

**IDEA2ACT : Persistent Systems**

Reco Price	12-months Target Price
BUY @ ₹ 1970-2010	₹ 2400

Persistent Systems (PSYS) is a technology services company helping clients build and manage software-driven businesses. Its business strategy is aligned around four key areas – A) Digital: Bringing together their technology partner ecosystem to enable enterprises with digital transformation B) Alliance: Focus on the long-standing and multidimensional relationship between PSYS and IBM C) Services: Focus on services for software and product development including agile and experience design D) Accelerite: Focus on products that include business-critical infrastructure software for enterprises, telecom operators and public sector

**Earning Momentum to Continue in FY22**

**Strong visibility of Revenue growth in FY22:** We forecast PSYS to deliver sector-leading 20% US\$ revenue growth (consensus at 16%) following a 13% growth in FY21 as:

- In 2HFY21, PSYS has already won deals equal to 81% of FY21 revenues, executable in next 12 months
- In order to grow at 20% in FY22, coupled with 30% renewal assumed for FY21 revenues; PSYS needs to win US\$283mn of new deal ACV, they have already won 84% of that in 2HFY21
- PSYS' headcount grew 29% in FY21 vs. 13% revenue growth (sector-leading); a key leading indicator.

**Margin Expansion likely in FY22:** We forecast EBIT margins to reach 14.5% (consensus at 12.7%), led by:

- Operating leverage in SG&A
- Majority of hiring already done in FY21
- Higher margins in Alliance portfolio led by growth recovery and cost cuts
- Absence of Covid CSR (40bps) and IBM amortization (110bps).

**Valuations are still in a comfort zone:** PSYS is still trading at 23X on 1-yr fwd P/E while the stocks that have demonstrated consistent top quartile growth (e.g. LTI, COFO) have re-rated to 28X. As PSYS continues to deliver sector-leading growth, it has enough room to re-rate closer to these peers.



A combination of improved revenue visibility, steady margin expansion, and relatively attractive valuations (yes!) makes it a compelling story, in our view. We forecast 17%/32% USD revenue/EPS Cagr over FY21-23ii. Our EPS is 25%/22% above B'berg consensus for FY22ii/23ii. **We recommend a Buy Rating on Persistent Systems with a target price of Rs2400 based on 24x 2YF EPS vs. the stock trading at 20x FY23ii P/E.**

Technically, the stock is trading in a strong higher top higher bottom chart structure, indicating a positive bias according to the dow theory. The stock has given a bullish consolidation breakout on the daily chart and is showing positive signs on the MACD Histogram & the ADX Index. **If the current impulse move accentuates the way it should, we expect Persistent Systems to trend higher and test our immediate target price of Rs2400 during the next 1-Year.**

You can also understand the stock by watching this video here: [Click here](#)

#### Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	17%	Target Achieved (₹225 + Dividend ₹10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
1-Oct-20	Manappuram Finance Ltd	155.5	186	-4%	Open
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
2-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
3-Dec-20	Bharat Electronics	112	139.0	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
6-Jan-21	Alembic Pharmaceuticals	1075	1252	-8%	Open
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	2%	Open
5-Feb-21	State Bank of India	351.5	429	1%	Open
1-Mar-21	Cummins India	772	914	18%	Target Achieved

Date	Stock Name	Reco Price	Target Price	P & L %	Status
10-Mar-21	HCL Tech	962	1140	-7%	Open
10-Mar-21	Eicher Motors	2635	2940	-8%	Open
07-Apr-21	Cyient Ltd	669	789	10%	Open





Disclaimer:

**Recommendation Parameters for Fundamental/Technical 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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