

# PERSISTENT SYSTEMS

## All round performance

India Equity Research | IT



Persistent Systems (Persistent) reported stellar Q2FY13 numbers as revenue of USD60.1 mn was way ahead of our and Street estimate of USD56.9mn. This robust growth was led by IP led revenue USD11.3mn (although this revenue is lumpy) as its contribution surged to 18.9% from 13.9% in Q1FY13. This surge in IP led revenue enabled to offset the impact of wage hike as EBITDA margin expanded 40bps QoQ to 27.2%. Persistent has been investing in new technologies over the past two years and we believe the benefits of the same have started to fructify. We maintain our BUY rating with a target price of INR547.

### IP led revenue bolsters growth, protects margin

Revenues of USD60.1mn, QoQ growth of 9.4%, surpassed Street estimates. This robust performance was due to a surge in IP led revenue of USD11.3mn. Revenues excluding IP led too posted a decent growth of 3% QoQ. EBITDA margin at 27.2% was way ahead of the Street estimate of 24.6%. Combination of IP led revenue and improvement in utilisation helped offset the impact of wage hike given during the quarter. The company has acquired Doyenz's cloud platform (rCloud) business and the management is confident of breaking even in 18 months.

### Investments in new technologies starting to fructify

Persistent has consistently invested in creation of IP-led solutions and in cloud computing, enterprise collaboration, analytics, and enterprise mobility over the past two years which have started showing initial signs of paying off. We believe the company could receive further impetus to growth as it continues to further invest in these technologies. Also, the benefits from its "sell-with" approach have started paying rich dividends. We believe both these initiatives will not only lead to improved revenue trajectory but also help absorb costs going ahead.

### Outlook and valuations: Poised for growth, maintain 'BUY'

We are revising our revenue growth assumption from 11.3%/14.7% to 16.0%/15.3% to factor in robust Q2FY13 performance and improved revenue outlook. We believe Persistent is poised to capture high growth opportunities as the macro environment turns positive. We value the stock at INR 547/share based on P/E of 10x FY14E core EPS of INR45 and INR97 cash per share. We maintain 'BUY/SO' recommendation.

#### Financials

| Year to March       | Q213  | Q113  | Growth % | Q212  | Growth % | FY12   | FY13E  | FY14E  |
|---------------------|-------|-------|----------|-------|----------|--------|--------|--------|
| Revenue (INR mn)    | 3,269 | 3,007 | 8.7      | 2,382 | 37.2     | 10,003 | 12,867 | 14,417 |
| EBITDA (INR mn)     | 890   | 807   | 10.3     | 454   | 96.3     | 2,324  | 3,327  | 3,476  |
| Net profit (INR mn) | 446   | 416   | 7.3      | 324   | 37.7     | 1,418  | 1,733  | 1,940  |
| Diluted EPS (INR)   | 11.2  | 10.4  | 7.4      | 8.1   | 37.8     | 35.5   | 43.3   | 48.5   |
| Diluted P/E (x)     |       |       |          |       |          | 12.2   | 10.0   | 9.0    |
| EV/EBITDA (x)       |       |       |          |       |          | 5.7    | 3.6    | 3.0    |
| EV/Revenues (x)     |       |       |          |       |          | 1.3    | 0.9    | 0.7    |

#### EDELWEISS 4D RATINGS

|                                |              |
|--------------------------------|--------------|
| Absolute Rating                | BUY          |
| Rating Relative to Sector      | Outperformer |
| Risk Rating Relative to Sector | Low          |
| Sector Relative to Market      | Equalweight  |

#### MARKET DATA (R: PERS.BO, B: PSYS IN)

|                              |             |
|------------------------------|-------------|
| CMP                          | : INR 428   |
| Target Price                 | : INR 547   |
| 52-week range (INR)          | : 443 / 281 |
| Share in issue (mn)          | : 40.0      |
| M cap (INR bn/USD mn)        | : 17/ 323   |
| Avg. Daily Vol.BSE/NSE('000) | : 27.9      |

#### SHARE HOLDING PATTERN (%)

|                                                  | Current | Q1FY13 | Q4FY12 |
|--------------------------------------------------|---------|--------|--------|
| Promoters %                                      | 39.0    | 39.0   | 39.0   |
| MF's, FI's & BK's                                | 32.5    | 31.6   | 30.8   |
| FII's                                            | 2.1     | 1.9    | 2.2    |
| others                                           | 26.4    | 27.5   | 28.1   |
| * Promoters pledged shares (% of share in issue) |         |        | NIL    |

#### PRICE PERFORMANCE (%)

|           | Stock | Nifty | EW Technology Index |
|-----------|-------|-------|---------------------|
| 1 month   | 3.6   | 2.1   | (4.0)               |
| 3 months  | 12.6  | 9.6   | 3.9                 |
| 12 months | 38.2  | 13.5  | 23.9                |

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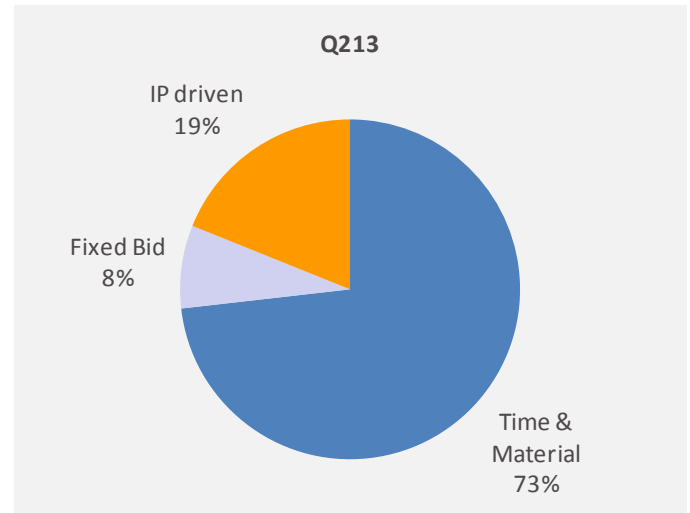
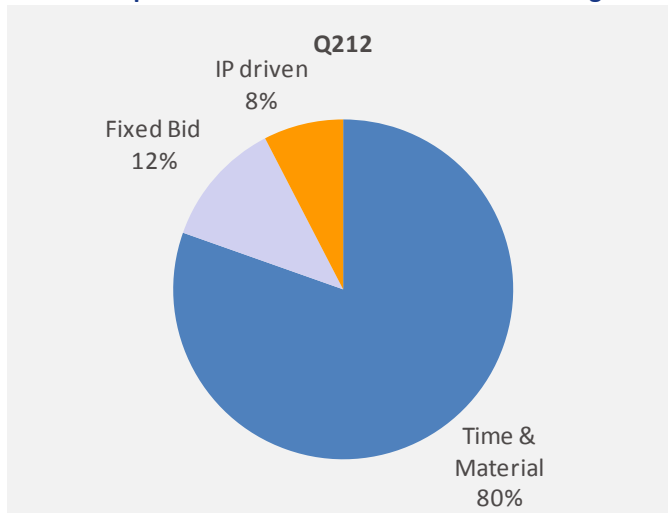
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### Key highlights

- Reported revenue of USD60.1mn (up 9.4% QoQ) was above our estimate (USD56.9mn). Ex-IP led revenue grew 3% QoQ whereas IP led business contributed 6.4% to overall growth of 9.4%QoQ.
- Gross margin (44.1%) was flat sequentially due to increase in IP led business contribution and better utilization which was set off by wage hike (9.9% average hike to Indian employees) and currency impact. EBITDA margin (at 27.2%) increased 40bps sequentially.
- Net profit at INR446mn was up 7.4% QoQ due to higher operating profits partially offset by forex loss of INR161mn. Net margin for the quarter stood at 13.7% (13.8% in previous quarter).
- **Shift towards IP led revenue:** Revenue from IP led business has grown substantially from 8% in Q2FY12 to 19% in Q2FY13.

**Chart 1: Proportion of IP led revenue has increased significantly**

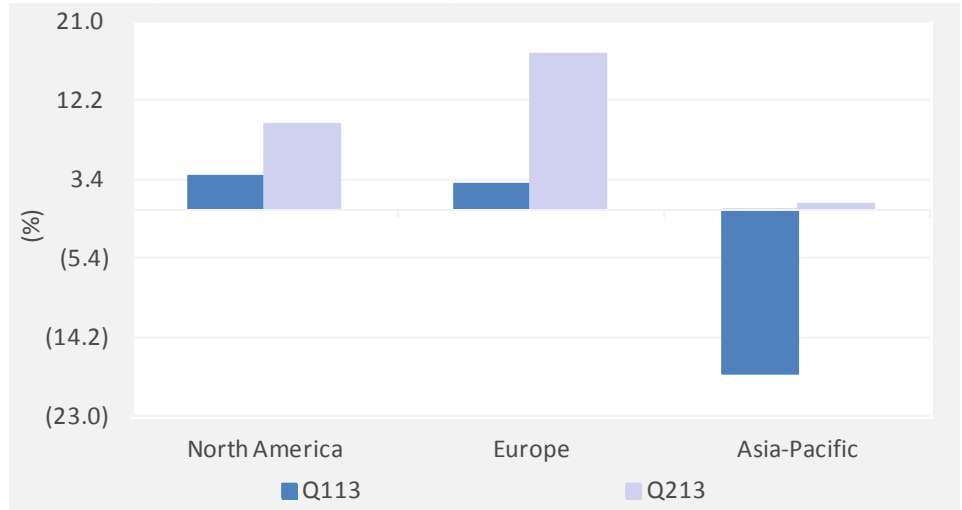


Source: Company

- **Client data:** Total active clientele now stands at 293 (against 291 in previous quarter). The number of USD3mn clients increased by 2 to 15.
- **Good performance across client categories:** Persistent's top client grew a robust 27.2% sequentially while top 5 and 10 grew sequentially 18.5% and 13.5%, respectively. Beyond top 10 clients grew 6.0% QoQ.
- **Pricing inches up during the quarter:** Onsite pricing improved 0.6% QoQ while offshore pricing increased 2.1% QoQ.
- **Utilisation improves:** Utilisation increased sharply by 300bps to 77.1%. Attrition stood at 16.9% (18.9% in Q1FY13).

- **Geo-split:** Europe and North America reported sequential growth of 17.3% and 9.6%, respectively. APAC grew sequentially by 0.6% only.

**Chart 2: Geography-wise QoQ revenue growth**



Source: Company, Edelweiss research

- **Net addition:** Total number of employees declined by 166 to 6,370 during the quarter. The management has stated its intention to hire 600 more employees in FY13E.
- **Hedge position:** Total outstanding hedge at USD91mn at an average rate of INR54.79.
- Total cash and equivalents in hand currently at INR3,872mn.
- **Tax:** The company expects 28-29% tax in FY13E.
- **Capex:** Capex during first half of the year was INR249mn. The company has guided for INR600-700mn capex in second half of the year.

## Financials snapshot

(INR mn)

| Year to March            | Q213  | Q113  | Growth % | Q212  | Growth % | FY12   | FY13E  | FY14E  |
|--------------------------|-------|-------|----------|-------|----------|--------|--------|--------|
| Total revenues           | 3,269 | 3,007 | 8.7      | 2,382 | 37.2     | 10,003 | 12,867 | 14,417 |
| Direct cost              | 1,828 | 1,685 | 8.4      | 1,495 | 22.2     | 5,922  | 7,420  | 8,605  |
| Gross profit             | 1,441 | 1,322 | 9.0      | 887   | 62.5     | 4,081  | 5,447  | 5,812  |
| Overhead expenditure     | 551   | 515   | 7.0      | 433   | 27.1     | 1,757  | 2,120  | 2,335  |
| EBITDA                   | 890   | 807   | 10.3     | 454   | 96.3     | 2,324  | 3,327  | 3,476  |
| Depreciation             | 189   | 185   | 2.5      | 140   | 35.5     | 611    | 835    | 976    |
| EBIT                     | 701   | 622   | 12.7     | 314   | 123.3    | 1,713  | 2,492  | 2,500  |
| Foreign ex (loss) / gain | (161) | (121) | 32.4     | 64    | (352.4)  | (16)   | (332)  | (8)    |
| Other income             | 82    | 75    | 10.1     | 74    | 11.8     | 272    | 247    | 202    |
| PBT                      | 623   | 576   | 8.2      | 451   | 38.0     | 1,969  | 2,407  | 2,694  |
| Tax                      | 176   | 160   | 10.4     | 127   | 38.8     | 551    | 675    | 754    |
| Adjusted net profit      | 446   | 416   | 7.3      | 324   | 37.7     | 1,418  | 1,733  | 1,940  |
| Reported net profit      | 446   | 416   | 7.3      | 324   | 37.7     | 1,418  | 1,733  | 1,940  |
| Diluted EPS (INR)        | 11.2  | 10.4  | 7.4      | 8.1   | 37.8     | 35.5   | 43.3   | 48.5   |

## as % of net revenues

|                         |      |      |  |      |  |      |      |      |
|-------------------------|------|------|--|------|--|------|------|------|
| Gross profit            | 44.1 | 44.0 |  | 37.2 |  | 40.8 | 42.3 | 40.3 |
| Selling & marketing exp | 7.1  | 7.2  |  | 7.0  |  | 6.9  | 7.1  | 7.2  |
| Admin exp               | 9.7  | 9.9  |  | 11.2 |  | 10.7 | 9.4  | 9.0  |
| EBITDA                  | 27.2 | 26.8 |  | 19.0 |  | 23.2 | 25.9 | 24.1 |
| EBIT                    | 21.4 | 20.7 |  | 13.2 |  | 17.1 | 19.4 | 17.3 |
| Reported net profit     | 13.7 | 13.8 |  | 13.6 |  | 14.2 | 13.5 | 13.5 |
| Tax rate                | 28.3 | 27.7 |  | 28.2 |  | 28.0 | 28.0 | 28.0 |

## Change in estimates

|                   | FY13E  |        |          | FY14E  |        |          | Comments                                                                                               |
|-------------------|--------|--------|----------|--------|--------|----------|--------------------------------------------------------------------------------------------------------|
|                   | New    | Old    | % change | New    | Old    | % change |                                                                                                        |
| Net revenue       | 12,867 | 12,347 | 4.2      | 14,417 | 13,763 | 4.7      | Revising USD revenue growth from 11.3%/14.7% to 16.0% / 15.3% for FY13/14 leads to growth in revenue   |
| EBITDA            | 3,327  | 3,189  | 4.3      | 3,476  | 3,258  | 6.7      | Revision of revenue growth and robust Q2FY13 margin performance leads to an upward revision in EBITDA. |
| EBITDA margin (%) | 25.9   | 25.8   |          | 24.1   | 23.7   |          |                                                                                                        |
| PAT               | 1,733  | 1,704  | 1.7      | 1,940  | 1,814  | 6.9      |                                                                                                        |
| PAT margin (%)    | 13.5   | 13.8   |          | 13.5   | 13.2   |          |                                                                                                        |
| Capex             | 834    | 834    | 0.0      | 850    | 850    | -        |                                                                                                        |

## Company Description

Persistent was incorporated in 1990-91 by Dr. Anand Deshpande and Mr. S. P. Deshpande as a boutique company primarily focused on database internals. Currently, it is one of the leading outsourced product development (OPD) companies in India. It offers a wide range of services from database internals to data management, data warehousing, data analytics etc., and across various stages of the product life cycle. The company has successfully delivered more than 3,000 product releases in the past five years on behalf of its customers. It has deep domain expertise and over 6,200 highly skilled software professionals working currently. The company has significant domain expertise in telecom, life science & healthcare, and infrastructure & systems. Persistent derives more than 83% of revenue from the US and Canada and is fairly diversified with regards to its dependency on top 10 clients who contribute ~48% to total revenue. With over two decades of experience in the OPD space, long-term client relationships, investments in new technology areas, and strengthening recovery globally, Persistent is well poised.

## Investment Theme

With the share of outsourcing maintained at 23-24% of total R&D spending, the offshore R&D industry is expected to surge 1.5x by 2013E (*source: NASSCOM*). India is expected to be a key beneficiary of the accelerating outsourcing trend as it has a large pool of manpower with the necessary skill sets. NASSCOM estimates the Indian OSPD industry to be USD1.2bn in FY12, ~10% of the offshore R&D market.

Persistent expertise in this OPD space, along with long-term relationships and service offerings addressing each stage of the product development lifecycle starting from conceptualisation-to-design-to-development-to-implementation and finally maintenance will enable it to make most of this opportunity. We expect it to post a USD revenue CAGR of 15.6% over FY12-14E.

## Key Risks

- High sensitivity to USD movement
- Aggressive competition from captives and lack of pricing power
- High exposure to US, Canada geographies, limited industry exposure
- Volatility in IP-led business

## Financial Statements

### Key assumptions

|                                         | FY11 | FY12 | FY13E | FY14E |
|-----------------------------------------|------|------|-------|-------|
| <b>Macro -</b> GDP(Y-o-Y %)             | 8.4  | 6.5  | 5.8   | 6.5   |
| Inflation (Avg)                         | 9.9  | 8.8  | 7.8   | 6.0   |
| Repo rate (exit rate)                   | 6.8  | 8.5  | 7.5   | 6.8   |
| USD/INR (Avg)                           | 45.6 | 47.9 | 53.5  | 52.0  |
| <b>Company -</b> USD revenue growth (%) | 33.7 | 21.8 | 16.0  | 15.3  |
| Billing rates (USD/hr) - Onsite         | 71.8 | 72.0 | 73.0  | 73.1  |
| Billing rates (USD/hr) - Offshore       | 20.7 | 21.6 | 22.5  | 22.6  |

### Income statement

|                             | (INR mn) |        |        |        |
|-----------------------------|----------|--------|--------|--------|
| Year to March               | FY11     | FY12   | FY13E  | FY14E  |
| Revenues                    | 7,758    | 10,003 | 12,867 | 14,417 |
| Cost of revenues            | 4,723    | 5,922  | 7,420  | 8,605  |
| Gross profit                | 3,036    | 4,081  | 5,447  | 5,812  |
| SG&A expenses               | 1,453    | 1,757  | 2,120  | 2,335  |
| EBITDA                      | 1,583    | 2,324  | 3,327  | 3,476  |
| Depreciation & amortization | 423      | 611    | 835    | 976    |
| EBIT                        | 1,160    | 1,713  | 2,492  | 2,500  |
| Other income                | 171      | 272    | 247    | 202    |
| Forex gain/(loss)           | 173      | (16)   | (332)  | (8)    |
| Profit before tax           | 1,504    | 1,969  | 2,407  | 2,694  |
| Tax                         | 106      | 551    | 675    | 754    |
| Core profit                 | 1,398    | 1,418  | 1,733  | 1,940  |
| Profit after tax            | 1,398    | 1,418  | 1,733  | 1,940  |
| Diluted shares (mn)         | 40.1     | 40.0   | 40.0   | 40.0   |
| EPS (INR) diluted           | 34.9     | 35.5   | 43.3   | 48.5   |
| Dividend per share          | 5.8      | 6.3    | 6.5    | 6.8    |
| Dividend pay out (%)        | 18.3     | 19.7   | 16.9   | 15.7   |

### Common size metrics - as % of revenues

| Year to March      | FY11 | FY12 | FY13E | FY14E |
|--------------------|------|------|-------|-------|
| Cost of revenues   | 60.9 | 59.2 | 57.7  | 59.7  |
| Gross margin       | 39.1 | 40.8 | 42.3  | 40.3  |
| SG&A expenses      | 18.7 | 17.6 | 16.5  | 16.2  |
| EBITDA margin      | 20.4 | 23.2 | 25.9  | 24.1  |
| EBIT margin        | 14.9 | 17.1 | 19.4  | 17.3  |
| Net profit margins | 18.0 | 14.2 | 13.5  | 13.5  |

### Growth metrics (%)

| Year to March | FY11 | FY12 | FY13E | FY14E |
|---------------|------|------|-------|-------|
| Revenues      | 29.1 | 28.9 | 28.6  | 12.0  |
| EBITDA        | 8.2  | 46.8 | 43.2  | 4.5   |
| EBIT          | 2.8  | 47.7 | 45.5  | 0.3   |
| PBT           | 21.2 | 30.9 | 22.3  | 11.9  |
| Net profit    | 21.5 | 1.4  | 22.2  | 11.9  |
| EPS           | 8.8  | 1.6  | 22.2  | 11.9  |

| <b>Balance sheet</b>            |              |              |              |               |
|---------------------------------|--------------|--------------|--------------|---------------|
| (INR mn)                        |              |              |              |               |
| <b>As on 31st March</b>         | <b>FY11</b>  | <b>FY12</b>  | <b>FY13E</b> | <b>FY14E</b>  |
| Equity share capital            | 400          | 400          | 400          | 400           |
| Reserves                        | 7,071        | 8,005        | 9,448        | 11,084        |
| Total shareholders funds        | 7,471        | 8,405        | 9,848        | 11,484        |
| Long term provisions            | 62           | 71           | 78           | 86            |
| <b>Sources of funds</b>         | <b>7,533</b> | <b>8,483</b> | <b>9,933</b> | <b>11,576</b> |
| Net fixed assets                | 2,261        | 3,197        | 3,474        | 3,348         |
| Capital WIP                     | 553          | 528          | 250          | 250           |
| Non-current investments         | 0            | 123          | 123          | 123           |
| Deferred tax assets (net)       | 60           | 107          | 107          | 107           |
| Long term loans and advances    | 149          | 147          | 162          | 178           |
| Current investments             | 2,500        | 1,915        | 2,515        | 3,815         |
| Trade receivables               | 1,582        | 2,033        | 2,503        | 2,804         |
| Cash and bank balances          | 886          | 1,375        | 1,974        | 2,261         |
| Short term loans and advances   | 771          | 535          | 642          | 707           |
| Other current assets            | 226          | 182          | 204          | 230           |
| Total Current Assets            | 5,966        | 6,040        | 7,838        | 9,817         |
| Trade payables                  | 406          | 289          | 388          | 434           |
| Other current liabilities       | 429          | 590          | 776          | 869           |
| Short term provisions           | 736          | 781          | 859          | 945           |
| Total current liabilities       | 1,570        | 1,660        | 2,023        | 2,249         |
| Net current assets              | 4,396        | 4,379        | 5,816        | 7,569         |
| <b>Application of funds</b>     | <b>7,533</b> | <b>8,483</b> | <b>9,933</b> | <b>11,576</b> |
| Book value per share (BV) (INR) | 186          | 210          | 246          | 287           |

| <b>Free cash flow</b>            |             |             |              |              |
|----------------------------------|-------------|-------------|--------------|--------------|
| (INR mn)                         |             |             |              |              |
| <b>As on 31st March</b>          | <b>FY11</b> | <b>FY12</b> | <b>FY13E</b> | <b>FY14E</b> |
| Net profit                       | 1,398       | 1,418       | 1,733        | 1,940        |
| Depreciation                     | 423         | 611         | 835          | 976          |
| Others                           | (294)       | 12          | (247)        | (202)        |
| Gross cash flow                  | 1,527       | 2,041       | 2,320        | 2,714        |
| Less: Changes in working capital | (48)        | 604         | 244          | 174          |
| Operating cash flow              | 1,575       | 1,436       | 2,076        | 2,539        |
| Less: Capex                      | 970         | 1,504       | 834          | 850          |
| <b>Free cash flow</b>            | <b>605</b>  | <b>(68)</b> | <b>1,242</b> | <b>1,689</b> |

| <b>Cash flow statement</b>          |                |             |              |              |
|-------------------------------------|----------------|-------------|--------------|--------------|
| <b>As on 31st March</b>             | <b>FY11</b>    | <b>FY12</b> | <b>FY13E</b> | <b>FY14E</b> |
| Cash flow from operations           | 1,527          | 2,041       | 2,320        | 2,714        |
| Cash for working capital            | 48             | (604)       | (244)        | (174)        |
| Operating cashflow (A)              | 1,575          | 1,436       | 2,076        | 2,539        |
| Net purchase of fixed assets        | (970)          | (1,504)     | (834)        | (850)        |
| Net purchase of investments         | (1,684)        | 182         | (600)        | (1,300)      |
| Others                              | 125            | 331         | 247          | 202          |
| Investments cashflow (B)            | (2,529)        | (992)       | (1,187)      | (1,948)      |
| Dividends                           | (280)          | (233)       | (293)        | (304)        |
| Proceeds from issue of equity       | (45)           | 0           | 3            | 0            |
| Interest paid & other items         | (387)          | (15)        | 0            | 0            |
| Financing cash flow (C)             | (712)          | (241)       | (290)        | (304)        |
| <b>Change in cash (A+B+C) + (D)</b> | <b>(1,666)</b> | <b>203</b>  | <b>599</b>   | <b>287</b>   |

**Ratios**

| Year to March             | FY11 | FY12 | FY13E | FY14E |
|---------------------------|------|------|-------|-------|
| ROAE (%)                  | 18.7 | 17.9 | 19.0  | 18.2  |
| ROACE (%)                 | 23.0 | 29.9 | 36.3  | 33.5  |
| Debtors (days)            | 74   | 66   | 64    | 67    |
| Payable (days)            | 19   | 13   | 10    | 10    |
| Cash conversion cycle     | 55   | 53   | 55    | 57    |
| Current ratio             | 3.8  | 3.6  | 3.9   | 4.4   |
| Fixed assets turnover (x) | 3.4  | 3.7  | 3.9   | 4.2   |
| Total asset turnover(x)   | 1.0  | 1.2  | 1.4   | 1.3   |
| Equity turnover(x)        | 1.0  | 1.3  | 1.4   | 1.4   |

**Valuation parameters**

| Year to March              | FY11 | FY12 | FY13E | FY14E |
|----------------------------|------|------|-------|-------|
| Diluted EPS (INR)          | 34.9 | 35.5 | 43.3  | 48.5  |
| Y-o-Y growth (%)           | 8.8  | 1.6  | 22.2  | 11.9  |
| CEPS (INR)                 | 48.3 | 53.0 | 66.6  | 75.6  |
| Diluted P/E (x)            | 12.3 | 12.1 | 9.9   | 8.8   |
| Price/BV(x)                | 2.3  | 2.0  | 1.7   | 1.5   |
| EV/Revenues (x)            | 1.6  | 1.3  | 0.9   | 0.7   |
| EV/EBITDA (x)              | 8.1  | 5.6  | 3.6   | 3.0   |
| EV/EBITDA (x)+1 yr forward | 5.5  | 3.9  | 3.4   |       |
| Dividend Yield %           | 1.4  | 1.5  | 1.5   | 1.6   |

**Peer comparison valuation**

| Company            | Absolute<br>Reco | CMP<br>(INR) | Mcap<br>(INR bn) | P/E (x) |       | EV/EBITDA(x) |       | Mcap/Revenue (x) |       |
|--------------------|------------------|--------------|------------------|---------|-------|--------------|-------|------------------|-------|
|                    |                  |              |                  | FY13E   | FY14E | FY13E        | FY14E | FY13E            | FY14E |
| CMC                | BUY              | 1,096        | 33.2             | 13.8    | 10.5  | 10.2         | 7.8   | 1.8              | 1.8   |
| eClerx             | BUY              | 809          | 23.8             | 12.5    | 10.6  | 8.4          | 7.0   | 3.7              | 3.1   |
| HCL Tech           | BUY              | 601          | 417.1            | 13.5    | 12.5  | 7.8          | 7.3   | 1.7              | 1.5   |
| Hexaware           | BUY              | 112          | 33.2             | 9.7     | 8.3   | 6.2          | 5.0   | 1.7              | 1.4   |
| Info Edge          | REDUCE           | 366          | 39.9             | 30.7    | 23.6  | 20.3         | 14.6  | 9.0              | 7.4   |
| Infosys            | BUY              | 2,378        | 1,365.3          | 14.7    | 12.9  | 9.5          | 7.9   | 3.4              | 3.1   |
| Infotech           | BUY              | 196          | 21.8             | 9.8     | 9.0   | 4.2          | 3.8   | 1.1              | 1.0   |
| Mphasis            | HOLD             | 397          | 83               | 11.0    | 9.9   | 5.6          | 4.8   | 1.5              | 1.4   |
| Persistent Systems | BUY              | 428          | 17               | 9.9     | 8.8   | 3.6          | 3.0   | 1.4              | 1.2   |
| TCS                | HOLD             | 1,307        | 2,559            | 19.1    | 17.4  | 13.6         | 12.5  | 4.1              | 3.8   |
| TECHM*             | BUY              | 939          | 120              | 12.6    | 11.2  | NA           | NA    | 0.8              | 0.8   |
| Wipro              | HOLD             | 346          | 852              | 12.7    | 12.6  | 9.0          | 8.8   | 1.9              | 1.8   |

Source: Company, Edelweiss research

Note: \*Merged entity



| Company              | Absolute reco | Relative reco | Relative risk | Company                   | Absolute reco | Relative reco | Relative Risk |
|----------------------|---------------|---------------|---------------|---------------------------|---------------|---------------|---------------|
| CMC                  | BUY           | SO            | L             | ECLERX SERVICES           | BUY           | SO            | M             |
| HCL Technologies     | BUY           | SO            | H             | Hexaware Technologies     | BUY           | SO            | M             |
| Info Edge            | REDUCE        | SU            | M             | Infosys                   | BUY           | SO            | L             |
| Infotech Enterprises | BUY           | SP            | H             | Mphasis                   | HOLD          | SP            | M             |
| Persistent Systems   | BUY           | SO            | L             | Tata Consultancy Services | HOLD          | SP            | L             |
| Tech Mahindra        | BUY           | SO            | M             | Wipro                     | HOLD          | SP            | L             |

### ABSOLUTE RATING

| Ratings | Expected absolute returns over 12 months |
|---------|------------------------------------------|
| Buy     | More than 15%                            |
| Hold    | Between 15% and - 5%                     |
| Reduce  | Less than -5%                            |

### RELATIVE RETURNS RATING

| Ratings                    | Criteria                            |
|----------------------------|-------------------------------------|
| Sector Outperformer (SO)   | Stock return > 1.25 x Sector return |
| Sector Performer (SP)      | Stock return > 0.75 x Sector return |
|                            | Stock return < 1.25 x Sector return |
| Sector Underperformer (SU) | Stock return < 0.75 x Sector return |

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

| Ratings    | Criteria                              |
|------------|---------------------------------------|
| Low (L)    | Bottom 1/3rd percentile in the sector |
| Medium (M) | Middle 1/3rd percentile in the sector |
| High (H)   | Top 1/3rd percentile in the sector    |

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

| Ratings          | Criteria                            |
|------------------|-------------------------------------|
| Overweight (OW)  | Sector return > 1.25 x Nifty return |
| Equalweight (EW) | Sector return > 0.75 x Nifty return |
|                  | Sector return < 1.25 x Nifty return |
| Underweight (UW) | Sector return < 0.75 x Nifty return |



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### Coverage group(s) of stocks by primary analyst(s): IT

CMC, ECLERX SERVICES, HCL Technologies, Hexaware Technologies, Infosys, Info Edge, Infotech Enterprises, Mphasis, Persistent Systems, Tata Consultancy Services, Tech Mahindra, Wipro

#### Recent Research

| Date      | Company                     | Title                                                  | Price (INR) | Recos |
|-----------|-----------------------------|--------------------------------------------------------|-------------|-------|
| 17-Oct-12 | <b>Infotech Enterprises</b> | In line results;<br><i>Result Update</i>               | 195         | Buy   |
| 17-Oct-12 | <b>HCL Technologies</b>     | Past pain future gains .....;<br><i>Result Update</i>  | 581         | Buy   |
| 16-Oct-12 | <b>CMC</b>                  | Moving in the right direction;<br><i>Result Update</i> | 1,118       | Buy   |

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

|                         | Buy    | Hold                   | Reduce | Total |
|-------------------------|--------|------------------------|--------|-------|
| Rating Distribution*    | 113    | 53                     | 19     | 186   |
| * 1 stocks under review |        |                        |        |       |
|                         | > 50bn | Between 10bn and 50 bn | < 10bn |       |
| Market Cap (INR)        | 114    | 58                     | 14     |       |

#### Rating Interpretation

| Rating        | Expected to                                     |
|---------------|-------------------------------------------------|
| <b>Buy</b>    | appreciate more than 15% over a 12-month period |
| <b>Hold</b>   | appreciate up to 15% over a 12-month period     |
| <b>Reduce</b> | depreciate more than 5% over a 12-month period  |



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