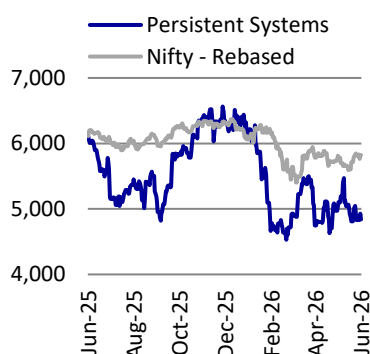
P/E (x)	39.3	32.3	27.4
P/BV (x)	9.6	8.2	6.9
EV/EBITDA (x)	25.8	20.9	17.5
Div. Yield (%)	1.0	1.2	1.5

Shareholding Pattern (%)

As On	Mar-26	Dec-25	Mar-25
Promoter	30.3	30.3	30.7
DII	30.5	29.8	26.9
FII	23.1	23.7	25.2
Others	16.2	16.2	17.3

FII includes depository receipts

Stock's performance (one-year)



Persistent acquires Nagarro

Geographical mix improves; margin delivery to be watched

- Persistent Systems announced two strategic developments: (1) the acquisition of Nagarro for an enterprise value of €1.27b, and (2) a new USD650m+ services contract over 6.5 years with an existing US-based technology customer. Nagarro adds ~USD1.1b revenue, taking the combined entity to nearly USD2.9b revenue with ~46,000 employees across 40+ countries, while strengthening Persistent's presence in Europe and broadening its service portfolio. Separately, the large customer deal is entirely incremental (not a renewal), is expected to contribute ~USD125m annually, and begins ramping from 2QFY27.
- Transaction details: Persistent will acquire 100% of Nagarro through an all-cash offer of €81/share, implying an enterprise value of €1.27b (140% premium to the undisturbed share price and 94% premium to the three-month VWAP). The company has already secured a 21% stake, with Nagarro's management also intending to tender its shares.
- As seen in Exhibit 2, the offer requires a minimum acceptance of 50% plus one share and is expected to close in 4QCY26/early 1QCY27, subject to regulatory approvals. The acquisition will be funded through a €1.4b committed bridge facility from Barclays (~4.1-4.8% borrowing cost), with no equity dilution or QIP. Management expects the deal to be cash EPS accretive from Year 1, while reported EPS should also remain accretive, excluding one-time transaction costs.
- We view this acquisition as addressing Persistent's long-standing objective of building scale in Europe, broadening its vertical mix, and creating cross-sell opportunities with limited customer overlap. The acquisition also appears priced at 9.1x EV/EBITDA, which we believe is a reasonable valuation for a business of Nagarro's scale. However, it remains to be seen how much value Persistent can extract from the acquisition through integration and cross-selling. We are relatively more cautious on the addition of ERP, a more mature and competitive service line than Persistent's core digital engineering business. While management expects margins to remain broadly stable, we would await greater clarity on integration, cost synergies, and the path toward margin convergence, given Nagarro's lower profitability. Execution over the next few quarters will remain the key monitorable.

Geographic diversification improves; customer overlap remains limited

- One of the biggest strategic benefits is the diversification of Persistent's geographic mix. Europe currently contributes only 8-9% of revenue for Persistent, whereas Nagarro has a well-established presence across Germany, France, Italy, Spain, Israel, etc. Following the acquisition, the combined revenue mix is expected to shift to ~62% North America, 22% Europe, and 16% Rest of World (refer to Exhibit 1).

- **Customer overlap between the two companies is limited to only a single-digit number of accounts, creating meaningful cross-selling opportunities.** The combined company will have 350+ customers generating over USD1m annually, while Persistent also expects to benefit from account mining opportunities across Nagarro's diversified customer base.
- Overall, we like the geographical diversification that this acquisition brings. **Europe has remained a relatively small business for Persistent despite being one of management's long-term priorities. Nagarro meaningfully accelerates this journey** and should improve Persistent's ability to participate in larger multi-region transformation programs.

Vertical expansion a positive; the service mix becomes broader

- The acquisition significantly broadens Persistent's industry mix. While Persistent has built strong positions in Technology, BFSI, and Healthcare, **Nagarro brings meaningful exposure to Industrials, Consumer, and the Public Sector, particularly across Europe (refer to Exhibit 1).**
- The deal also opens access to government and regulated-sector opportunities where Persistent previously had limited presence.
- **Nagarro also strengthens Persistent's capabilities across ERP (particularly SAP), consulting, and customer experience (CX), while adding a stronger presence in manufacturing-led engineering.**
- However, we are relatively more cautious on the service-line mix. **Persistent has historically differentiated itself through digital engineering and cloud-led services, while ERP is a larger, relatively mature, and more competitive market.** We believe execution and differentiation in this segment will be important monitorables over the medium term.

Margins remain an area where we await greater clarity

- **Management indicated that the combined entity should not operate at notably lower margins than Persistent today and** expects the transaction to be EPS accretive from the first year. While cost synergies exist, management indicated that a meaningful portion will be reinvested into future growth initiatives.
- That said, we believe margins remain an important area to watch. **Nagarro reported an EBIT margin of ~10.9% in CY25 and 12.1% in 1QCY26, compared with Persistent's 15.6% FY26 EBIT margin and 16.3% in 4QFY26.**
- While management expects operational improvements and does not foresee material margin dilution over time, **we would await greater clarity on the pace of integration, achievable cost synergies, and the timeline for margin convergence before building these into our assumptions.**

Valuation and view

- **Strategically, we view this acquisition as addressing Persistent's long-standing objective of building scale in Europe, meaningfully broadening its vertical exposure,** and strengthening its positioning for larger global transformation programs.
- The limited customer overlap and complementary geographic presence also create a reasonable cross-sell opportunity.

- **Our area of caution is around the services mix and margins.** While ERP strengthens Persistent's end-to-end portfolio, it also increases exposure to a relatively mature and competitive services segment where differentiation can be harder than in digital engineering.
- **Similarly, although management has guided stable margins and Year-1 EPS accretion, Nagarro currently operates at a lower margin profile.** We therefore think integration execution, realization of cost synergies, margin improvement, and leadership retention will remain the key monitorables over the next few quarters. **We continue to value the stock at 34x FY28E EPS and reiterate our BUY rating with a TP of INR6,200.**

Exhibit 1: Europe and the Industries/Consumer verticals become new growth vectors

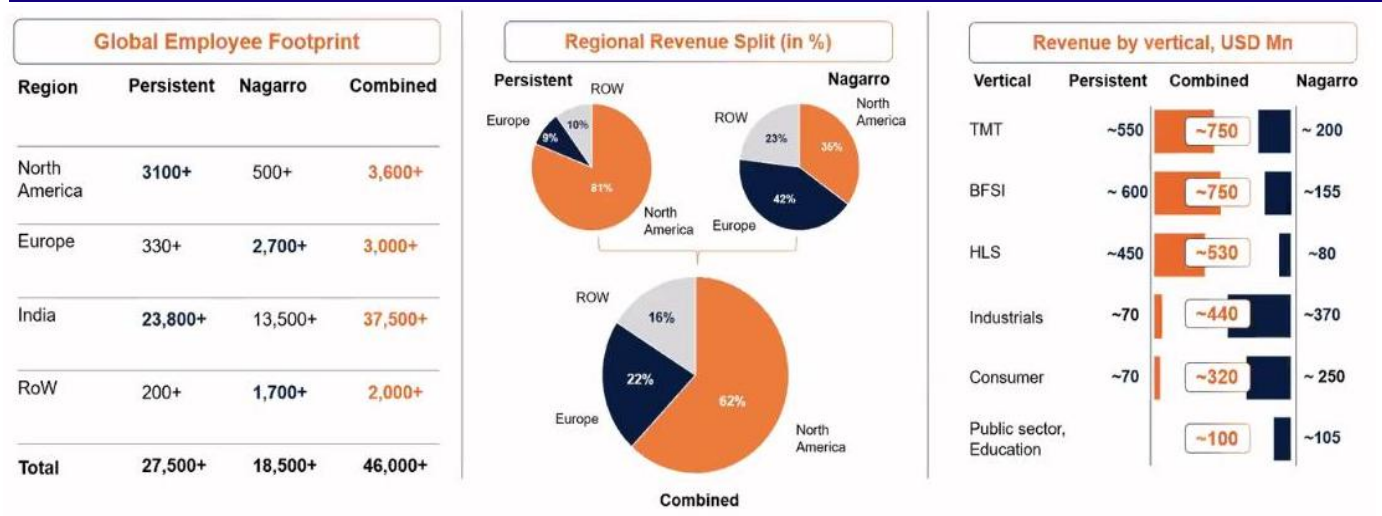



Exhibit 2: Transaction details



Transaction

Persistent has agreed to acquire 100% of Nagarro at an Enterprise Value of EUR ~1.27B, based on EUR 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 (Details provided in next slide)
- 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
- Both Nagarro Boards* fully support the transaction and signed a Business Combination Agreement (BCA)
- Persistent extends voluntary public takeover offer for all outstanding shares** at EUR 81 per share in cash
- Minimum acceptance threshold for open offer: 50% + 1 share**

Source: Company, MOFSL

Exhibit 3: 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 EUR 1.4 Billion (includes amount for refinancing of Nagarro's existing debt if required)
 - **Security:** Corporate guarantee up to EUR 1.54 Billion 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**



Key highlights from the management commentary

- Persistent announced a new strategic services contract with an existing US-based technology customer. The deal has a TCV of USD650m+ over 6.5 years, translating into annual revenue of ~USD125m+.
- Management highlighted that this is an entirely incremental business and not a renewal. The engagement covers end-to-end product engineering and product support across a significant product portfolio.
- Revenue contribution is expected to begin from 2Q itself, with management indicating healthy margins. The deal further strengthens confidence in sustaining Persistent's long growth track record.
- The acquisition addresses Persistent's long-standing objective of building scale in Europe while adding new geographies, verticals, and service capabilities.
- Management believes the combined entity will have stronger positioning for large global transformation deals where geographic footprint increasingly matters.
- The deal also expands Persistent's addressable market across Europe, the Middle East, Japan, and other international markets. Cultural compatibility was highlighted repeatedly, with both companies described as engineering-led, entrepreneurial, and AI-focused organizations.
- The combined entity will have revenue of ~USD2.9b with ~46,000 employees across 40+ countries. Geographic mix becomes significantly more diversified: North America: ~62%, Europe: ~22%, and Rest of World: ~16%
- Nagarro brings meaningful presence across Germany, France, Italy, Spain, Switzerland, Turkey, the Middle East, Japan, and Israel, where Persistent currently has limited scale.
- Management believes Europe will become a much larger growth engine instead of remaining an 8-9% revenue business. Only a single-digit number of customers overlap between the two companies, providing meaningful cross-selling opportunities.
- The combined entity will have 350+ customers with revenue exceeding USD1m annually.
- Management also sees a significant opportunity to mine Nagarro's customer base, where client concentration remains much lower than Persistent's.
- Nagarro adds meaningful scale in industrials, consumer, and public sectors, where Persistent currently has limited presence. Management also highlighted entry into Middle East public sector opportunities through Nagarro.
- Nagarro strengthens Persistent's ERP capabilities, particularly around SAP implementation. The acquisition also adds consulting capabilities and customer experience (CX) offerings.
- Management believes the service portfolios are largely complementary rather than overlapping. Combined AI capabilities become stronger through Persistent's hyperscaler ecosystem and Nagarro's OpenAI partnership.
- Nagarro is among the accredited OpenAI resellers and has an established forward-deployed engineering practice. Persistent will acquire Nagarro at €81/share, implying an enterprise value of €1.27b.
- The offer represents a 140% premium to the undisturbed closing price and 94% premium to the three-month VWAP.

- Management indicated confidence in crossing this threshold and ultimately aims to move as close to 100% ownership as possible.
- The acquisition will be fully funded through committed bridge financing from Barclays. Borrowing cost is expected to be around 4.1-4.8%.
- Total financing facility stands at €1.4b, including refinancing of Nagarro's existing debt if required. Management ruled out any QIP or equity dilution for Persistent shareholders.
- Management expects the transaction to be cash EPS accretive from Year 1.
- Reported EPS is also expected to be accretive in Year 1 after excluding one-time transaction costs. Around 70% of purchase accounting is expected to be goodwill, with the balance amortized over eight years.
- Management does not expect the combined entity to operate at materially lower margins than Persistent today.
- Nagarro management is expected to continue leading the business after closing.
- Nagarro will initially continue operating independently while integration progresses over the next couple of years.
- Persistent expects Nagarro's leadership to take on larger responsibilities across Europe and other international markets over time.
- Management believes the existing India-Europe operating model significantly reduces integration risk compared with a traditional European acquisition.
- Analysts questioned Nagarro's recent weak growth, but management attributed much of it to distractions around the earlier privatization attempt rather than structural issues.
- Persistent believes its operating discipline, sales rigor, and account mining capabilities can help improve Nagarro's growth trajectory. The focus will remain on expanding wallet share, improving cross-sell, and leveraging complementary geographies and verticals.
- The transaction is expected to close in Q4 CY26 or early Q1 CY27, subject to regulatory approvals and successful completion of the open offer.
- Management reiterated that both announcements—the large customer win and the Nagarro acquisition—strengthen confidence in Persistent's medium-term growth trajectory.

Financials and valuations

Income Statement						(INR m)	
Y/E March	2022	2023	2024	2025	2026	2027E	2028E
Sales	57,107	83,506	98,216	1,19,387	1,47,485	1,78,268	2,09,688
Change (%)	36.4	46.2	17.6	21.6	23.5	20.9	17.6
Cost of Goods Sold	37,895	55,315	65,231	78,740	94,874	1,14,787	1,34,871
Gross Profit	19,212	28,191	32,985	40,647	52,610	63,481	74,817
Selling Expenses	9,556	12,999	15,742	20,066	24,656	29,322	34,599
EBITDA	9,656	15,191	17,243	20,581	27,955	34,159	40,219
% of Net Sales	16.9	18.2	17.6	17.2	19.0	19.2	19.2
Depreciation	1,660	2,719	3,094	3,069	4,030	4,457	5,033
EBIT	7,996	12,472	14,149	17,512	23,925	29,702	35,186
% of Net Sales	14.0	14.9	14.4	14.7	16.2	16.7	16.8
Other Income	1,321	233	813	710	1,078	1,248	1,468
PBT	9,317	12,705	14,962	18,222	25,002	30,950	36,654
Tax	2,339	3,198	3,541	4,222	5,683	7,273	8,710
Rate (%)	25.1	25.2	23.7	23.2	22.7	23.5	23.8
Extraordinary Item	75	297	486	0	668	0	0
Reported PAT	6,904	9,211	10,935	14,001	18,651	23,677	27,944
Change (%)	53.2	33.4	18.7	28.0	33.2	26.9	18.0

Balance Sheet						(INR m)	
Y/E March	2022	2023	2024	2025	2026	2027E	2028E
Share Capital	764	764	770	779	789	789	789
Other Reserves	32,918	38,887	48,807	62,411	77,590	91,796	1,08,563
Net Worth	33,682	39,651	49,577	63,191	78,379	92,585	1,09,351
Loans	4,889	4,947	99	-	-	-	-
Other liabilities	1,360	2,013	2,218	2,848	6,144	7,427	8,736
Capital Employed	39,931	46,610	51,894	66,038	84,523	1,00,011	1,18,087
Gross Block	27,391	33,914	32,079	36,920	42,839	48,339	53,839
Less : Depreciation	14,965	17,684	20,777	23,847	27,876	32,333	37,366
Net Block	4,276	7,058	6,727	8,150	9,441	10,484	10,951
CWIP	1,071	161	335	42	107	107	107
Intangibles	11,060	16,355	15,488	17,261	19,119	19,119	19,119
Investments	3,878	4,516	5,539	6,415	7,001	7,001	7,001
Deferred Tax Assets	1,123	1,129	1,360	2,024	3,460	4,182	4,919
Other	4,394	1,792	3,056	3,215	3,665	4,429	5,210
Current Assets	28,339	35,179	41,232	50,260	70,973	88,697	1,09,269
Debtors	9,484	15,705	16,761	18,478	21,332	25,397	29,873
Investments	10,514	6,242	6,330	6,899	22,665	13,153	15,653
Cash & BB	2,978	4,670	6,625	6,744	10,749	30,533	40,672
Loans & Advances	16	-	-	-	-	-	-
Other Current Assets	5,347	8,562	11,515	18,139	16,227	19,614	23,071
Current Liab. & Prov	14,210	19,581	21,842	21,328	29,243	34,009	38,491
Trade payables	4,299	5,689	8,139	8,886	11,342	14,164	16,660
Other Liabilities	5,961	9,243	10,372	8,413	9,058	9,157	9,258
Provisions	3,950	4,649	3,331	4,029	8,843	10,689	12,573
Net Current Assets	14,130	15,598	19,390	28,932	41,730	54,688	70,778
Application of Funds	39,931	46,610	51,894	66,038	84,523	1,00,011	1,18,086

Financials and valuations

Ratios

Y/E March	2022	2023	2024	2025	2026	2027E	2028E
EPS	45.7	62.5	75.1	90.2	123.3	150.1	177.1
Cash EPS	56.5	80.4	95.4	110.0	149.0	178.3	209.0
Book Value	220.4	260.7	325.9	411.9	503.6	591.3	698.3
DPS	15.5	25.0	26.0	35.0	49.3	60.0	70.9
Payout %	33.9	40.0	34.6	38.8	40.0	40.0	40.0

Valuation (x)

P/E	106.1	77.5	64.5	53.7	39.3	32.3	27.4
Cash P/E	85.7	60.3	50.8	44.1	32.5	27.2	23.2
EV/EBITDA	75.8	48.1	42.0	35.5	25.8	20.9	17.5
EV/Sales	12.8	8.8	7.4	6.1	4.9	4.0	3.4
Price/Book Value	22.0	18.6	14.9	11.8	9.6	8.2	6.9
Dividend Yield (%)	0.3	0.5	0.5	0.7	1.0	1.2	1.5

Profitability Ratios (%)

RoE	22.6	25.9	25.6	24.8	27.3	27.7	27.7
RoCE	17.4	21.6	21.9	22.8	24.6	24.6	24.6

Turnover Ratios

Debtors (Days)	61	69	62	56	53	52	52
Asset Turnover (x)	15.2	14.7	14.2	16.1	16.8	17.9	19.6

Cash Flow Statement

Y/E March	2022	2023	2024	2025	2026	2027E	2028E
CF from Operations	8,857	13,935	14,265	17,803	23,458	28,134	32,977
Chg. in Working Capital	-407	-4,377	-2,052	-6,233	-5,788	9,122	-3,661
Net Operating CF	8,450	9,558	12,213	11,569	17,670	37,256	29,316
Net Purchase of FA	-3,808	-4,290	-2,710	-1,931	-1,952	-5,500	-5,500
Free Cash Flow	4,642	5,268	9,503	9,638	15,718	31,756	23,816
Net Purchase of Invest.	-5,965	76	-1,985	-2,414	-4,147	-2,500	-2,500
Net Cash from Inv.	-9,773	-4,213	-4,695	-4,344	-6,099	-8,000	-8,000
Issue of shares	0	0	1,608	0	499	0	0
Proceeds from LTB/STB	3,810	-1,059	-3,461	-1,309	-1,798	0	0
Dividend Payments	-1,987	-2,981	-4,084	-4,973	-6,183	-9,471	-11,178
Net CF from Finan.	1,823	-4,039	-5,937	-6,282	-7,482	-9,471	-11,178
Net Cash Flow	499	1,305	1,581	943	4,090	19,785	10,138
Exchange difference	59	387	374	-824	-85	0	0
Opening Cash Balance	2,420	2,979	4,671	6,626	6,745	10,749	30,534
Closing Cash Balance	2,979	4,671	6,626	6,745	10,749	30,534	40,673

(INR m)

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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