

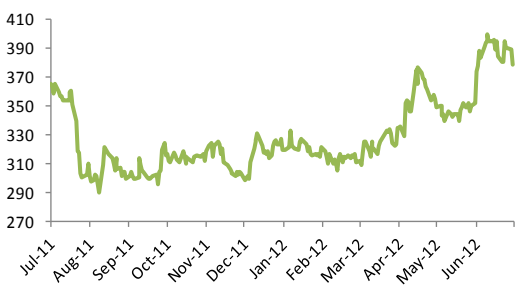
## Persistent Systems Ltd

Q1FY13 Result Update – 23 July 2012

<b>Recommendation</b>	<b>HOLD</b>
<b>CMP</b>	Rs 398
<b>Target Price</b>	Rs 424
<b>Sector</b>	<b>IT Consulting &amp; Software</b>

Stock Details	
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg Code	PSYS: IN
Market Cap (Rs cr)	1516
Free Float (%)	61.05
52- wk HI/Lo (Rs)	404/281
Avg. volume BSE (Quarterly)	8762
Face Value (Rs)	10.0
Dividend (FY 12)	60%
Shares o/s (Cr)	4

Relative Performance	1Mth	3Mth	1Yr
<b>Persistent</b>	8.3%	17.4%	3.8%
<b>Sensex</b>	1.4%	-1.0%	-7.9%



Shareholding Pattern		30 <sup>th</sup> Jun 12
Promoters Holding		38.95%
Institutional (Incl. FII)		33.60%
Corporate Bodies		1.00%
Public & others		26.45%

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Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin%	EPS	PE	EV/EBITDA	ROE %
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%	224.4	22.4%	141.8	14%	37.0	10.9	5.4	23.2%
FY13E	1190.2	19.0%	275.1	23.1%	169.6	14%	42.4	9.3	4.4	23.9%
FY14E	1333.9	12.1%	310.8	23.3%	195.5	15%	48.9	8.0	3.7	22.6%

### Q1FY13 results in line. Volume growth of 4% and Pricing Stable.

In Dollar terms, revenues grew 1.3% QoQ; EBIDTA margins contracted by 170 bps QoQ on the back of increase in wage cost for onsite employees, higher visa costs and addition of employee cost from the Malaysian product acquisition. This along with higher taxes led to decline in \$ PAT by 7.8% QoQ to \$ 7.61mn.

In Rupee terms, revenues grew by 11% QoQ, EBIDTA margins grew by 30 bps to 22.8% due to rupee depreciation, while PAT remained flat QoQ at Rs.41.6 crore on the back of higher taxes.

### Wage Hikes & Headcounts

The company has given a wage hike of 4.4% to its onsite employees and would be giving a hike of 9.9% to its offshore employees in the Q2FY12 Qtr. There has been a decline in the technical employee count by 92 employees, while those in sales employees remain flat. The sale per technical employee matrix has improved to 4.4% during the Qtr against 4.3% in the previous Qtr. Consequently utilizations have improved by 240 bps QoQ to 74.1%.

### IP led revenues continues to remain under focus

IP revenues contributed 13.9% to the revenues as against 12.1% in the Q4FY12 Qtr. They have more than doubled YoY during the quarter to \$7.65mn and the management reiterates this trend to continue.

### Guidance

Management has indicated above industry growth in revenues for FY13E and believes to maintain or improve EBIDTA margins. Though the IP revenues are expected to remain volatile going forward, the company expects good growth in them on the back of strong client relationships and continued investments in the company's four focus areas of Cloud, Mobility, Analytics and Collaboration that contributes almost 40% of revenues.

### Valuation & Recommendation

We have increased our revenue projections for FY13E and for FY14E post the Q1FY13 results. However, PAT projections remain as earlier due to inclusion of higher depreciation costs. We expect PSL's revenues to grow at a CAGR of 15.5% during FY11-FY13E and EBIDTA to grow at a CAGR of 17.7% during the same period.

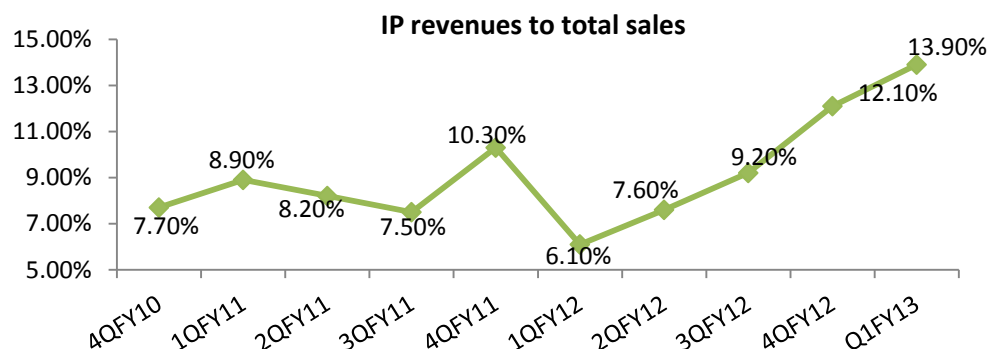
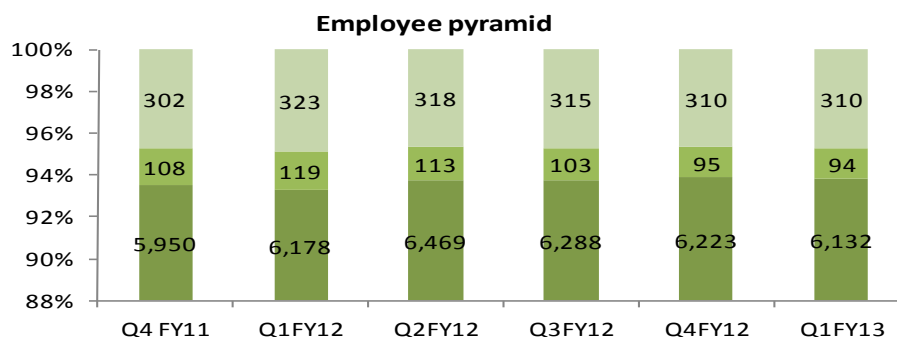
At CMP, the stock is available at a P/E of 9.3x and 8.0x its expected earnings for FY13E and FY14E respectively which we feel is attractive. We had recommended the stock at Rs. 313 with a target price of Rs. 387. In the last quarter, we revised our target price to Rs.423. Since last quarter, the stock has appreciated 13% and we recommend to Hold the stock with a target price of Rs.424.

## Persistent Systems Ltd

### Q1FY13 Result Analysis (in Rs Crs.)

	Q1FY13	Q4 FY12	Q-o-Q	Q1FY12	Y-o-Y
USD Revenues	54.91	54.20	1.3%	50.00	9.8%
INR Revenues	300.70	270.62	11.1%	223.78	34.4%
<b>Expenditure:</b>					
Personnel Expenses	162.9	150.9	8.0%	151.9	7.3%
Cost of Technical Prof	13.5	10.5	29.3%	0.0	NA
Operating and other expenses	55.7	48.5	14.9%	33.00	68.8%
<b>Total Expenditure</b>	<b>232.17</b>	<b>209.85</b>	<b>10.6%</b>	<b>184.89</b>	<b>25.6%</b>
<b>EBITDA</b>	<b>68.53</b>	<b>60.77</b>	<b>12.8%</b>	<b>38.90</b>	<b>76.2%</b>
<i>Margin</i>	<i>22.8%</i>	<i>22.5%</i>	<i>34 bps</i>	<i>17.4%</i>	<i>541 bps</i>
Depreciation	18.5	18.6	(0.8%)	12.6	45.9%
Other income	7.5	13.1	(42.9%)	13.8	(45.8%)
<b>Profit Before Tax</b>	<b>57.55</b>	<b>55.25</b>	<b>4.2%</b>	<b>40.03</b>	<b>43.8%</b>
<i>Margin</i>	<i>19%</i>	<i>20%</i>	<i>(128)bps</i>	<i>18%</i>	<i>125 bps</i>
Total Tax	16.0	14.0	13.8%	12.5	28.1%
<b>Profit After Tax</b>	<b>41.58</b>	<b>41.22</b>	<b>0.9%</b>	<b>27.57</b>	<b>50.8%</b>
<i>Margin</i>	<i>14%</i>	<i>15%</i>	<i>(140)bps</i>	<i>12%</i>	<i>151 bps</i>
<b>Basic EPS</b>	<b>10.80</b>	<b>10.30</b>	<b>4.8%</b>	<b>6.89</b>	<b>56.7%</b>

Source: Nirmal Bang Retail Research



## Persistent Systems Ltd

### Valuations and Recommendations

We have increased our revenue projections for FY13E and for FY14E post the Q1FY13 results. However, PAT projections remain as earlier due to inclusion of higher depreciation costs. We expect PSL's revenues to grow at a CAGR of 15.5% during FY11-FY13E and EBITDA to grow at a CAGR of 17.7% during the same period.

At CMP, the stock is available at a P/E of 9.3x and 8.0x its expected earnings for FY13E and FY14E respectively which we feel is attractive. We had recommended the stock at Rs. 313 with a target price of Rs. 387. In the last quarter, we revised our target price to Rs.423. Since last quarter, the stock has appreciated 13% and we recommend to Hold the stock with a target price of Rs.424.

Revision in estimates	FY13E	FY14E		FY13E	FY14E		FY13E	FY14E
	Revenues			EBITDA			PAT	
Current	1190.2	1333.9	Current	275.1	310.8	Current	169.6	195.5
Earlier	1158.6	1309.2	Earlier	263.8	301.7	Earlier	169.1	196.1
Variation %	2.72%	1.89%	Variation %	4.30%	3.02%	Variation %	0.30%	-0.29%

## Persistent Systems Ltd

### Financials

Profitability (Rs. In Cr)	FY11A	FY12A	FY13E	FY14E	Financial Health (Rs. In Cr)	FY11A	FY12A	FY13E	FY14E
<b>Revenues</b>	<b>775.8</b>	<b>1000.3</b>	<b>1190.2</b>	<b>1333.9</b>	Share Capital	40.0	40.0	40.0	40.0
% change	29.1%	28.9%	19.0%	12.1%	Reserves & Surplus	707.1	800.5	939.0	1137.0
<b>EBITDA</b>	<b>158.3</b>	<b>224.4</b>	<b>275.1</b>	<b>310.8</b>	Net Worth	747.1	840.5	979.0	1177.0
% change in EBITDA	8.2%	41.7%	22.6%	13.0%	Loan Funds	0.0	0.7	0.0	0.0
Depn & Amort	42.39	61.10	74.25	77.96	<b>Total Liabilities</b>	<b>761.7</b>	<b>848.3</b>	<b>986.0</b>	<b>1184.0</b>
<b>Operating income</b>	<b>115.9</b>	<b>163.3</b>	<b>200.9</b>	<b>232.8</b>	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	33.58	34.47	35.00	Defered Tax Assets	6.0	10.7	10.7	10.7
<b>PBT</b>	<b>150.4</b>	<b>196.9</b>	<b>235.4</b>	<b>267.8</b>	Sundry Debtors	158.2	203.3	235.8	271.2
Tax	10.6	55.1	65.8	72.3	Cash & Bank	88.6	137.5	135.9	184.6
<b>PAT</b>	<b>139.7</b>	<b>141.8</b>	<b>169.6</b>	<b>195.5</b>	Loans & Advances	99.7	71.7	85.0	95.0
<b>CEPS</b>	<b>45.5</b>	<b>50.7</b>	<b>61.0</b>	<b>68.4</b>	<b>Other CA</b>	0.0	0.0	0.0	0.0
EPS	37.04	37.02	42.40	48.88	C A L&A	346.6	412.4	456.7	550.7
					CL & P	148.6	166.0	185.0	205.5
					<b>Total Assets</b>	<b>761.7</b>	<b>848.2</b>	<b>986.0</b>	<b>1184.0</b>
Quarterly (Rs. In Cr)	Sept.11	Dec.11	Mar.12	Jun.12	Cash Flow (Rs. In Cr)	FY11A	FY12A	FY13E	FY14E
<b>Revenue</b>	<b>238.2</b>	<b>267.7</b>	<b>270.6</b>	<b>300.7</b>	<b>Operating</b>				
<b>EBITDA</b>	<b>44.6</b>	<b>64.8</b>	<b>60.8</b>	<b>68.5</b>	OP before WC	158.3	224.4	275.1	310.8
Dep	14.0	15.9	18.6	18.5	Change in WC	(122.2)	(4.2)	(33.8)	(33.4)
<b>Op Income</b>	<b>30.7</b>	<b>48.9</b>	<b>42.2</b>	<b>50.1</b>	(-) Tax	(10.6)	(55.1)	(65.8)	(72.3)
Interest	0.0	0.0	0.0	0.0	<b>CF from Operation</b>	<b>25.5</b>	<b>165.1</b>	<b>175.6</b>	<b>205.1</b>
Other Inc.	14.5	7.6	13.1	7.5	<b>Investment</b>				
<b>PBT</b>	<b>45.1</b>	<b>56.5</b>	<b>55.3</b>	<b>57.6</b>	Capex	(89.7)	(146.7)	(178.3)	(145.2)
Tax	12.7	15.9	14.0	16.0	Other Investment	(93.9)	46.2	-0.2	-6.0
<b>PAT</b>	<b>32.4</b>	<b>40.6</b>	<b>41.2</b>	<b>41.6</b>	Other Income	34.4	33.6	34.5	35.0
EPS (Rs.)	8.10	10.58	10.30	10.80	<b>Total Investment</b>	<b>(149.1)</b>	<b>(66.9)</b>	<b>(144.0)</b>	<b>(116.2)</b>
Performance Ratio	FY11A	FY12A	FY13E	FY14E	<b>Financing</b>				
PAT growth (%)	21.5%	1.5%	19.6%	15.3%	Dividend Paid	(22.0)	(24.0)	(26.0)	(26.0)
EBITDA margin (%)	20.4%	22.4%	23.1%	23.3%	Change in Borrowings	0.0	0.0	-0.7	0.0
PAT margin (%)	18.0%	14.2%	14.3%	14.7%	Loans & Others	42.4	(25.4)	(6.5)	(14.2)
ROCE (%)	19.7%	23.2%	23.9%	22.6%	<b>Total Financing</b>	<b>20.4</b>	<b>(49.4)</b>	<b>(33.2)</b>	<b>(40.2)</b>
ROE (%)	20.2%	17.9%	18.6%	18.1%	Net Chg. in Cash	(103.1)	48.8	-1.6	48.7
Valuation Ratio	FY11A	FY12A	FY13E	FY13E	Cash at beginning	191.8	88.6	137.5	135.9
Price Earnings (x)	11.1	10.9	9.3	8.0	Cash at end	88.6	137.5	135.9	184.6
Price / Book Value (x)	2.1	1.8	1.6	1.3	Per Share Data	FY11A	FY12A	FY13E	FY14E
EV / Sales	1.6	1.2	1.0	0.9	BV per share	186.8	210.1	244.7	294.2
EV / EBITDA	7.7	5.4	4.4	3.7	Dividend per share	5.5	6.0	6.5	6.5

Source: Company, Nirmal Bang Research

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