

- **In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
Persistent Systems Ltd.	8,720	1,141	1,334	17%	BUY

* Note: Investment horizon Approx. 6-9 months., CMP as on 13th November, 2020



CMP (Rs)	Target (Rs)
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1,141	1,334
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MARKET DATA

No. of Shares	7.6 cr
Market Cap	Rs 8,720 Cr
52-week High / Low	Rs 1,390/ 420
BSE Code	533179
NSE Code	PERSISTENT

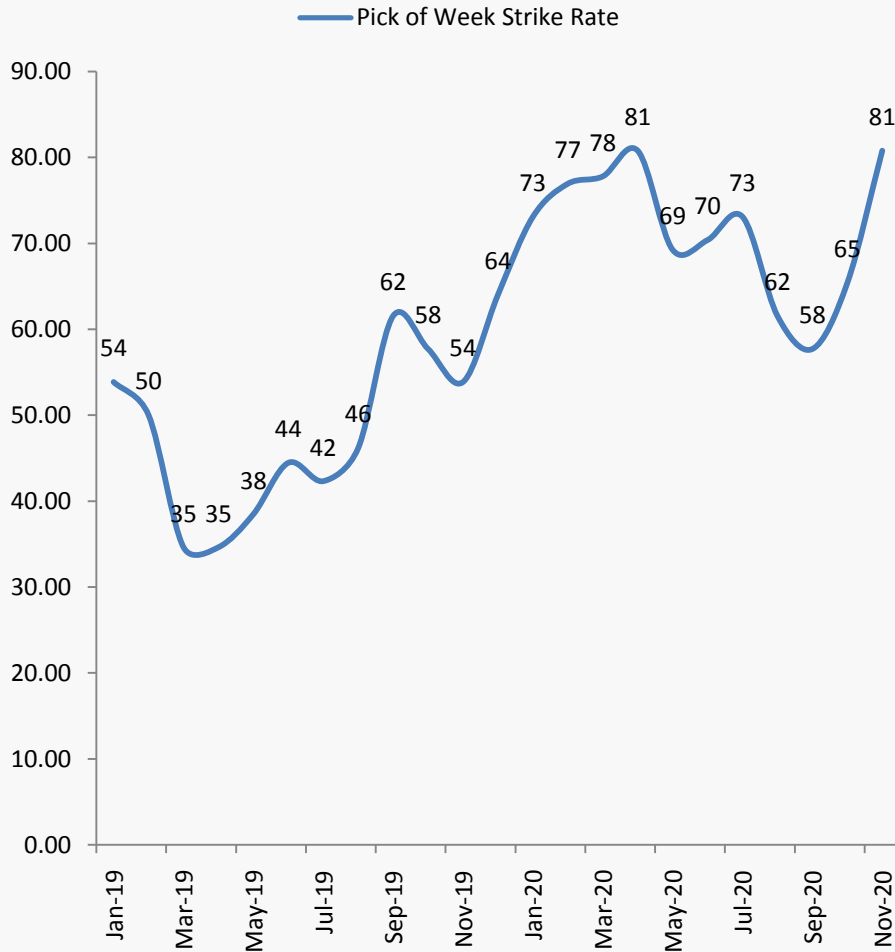
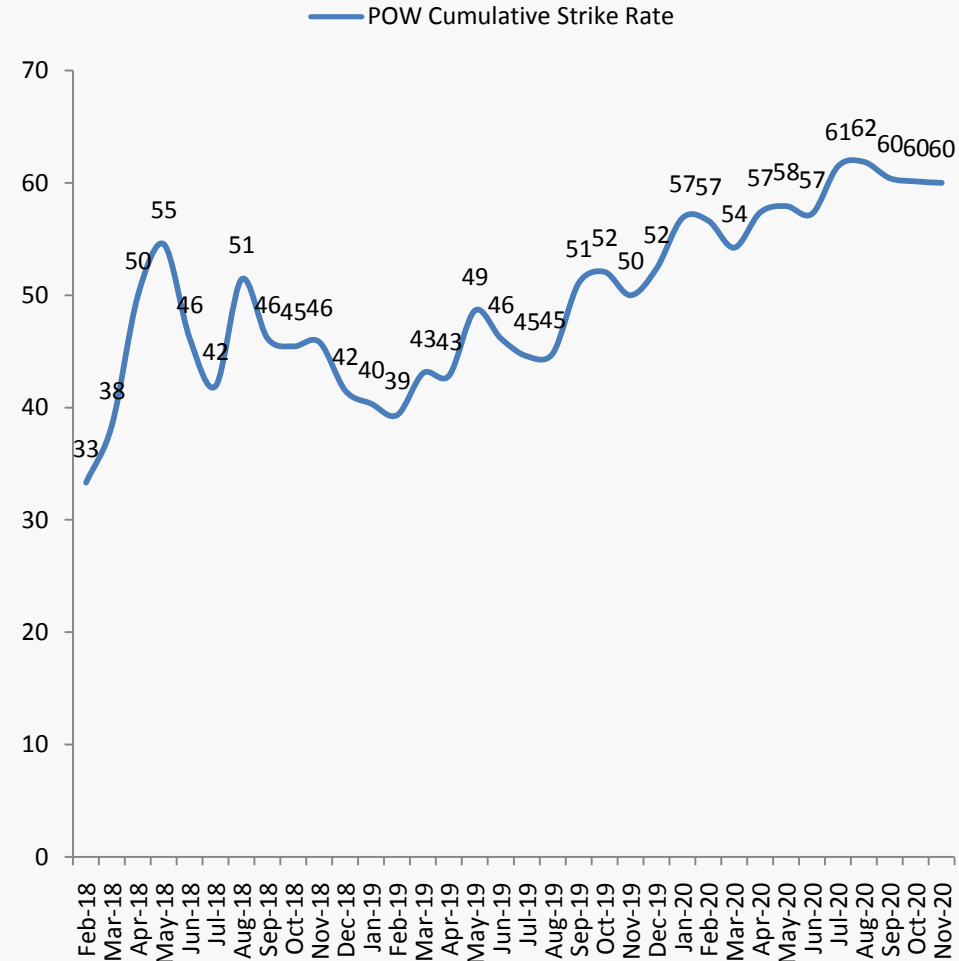
Persistent Systems headquartered in Pune, India offers specialized services in cloud computing, digitization, business analytics etc. Persistent has established strong leadership in few verticals viz., Enterprise software, Consumer Software, Innovation Services etc. The experienced management has strong focus on increasing wallet share from existing clients along with scouting for new clients. Momentum from top client continues with good traction in adoption of collaboration tools, cloud and digitization.

Investment Rationale

- Robust demand for product Engineering Services:** Persistent has strong presence in product engineering services across verticals and geographies. The product engineering services' market is expected to grow from \$676 billion in 2016 to \$1,174 billion by 2023, at a CAGR of 8.2%. Key trends such as growing environmental awareness, increasing use of alternative fuel & renewable energy, convergence of technologies & crossing of device boundaries, growing use of electronic components & communication technologies, and increasing demand from new middle-class consumers in the emerging markets are driving market.
- Digital Solution will accelerate the revenue growth:** Digital is an important part of Persistent System's future growth journey; digital revenue contribution has grown meaningfully from 14% of the total revenue in Q2FY17 to ~42% by the end of Q2FY21. Persistent's management is seeing strong traction in digital transformation demand where customers are looking at custom built development on newer technology. It targets overall double-digit revenue growth for FY22E on account of healthy traction in Digital business, especially in Healthcare and BFSI. The company's strategy is to focus on IP-led offerings, digital transformation, software-based offerings and large enterprise accounts for its future growth.
- Better vertical mix aid faster recovery:** Persistent provides services to three main verticals viz., BFSI, Healthcare & Life Science and Technologies & Emerging verticals. BFSI Verticals is having maximum contribution to the revenue (32% to the top line). Pharma and Healthcare is the second largest vertical (contributes 20% to the top line). The remaining revenues are distributed among Technologies & other emerging verticals Persistent has better vertical mix as compared to other Indian peers. BFSI is one of the fastest growing vertical and has seen robust demand for digital transformation and cloud. Healthcare and Pharma vertical has also seen robust demand after the global pandemic. We believe better vertical mix will help Persistent Systems to generate long term sustainable growth. Strong demand across verticals, healthy deal pipeline and better execution gives us confidence about the future growth potential of Persistent Systems. We are assigning 17x PE multiple to its FY23 EPS of Rs. 78.0 to revise our target upwards to Rs 1,334/- .

Financial Summary (Consolidated)

Y/E	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (Y o Y%)	P/E (x)	RoE (%)	RoCC (%)	DPS (Rs)
2020	3,566	340	44.5	(3.3)	26.0	14%	19%	13.4
2021E	4,259	431	56.4	26.7	23.2	17%	21%	14.1
2022E	4,676	568	74.35	31.8	17.6	19%	20%	18.6
2023E	5,152	596	78.01	4.9	16.8	18%	21%	19.5

Strike rate based on rolling 6 months

Strike rate since Jan 2018


Note: We have changed our methodology of calculation of strike rates for PoW product from July 2020; and shifted to calculations using 6 months rolling returns method and cumulative basis as against earlier method of calculating the strike rate for last 9 months. The performance under the revised methodology is as above.

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