



In line results

CMP:	Rs.738
Target Price:	Rs.761
Recommendation:	Neutral

Stock Info

BSE Group	B
BSE Code	533179
NSE Symbol	PERSISTENT
Bloomberg	PSYS IN
Reuters	PERS.BO
BSE Sensex	20894
NSE Nifty	6205

Market Info

Market Capital	Rs.2937 cr
Equity Capital	Rs.40
Avg. Trading Vol.	31610
52 Wk High/ Low	754/450
Face Value	Rs.10

Shareholding Pattern (%) (30th Sep 2013)

Promoters	38.9
Domestic Institutions	21.2
Foreign Institutions	15.3
Public & Others	24.6

■ Inline with estimates, IP business jumps 38% QoQ:

Persistent has delivered its Q2FY14 results with a QoQ growth of 8.6% at USD 68.45 mn largely inline with our estimates. In rupee terms revenues grew 21% qoq to Rs 432cr. IP business reported healthy 38% qoq growth at \$ 13.1mn.

■ Operating Profits increased by 59%:

Company has delivered 59% qoq growth in operating (EBIT) at Rs 86cr from Rs 54cr in Q1FY14 on account currency depreciation, lower project related expenses and higher IP revenues. Profitability for the quarter has increased by 500bps qoq from 15% to 20%. Other income however declined qoq from Rs 8cr to Rs 7.5cr. Company reported currency exchange loss of ~Rs 10cr against exchange gain of Rs 18.3cr reported during 1QFY14 and this has impacted profitability to a certain extent. Effectively Profit after tax rose 6.5% qoq to Rs 60.8cr.

Concall Updates:

Management has reiterated improving business outlook across verticals and geographies. Company is witnessing increased activity and traction in new technologies like cloud, analytics and mobility. Company is confident of achieving 15% \$ revenue growth in FY14. Company has opened offshore service center at Ohio, USA to cater clients in better way in areas like cloud etc. Share of telecom vertical in total revenue pie continue to taper due to delay in couple of projects. Share of telecom vertical stands declined to 18% compared to 28% during Q2FY13.

Company took 9% wage hike effective July-2013 and this has impacted EBITDA margins by 310bps. Management is confident of achieving 24-26% EBITDA margins going forward. Company has taken one year forex cover at Rs 59.57/\$.

Company has added 300 employees during the quarter and is expected to add another 626 that includes 366 freshers and 260 laterals. Utilisation levels for the quarter stood at 72% which management expects to improve going forward.

■ Outlook:

We firmly believe in Persistent's business model recording growth with its well articulated 4x4x4 matrix strategy that is keeping thrust on emerging technologies and IP business. We firmly believe in the company's outlook for FY14 to record an industry superior growth with its increasing traction from the IP business. At CMP of Rs 738, stock trades at 13.0(x)/11.1(x) its FY14E and FY15E earnings at which stock appears fairly valued in our view. We have valued stock on 11.5x its FY15E earnings and have arrived at fair value of Rs 761 per share. We recommend Neutral rating on the stock.

Y/E March, (Rs in Cr)	FY12	FY13	FY14(E)	FY15(E)
Net Revenues	1000	1295	1677	1954
Growth (%)	28.9	29.4	29.5	16.5
Net Profit	142	188	228	265
Growth (%)	1.4	32.3	21.4	16.3
EPS	35.4	46.9	56.9	66.2
P/E(x)	15.4	11.7	13.0	11.1
P/BV(x)	5.2	4.4	2.5	2.2
EV/EBITDA(x)	17.4	11.8	6.0	4.6

22nd Oct 2013

Source: Company, Arian Research

Quarterly Financials:

Result Update	Quarter Ended				
	Particulars (Rs. mn)	Q2FY14	Q1FY14	Q-O-Q (%)	Q2FY13
IP Led Revenues	13.1	9.5	38.0	11.4	15.3
IT Services	55.4	53.5	3.4	48.7	13.7
USD Revenues (mn)	68.5	63.0	8.6	60.1	14.0
Revenues	4323.7	3572.9	21.0	3268.6	32.3
Cost of services	2425.7	2104.7	15.3	1827.6	32.7
Gross Profits	1898.0	1468.1	29.3	1441.0	31.7
SG & A. Expenses	775.9	691.2	12.3	550.8	40.9
EBIDTA	1121.1	776.9	44.4	890.2	26.0
Depreciation	262.9	236.8	11.0	189.1	21.0
EBIT	859.2	540.1	59.1	701.1	22.5
Exchange Loss/Gain	-99.6	183.4	-154.3	-160.6	-38.0
Other Income	75.3	79.6	-5.4	82.3	-8.5
PBT	834.9	803.1	4.0	622.8	34.1
Income tax expense	227.1	232.2	-2.2	176.3	28.8
Deferred Tax Charge					
PAT	607.9	571.0	6.5	446.5	36.1
Minority Interest	-	-		-	
PAT	607.9	571.0	6.5	446.5	36.1
Equity Capital (Rs cr)	40.0			40	
EPS	15.7	14.5	6.5	11.6	36.1
EBITDA Margins (%)	26.0	21.8		27.2	
EBIT Margins (%)	19.9	15.2		21.4	
Net Margins (%)	14.0	16.0		13.6	
Tax Rate (%)	27.2	28.9		28.36	

Source: Company, Arianth Research

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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