Result Update-Q2 FY18

Persistent System Ltd

Steady Growth With Improved Margins

17th October 2017

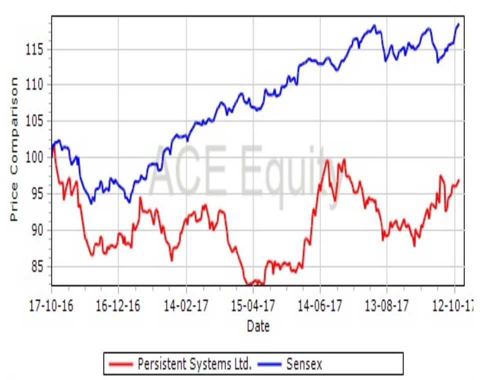
CMP:	Rs.665
Target Price:	Rs.690
Recommendation:	NEUTRAL

Stock Info	
BSE Group	A
BSE Code	533179
NSE Symbol	PERSISTENT
Bloomberg	PERSISTENT.IN
Reuters	PERSISTENT.BO
BSE Sensex	32,633
NSE Nifty	10,230

Market Info	
Market Capital	Rs. 5,257cr
Equity Capital	Rs.80 cr
6M Avg. Trading Vol.	161,230
52 Wk High/ Low	702/559
Face Value	Rs.10

Shareholding Pattern (%)	(Sep 2017)
Promoters	30.6
Domestic Institutions	14.6
Foreign Institutions	22.8
Public & Others	32.0

Price Vs Sensex Chart



Continued and steady growth in the revenues supported by improved margins:
USD Revenue grew by 4.5% QoQ and by 12.3% YoY to US$ 118.10 Million.
INR Revenue grew by 4.6% QoQ and by 8.1% YoY to ₹ 761.3 Cr . EBITDA grew by 10.9% QoQ and 4.5% YoY to ₹ 115.8Cr.EBITDA margins stood at 15.2% vs 14.3% QoQ a increased of 90 bps. Profit after Tax (PAT) grew by 10.0% QoQ and 12.4% YoY to ₹ 82.6 Cr.

Key Highlights:

- Continued and steady growth in revenues, supported by improved margins. Strong demand in data, digital and IoT, specifically in healthcare and financial services. Software 4.0 is helping customers accelerate their journey towards becoming a software driven business.
- Enterprise business is expanding, but at the same time the ISV business continues to shrink. So broadly, management doesn't expect this to change dramatically in the next two quarters.
- Digital health is a major opportunity and will be focusing on it in coming quarters. Have begun working closely with healthcare providers, this is a vast area of opportunity which encompasses use of Artificial Intelligence for drug design, Internet of Things for innovative solutions and skin as a platform and other innovative uses of technologies like blockchain for Universal, EMR or Electronic Medical Records. This approach will yield results over the long term.
- During Q2, Persistent acquired 19 new enterprise customers, of which half are engaged in major digital initiatives and its expected to grow into multi-million dollar accounts in coming quarters. Some of the major ones include a large payment processor, a large investment management firm, a major healthcare provider and many others.
- On the acquisition of PARX, the Platinum Partner for sales force in the DACH region in Europe, on-boarding of the PARX team was smooth and management is looking forward to growth in sales force business in Europe as well as overall business in that geography. For far too long, dependence on the US business has been disproportionate and they will now be investing in wrapping up their European presence. The Digital OU grew to 24.67 million, a growth of 21% Q-on-Q and 60% Y-on-Y. Though some of the deals pushed over into the next quarter at the last minute, based on the consultative sales team that has now been brought on-board, and is being enabled, management is confident of posting healthy growth in Q3, and also going into Q4.

Key Wins during the Quarter:

- Building a large scale business data platform for a US based banking and financial services company to enable consistent credit and risk management, regulatory compliance and profitability calculations.
- Building an analytics application over a global data lake for a US based residential mortgage company.
- Partnering with a leading provider of medical technologies to adopt next generation requirements.
- Building a cognitive chat-bot solution based on IBM Watson.
- Built a Salesforce driven patient portal for a US based healthcare services.
- Driving a large, multi-year transformation program to shift from product centric to customer centric strategy.
- Multi-year IP-based engagement with a leading IoT PaaS.
- Bringing superior endpoint management and vulnerability management capability to reduce cyber attacks.

Financial Snapshot:

- Revenue for the quarter was US $118.10 million, recording growth of 4.5% Q-o-Q and 12.3% Y-o-Y. This revenue includes $1.9 million from PARX, the recently acquired business in the DACH region.
- The composition of revenue in terms of linear revenue grew by 6.2% quarter-on-quarter, mainly with the increase in volume by 5.4%, and increase in billing rate by 0.8%. The onsite linear revenue grew by 11.4% driven by volume growth of 11.5% and decline in billing rate by 0.1%. The offshore linear revenue grew by 2.7% quarter-on-quarter driven by volume growth of 4.2% and decline in billing rate by 1.5%.
- EBITDA margin was 15.2% as against 14.3% in the previous quarter, primarily due to the improved operational efficiency. The utilization for the quarter was 78.6% as against 77.2% in the previous quarter. Growth in EBITDA was 10.9% quarter-on-quarter and 4.5% Y-o-Y. The Y-o-Y growth is mainly impacted by the exchange rate movement. So far as depreciation and amortization is concerned, it was at 5% as against 5.4% of revenue in the previous quarter.
- The EBIT was 10.2% as against 9% in the previous quarter. The treasury income was lower at INR 13.3cr as against INR 18.3cr in the previous quarter.
- Due to the sale of long-term investments, the other income was higher. The gain on foreign exchange was INR 20.3cr as against INR 18.4cr in the previous quarter.
- PBT was INR 111.4 cr at a margin of 14.6% as against 14% in the previous quarter. The growth in PBT was 9.3% quarter-on-quarter and 13.2% Y-o-Y.
- PAT for the quarter was INR 82.6 cr, margins were at 10.9% as against 10.3% in the previous quarter.
- The operational CapEx for the quarter was INR 4.6 cr. The cash and current investments on the books amounted to INR 999.2 cr at the end of September 30th, as compared to INR 874.5 cr at the end of June. The value of forward contracts outstanding at the quarter end was $100 million with an average forward rate of INR 67.99.

Outlook:

With 19 new customers and key wins the company is expecting to grow some of these into multi-million dollar accounts in coming quarters. They have built a team where they are consciously able to control costs, improve gross margins for the unit as well as maintaining the revenue growth. We remain confident of Persistent's margin improvement in FY19 to 15.8% as incremental revenues will be driven by IP-lead/ software or platform based delivery. We retain **NETURAL** rating with target price of Rs 690 based on PE of 15x to FY19E EPS of Rs 46.

Financials:

Y/E March (Rs. In Crore)	FY17	FY18E	FY19E
Net Revenue	2878	3105	3353
Growth %	24%	8%	8%
EBIDTA	454	482	530
EBIDTA Margin	15.8%	15.5%	15.8%
Net Profit	301	325	367
Growth %	1%	8%	13%
EPS	38	41	46
P/E	16.9	15.6	13.8
ROE	15.9	16.1	16.6

Source: Company data, Arihant Research

Quarterly Results:

Particulars (Rs. Cr)	Q2 FY18	Q1FY18	Q2FY17	QoQ	YoY
Revenue	761.3	728.0	704.0	4.6%	8.1%
Employee costs	466.8	437.7	449.4	6.7%	3.9%
Other direct cost	80.9	72.9	42.4	11.0%	90.9%
Total direct cost	547.7	510.6	491.8	7.3%	11.4%
Gross Profit	213.5	217.5	212.2	-1.8%	0.6%
Gross Profit Margin%	28%	30%	30%	-6.1%	-6.9%
Other Expenses (SGA)	97.7	113.1	101.4	-13.6%	-3.6%
EBIDTA	115.8	104.4	110.8	10.9%	4.5%
EBIDTA Margin	15.2%	14.3%	15.7%	6.1%	-3.3%
Depreciation	37.9	39.2	36.7	-3.2%	3.5%
EBIT	77.8	65.2	74.1	19.4%	5.0%
EBIT Margin	10.2%	9.0%	10.5%	14.2%	-2.9%
Other Income	33.6	36.8	24.4	-8.6%	37.9%
PBT	111.4	101.9	98.5	9.3%	13.2%
Exceptional Item					
Tax Paid	28.8	26.9	25.0	7.4%	15.6%
Effective tax rate%	26%	26%	25%	-1.8%	2.1%
Net profit	82.6	75.1	73.5	10.0%	12.3%
EPS	10.3	9.4	9.2	10.0%	12.4%

Profit and Loss statement			
Particulars (Rs. In Crore)	**FY17**	**FY18 E**	**FY19 E**
Net Revenue	2878	3105	3353
Employee costs	1734	1918	2062
Other direct expenses	117	110	117
Total Direct Expenses	1852	2028	2179
Gross Profit	**1027**	**1077**	**1174**
Sales & Marketing Expenses	261	286	308
Admin & Other Expenses	311	309	335
EBIDTA	454	482	530
EBIDTA Margin	16%	16%	16%
Depreciation	149	149	131
EBIT	305	333	400
Other Income	96	70	97
PBT	**401**	**403**	**496**
Tax	99	78	129
Tax rate	25%	19%	26%
PAT	**301**	**325**	**367**
Growth (%)	1%	8%	13%
Adjusted EPS	**37.7**	**40.6**	**45.9**

Cash Flow Statement			
Particulars (Rs. In Crore)	**FY17**	**FY18 E**	**FY19 E**
Profit before taxes	401	403	496
Add:- Depriciation	149	149	131
Change in Working Capital	159	-19	-40
Cash generated from operations	391	571	667
Taxes paid	-105	-78	-129
Net cash flow from operating activities	286	493	538
Purchase of fixed assets & capital expenditure	-218	-176	-270
Others	-4	-129	-129
Net cash flow from investing activities	-222	-305	-399
Proceeds long term borrowings	-0.5	2.3	0.0
Dividend	-10	-96	-96
Tax on dividend	-48	-16	-16
Net cash used in financing activities	-58	-110	-112
Net Cash Flow	6	78	27
Opening Cash balance	140	146	224
Exchange difference	0	0	0
Closing Cash balance	146	224	251

Balance Sheet			
Particulars (Rs. In Crore)	**FY17**	**FY18 E**	**FY19 E**
Shareholder's funds			
Share Capital	80	80	80
Reserves & Surplus	1819	1935	2135
Total	**1899**	**2015**	**2215**
Minority Interest	0	0	0
Total Non Current Liabilities	30	25	27
Total Current Liabilities	417	426	442
Total Liabilities	**2346**	**2467**	**2684**
Fixed asset	565	549	620
Goodwill	0	0	0
Other Non current Investmen	364	342	342
Total Non Current Assets	929	891	961
Cash balance	146	224	251
Total Current Assets	1271	1352	1472
Total Assets	**2346**	**2467**	**2684**

Key Ratios			
Particulars	**FY17**	**FY18 E**	**FY19 E**
EPS	37.7	40.6	45.9
Book Value	237.4	251.9	276.9
DPS	0	12	12
Payout %	0	30	26
Dividend Yield %	0.0	1.6	1.6
P/E	16.9	15.6	13.8
EBIDTA Margin	16%	16%	16%
PBT Margin	14%	13%	15%
PAT Margin	10%	10%	11%
Debt/Equity	0.0	0.0	0.0
Current Ratio	3.05	3.17	3.33
ROE	15.9	16.1	16.6
ROCE	15.8	16.1	16.5

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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