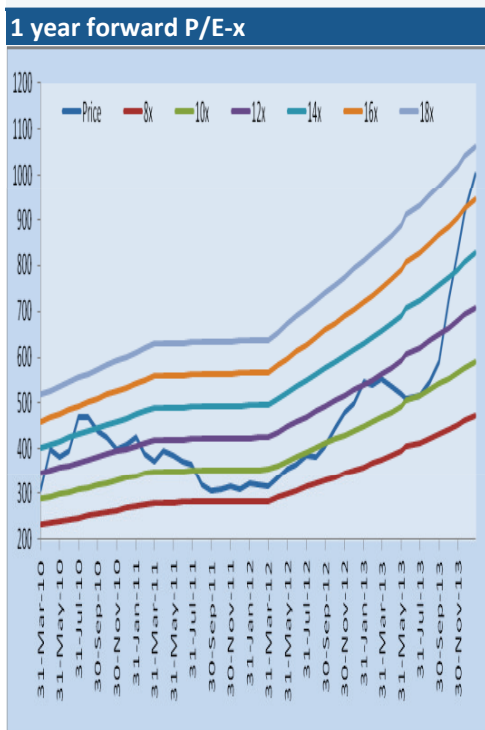


Results update	BUY
CMP	994
Target Price	1070
Previous Target Price	960
Upside	8%
Change from Previous	11%

Market Data	
BSE Code	533179
NSE Symbol	PERSISTENT
52wk Range H/L	1058/477
Mkt Capital (Rs Crores)	3974
Average Daily Volume	12139
Nifty	6136

Stock Performance	1M	1yr	YTD
Absolute	1.1	76.8	85.7
Rel. to Nifty	3.4	75.8	82.3

Share Holding Pattern-%	Current	2QFY14	1QFY14
Promoters	38.96	38.96	38.96
FII	18.26	15.28	14.84
DII	18.78	21.23	19.31
Others	24	24.53	26.89



Delivered inline set of numbers but better on all aspects than its peers did :

For 3QFY14, Persistent System's sales was almost flat (QoQ) in INR term, while grew 2.2% (QoQ) in USD term impacted by seasonality and furloughs impacts. During the quarter, volume growth from Offshore increased by 3.8% and Onsite volume growth was flat, sequentially. PAT grew by 5.5% (QoQ)

The management remains confident of FY14 with deal pipeline being strong and remains focused on increasing the share of IP-led revenues in its portfolio. The management expects to see more than 15% dollar revenue growth, more than NASSCOM guidance of 12-14 % for FY14E.

Margin ramp up: During the quarter, Its EBITDA margin improved by 80bps to 24.1% because of cost rationalization. PAT margin up by 70bps to 14.83%. However, management expects to maintain margin at 24-25% for FY14E.

On segmental front: The Company's cash cow segment Infrastructure and System, which contributes 69% on sales, was flat than previous quarter and Telecom (18% contribution on sales) was up by 2% sequentially. While, Life Science space (13% contribution on sales) down marginally by 1% (QoQ).

Geography wise revenue: Because of weak seasonality and furloughs impact, North America and APAC regions were marginally down by 1-2%(QoQ). The company's earning potential from US is 83% and APAC is 11%. While Europe contributes 6% of sales and has seen tremendous set of growth at 36% (QoQ) led by a large account execution during the quarter.

Clients Metrics: During the quarter, company added 2 clients(Total 34) under medium category(>\$1mn to \$3mn) and no client addition (Total) 16 from large (> \$ 3Mn) . Revenue contribution from top-1 client declined from 22.5% (2QFY14) to 19.8% and contribution from top-5 and Top-10 marginally down. DSO at 63days, almost 12 quarters low.

Persistent management suggests that deal pipeline are looking strong and seeing good activity and traction in the market across the board. Its focus on some of newer technologies like cloud, analytics and mobility, M2M, digital transformation are gaining a lot of traction because of pickup in demand environment. Because of actively investment in these themes, management is very confident to see healthy growth.

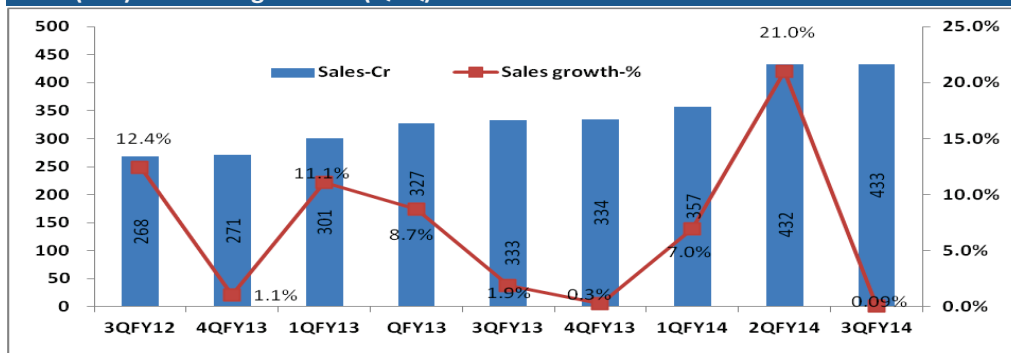
View and Valuation: The company's focus is shifting greater proportion to IP led services and company has marquee clientele in cutting-edge technologies around cloud, mobility, collaboration and analytics; witnessing faster growth. **Considering the company's ability to achieve scale and growth, we upgrade our target price from Rs 960 to Rs 1070 with "BUY" view on the stock. Recently we had advised to book profit on the stock at a target price of Rs 960. Post 3rd quarter earnings, we upgrade our EPS for FY15E from Rs 76.9 to Rs 79.1. At a CMP of Rs 994, stock trades at 12.6x FY15E earnings.**

Financials	3QFY14	2QFY14	(QoQ)-%	3QFY13	(YoY)-%
Revenue	432.75	432.37	0.1	332.98	30.0
EBITDA	104.3	100.8	3.5	82.4	26.6
PAT	64.2	60.8	5.6	49.5	29.7
EBITDA Margin	24.1%	23.3%	80bps	24.7%	(60bps)
PAT Margin	14.8%	14.1%	70bps	14.9%	(10bps)

(Source: Company/Eastwind)

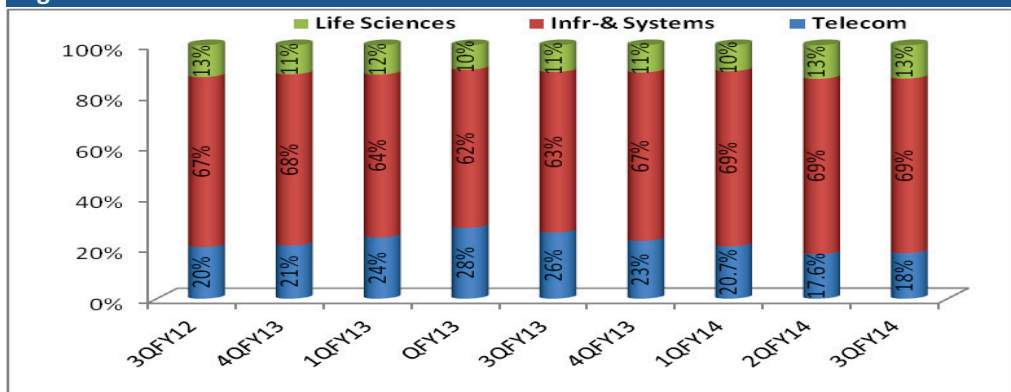
Persistent System.

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



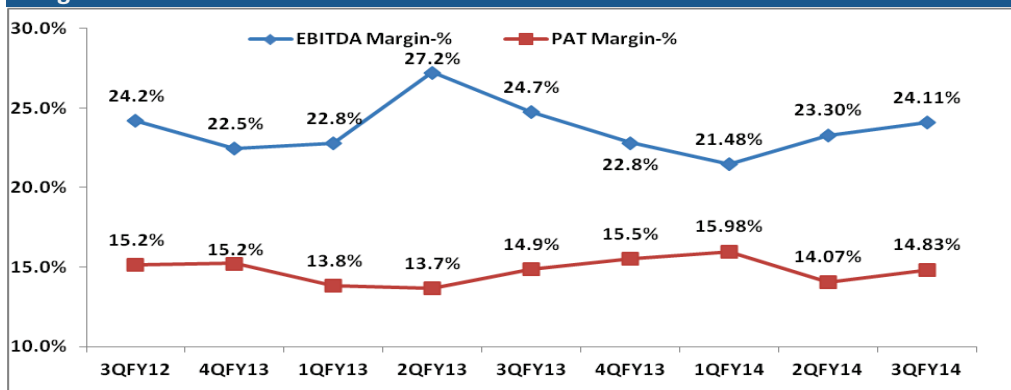
(Source: Company/Eastwind)

Segmental Revenue-%



(Source: Company/Eastwind)

Margin-%



(Source: Company/Eastwind)

Key facts from Concall (attended on 27th Jan,2014)

- Persistent is confident of doing more than 15% revenue growth in \$ terms (FY14E).
- They expect to maintain margin at 24-25% for FY14E
- The Company's focus on newer technologies like cloud, analytics, mobility and digital transformation are gaining traction.
- Expects 20-21% growth in the next year from IP led business, which in turn will help improve margins going forward.
- The company is optimistic to see more deals on SMACS and IP led business.
- Services business can continue to keep the growth momentum.

On \$ term, Sales growth was up by 2.2% (QoQ) and 0.8% on INR term,

Persistent's exposure on Infr and System has increased to 69%, growth in Infra space indicates more visibility of deal intake in near future,

Its EBITDA margin improved by 80bps to 24.1% because of cost rationalization.

Persistent System.

Operating Metrics

	2QFY12	3QFY12	4QFY13	1QFY13	QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14
Client Concentration										
Top1	16.0%	15.9%	17.2%	17.8%	20.7%	21.1%	21.6%	21.2%	22.5%	19.8%
Top 5	38.6%	37.0%	36.6%	33.5%	36.3%	37.3%	36.7%	34.7%	36.4%	36.9%
Top 10	49.4%	48.3%	48.8%	45.3%	47.0%	49.4%	47.9%	46.0%	47.3%	46.9%
Billing Rate-USD/ppm										
Onsite - Linear	12665	12387	12603	12789	12863	12772	14014	14567	14283	14510
Offshore - Linear	3803	3778	3895	3898	3978	4032	4143	4111	4109	4179
Yeild per Employee(excl- Trainee)	3208	3247	3350	3345	3746	3817	3769	3602	3919	3934
Employee Metrics										
Total Employee	6900	6706	6628	6536	6370	6719	6970	7144	7457	7602
Attrition	17.7%	17.4%	18.3%	18.9%	16.9%	16.0%	14.4%	14.2%	14.0%	13.2%
Utilization rate %(xclude IP Led)	73.8%	74.1%	71.7%	74.1%	75.2%	77.3%	72.5%	70.0%	71.7%	72.9%

Financials

Rs in Cr,	FY10	FY11	FY12	FY13	FY14E	FY15E
Sales	601.16	775.84	1000.3	1294.5	1666.59	2061.72
Employee Cost	368.74	481.62	599.05	719	899.96	1123.64
Cost of technical professionals	0	30.67	41.68	54	91.66	113.39
Other expenses	86.05	105.24	135.2	218	291.65	366.99
Total expenses	454.79	617.53	775.93	990.78	1283.28	1604.02
EBITDA	146.37	158.31	224.37	303.72	383.32	457.70
Depreciation	33.52	42.39	61.1	78	100.55	93.54
Other Income	11.23	34.44	34.44	34.44	55.00	72.16
EBIT	112.85	115.92	163.27	225.44	282.76	364.16
Interest Cost	0	0	0.00	0.03	0.05	0.05
Profit (+)/Loss (-) Before Taxes	124.08	150.36	197.71	259.851	337.71	436.28
Provision for Taxes	9.05	10.62	55.09	75.37	92.03	119.98
Net Profit (+)/Loss (-)	115.03	139.74	142.62	184.481	245.69	316.30
Growth-% (YoY)						
Sales	1.2%	29.1%	28.9%	29.4%	28.7%	23.7%
EBITDA	60.2%	8.2%	41.7%	35.4%	26.2%	19.4%
PAT	74.1%	21.5%	2.1%	29.4%	33.2%	28.7%
Expenses on Sales-%						
Employee Cost	61.3%	62.1%	59.9%	55.5%	54.0%	54.5%
Other expenses	14.3%	13.6%	13.5%	16.9%	17.5%	17.8%
Tax rate	7.3%	7.1%	27.9%	29.0%	27.3%	27.5%
Margin-%						
EBITDA	24.3%	20.4%	22.4%	23.5%	23.0%	22.2%
EBIT	18.8%	14.9%	16.3%	17.4%	17.0%	17.7%
PAT	19.1%	18.0%	14.3%	14.3%	14.7%	15.3%
Valuation:						
CMP	310	366.7	409.2	541	994	994
No of Share	4	4	4	4	4	4
NW	639.0	747.1	840.5	1018.3	1212.5	1477.3
EPS	28.8	34.9	35.7	46.1	61.4	79.1
BVPS	159.7	186.8	210.1	254.6	303.1	369.3
RoE-%	18.0%	18.7%	17.0%	18.1%	20.3%	21.4%
P/BV	1.9	2.0	1.9	2.1	3.3	2.7
P/E	10.8	10.5	11.5	11.7	16.2	12.6

(Source: Company/Eastwind)