

Persistent Systems Ltd

Recommendation	BUY
CMP	Rs 428
Target Price	Rs 551
Sector	IT Consulting & Software

Stock Details

BSE Code	533179
NSE Code	PERSISTENT
Bloomberg Code	PSYS: IN
Market Cap (Rs cr)	1708
Free Float (%)	61.05
52- wk HI/Lo (Rs)	443/290
Avg. volume BSE (Quarterly)	4884
Face Value (Rs)	10.0
Dividend (FY 12)	60%
Shares o/s (Cr)	4

Relative Performance	1Mth	3Mth	1Yr
Persistent	1.5%	9.2%	34.6%
Sensex	0.8%	8.8%	11.1%



Shareholding Pattern 30th Sep 12

Promoters Holding	38.95%
Institutional (Incl. FII)	34.69%
Corporate Bodies	0.82%
Public & others	25.54%

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Q2FY13 results above expectations

Significant growth in Revenues led by IP led revenues

USD revenues grew by 9.4% QoQ with IP and Product Engineering contributing 6.4% and 3% respectively.

Rupee revenues grew 8.7% QoQ. Traction was seen in the Telecom segment and IBM ramp down being bottomed out. IP revenues contributed 19% to the revenues.

Margins improve despite wage hikes

EBIDTA margins during the quarter grew 41 bps despite an average wage hike of ~ 10% to the offshore employees. Utilizations have improved to 77.7% from 74.1% in the previous quarter. Technical employee count went down by 176 numbers while marketing costs going up by 7.3% QoQ.

PAT for the quarter grew 7.4% QoQ. Forex loss stood at Rs.16 crore during the quarter.

Other Highlights

- PSL acquired Washington based Doyenz's disaster recovery product rCloud during the quarter. This product has a \$4mn annual run rate and would contribute to PSL's quarter from Q3FY13 onwards. Deal value was not disclosed.
- Capex stood at Rs.25 crore during the H1FY13 and plans to spend Rs. 60-70 crore for the rest of the year.
- PSL plans to add 600 net employees in the H2FY13 apart from the IP acquisitions it has made.

Valuation & Recommendation

We have increased our revenue projections for FY13E and for FY14E post the Q2FY13 results. This is backed by the latest acquisition and growing contribution of the IP led revenues to the revenues and margins of the company.

At CMP, the stock is available at a P/E of 9.5x and 7.8x its expected earnings for FY13E and FY14E respectively which we feel is attractive. We are rolling our target price to Rs.551 based on the FY14 earnings expectations which gives 29% upside from current levels.

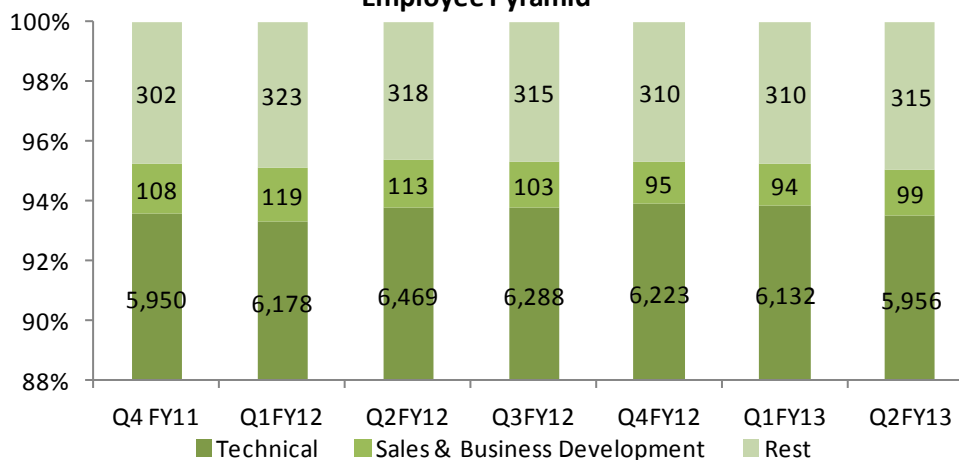
Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin%	EPS	PE	EV/EBITDA	ROCE %
FY11	775.8	29.1%	158.3	20.4%	139.7	18%	37.0	11.1	7.7	19.7%
FY12	1000.3	28.9%	232.4	23.2%	141.8	14%	37.0	10.9	5.2	23.2%
FY13E	1244.4	24.4%	325.3	26.1%	180.0	14%	45.0	9.5	3.7	25.7%
FY14E	1439.6	15.7%	370.8	25.8%	220.3	15%	55.1	7.8	3.1	26.6%

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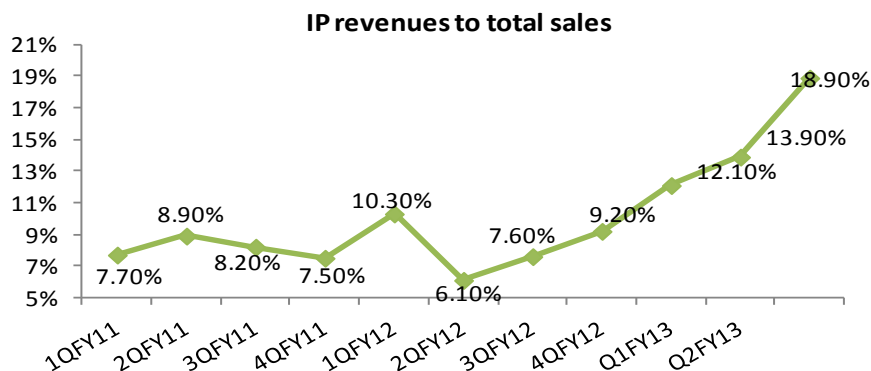
Q2FY13 Result Analysis (in Rs Crs.)

	Q2FY13	Q1 FY13	Q-o-Q	Q2FY12	Y-o-Y
USD Revenues	60.1	54.9	9.4%	51.5	16.5%
INR Revenues	326.9	300.7	8.7%	238.2	37.2%
Expenditure:					
Employee Related Expenses	165.6	154.0	7.6%	143.0	15.8%
Purchase	9.7	5.8	66.8%	0.7	1271.9%
Project related Travel Expenses	7.5	8.8	(14.9%)	5.8	30.1%
Total Direct costs	182.8	168.5	8.4%	149.5	22.2%
Gross Profit	144.10	132.16		88.67	
Sales & Marketing Expenses	23.4	21.8	7.3%	16.7	39.8%
Admin. & Other Expenses	26.1	25.4	2.7%	23.6	10.9%
Doubtful Debt Provision	4.2	4.0	3.5%	1.8	135.7%
CSR Activities	1.5	0.3	393.2%	1.3	12.2%
Total SGA	55.1	51.5	7.0%	43.3	27.1%
Total Expenditure	237.8	220.0	8.1%	192.8	23.3%
EBITDA	89.0	80.7	10.3%	45.4	96.3%
<i>Margin</i>	<i>27.2%</i>	<i>26.8%</i>	<i>41 bps</i>	<i>19.0%</i>	<i>819 bps</i>
Depreciation	18.9	18.5	2.5%	14.0	35.5%
Other Income / (Loss)	8.2	7.5	10.3%	7.4	11.4%
Exchange Gain/(Loss)	(16.1)	(12.1)	32.4%	6.3	(353.6%)
Profit Before Tax	62.3	57.5	8.2%	45.1	38.0%
<i>Margin</i>	<i>19.1%</i>	<i>19.1%</i>	<i>(8)bps</i>	<i>18.9%</i>	<i>11 bps</i>
Total Tax	17.6	16.0	10.4%	12.7	38.8%
Profit After Tax	44.6	41.6	7.4%	32.4	37.8%
<i>Margin</i>	<i>13.7%</i>	<i>13.8%</i>	<i>(17)bps</i>	<i>13.6%</i>	<i>5 bps</i>
Basic EPS	11.6	10.8	7.2%	8.1	42.9%

Employee Pyramid



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Highlights of the Quarter

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Valuations and Recommendations

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Financials

Profitability (Rs. In Cr)	FY11A	FY12A	FY13E	FY14E	Financial Health (Rs. In Cr)	FY11A	FY12A	FY13E	FY14E
Revenues	775.8	1000.3	1244.4	1439.6	Share Capital	40.0	40.0	40.0	40.0
% change	29.1%	28.9%	24.4%	15.7%	Reserves & Surplus	707.1	800.5	939.0	1137.0
EBITDA	158.3	232.4	325.3	370.8	Net Worth	747.1	840.5	979.0	1177.0
% change in EBITDA	(73.7%)	46.8%	40.0%	14.0%	Loan Funds	0.0	0.7	0.0	0.0
Depn & Amort	42.39	61.10	75.00	89.00	Total Liabilities	761.7	848.3	986.0	1184.0
Operating income	115.9	171.3	250.3	281.8	Net Fixed Ass (Incl WIP)	281.5	372.5	499.7	618.1
Interest	0.0	0.0	0.0	0.0	Investments	250.0	203.8	204.0	210.0
Other Income	34.44	25.56	31.36	32.93	Defered Tax Assets	6.0	10.7	10.7	10.7
Forex gain/(loss)	0.00	0.00	(28.19)	0.00	Sundry Debtors	158.2	203.3	235.8	271.2
PBT	150.4	196.9	253.5	314.8	Cash & Bank	88.6	137.5	135.9	184.6
Tax	10.6	55.1	73.5	94.4	Loans & Advances	99.7	71.7	85.0	95.0
PAT	139.7	141.8	180.0	220.3	Other CA	0.0	0.0	0.0	0.0
CEPS	45.5	50.7	63.7	77.3	C A L&A	346.6	412.4	456.7	550.7
EPS	37.04	37.02	44.99	55.09	CL & P	148.6	166.0	185.0	205.5
					Total Assets	761.7	848.2	986.0	1184.0
Quarterly (Rs. In Cr)	Dec.11	Mar.12	Jun.12	Sep.12	Cash Flow (Rs. In Cr)	FY11A	FY12A	FY13E	FY14E
Revenue	267.7	270.6	300.7	326.9	Operating				
EBITDA	69.6	77.3	80.7	89.0	OP before WC	158.3	232.4	297.1	370.8
Dep	15.9	18.6	18.5	18.9	Change in WC	(122.2)	(4.2)	(33.8)	(33.4)
Op Income	53.7	58.7	62.2	70.1	(-) Tax	(10.6)	(55.1)	(73.5)	(94.4)
Interest	0.0	0.0	0.0	0.0	CF from Operation	25.5	173.2	189.8	243.0
Other Inc.	2.8	-3.5	7.5	8.2	Investment				
Forex gain/(loss)	0.0	0.0	-12.1	-16.1	Capex	(89.7)	(146.7)	(178.3)	(145.2)
PBT	56.5	55.3	57.5	62.3	Other Investment	(93.9)	46.2	(0.2)	(6.0)
Tax	15.9	14.0	16.0	17.6	Other Income	34.4	25.6	31.4	32.9
PAT	40.6	41.2	41.6	44.6	Total Investment	(149.1)	(74.9)	(147.1)	(118.3)
EPS (Rs.)	10.58	10.30	10.80	11.58	Financing				
					Dividend Paid	(22.0)	(24.0)	(26.0)	(26.0)
Performance Ratio	FY11A	FY12A	FY13E	FY14E	Change in Borrowings	0.0	0.0	(0.7)	0.0
PAT growth (%)	-75.5%	1.5%	26.9%	22.4%	Loans & Others	42.4	(25.4)	(17.6)	(50.0)
EBITDA margin (%)	20.4%	23.2%	26.1%	25.8%	Total Financing	20.4	(49.4)	(44.3)	(76.0)
PAT margin (%)	18.0%	14.2%	14.5%	15.3%	Net Chg. in Cash	(103.1)	48.8	(1.6)	48.7
ROCE (%)	19.7%	23.2%	25.7%	26.6%	Cash at beginning	191.8	88.6	137.5	135.9
ROE (%)	20.2%	17.9%	19.8%	20.4%	Cash at end	88.6	137.5	135.9	184.6
Valuation Ratio	FY11A	FY12A	FY13E	FY13E	Per Share Data	FY11A	FY12A	FY13E	FY14E
Price Earnings (x)	11.1	10.9	9.5	7.8	BV per share	186.8	210.1	244.7	294.2
Price / Book Value (x)	2.1	1.8	1.6	1.3	Dividend per share	5.5	6.0	6.5	6.5
EV / Sales	1.6	1.2	1.0	0.8					
EV / EBITDA	7.7	5.2	3.7	3.1					

Source: Company, Nirmal Bang Research

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