

**PERSISTENT SYSTEM: Persistently innovating..**

*Better numbers with positive outlook.*

*Persistent System, an IP based leading service provider witnessed better numbers than street consensus. Company's Sales was almost unchanged compare to last quarter led by infrastructure and system growth across all geographies, on USD term, Sales growth was up by 2.2% (QoQ). PAT was up by 5% on sequential basis.*

**On segmental front,** Company reported 5.2% (QoQ) growth on Infrastructure and system segment (contributes 67% of sales), and life science was up by 2.2%, it contributes 11% of sales. While, Telecom segment was down by 12% (QoQ), contributes 23% of sales.

**On different types of projects,** revenue from Product Engineering & Platform inched up to 82.5% from 81.8%, while emerging IP based projects decreased to 17.5% from 18.2% on sequential basis.

**Across the geographies,** revenue from North America was unchanged at 85.1% (QoQ) and APAC (contributes 9% of sales) was up by 5% (QoQ). However, Europe's revenue, which contributes 6% of sales, was down by 6% sequentially.

**On Margin front;** Despite of higher utilization (79.5% v/s 77.5%) and marginal currency benefit, **company's EBITDA margin declined by 200bps to 24.8% due to higher RM cost and Royalty charges during the quarter.** PAT margin increased from 14.5% to 15.5% sequentially.

**Clients Metrics:** During the quarter, company added 1 larger client, from > \$3mn and no addition from 3 from > \$ 1Mn to < \$ 3Mn category. Revenue from top-1 client was marginally improved to 21.6%. While, revenue from top-5 declined from 37.3% to 36.7% and top-10 to 47.9% from 49.4% on sequential basis. DSO was 65 days against the 67days (3QFY13).

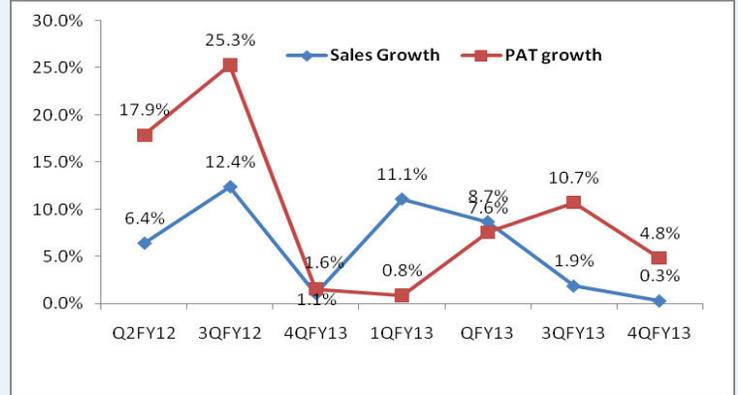
**Headcount Metrics:** Company added 251 clients to 6970 during the quarter. Company has been very efficient to reduce its attrition rate, now it reduced to 14.4% from 16% (3QFY13). Yield per employee (excluding Trainee) decreased to \$3769 p.m from \$3838 p.m(as on March 2013).

**Recent updates:** Company acquired Novaquest, a Product Lifecycle Management (PLM) and Search Based technology solutions company thereby entering into a strategic partnership with Dassault Systèmes to sell and offer support, maintenance and deployment services. Recently, they expanded its presence in Australia by establishing an office in Sydney. We expect, Persistent's recent acquisition of Novaquest, which would not only brings a large list of enterprise clients to the company's portfolio but also enhance the capabilities and productivity to end-to-end PLM services.

Persistent's management indicates better FY14 than NASSCOM guidance both for linear business as well as for acquisition bolstered IP business. Confidence in near term growth remains strong, evinced by strong hiring during the quarter for improving near term volume growth within linear services.

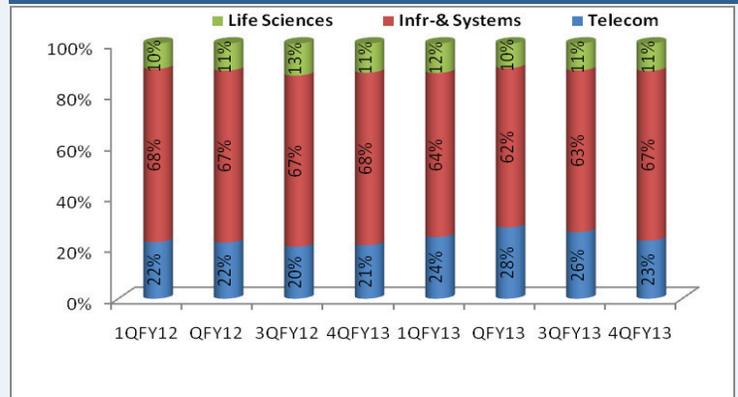
Company's focus is shifting greater proportion to IP led services and company has marquee clientele in cutting-edge technologies around cloud, mobility, collaboration and analytics; witnessing faster growth. Considering the company's ability to achieve scale and growth, we recommend "BUY" on the stock with a price target of RS 580. At a CMP of Rs 514, stock trades at 11x FY14E earnings respectively.

**Sales and PAT growth-%(QoQ)**

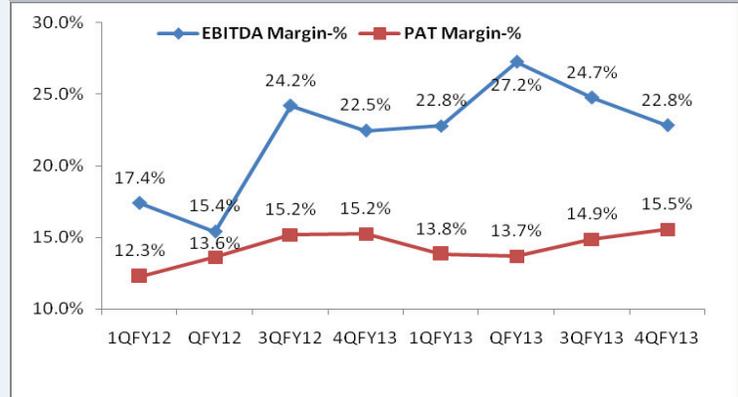


(Source: Company/Eastwind)

**Segmental Revenue-%**



**Margin-%**



(Source: Company/Eastwind)

**DSO-Days**

