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| COMPANY NAME | : PERSISTENT SYSTEMS LTD. |
| BSE Code | : 533179 |
| Time Duration | : 1 year |
| CMP | : ₹1310 (as on 17 Dec., 2020) |
| Target Price | : ₹1690 |

Mid Bridge recommendation for the month of December is Persistent Systems Limited. The company, formed in the year 1990, is an outpatient department (OPD) speciality company, offering customers the benefits of offshore delivery. It designs, develops & maintains software systems & solutions, creates new applications, and enhances the functionality of the customers' existing software products. It also delivers service across all stages of the product's life cycle, enabling it to work with a wide range of customers and allowing it to develop, enhance & deploy its customers' software products. The company is also engaged in the business of telecom & wireless, infrastructure & systems, life sciences & healthcare.

Demand outlook:

The demand for IT is increasing every year with the importance of IT escalating among the firms. Digital operations have become more important than ever, with many transformative changes accelerating over the past year. The influence of technology is massive, forcing new approaches to regulatory behaviour. The government initiatives, subsidies, and vision of making India digital have added to the further growth of the IT sector. The companies have realised the need for digital transformation not only to structurally cut costs but also, for providing efficiency in the management. The use of information technology (IT) in every business has become the need of the day to resist, survive, and compete in the global competition. The demand outlook for the IT sector is very positive in terms of growth as well as profitability.

Global footprint:

The company operates in more than 17 countries with more than 1,000 active clients. The maximum revenue comes from North America contributing approximately 83 per cent of the total revenue of the firm. Europe and India contribute roughly 16 per cent combined, while the rest of the world contributes the remaining ~1 per cent. The share of India in the firm's revenue is on the rise, increasing its share by 31 per cent in the company's total revenue over the last year, forming 8.1 per cent of the firm's total revenue. Further, looking at the sector-wise bifurcation of the revenues, the services segment contributes approximately 84 per cent of the to-

tal revenue, while the IP-led segment contributes the remaining 16 per cent. Over the past five years, the company has contributed more than 3,000 product releases for its customers. It currently has more than 10,000 employees.

Financial performance:

Over the past five years, the company's revenue grew by 9.3 per cent on a consolidated compounded basis. Its revenue grew by 5.93 per cent to Rs 3,566 crore in FY20 compared to Rs 3,366 crore in FY19. The company grew its revenues by approximately 11 per cent in Q2FY21 to Rs 1,024 crore from Rs 922 crore a year ago, while EBIT grew at an impressive ~18 per cent to Rs 138 crore compared to Rs 117 crore, a year ago. EBIT margins were at 13.5 per cent in the second quarter of FY21, an increase of 6.22 per cent from Q1FY20 due to a decrease in the expenses. Notably, PAT also increased 18.6 per cent to Rs 102 crore during the quarter from Rs 86 crore, a year ago. PAT margins improved to 10.12 per cent in Q2FY21 from 9.73 per cent, a year ago.

Strategic expansion:

Persistent Systems Inc. has announced its acquisition of Capiot Software Inc (USA) along with its subsidiaries in India, Singapore & Australia on October 15, 2020. The acquisition is to be completed in the third quarter of FY21 while the revenue has started coming from Q3FY21 itself. The consolidated revenue of Capiot Software Inc. for FY20 was at US\$ 6.28 million (4.6 per cent of the company's revenue). This acquisition will strengthen its position in the Indian territory as Capiot's maximum revenue comes from the Indian subsidiary. It also formed a global alliance with Actifio to help enterprises with data stack modernisation and acceleration of digital transformation initiatives. Persistent Systems have won a number of awards in the IT sector and has also been one of the most consistent performers in this industry.

Valuation & outlook:

TTM EPS for the second quarter of FY21 stood at Rs 47.59 as against Rs 45.11, a year ago. In terms of valuation, the company's share is trading at a TTM P/E of 25.38 times, higher than the P/E

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average of the last 5 years of approximately 17 times. They have won a number of multi-million deals in Q2FY21. The company is more focussed on the vertical, service line, and geographical diversification along with deepening of skills. It sees opportunities worldwide and looks for continuous growth & expansion. The mergers and acquisitions with different firms will help them pen-

trate further into the industry, providing its clients with a more complete range of products. With the demand in IT to continue and with Persistent Systems catering to the requirements of various companies at every stage, we recommend a BUY call on this stock with a target of Rs 1,690.

Inc/Exp Statement (Consolidated)

| Description | 202003 | 201903 | 201803 | 201703 | 201603 |
|-------------------|---------|---------|---------|---------|---------|
| Net Sales | 3565.81 | 3365.94 | 3033.70 | 2878.44 | 2312.33 |
| Total Income | 3698.18 | 3460.98 | 3169.83 | 2974.28 | 2410.64 |
| Total Expenditure | 3073.55 | 2817.08 | 2582.01 | 2413.09 | 1941.85 |
| PBIDT | 624.64 | 643.90 | 587.83 | 561.19 | 468.80 |
| PAT | 340.29 | 351.68 | 323.09 | 301.46 | 277.30 |
| Dividend % | 120.00 | 110.00 | 100.00 | 90.00 | 80.00 |
| Adj. EPS(Rs) | 44.53 | 44.45 | 40.39 | 37.68 | 34.66 |

Quarter On Quarter (Consolidated)

| Particulars | 202009 | 202006 | Q on Q Var % | 201909 | Y on Y Var % |
|-------------------|---------|--------|--------------|--------|--------------|
| Net Sales | 1007.75 | 991.39 | 1.65 | 884.6 | 13.92 |
| Total Expenditure | 841.33 | 845.59 | -0.5 | 762.94 | 10.28 |
| PBIDT (Excl OI) | 166.41 | 145.79 | 14.14 | 121.66 | 36.78 |
| PAT | 101.99 | 90.01 | 13.31 | 86.07 | 18.49 |
| PBIDTM% (Excl OI) | 16.51 | 14.71 | 12.24 | 13.75 | 20.07 |
| PBIDTM% | 18.15 | 16.85 | 7.72 | 18.08 | 0.39 |
| PATM% | 10.12 | 9.08 | 11.45 | 9.73 | 4.01 |
| Adj. EPS(Rs) | 13.34 | 11.78 | 13.24 | 11.26 | 18.47 |

Stock vs. Index



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- **Sell:** The intended audience is being informed that they can consider selling the shares of the said company
- **Hold:** The intended audience is being informed that they can consider to neither purchase or sell but continue to hold, if any, the shares of the said company