

Sector: IT/Software

**BUY**

**Upside: 18.9%**

**Stock Data**

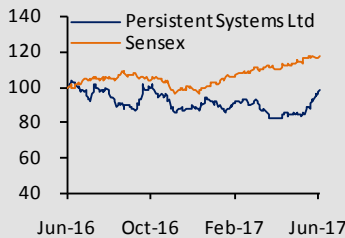
Sensex:	31,312
52 Week h/l (Rs):	719 / 501
Market cap (Rs Cr) :	5,440
BSE code:	533179
NSE code:	PERSISTENT
FV (Rs):	10.0
Div yield (%):	1.8

**Shareholding Pattern (%)**

	Sep-16	Dec-16	Mar-17
Promoters	37.9	36.2	35.0
DII+FII	34.5	35.0	35.0
Others	27.6	28.8	30.0

Source: www.bseindia.com

**Share Price Trend**



Prices as on 19/06/2017

**IBM - IoT deal in Alliance business to lead revenue growth**

We expect strong traction in Alliance business on back of Persistent's deal with its top customer IBM (28% of revenues). As per the revenue sharing deal; Persistent will help deployment of IBM's Watson IoT (Internet of Things) platform. Persistent will also support IBM's Continuous Lifecycle Management/Continuous Engineering (CLM/CE) product suite on Watson for the clients. Given the robust pipeline; US\$ revenue from this deal may deliver 20% CAGR (FY17-FY19E). Apart from the deal, Persistent provides services and product support to IBM and few other clients. Thus, Alliance's (29% of revenues) US\$ sales is likely to grow at 14.5% CAGR (FY17-FY19E).

**Digital and IP (Accelerite) - emerging growth drivers**

Persistent is focused on Healthcare and Financial Services in Enterprise digital transformation and has sizable new contracts. Moreover, recent partnerships with Partners Healthcare and USAA (United Services Automobile Association) - a US based insurance & financial services company; provide decent revenue visibility. Its Digital segment's US\$ revenue grew by 50% YoY in FY17 on a lower base and is likely to grow at 30% CAGR over FY17-19E. Persistent's IP business - Accelerite has strong portfolio of IPs - Radia, Aepona, Cloudstack, location etc. in product development services. We expect Accelerite's US\$ sales to grow at a CAGR of 12.5% (FY17-19E)

**Operating leverage to lead margin recovery; minuscule H1B visa impact**

We expect margins to improve as the IBM deal gains traction resulting into higher sales and cost rationalization (Persistent can realign employee cost after the first year of the deal). Also, increasing revenue share of higher margin segments - Digital (investment phase in this segment is over now) and Accelerite will help margin improvement. Therefore, owing to increase in blended utilization levels; we expect operating margin to go up to 17.4% by FY19E. Also, risk from tightening of H1B visa norms is limited since 45-47% of existing workforce in US is locals.

**Outlook and Valuation**

Persistent with its IBM deal and growing digitization business is the best bet in the niche IoT segment in the mid-cap space. We believe its timely shift of focus on IP and Digital will help it weather the changing dynamics in its traditional Services business (46% of revenues). The stock currently trades at 13.5x FY19E. The stock's 5 year historical average is 17x1 yr fwd EPS. Strong revenue visibility, margin recovery and strong net cash (Rs. 918 cr) and attractive valuations make us optimistic about its prospects. We recommend Buy with a TP of Rs. 809 (16x FY19E).

**Financial Summary**

Rs. Cr	FY15	FY16	FY17	FY18E	FY19E
Revenue	1,891	2,312	2,878	3,109	3,449
Revenue (US\$ mn)	309	352	429	475	531
EBITDA	390	414	465	522	600
EBITDA Margin %	20.6	17.9	16.2	16.8	17.4
Net profit	291	297	301	351	404
% Growth YoY	16.6	2.3	1.4	16.3	15.4
EPS Rs.	36.3	37.2	37.7	43.8	50.5
P/E (x)	18.7	18.3	18.0	15.5	13.5
ROE (%)	20.7	17.9	16.5	16.3	16.6
ROCE (%)	21.1	19.1	16.5	16.9	17.7

Source: Company, IIFL Research

**Analyst-Khadija Mantri**  
research@iifl.com

June 20, 2017

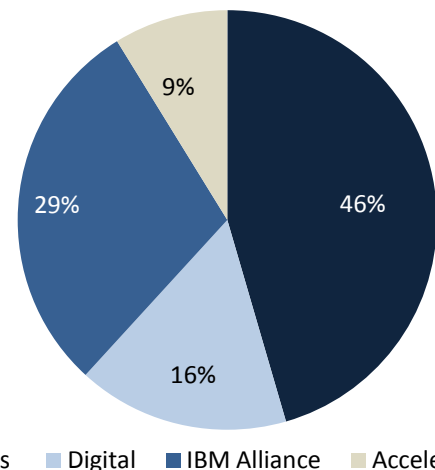
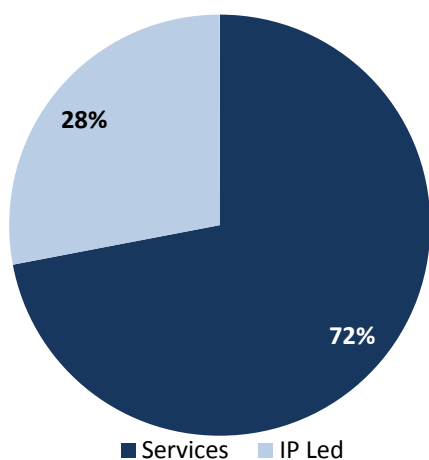
## Company Background

Persistent is a leading offshore product development player that helps build software products with services across all phases of the product lifecycle. Its services span around design, development, maintenance and enhance the functionality of the software products. The company caters to Infrastructure and Systems, Telecom and Wireless, Life science, Healthcare, and Financial Services. Its subsidiaries include Persistent Systems France S.A.S., Persistent Systems Malaysia Sdn. Bhd. and Persistent Systems Pte. Ltd. Given its adoption of a non-linear business model, the company's business now is divided into Services, Digital, Alliance and Accelerite.

Services unit comprises of traditional software and product development services to customers. Alliance Unit is primarily focused on working with IBM on its Watson IoT platform. In this deal, Persistent's engineering, analytics, and enterprise development expertise is leveraged to help IBM and its customers develop and continuously upgrade IoT applications. In Digital unit, Persistent has successfully become a trusted partner of Platforms like Appian and Salesforce. Accelerite unit is the products business of Persistent where the company takes over non-strategic products from other technology companies and adds value to these legacy products and delivers them to its customers. The company generates highest revenue from North America followed by Europe and Asia.

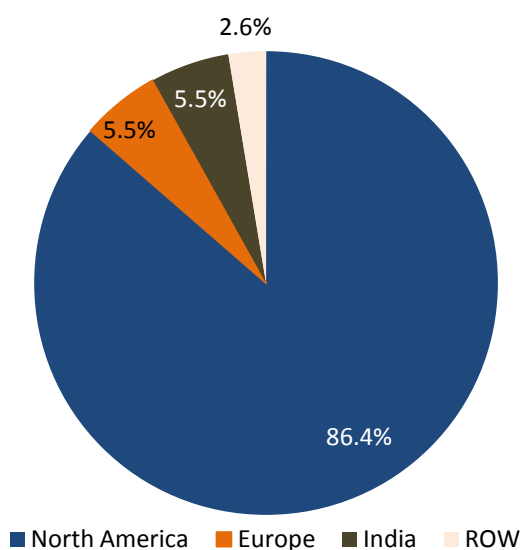
## Revenue mix

Business Segments- FY17

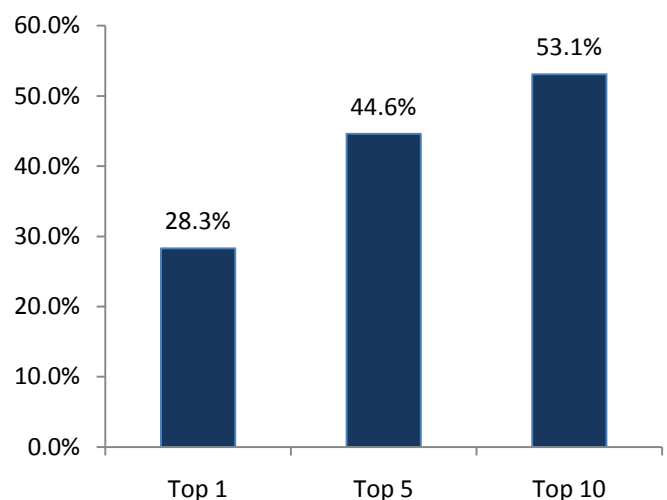


Source: Company, IIFL Research

Based on Geography - FY17



Based on Client Concentration - FY17



Source: Company, IIFL Research

## Fundamental Recommendations

Date	Stock Name	Buy/Sell	Reco Price	Tgt Price	CMP / Exit Price	P & L %	Status
8-Jun-17	GIC Housing Finance	Buy	563	714	616	9.42	Open
30-May-17	Greaves Cotton	Buy	151	193	164	8.48	Open
26-May-17	Rallis India	Buy	237	287	247	4.03	Open
22-May-17	Canara Bank	Buy	368	497	355	(3.41)	Open
17-May-17	JBF Industries	Buy	274	382	300	9.64	Open
9-May-17	Amara Raja Batteries	Buy	880	1086	837	(4.88)	Open
8-May-17	Essel Propack	Buy	259	320	254	(1.85)	Open
4-May-17	Crompton Greaves	Buy	216	262	220	1.92	Open
20-Apr-17	Fiem Industries	Buy	1010	1298	956	(5.36)	Open
12-Apr-17	PNC Infratech	Buy	131	173	145	10.61	Open
24-Mar-17	Bajaj Electricals	Buy	315	378	378	20.00	<b>Closed</b>
7-Mar-17	AIA Engineering	Buy	1460	1712	1380	(5.47)	Open
16-Feb-17	Balkrishna Industries	Buy	1161	1378	1378	18.69	<b>Closed</b>
10-Jan-17	Tata Power	Buy	76	90	90	17.96	<b>Closed</b>

**Recommendation Parameters for Fundamental Reports:**

**Buy** – Absolute return of over +10%

**Accumulate** – Absolute return between 0% to +10%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

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For Research related queries, write at [research@indiaonline.com](mailto:research@indiaonline.com)

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