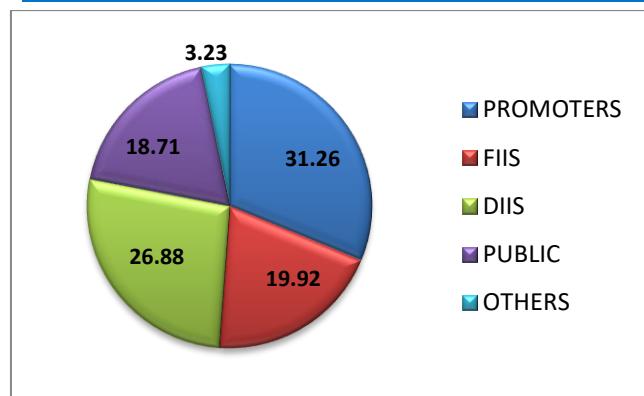


March 2022
VALUE PARAMETERS

| | |
|-------------------------|-----------|
| Sector | IT sector |
| Face Value (Rs.) | 10 |
| Enterprise value | 34,888 |
| M.Cap (Rs. in Cr.) | 35,933 |
| 52-Week High/Low | 4988/1761 |
| EPS (TTM) | 82.1 |
| P/E Ratio (TTM) | 57.3 |
| Sector P/E | 31.1 |
| P/B Ratio (calc at CMP) | 11.6 |

SHAREHOLDING PATTERN

FINANCIAL PERFORMANCE

| | ACTUAL | FORECAST | |
|-----------------|-----------|-----------|-----------|
| | FY Mar-21 | FY Mar-22 | FY Mar-23 |
| Sales (Rs. Cr) | 4187.9 | 5674 | 7220 |
| EBITDA (Rs. Cr) | 683 | 957 | 1213.5 |
| EBITDA margin | 16.3 | 16.8 | 16.8 |
| PAT (Rs. Cr) | 450 | 687 | 859.6 |
| EPS (Rs) | 59 | 90 | 112 |
| ROE | 17.4 | 22.5 | 24 |
| ROCE | 14.1 | 19 | 20 |
| DPS | 20 | 27 | 33 |
| P/E | 72.9 | 48 | 38 |

Price chart over 1 year


Our Recommendation: Persistent reported strong earnings in Quarter 3 and noted improvement in all growth parameters including top-line growth, margin improvement and new deal wins. A strong deal in pipeline and strong revenue growth pace in Services and in Allied businesses will enable the company to deliver higher growth comparable to its peers. The stock is currently trading at PE of 38x to its 24E earnings. With this positive outlook, we recommend BUY in price range Rs. 4550-4650 with target price 5200 (Upside 12%).

Investment Rationale:

About Company: Persistent Systems is a global IT company. The company is specialized in software product and technology services. The company develops software solutions in next-generation technology areas such as data analytics, cloud computing, big data, mobility for the telecommunications, life sciences, banking and financial services and healthcare. The company designs, develops and maintains software systems and solutions, creates new applications and enhances the functionality of the customer's existing software products. The company has operational presence in USA, Europe, India, and Singapore. The company has released more than 3,000 products for its customers in the last five years.

Strategic Acquisition & Expansion:

- Persistent Systems to acquire US cloud player MediaAgility for \$71.71 mn (around 550 Cr). MediaAgility is a global cloud transformation services provider with expertise building scalable, cloud-based solutions. This acquisition will expand Persistent's ability to execute cloud-based digital transformation journeys for its global clients.
- Persistent Systems also acquired Data Glove IT Solutions. With this acquisition, Persistent will enhance its partnership with Microsoft, improve expertise in Azure-based digital transformation and would expand its geographic footprint.

Key Highlights:

- Management hopes growth momentum will continue in the services business with 16%-17% EBITDA margins.
- IP business reported robust growth this quarter, but it is expected to reduce gradually over the longer term.
- The company aims to record 1 billion US dollar review in coming quarters.
- Order book remained strong with new deals in pipeline would help growth trajectory elevate.

Q3FY22 Results:

- Net Revenue stands at Rs 1,491.72 crore in December 2021 up 38.71% from Rs. 1,075.40 crore in December 2020.
- Quarterly Net Profit at Rs. 176.40 crore in December 2021 up 45.87% from Rs. 120.92 crore in December 2020.
- EBITDA stands at Rs. 281.75 crore in December 2021 up 32.59% from Rs. 212.50 crore in December 2020.
- EPS has increased to Rs. 23.08 in December 2021 from Rs. 15.82 in December 2020.

Key Risks:

- Delay in product launches, stronger rupee against USD or adverse cross-currency movements could affect earnings.
- Lower than expected margins.

Financials and Valuations

Income Statement (Rs Cr)

| Year-end March | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|---------------|---------------|---------------|---------------|---------------|
| Sales | 2878.4 | 3033.7 | 3365.9 | 3565.8 | 4187.9 |
| Change (%) | 24.5 | 5.4 | 11.0 | 5.9 | 17.4 |
| Cost of Goods Sold | 1851.8 | 1970.4 | 2137.8 | 2349.4 | 2765 |
| Gross Profit | 1026.6 | 1063.3 | 1228.1 | 1216.4 | 1422.9 |
| Selling Expenses | 561.3 | 594.6 | 647.6 | 723.4 | 739.8 |
| EBITDA | 465.3 | 468.7 | 580.5 | 493 | 683 |
| Depreciation | 149 | 158.5 | 169.2 | 166 | 175.6 |
| EBIT | 316.3 | 310.2 | 411.3 | 327 | 507.5 |
| Other Income | 95.8 | 119.0 | 86.4 | 125.4 | 102.0 |
| PBT | 412.1 | 429.3 | 497.7 | 452.3 | 609.4 |
| Tax | 99.2 | 106.2 | 232.7 | 112.1 | 158.8 |
| Net Profit | 312.9 | 323.1 | 265 | 340.3 | 450.7 |
| Change (%) | 5.2 | 3.3 | -18.0 | 28.4 | 32.4 |
| Extraordinary Item | 11.4 | 0 | 0 | 0 | 0 |
| Net Income after Extraordinary Item | 301.5 | 323.1 | 265.0 | 340.3 | 450.7 |

Balance Sheet (Rs Cr)

| Year-end March | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 80.0 | 80.0 | 79.1 | 76.4 | 76.4 |
| Other Reserves | 1819.3 | 2047.2 | 2265.6 | 2309.3 | 2719.2 |
| Net Worth | 1899.3 | 2127.2 | 2344.7 | 2385.8 | 2795.7 |
| Loans | 2.2 | 1.7 | 1.2 | 4.6 | 4.4 |
| Other liabilities | 27.7 | 43.0 | 17.7 | 54.4 | 95.7 |
| Capital Employed | 1929.1 | 2171.9 | 2363.6 | 2444.8 | 2895.8 |
| Net Block | 276.8 | 258.1 | 233.1 | 279.1 | 325.4 |
| CWIP | 4.8 | 0.8 | 1.2 | 16.6 | 12.2 |
| Intangibles | 283.2 | 258.5 | 198.0 | 166.1 | 131.5 |
| Investments | 233.9 | 288.1 | 434.6 | 462.1 | 362.1 |
| Deferred Tax Assets | 30.6 | 64.2 | 40.5 | 96 | 103.8 |
| Other | 113.0 | 27.2 | 57.7 | 86.6 | 60.2 |
| Current Assets | 1403.9 | 1762 | 1890.5 | 1985.6 | 2670.3 |
| Debtors | 475.4 | 484.7 | 492.3 | 592.2 | 570.9 |
| Investments | 450.0 | 591.6 | 329.6 | 516.5 | 1376.5 |
| Cash & BB | 151.0 | 241.4 | 672.9 | 457.2 | 241.9 |
| Loans & Advances | 1.0 | 0.7 | 0.8 | 1.4 | 7.1 |
| Other Current Assets | 326.6 | 443.6 | 395 | 418.3 | 473.9 |
| Current Liabilities & Provisions | 417.3 | 487 | 492 | 647.4 | 769.7 |
| Trade payables | 120.9 | 167.3 | 151.7 | 224.7 | 273.3 |
| Other Liabilities | 157.2 | 159.7 | 163.9 | 261.6 | 248.6 |
| Provisions | 139.1 | 159.9 | 176.4 | 161.1 | 247.8 |
| Net Current Assets | 986.6 | 1275 | 1398.5 | 1338.2 | 1900.6 |
| Application of Funds | 1929.1 | 2171.9 | 2363.6 | 2444.8 | 2895.8 |

Financials and Valuations

Key Ratios

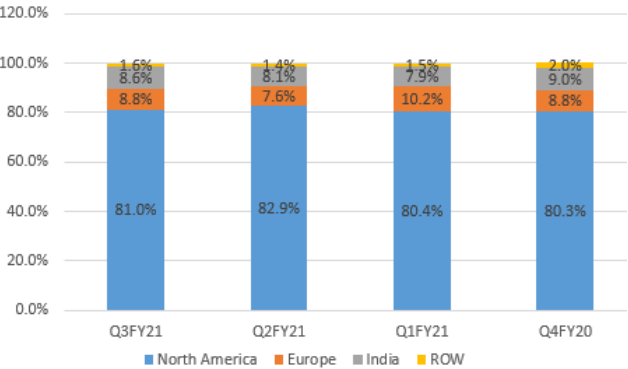
| Year-end March | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------------|-------|-------|-------|------|------|
| Efficiency Ratios | | | | | |
| EPS | 37.68 | 40.4 | 33.1 | 44 | 59 |
| Book Value | 237.5 | 266 | 293 | 312 | 366 |
| DPS | 9 | 0 | 11 | 12 | 20 |
| Payout % | 23 | 0 | 3 | 27 | 34 |
| Valuation (x) | | | | | |
| P/E | 110 | 106.5 | 129.8 | 96.6 | 72.9 |
| EV/EBITDA | 72.7 | 71.7 | 57.5 | 64.7 | 45.8 |
| Price/Book Value | 18.1 | 16.2 | 14.7 | 13.8 | 11.8 |
| Dividend Yield (%) | 0.2 | 0.0 | 0.3 | 0.3 | 0.5 |
| Return Ratios (%) | | | | | |
| RoE | 17.7 | 16.0 | 11.9 | 14.4 | 17.4 |
| RoCE | 13.4 | 11.4 | 9.7 | 10.2 | 14.1 |
| Solvency Ratios | | | | | |
| Total Debt to Equity Ratio | 0 | 0 | 0 | 0 | 0 |
| Current Ratio | 3.36 | 3.56 | 3.84 | 3.06 | 3.47 |
| Quick Ratio | 3.36 | 3.56 | 3.84 | 3.06 | 3.47 |
| Turnover Ratios | | | | | |
| Debtors (Days) | 60 | 58 | 53 | 61 | 50 |
| Asset Turnover (x) | 10.0 | 11.3 | 13.7 | 14 | 14 |

Cash Flow Statement (Rs Cr)

| Year-end March | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash Flow from Operations | 392.6 | 415.6 | 453.6 | 459.7 | 578.1 |
| Change in Working Capital | -106.2 | 5.6 | -21.3 | -136.9 | 157.8 |
| Net Operating Cash Flow | 286.4 | 421.2 | 432.3 | 322.9 | 735.9 |
| Net Purchase of FA | -216.9 | -65.1 | -37.4 | -74.6 | -125.1 |
| Free Cash Flow | 69.5 | 356.0 | 394.9 | 248.3 | 610.8 |
| Net Purchase of Invest. | -5.0 | -282.2 | -188.5 | 59.7 | -416.6 |
| Net Cash from Investment | -221.9 | -347.4 | -225.9 | -14.8 | -541.7 |
| Issue of shares | 0 | 0 | 0 | 0 | 0 |
| Proceeds from LTB/STB | 1.0 | 101.6 | 391.3 | -234.4 | -304.4 |
| Dividend Payments | -57.8 | -95.0 | -159.0 | -297.8 | -107.0 |
| Net Cash Flow from Finance | -56.8 | 6.6 | 232.3 | -532.1 | -411.4 |
| Net Cash Flow | 7.7 | 80.4 | 438.6 | -224.1 | -217.1 |
| Exchange difference | 1 | 10.1 | -7.1 | 8.4 | 1.9 |
| Opening Cash Balance | 143.2 | 151 | 241.4 | 672.9 | 457.2 |
| Closing Cash Balance | 151.0 | 241.4 | 672.9 | 457.2 | 242 |

Financial Story in Charts

Geography Revenue Mix



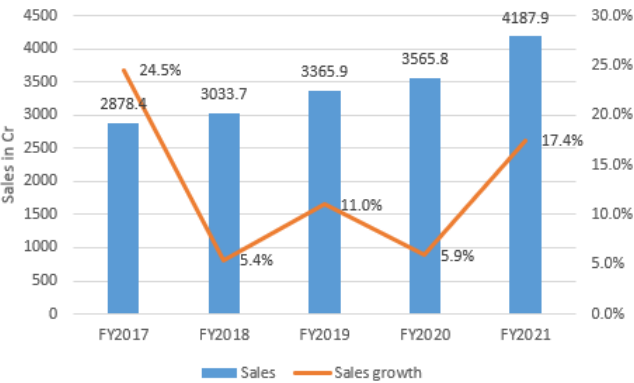
North American region contributes 81% of the total revenue. Contribution from India region was 9% and Europe was 9%, while Rest of the World contributed 1.5% of total revenue

Industry Classification in Revenue

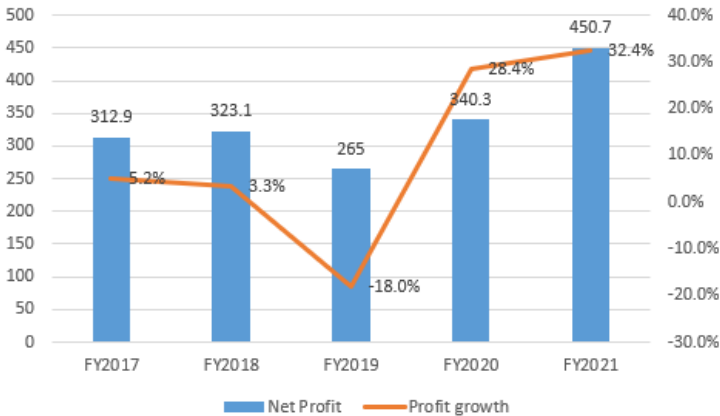
| Industry Classification | Contri to Revenue(%) | Growth(QoQ%) | Growth (YoY) |
|-------------------------|----------------------|--------------|--------------|
| Services | 86.7 | 8.2 | 44.2 |
| IP-led | 13.3 | 16.2 | 0.1 |

IP recorded strong 16.2% QoQ growth on seasonality. Services contributed 86.7 per cent followed by IP.

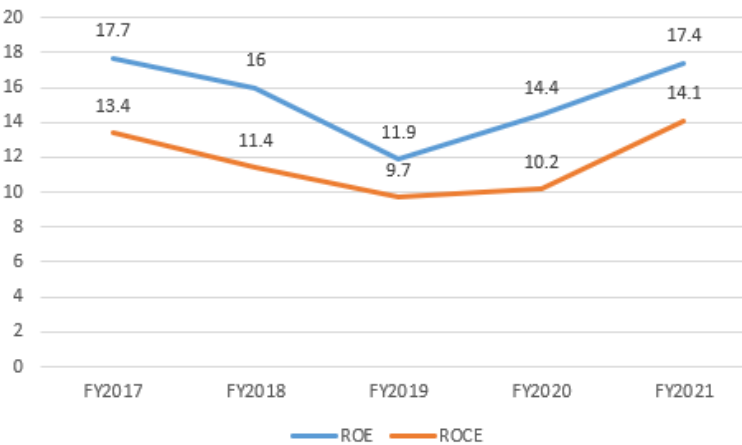
Sales & Sales growth over 5 years



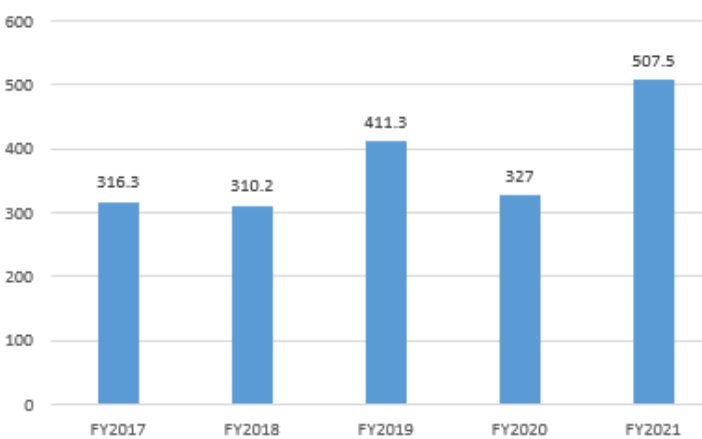
Net Profit & Net Profit growth over 5 years



ROE (%) % ROCE (%) over 5 years



EBIT (Rs Cr) over 5 years



Email ID: research@shareindia.co.in

Disclosure:

We, research team at Share India Securities Ltd. (SISL), authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SISL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

We state that Research Analyst or his/her relative or SISL may have any financial interest in the subject company. Also Research Analyst or his relative or SISL or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report.

Further, Research Analyst or his relative or SISL or its associate a) does not have any material conflict of interest at the time of publication of the research report; b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; c) has not received any compensation for investment banking or merchant banking or brokerage services or for any other product/s or service/s or for any other reason whatsoever from the subject company in the past twelve months; d) has not received any compensation or other benefits from the subject company or third party in connection with the research report; e) has not served as an officer, director or employee of the subject company; and f) has not been engaged in market making activity for the subject company.

SISL is a SEBI Registered Research Analyst having registration no. INH100005011.

Disclaimer:

This report has been prepared by SISL and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable.

Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject SISL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of SISL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. SISL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

SISL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

SISL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

SISL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

SISL is a Member of National Stock Exchange of India Limited (NSE), BSE Ltd (Bombay Stock Exchange), Multi Commodity Exchange of India Limited (MCX), National Commodity and Derivatives Exchange Limited (NCDEX), Indian Commodity Exchange Limited (ICEX) and has Depository Participant affiliation with Central Depositories Services (India) Limited (CDSL). It is a SEBI registered Portfolio Manager and SEBI registered Research Analyst [SEBI Reg. No.: INB/F/E 231079832, INB/F/E 011079838, IN-DP-32-2015, AMFI Reg. No. ARN: 78041, SEBI Research Analyst Reg. No.: INH100005011, CIN - L67120GJ1994PLC115132].