



Steady Growth!!!!

26th July, 2016

CMP:	Rs.665
Target Price:	Rs.725
Recommendation:	HOLD

Stock Info

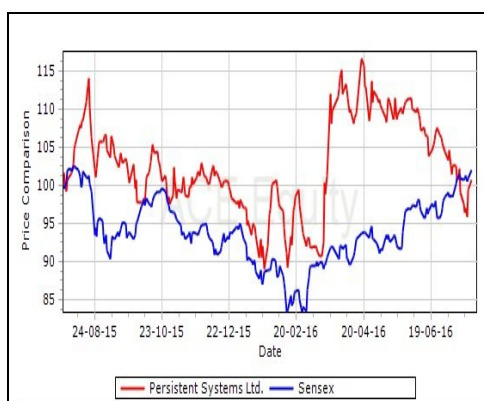
BSE Group	A
BSE Code	533179
NSE Symbol	PERSISTENT
Bloomberg	PERSISTENT.IN
Reuters	PERSISTENT.BO
BSE Sensex	28,094
NSE Nifty	8,635

Market Info

Market Capital	Rs. 5,743 cr
Equity Capital	Rs.80 cr
Avg. Trading Vol.	1,02,900
52 Wk High/ Low	797/563
Face Value	Rs.10

Shareholding Pattern (%)	(Jun 2016)
Promoters	38.2
Domestic Institutions	12.1
Foreign Institutions	12.6
Public & Others	37.1

Price Vs Sensex Chart



Revenues grew by 3.6% QoQ and 40.2% YoY:

Persistent System posted better than expected numbers for the quarter ended June 2016 with Rupee revenues growth at 3.6% QoQ to Rs 700 cr and 40.2% on YoY basis. Persistent Systems crosses USD 104.76 mn with growth of 33.3% YoY and 4.3% QoQ. Profit Before tax grew by 3.0% YoY and dipped by 5.8% QoQ to Rs 96.8 cr and Profit after tax grew by 9% YoY and dipped by 9.3% QoQ to Rs 73.28 cr.

Geography Revenue Mix:

Revenue from North America stood at 87% while Europe, India, Row stood at 5.2%, 5.4%, 2.4% respectively.

Revenue Concentration:

Revenue from Top 1 Client stood at 29% while top 5 and top 10 clients stood at 44.7% and 52.7%.

Segment-wise performance:

Among segmental verticals; Services contributed 47.6% while Digital, Alliance and accelerite stood at 14.2%, 30% and 8.2% respectively.

Operating profits increased by 22% YoY:

Company has recorded an operating profit of Rs 97 cr this qtr; Increased by 3% QoQ. EBIDTA margins were 15.07% this Qtr as against 14.69% in last qtr. Improvement in margins remains the biggest challenge for Persistent. EBIT margin during the quarter stood at 10.8% as against 10.78% previous qtr. PAT reported during the quarter was at Rs. 73 cr increase of 1% sequentially.

Key Highlights:

- Strategic multiyear partnership to continuously transform one of the world largest claim management companies.
- Create new offering and revenue streams for a leading electrical manufacturing company in northern Ireland, using Aepona IoT platform from Accelerite.
- Announced availability of cloud platform 4.7 to support new capabilities in computing, networking and operations.
- Enhancing customer insights, based on sales force Services Cloud and related integrations, for one of the largest payroll service providers in the US.
- Appian names persistent North America partner of the year recognizes for the "Best Use of Mobile" in Appian App Market Awards.

Valuation:

We have valued stock at P/E(x) of 19x to its FY17E earnings and have arrived at fair value of Rs 725 per share. At CMP Rs665 stock trades at 17.5 (x) its FY17E earnings. We have 'HOLD' rating on the stock.

Financials:

Y/E March (Rs. In Crore)	FY14	FY15	FY16	FY17E
Net Revenue	1669	1891	2312	2769
Growth %	29%	13%	22%	20%
EBIDTA	430	391	417	443
EBIDTA Margin	26%	21%	18%	16%
Net Profit	249	291	297	307
Growth %	33%	17%	2%	3%
EPS	31	36	37	38
P/E	16.8	19.6	20.5	17.3
ROE	20.4	20.7	18.1	17.5

Source: Company data, Arianth Research

Quarterly Results:

Particulars (Rs Cr)	Q1FY17	Q4FY16	QoQ%	Q1FY16	Y-oY%
Revenue	702	677	4%	500	40%
Employee benefit exps	441	420		307	
Other direct cost	43	157		108	
Total Direct Cost	484	578		414	
Gross Profit	71	73	-2%	64	12%
Gross Profit Margin (%)	31%	31%		33%	
Other expenses (SGA)	112	109		77	
EBITDA	106	99	6%	86	23%
EBITDA Margin%	15.07%	14.69%		17%	
Depreciation	34	26		23	
EBIT	71	73	-2%	64	12%
EBIT Margin	10.2%	10.8%		12.7%	
Other income	25	21		16	
PBT	97	94	3%	80	22%
Tax paid	24	22		23	
Effective tax rate (%)	24%	23%		29%	
Net Profit	73	73	1%	56	31%
EPS	9.2	9.1		7.1	

Source: Company data, Arihant Research

Profit and Loss statement				
Particulars (Rs. In Crore)	FY14	FY15	FY16	FY17 E
Net Revenue	1669	1891	2312	2731
Employee costs	864	1042	1317	1591
Other direct expenses	88	89	113	138
Total Direct Expenses	952	1132	1430	1729
Gross Profit	717	760	882	1001
Sales & Marketing Expenses	139	176	224	270
Admin & Other Expenses	148	193	241	275
EBIDTA	430	391	417	457
EBIDTA Margin	26%	21%	18%	17%
Depreciation	103	94	97	99
EBIT	328	297	321	357
Other Income	15	93	75	79
PBT	343	390	396	436
Tax	93	99	98	113
Tax rate	27%	25%	25%	26%
PAT	249	291	297	323
Growth (%)	33%	17%	2%	9%
Adjusted EPS	31.2	36.3	37.2	40.3

Balance Sheet				
Particulars (Rs. In Crore)	FY14	FY15	FY16	FY17 E
Shareholder's funds				
Share Capital	40	80	80	80
Reserves & Surplus	1182	1326	1559	1605
Total	1222	1406	1639	1685
Minority Interest	0	0	0	0
Total Non Current Liabilities	43	14	15	22
Total Current Liabilities	278	355	452	421
Total Liabilities	1543	1775	2107	2128
Fixed asset	436	409	460	492
Goodwill	2	2	3	2
Other Non current Investmen	154	244	273	345
Total Non Current Assets	593	656	736	839
Cash balance	83	99	123	144
Total Current Assets	867	1020	1248	1144
Total Assets	1543	1775	2107	2128

Cash Flow Statement				
Particulars (Rs. In Crore)	FY14	FY15	FY16	FY17 E
Profit before taxes	343	390	396	436
Add:- Depreciation	103	94	97	99
Change in Working Capital	-51	-28	147	-67
Cash generated from operations	379	412	639	444
Taxes paid	-98	-100	-98	-113
Net cash flow from operating activities	281	312	541	330
Purchase of fixed assets & capital	-58	-95	-99	-170
Others	-138	-136	-201	-43
Net cash flow from investing activities	-196	-232	-300	-213
Proceeds long term borrowings	1.8	1.3	2.0	0.0
Dividend	-44	-56	-64	-80
Tax on dividend	-7	-11	-16	-16
Net cash used in financing activities	-50	-66	-78	-96
Net Cash Flow	35	14	24	21
Opening Cash balance	50	83	99	123
Exchange difference	-2	1	0	0
Closing Cash balance	83	99	123	144

Key Ratios				
Particulars	FY14	FY15	FY16	FY17 E
EPS	31.2	36.3	37.2	40.3
Book Value	305.6	175.7	204.9	210.6
DPS	12	15	8	10
Payout %	39	41	22	25
Dividend Yield %	1.7	1.2	1.5	1.9
P/E	16.8	19.6	20.5	17.8
EBIDTA Margin	26%	21%	18%	17%
PBT Margin	21%	21%	17%	16%
PAT Margin	15%	15%	13%	12%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	3.11	2.88	2.76	2.72
ROE	20.4	20.7	18.1	19.2
ROCE	20.4	20.6	18.1	19.1

Arihant Research Desk

Head Office	Registered Office
#1011, Solitaire Corporate park , Building No. 10, 1 st Floor, Andheri Ghatkopar Link Road Chakala, Andheri (E). Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale

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

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: ‘Arihant’ to 56677	www.arihantcapital.com	research@arihantcapital.com

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ARIHANT capital markets ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880
www.arihantcapital.com