

# Persistent System.

**"BUY"**

23rd Apr' 14

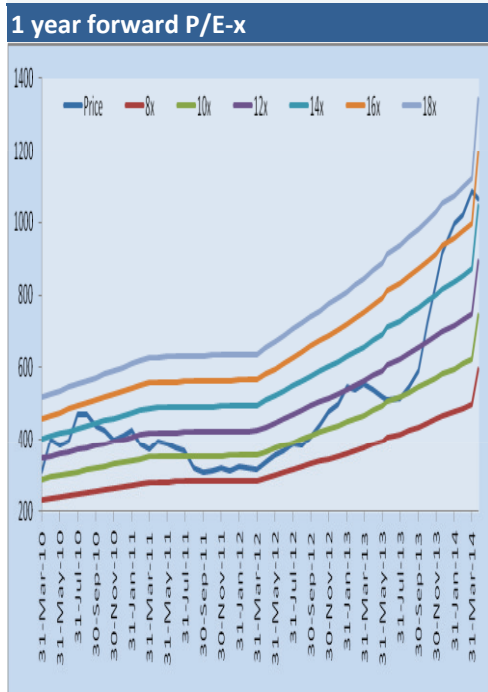
*"Persistently innovating.."*

Results update	BUY
CMP	1062
Target Price	1200
Previous Target Price	1070
Upside	13%
Change from Previous	12%

Market Data	
BSE Code	533179
NSE Symbol	PERSISTENT
52wk Range H/L	1220/477
Mkt Capital (Rs Crores)	4247
Average Daily Volume	12139
Nifty	6815

Stock Performance			
	1M	1yr	YTD
Absolute	-0.25	94.76	103.1
Rel. to Nifty	-5.21	76.91	87.33

Share Holding Pattern-%			
	Current	3QFY14	2QFY14
Promoters	38.96	38.96	38.96
FII	20.61	18.26	15.28
DII	15.44	18.78	21.23
Others	24.99	24	24.53



**Reported better numbers than expectation, and confident on growth outlook :**

Persistent System witnessed better numbers than street expectation in 4QFY14; revenue grew by 3.9% (QoQ) in USD term and 3.2% (QoQ) in INR term led by better performance across geographies like US and Europe. Even in 4<sup>th</sup> quarter, company has faced deal related issue with few customers in Telecom Space, because the customers decided to move that work back to the US and that caused shrinkage in some of its projects there. PAT grew by 14.9%(QoQ).

For FY14, the company reported a growth of 15.2% in dollar revenue for FY14, higher than NASSCOM's growth target of 12-14%, as it saw demand in software product development and technology services.

The management remains confident for FY15 with healthy deal pipeline and remains focused on increasing the share of IP-led and SMAC revenues in its portfolio. The management expects to see better growth than NASSCOM guidance of 12-15 % for FY15E.

**Stable Margin:** During the quarter, company's EBITDA margin ramped up by 80bps to 24.9% because of cost rationalization efforts. We expect that, margin could be seen flat to marginally lower in near term because of company's more focus on sales and marketing activities. However, management expects to see EBIT margin at a range of 18-20% in FY15E.

**Geography wise revenue:** North America and Europe reported healthy growth with 6.1% and 5%, while APAC regions were down by 20%(QoQ). The company's earning potential from US is 85%, Europe is 5% and APAC is 9%. APAC region was impacted because of shrinkage in some projects was seen in India, and customers has shifted their work to US.

**Clients Metrics:** Generally, company works in partnership with some of the leaders in the technology space. The company is focused to deploy customers on cloud strategy. These deals are typically in the range of \$100k to 200k. During the quarter, company added 15 clients in larger categories (more than \$3mn) and 36 in medium categories (\$1mn to \$3mn), DSO at 63days. almost 12 quarters low.

**Persistent's focus on some of newer technologies like cloud, analytics, mobility, and digital transformation are gaining a lot of traction due better demand environment. Moreover, management is very confident to see healthy growth.**

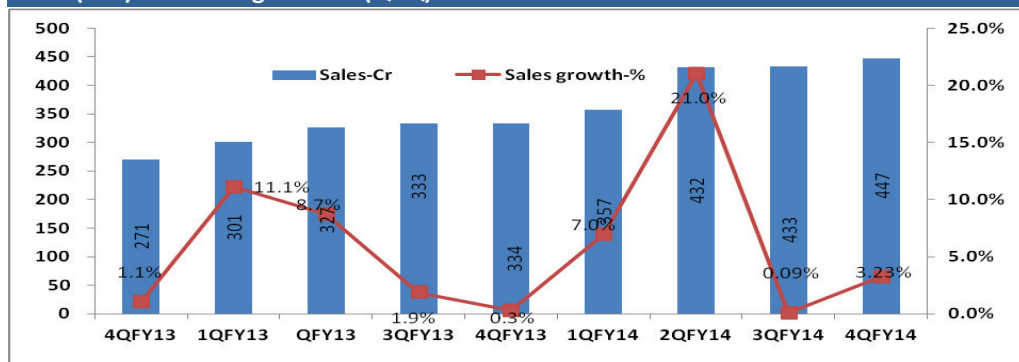
**View and Valuation:** Persistent management suggests that deal pipeline are looking strong and seeing good activity and traction in the market across the board. Its focus is shifting greater proportion to IP led services and company has marquee clientele in cutting-edge technologies around cloud, mobility, collaboration and analytics; witnessing faster growth. **Considering the company's ability to achieve scale and growth, we recommend "Buy" on decline with a target price of Rs1200. At a CMP of Rs 1062, stock trades at 14.2x FY15E earnings.**

Financials	Rs, Crore				
	4QFY14	3QFY14	(QoQ)-%	4QFY13	(YoY)-%
Revenue	446.74	432.75	3.2	333.96	33.8
EBITDA	111.1	104.3	6.5	76.2	45.8
PAT	67.2	64.2	4.7	51.9	29.5
EBITDA Margin	24.9%	24.1%	80bps	22.8%	210bps
PAT Margin	15.0%	14.8%	20bps	15.5%	(50bps)

(Source: Company/Eastwind)

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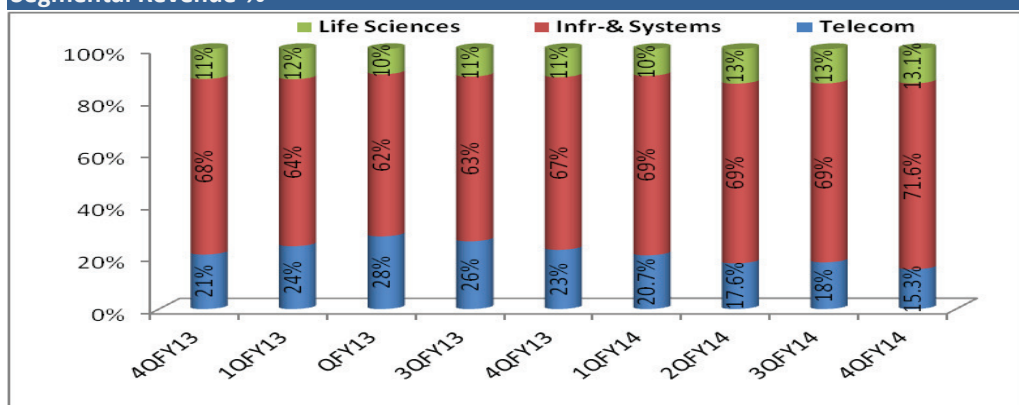
## Sales (INR) and Sales growth-%(QoQ)



(Source: Company/Eastwind)

On \$term, Sales growth was up by 3.9% (QoQ) and 3.2% on INR term,

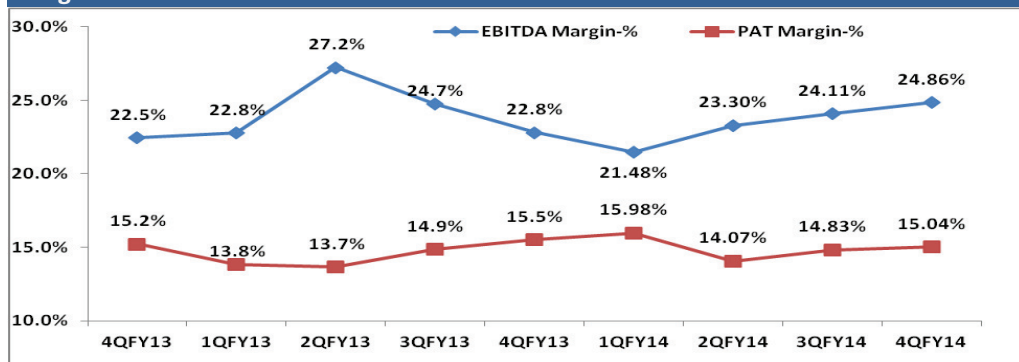
## Segmental Revenue-%



(Source: Company/Eastwind)

Persistent's exposure on Infr and System has increased to 71.6%, growth in Infra space indicates more visibility of deal intake in near future,

## Margin-%



(Source: Company/Eastwind)

Its EBITDA margin improved by 80bps to 24.9% because of cost rationalization.

## Key facts from Concall (attended on 21st April,2014)

- For FY15, Persistent will report better than Nasscom's growth target and is also well set on its growth road-map.
- They expect to maintain PBT margin at 18-20% in FY15E
- The Company's focus on newer technologies like cloud, analytics, mobility and digital transformation are gaining traction.
- The Company plans to hire 2000 employee during the current fiscal year and expects to maintain attrition rate at a range of 13-14%.
- The company has entered into partnership with some of the leaders in the technology space and many are in the deployment phase.

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## Operating Metrics

	3QFY12	4QFY13	1QFY13	QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
<b>Client Concentration</b>										
Top1	15.9%	17.2%	17.8%	20.7%	21.1%	21.6%	21.2%	22.5%	19.8%	21.1%
Top 5	37.0%	36.6%	33.5%	36.3%	37.3%	36.7%	34.7%	36.4%	36.9%	39.40%
Top 10	48.3%	48.8%	45.3%	47.0%	49.4%	47.9%	46.0%	47.3%	46.9%	48.5%
<b>Billing Rate-USD/ppm</b>										
Onsite - Linear	12387	12603	12789	12863	12772	14014	14567	14283	14510	14355
Offshore - Linear	3778	3895	3898	3978	4032	4143	4111	4109	4179	4241
Yield per Employee(excl- Trainee)	3247	3350	3345	3746	3817	3769	3602	3919	3934	3927
<b>Employee Metrics</b>										
Total Employee	6706	6628	6536	6370	6719	6970	7144	7457	7602	7857
Attrition	17.4%	18.3%	18.9%	16.9%	16.0%	14.4%	14.2%	14.0%	13.2%	13.40%
Utilization rate %(xclude IP Led )	74.1%	71.7%	74.1%	75.2%	77.3%	72.5%	70.0%	71.7%	72.9%	69.20%

## Financials

Rs in Cr,	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Sales-USD	127.30	170.24	207.39	237.82	274.06	317.91	365.60
Sales	601.16	775.84	1000.3	1294.5	1669.15	1926.07	2233.57
Employee Cost	368.74	481.62	599.05	719	908.97	1030.45	1200.54
Cost of technical professionals	0	30.67	41.68	54	90.58	105.93	122.85
Other expenses	86.05	105.24	135.2	218	255.32	308.17	379.71
Total expenses	454.79	617.53	775.93	990.78	1254.87	1444.55	1703.10
EBITDA	146.37	158.31	224.37	303.72	414.28	481.52	530.47
Depreciation	33.52	42.39	61.1	78	102.60	118.32	140.40
Other Income	11.23	34.44	34.44	34.44	31.02	48.15	67.01
EBIT	112.85	115.92	163.27	225.44	311.68	363.20	390.08
Interest Cost	0	0	0.00	0.03	0.05	0.05	0.05
Profit (+)/Loss (-) Before Taxes	124.08	150.36	197.71	259.851	342.65	411.31	457.04
Provision for Taxes	9.05	10.62	55.09	75.37	93.38	113.11	125.69
Net Profit (+)/Loss (-)	115.03	139.74	142.62	184.481	249.27	298.20	331.35

### Growth-% (YoY)

Sales-USD		33.7%	21.8%	14.7%	15.2%	16.0%	15.0%
Sales-INR	1.2%	29.1%	28.9%	29.4%	28.9%	15.4%	16.0%
EBITDA	60.2%	8.2%	41.7%	35.4%	36.4%	16.2%	10.2%
PAT	74.1%	21.5%	2.1%	29.4%	35.1%	19.6%	11.1%

### Expenses on Sales-%

Employee Cost	61.3%	62.1%	59.9%	55.5%	54.5%	53.5%	53.8%
Other expenses	14.3%	13.6%	13.5%	16.9%	15.3%	16.0%	17.0%
Tax rate	7.3%	7.1%	27.9%	29.0%	27.3%	27.5%	27.5%

### Margin-%

EBITDA	24.3%	20.4%	22.4%	23.5%	24.8%	25.0%	23.8%
EBIT	18.8%	14.9%	16.3%	17.4%	18.7%	18.9%	17.5%
PAT	19.1%	18.0%	14.3%	14.3%	14.9%	15.5%	14.8%

### Valuation:

CMP	310	366.7	409.2	541	1048	1062	1062
No of Share	4	4	4	4	4	4	4
NW	639.0	747.1	840.5	1018.3	1222.3	1464.3	1739.5
EPS	28.8	34.9	35.7	46.1	62.3	74.5	82.8
BVPS	159.7	186.8	210.1	254.6	305.6	366.1	434.9
RoE-%	18.0%	18.7%	17.0%	18.1%	20.4%	20.4%	19.0%
P/BV	1.9	2.0	1.9	2.1	3.4	2.9	2.4
P/E	10.8	10.5	11.5	11.7	16.8	14.2	12.8

(Source: Company/Eastwind)