

Weak Quarter

CMP:	Rs.1,726
Target Price:	Rs.1,728
Recommendation:	NEUTRAL

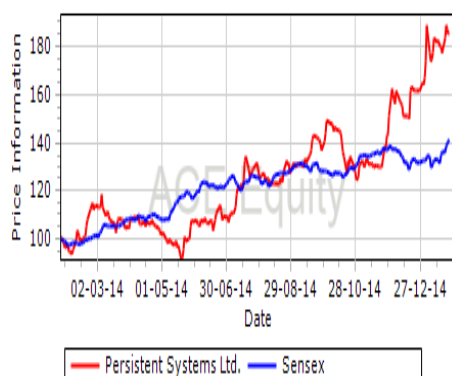
Stock Info

BSE Group	A
BSE Code	533179
NSE Symbol	PERSISTENT
Bloomberg	PERSISTENT.IN
Reuters	PERSISTENT.BO
BSE Sensex	29,571
NSE Nifty	8,910

Market Info

Market Capital	Rs. 7,212 cr
Equity Capital	Rs.40 cr
Avg. Trading Vol.	83,500
52 Wk High/ Low	1921/887
Face Value	Rs.10

Shareholding Pattern (%) (Dec 2014)	
Promoters	38.9
Domestic Institutions	10.6
Foreign Institutions	28.1
Public & Others	22.4



28th January, 2015

■ Dollar Revenues grew by 4.2% QoQ and 13.7% YoY:

Persistent has delivered mixed set of numbers with top line growth of 4.2% qoq in dollar revenue. Rupee revenues growth was higher at 6.6% qoq to Rs 495 cr, due to depreciation of all major currencies against USD. Offshore utilization increased by 450bp QoQ to 72.9% while onsite utilization declined by 120bp to 88.5%. Overall utilization level increased 400bp QoQ to 74.3%. Revenue from the top client is almost stagnant which a cause for concern. Revenue from top client declined by 4% QoQ, it is third consecutive quarterly decline for top client. Volumes in linear business grew by 5.9% QoQ. Onsite volume grew by 6.7% QoQ, while offshore volume grew by 5.8% QoQ.

■ Segment-wise performance:

Among segmental verticals financial services growth was highest at 13.2% QoQ, while Life science and Infrastructure & systems grew by 5.7% QoQ and 2.9% QoQ respectively while there was a decline in telecom segment of 0.2% QoQ. Major geographical share remained more or less stable with share of North America, Europe, ROW was at 84.7%, 7.1%, and 8.2% respectively.

■ Operating profits increased by 4%:

Company has recorded an operating profit of Rs 100cr; up 4.0% qoq, this is in-spite of many holidays during the quarter. EBIDTA margins is predominantly under pressure due to change in mix in onsite-offshore, increase in sales and marketing expenses and employee related expenses. Employee expenses is largely due to gratuity and some other one-time benefits. EBIT margin during the quarter stood at 15.1%. PAT reported during the quarter was Rs. 74cr.

■ Concall Update:

- Management has maintained FY15 revenue growth guidance of 15% and expects to maintain 20% PBT margins in FY15.
- Company expects the overall growth for the company to be a lot better in Q4FY15 as compared to Q3FY15
- Board have declared an interim dividend of Rs 10.
- Board recommended a bonus issue of 1:1.

■ Outlook:

Technology and innovation continues to be the center of company's strategy to focus on the 'How' of digital transformation. Company has strengthened the leadership team to drive the technology-led strategy along with forming new partnerships. We have valued stock at P/E(x) of 18x to its FY16E earnings and have arrived at fair value of Rs 1,728 per share. At CMP Rs 1,726 stock trades at 18 (x) its FY16E earnings. We have 'Neutral' rating on the stock.

■ Financials:

Y/E March (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Net Revenue	1295	1669	1918	2313
Growth %	29%	29%	15%	21%
EBIDTA	335	430	410	562
EBIDTA Margin	26%	26%	21%	24%
Net Profit	188	249	297	384
Growth %	32%	33%	19%	29%
EPS	47	62	74	96
P/E	36.8	27.7	23.3	18.0
ROE	18.4	20.4	20.9	22.9

Source: Company data, Aриhant Research

Quarterly Results:

Particulars (Rs. Cr)	Q3FY15	Q2FY15	QoQ%	Q3FY14	YoY%
Revenue	495	464	6.6%	433	14.3%
Employee costs	274	256	6.8%	223	22.8%
Other direct cost	22	21	3.8%	20	8.6%
Total direct cost	296	278	6.6%	243	21.6%
Gross Profit	199	187	6.5%	189	4.9%
Gross Profit Margin%	40%	40%		44%	
Other Expenses	99	91	9.1%	70	42.2%
EBIDTA	100	96	4.0%	120	-16.9%
EBIDTA Margin	20.1%	20.6%		27.7%	
Depreciation	25	24	3.9%	26	-5.9%
EBIT	75	72	4.1%	94	-19.9%
EBIT Margin	15.1%	15.5%		21.6%	
Other Income	24	27	-10.7%	-7	-449.9%
PBT	99	99	0.0%	87	14.8%
Tax Paid	25	28	-11.3%	22	11.5%
Effective tax rate%	25%	28%		26%	
Net profit	74	71	4.4%	64	16.0%
EPS	18.6	17.8		16.0	

Source: Company data, Arihant Research

Profit and Loss statement

Particulars (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Net Revenue	1295	1669	1918	2313
Employee costs	675	864	1044	1227
Other direct expenses	57	88	91	112
Total Direct Expenses	731	952	1135	1339
Gross Profit	563	717	783	974
Sales & Marketing Expenses	96	139	176	213
Admin & Other Expenses	132	148	196	199
EBIDTA	335	430	410	562
EBIDTA Margin	26%	26%	21%	24%
Depreciation	78	103	97	116
EBIT	257	328	313	447
Other Income	6	15	91	72
PBT	263	343	404	519
Tax	75	93	107	135
Tax rate	29%	27%	26%	26%
PAT	188	249	297	384
Growth (%)	32%	33%	19%	29%
EPS	46.9	62.3	74.2	96.0

Source: Company data, Arihant Research

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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