NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

Persistent System.

"Persistently innovating.."

"NEUTRAL"
29th Jan' 15

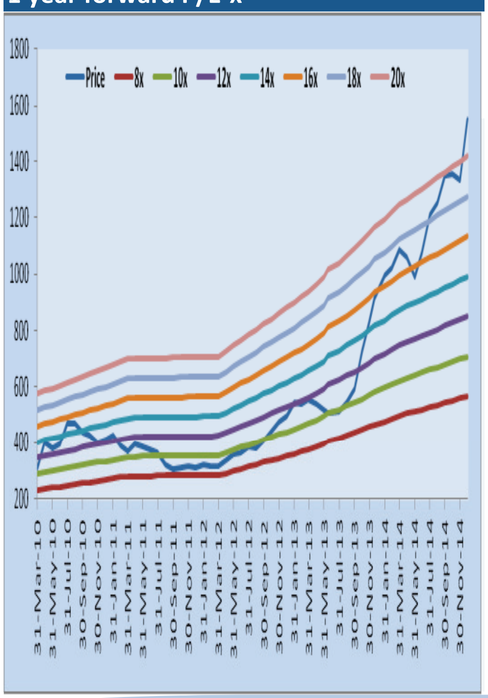
Results update	Neutral
CMP	1697
Target Price	1600
Previous Target Price	
Upside	
Change from Previous	

Market Data	
BSE Code	533179
NSE Symbol	PERSISTENT
52wk Range H/L	1922/887
Mkt Capital (Rs Crores)	6789
Average Daily Volume	12139
Nifty	8914

Stock Performance			
	1M	1yr	YTD
Absolute	5.7	70.2	103.1
Rel. to Nifty	-3	24.7	89.54

Share Holding Pattern-%			
	Current	2QFY15	1QFY15
Promoters	38.92	38.95	38.96
FII	28.12	28.17	37.37
DII	10.61	9.53	9.82
Others	22.35	23.35	23.85

1 year forward P/E-x



Reported inline numbers than expectations, and confident on growth outlook:

Persistent system reported inline numbers than street expectation in 3QFY15. Revenue grew by 4.2%(QoQ) in USD term , 4.6%(QoQ) in cross currency term and 6.6%(QoQ) in INR term led by 6.6% (QoQ) volume growth with stable pricing growth. PAT grew by 4.4%(QoQ).

Once again, the growth was led by IT services, which grew by 4.9% QoQ led by a 5.9% volume growth and 1% Q-o-Q decline in price realization. (IP) business-led revenues continued to remain soft, up by a modest 1.2% (QoQ).

The management remains confident for strong growth with healthy deal pipeline for FY16E and remains focused on increasing the share of IP-led and SMAC revenues in its portfolio. We remain positive on the stock for long-term prospects for its differentiated business model, good management and effecient governance standards, but its premium valuation caps upside. We recommend "Neutral" view on the stock. We can change our view after a sharp price dip.

Steady Margin: During the quarter, company's EBITDA margin inched down up by 60bps to 20.1% because of additional burden of S&M and employee cost efforts like one off gratuity, incentives and performance based monetary appraisal. This margin was almost at 12quarters low. However, utilization improved by 400bps (QoQ) to 74.3%. However, management expects to see EBIT margin at a range of 18-20% in FY15E.

Geography wise revenue: Europe and APAC reported healthy growth with 20% and 15%, while, North America regions was up by 2.5%(QoQ). Its earning potential from US is 85%, Europe is 7% and APAC is 8%. APAC region was impacted because of shrinkage in some projects, and a customer has shifted their work to US.

Clients Metrics: Generally, the 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, they added 14clients in larger categories (more than $3mn) and 41 in medium categories ($1mn to $3mn), DSO at 65days.

Persistent's focus on some of newer technologies like cloud, analytics, mobility, and digital transformation are gaining a lot of tractiondue 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. **We remain positive on the stock for long-term prospects, but its premium valuation caps upside. We recommend "Neutral" view on the stock. At a CMP of Rs 1697, stock trades at 18.9x FY16E earnings.**

Financials — Rs, Crore

	3QFY15	2QFY15	(QoQ)-%	3QFY14	(YoY)-%
Revenue	494.64	464.17	**6.6**	432.75	**14.3**
EBITDA	99.5	96.2	**3.4**	104.3	**-4.6**
PAT	74.5	71.3	**4.5**	64.2	**16.0**
EBITDA Margin	20.1%	20.7%	**(60bps)**	24.1%	**(300bps)**
PAT Margin	15.1%	15.4%	**(30bps)**	14.8%	**30bps**

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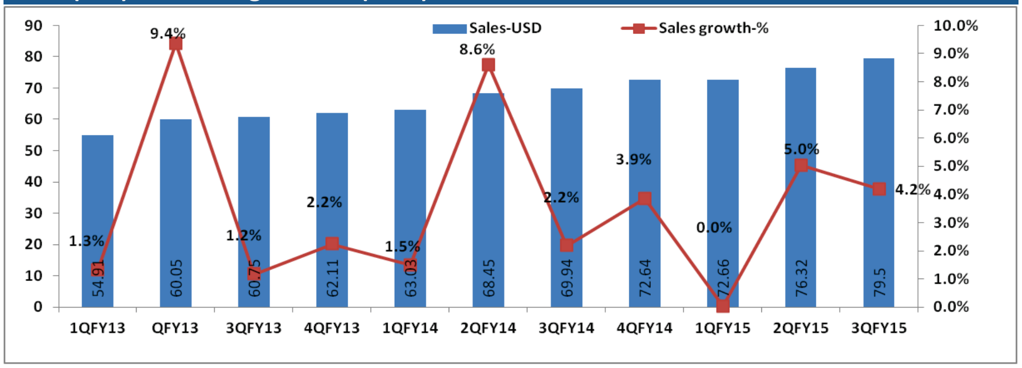
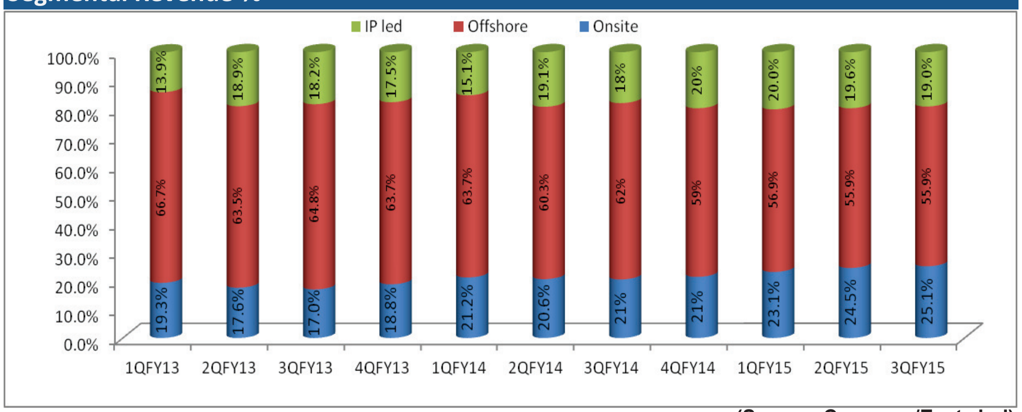
Sales (INR) and Sales growth-%(QoQ)



(Source: Company/Eastwind)

On $term, Sales growth was up by 4.2% (QoQ) and 6.6% on INR term,

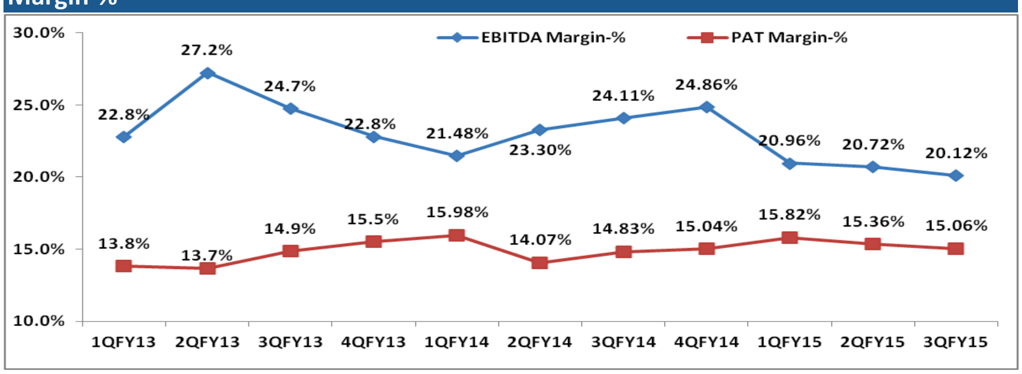
Segmental Revenue-%



(Source: Company/Eastwind)

Persistent shifting its exposure from offshore to onshore. Last 11 quarters, onsite revenue improved by almost 600bps.

Margin-%



(Source: Company/Eastwind)

Its EBITDA margin declined by 60bps to 20.1% because of additional burden of employee cost.

Key facts from Concall

■ Strongly positioning as a technology company and partnering with vendors for gaining access in enterprise clients. Added two senior members in US team.

■ Board proposed 1:1 bonus shares.

■The Companies are moving to cloud, the company is supporting clients to migrate on cloud.

■ Going forward, looking to add 1500 employees.Looking for personnel who could be re-skilled quickly on newer technologies.

■ Growth a priority in next 12-24 months over margins. The company expects to maintain EBIT margin at current levels at stable currency.

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Operating Metrics

	1QFY13	QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Client Concentration											
Top1	17.8%	20.7%	21.1%	21.6%	21.2%	22.5%	19.8%	21.1%	20.8%	19.0%	17.5%
Top 5	33.5%	36.3%	37.3%	36.7%	34.7%	36.4%	36.9%	39.4%	38.7%	36.1%	35.0%
Top 10	45.3%	47.0%	49.4%	47.9%	46.0%	47.3%	46.9%	48.5%	49.0%	45.0%	44.2%
Billing Rate-USD/ppm											
Onsite - Linear	12789	12863	12772	14014	14567	14283	14510	14355	14905	14864	14862
Offshore - Linear	3898	3978	4032	4143	4111	4109	4179	4241	4219	4271	4201
Yeild per Employee(excld- Trainee)	3345	3746	3817	3769	3602	3919	3934	3927	3915	4123	4264
Employee Metrics											
Total Employee	6536	6370	6719	6970	7144	7457	7602	7857	7876	8067	8293
Attrition	18.9%	16.9%	16.0%	14.4%	14.2%	14.0%	13.2%	13.4%	14.0%	14.1%	14.7%
Utilization rate %(xclude IP Led)	74.1%	75.2%	77.3%	72.5%	70.0%	71.7%	72.9%	69.2%	67.7%	70.3%	74.3%

Financials

Rs in Cr,	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Sales-USD	127.30	170.24	207.39	237.82	274.06	313.98	370.50
Sales	601.16	775.84	1000.3	1294.5	1669.15	1916.94	2301.02
Employee Cost	368.74	481.62	599.05	719	908.97	1121.41	1323.09
Cost of technical professionals	0	30.67	41.68	54	90.58	110.22	138.06
Other expenses	86.05	105.24	135.2	218	255.32	292.33	356.66
Total expenses	454.79	617.53	775.93	990.78	1254.87	1523.96	1817.80
EBITDA	146.37	158.31	224.37	303.72	414.28	392.97	483.21
Depreciation	33.52	42.39	61.1	78	102.60	94.57	121.63
Other Income	11.23	34.44	34.44	34.44	31.02	105.43	126.56
EBIT	112.85	115.92	163.27	225.44	311.68	298.40	361.59
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	403.79	488.10
Provision for Taxes	9.05	10.62	55.09	75.37	93.38	109.02	129.35
Net Profit (+)/Loss (-)	115.03	139.74	142.62	184.481	249.27	294.76	358.75
Growth-% (YoY)							
Sales-USD		33.7%	21.8%	14.7%	15.2%	14.6%	18.0%
Sales-INR	1.2%	29.1%	28.9%	29.4%	28.9%	14.8%	20.0%
EBITDA	60.2%	8.2%	41.7%	35.4%	36.4%	-5.1%	23.0%
PAT	74.1%	21.5%	2.1%	29.4%	35.1%	18.3%	21.7%
Expenses on Sales-%							
Employee Cost	61.3%	62.1%	59.9%	55.5%	54.5%	58.5%	57.5%
Other expenses	14.3%	13.6%	13.5%	16.9%	15.3%	15.3%	15.5%
Tax rate	7.3%	7.1%	27.9%	29.0%	27.3%	27.0%	26.5%
Margin-%							
EBITDA	24.3%	20.4%	22.4%	23.5%	24.8%	20.5%	21.0%
EBIT	18.8%	14.9%	16.3%	17.4%	18.7%	15.6%	15.7%
PAT	19.1%	18.0%	14.3%	14.3%	14.9%	15.4%	15.6%
Valuation:							
CMP	310.0	366.7	409.2	541.0	1048.0	1697.0	1697.0
No of Share	4.0	4.0	4.0	4.0	4.0	4.0	4.0
NW	639.0	747.1	840.5	1018.3	1201.9	1431.1	1715.0
EPS	28.8	34.9	35.7	46.1	62.3	73.7	89.7
BVPS	159.7	186.8	210.1	254.6	300.5	357.8	428.8
RoE-%	18.0%	18.7%	17.0%	18.1%	20.7%	20.6%	20.9%
Div Payout ratio-%	-	-	-	-	26.3%	22.2%	20.9%
P/BV	1.9	2.0	1.9	2.1	3.5	4.7	4.0
P/E	10.8	10.5	11.5	11.7	16.8	23.0	18.9

(Source: Company/Eastwind)