



Strong Revenue Growth!!!!

23rd January, 2017

CMP: Rs.614
Target Price: Rs.688
Recommendation: ACCUMULATE

Stock Info

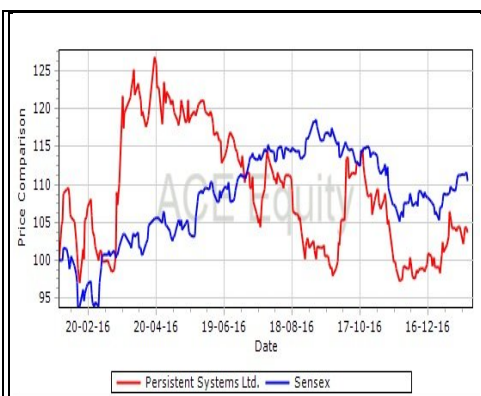
BSE Group	A
BSE Code	533179
NSE Symbol	PERSISTENT
Bloomberg	PERSISTENT.IN
Reuters	PERSISTENT.BO
BSE Sensex	27,138
NSE Nifty	8,396

Market Info

Market Capital	Rs. 4,928 cr
Equity Capital	Rs.80 cr
Avg. Trading Vol.	1,14,450
52 Wk High/ Low	797/575
Face Value	Rs.10

Shareholding Pattern (%) (Sept 2016)	
Promoters	37.8
Domestic Institutions	12.4
Foreign Institutions	22.2
Public & Others	27.6

Price Vs Sensex Chart



Revenues grew by 5.9% QoQ and 25.9% YoY:

Persistent Systems posted better than expected numbers for the quarter ended December 2016 with Rupees revenue growth at 5.9% QoQ to Rs 745 cr and 25.9% on YoY basis. Persistent Systems crosses USD 110.03 mn with growth of 22.7% YoY and 4.6% QoQ. Profit Before tax grew by 23% YoY and 13.5% QoQ to Rs 111.8 cr and Profit after tax grew by 17.7% YoY and 11.4% QoQ to Rs 81.9 cr.

Geography Revenue Mix:

Revenue from North America stood at 86.6% while Europe, India, Row stood at 5.3%, 5.5%, 2.6% respectively.

Revenue Concentration:

Revenue from Top Client stood at 29.5% while top 5 and top 10 clients stood at 46.0% and 54.6%.

Segment-wise performance:

Among segmental verticals; Services contributed 43.9% while Digital, Alliance and accelerite stood at 16.9%, 30.6% and 8.6% respectively.

Operating profits increased by 18% YoY:

Company has recorded an operating profit of Rs 119 cr this qtr; improved by 7% QoQ. EBIDTA margins were 15.9% this Qtr as against 17.0% in last qtr. Improvement in margins remains the biggest challenge for Persistent. EBIT margin during the quarter stood at 10.7% as against 12.7% previous qtr. PAT reported during the quarter was at Rs. 82 cr improvement of 11.4% sequentially.

Key Highlights:

- Collaborating on the design of a 'Cancer Explorer' informatics platform with a global life sciences and genomics leader.
- Management continues to invest significantly in the digital business, expecting great opportunity from it.
- Partnering with a global digital payment company for their identity and Access Management program.
- Developing a digital platform for US-based licensed collectibles company to drive a direct-to-consumer business model.
- IP- based win to provide a seamless digital experience for one of the most reputable and innovative, Fortune 500 financial services company.

Valuation:

We have valued stock at P/E(x) of 16x to its FY18E earnings and have arrived at fair value of Rs 688 per share. At CMP Rs614 stock trades at 14.2 (x) its FY18E earnings. We have 'ACCUMULATE' rating on the stock.

Financials:

Y/E March (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Net Revenue	1891	2312	2769	3107
Growth %	13%	22%	20%	12%
EBIDTA	391	417	443	512
EBIDTA Margin	21%	18%	16%	16%
Net Profit	291	297	307	345
Growth %	17%	2%	3%	12%
EPS	36	37	38	43
P/E	19.6	20.5	17.2	15.4
ROE	20.7	18.1	17.5	19.0

Source: Company data, Aриhant Research



Quarterly Results:

Particulars (Rs. Cr)	Q3FY17	Q2FY17	QoQ%	Q3FY16	YoY%
Revenue	746	704	6%	592	25.9%
Employee costs	470	449		356	
Other direct cost	48	42		45	
Total direct cost	518	492		401	
Gross Profit	227	212	7%	191	18.7%
Gross Profit Margin%	30%	30%		32%	
Other Expenses (SGA)	109	101		91	
EBIDTA	119	111	7%	101	17.9%
EBIDTA Margin	15.9%	15.7%		17.0%	
Depreciation	39	37		25	
EBIT	80	74	8%	75	6.4%
EBIT Margin	10.7%	10.5%		12.7%	
Other Income	32	24		16	
PBT	111.8	98	14%	91	23.0%
Tax Paid	30	25		21	
Effective tax rate%	27%	25%		23%	
<i>Net profit</i>	82	74	11.4%	70	17.7%
EPS	10.2	9.2		8.7	

Source: Company data, Arihant Research



Profit and Loss statement

Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
Net Revenue	1891	2312	2769	3107
Employee costs	1042	1317	1639	1818
Other direct expenses	89	113	138	157
Total Direct Expenses	1132	1430	1776	1975
Gross Profit	760	882	992	1132
Sales & Marketing Expenses	176	224	266	307
Admin & Other Expenses	193	241	284	313
EBIDTA	391	417	443	512
EBIDTA Margin	21%	18%	16%	16%
Depreciation	94	97	108	119
EBIT	297	321	335	393
Other Income	93	75	78	73
PBT	390	396	413	466
Tax	99	98	106	121
Tax rate	25%	25%	26%	26%
PAT	291	297	307	345
Growth (%)	17%	2%	3%	12%
Adjusted EPS	36.3	37.2	38.4	43.1

Cash Flow Statement

Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
Profit before taxes	390	396	413	466
Add:- Depreciation	94	97	108	119
Change in Working Capital	-28	147	-40	-8
Cash generated from operations	412	639	456	553
Taxes paid	-100	-98	-106	-121
Net cash flow from operating activities	312	541	350	431
Purchase of fixed assets & capital	-95	-155	-170	-176
Others	-136	-159	-79	-129
Net cash flow from investing activities	-232	-314	-249	-305
Proceeds long term borrowings	1.3	2.0	0.0	0.0
Dividend	-56	-64	-80	-96
Tax on dividend	-11	-16	-16	-16
Net cash used in financing activities	-66	-78	-96	-112
Net Cash Flow	14	9	5	14
Opening Cash balance	83	99	108	113
Exchange difference	1	0	0	0
Closing Cash balance	99	108	113	127

Balance Sheet

Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
Shareholder's funds				
Share Capital	80	80	80	80
Reserves & Surplus	1326	1559	1672	1735
Total	1406	1639	1752	1815
Minority Interest	0	0	0	0
Total Non Current Liabilities	14	15	22	24
Total Current Liabilities	355	452	447	466
Total Liabilities	1775	2107	2221	2306
Fixed asset	409	474	561	620
Goodwill	2	3	2	2
Other Non current Investmen	244	273	319	342
Total Non Current Assets	656	750	883	964
Cash balance	99	108	113	127
Total Current Assets	1020	1248	1226	1215
Total Assets	1775	2107	2221	2306

Key Ratios

Particulars	FY15	FY16	FY17 E	FY18 E
EPS	36.3	37.2	38.4	43.1
Book Value	175.7	204.9	219.0	226.9
DPS	15	8	10	12
Payout %	41	22	26	28
Dividend Yield %	1.2	1.1	1.3	1.6
P/E	19.6	20.5	15.9	14.2
EBIDTA Margin	21%	18%	16%	16%
PBT Margin	21%	17%	15%	15%
PAT Margin	15%	13%	11%	11%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.88	2.76	2.74	2.60
ROE	20.7	18.1	17.5	19.0
ROCE	20.6	18.1	17.5	19.0

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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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