



Revenue Growth Muted!!!!

26th April, 2017

CMP: Rs.578
Target Price: Rs.657
Recommendation: ACCUMULATE

Stock Info

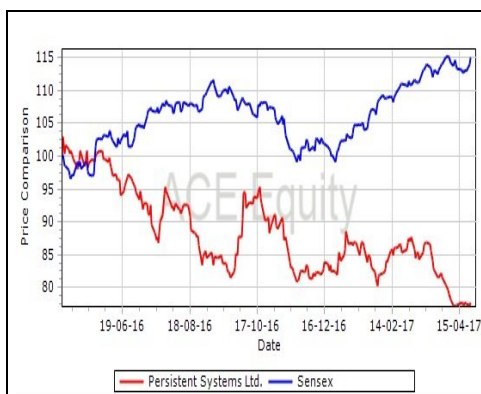
BSE Group	A
BSE Code	533179
NSE Symbol	PERSISTENT
Bloomberg	PERSISTENT.IN
Reuters	PERSISTENT.BO
BSE Sensex	30,022
NSE Nifty	9,316

Market Info

Market Capital	Rs. 4,631 cr
Equity Capital	Rs.80 cr
Avg. Trading Vol.	1,03,430
52 Wk High/ Low	757/559
Face Value	Rs.10

Shareholding Pattern (%)	(Mar 2017)
Promoters	35.0
Domestic Institutions	14.2
Foreign Institutions	20.7
Public & Others	30.1

Price Vs Sensex Chart



Revenues declined by 2.5% QoQ and inclined by 7.4% YoY:

Persistent Systems posted steady numbers for the quarter ended March 2017 with Rupee revenues declined by 2.5% QoQ to Rs 727 cr and inclined by 7.4% on YoY basis. Persistent Systems crosses USD 109.03 mn with growth of 8.6% YoY and declined by 0.9% QoQ. Profit Before tax dipped by 11.5% YoY and 6% QoQ to Rs 105 cr and Profit after tax dipped by 0.4% YoY and 11.1% QoQ to Rs 72.7 cr.

Geography Revenue Mix:

Revenue from North America stood at 86.5% while Europe, India, Row stood at 5.3%, 5.5%, 2.6% respectively.

Revenue Concentration:

Revenue from Top Client stood at 29.5% while top 5 and top 10 clients stood at 43.3% and 52.4%.

Segment-wise performance:

Among segmental verticals; Services contributed 43.9% while Digital, Alliance and accelerite stood at 18.9%, 27.6.6% and 9.6% respectively.

Operating profits increased by 27% YoY:

Company has recorded an operating profit of Rs 130 cr this qtr; improved by 10% QoQ. EBIDTA margins were 17.9% this Qtr as against 15.9% in last qtr. Improvement in margins on sustainable basis remains the biggest challenge for Persistent. EBIT margin during the quarter stood at 12.5% as against 11.2% previous qtr. PAT reported during the quarter was at Rs. 73 cr. PAT was lower in this quarter; it was mainly due to onetime expenses of Rs11.4cr.

Key Highlights:

- Company has achieved more than 50% growth on the digital business and management expects that momentum of growth will continue as going forward.
- Granted Development Rights by USAA to patented innovations related to security in financial services
- In this quarter, effective tax rate was lower at 22.3% due to lower tax in overseas subsidiaries.
- Management expects IOT business would be game changer for the company.
- In this quarter, onetime expense of 11.4cr which arose from an out of court settlement that was reached during the quarter in relation to a pending dispute.

Valuation:

We have valued stock at P/E(x) of 14x to its FY19E earnings and have arrived at fair value of Rs 657 per share. At CMP Rs578 stock trades at 12 (x) its FY19E earnings. We have 'ACCUMULATE' rating on the stock.

Financials:

Y/E March (Rs. In Crore)	FY16	FY17	FY18E	FY19E
Net Revenue	2312	2878	3107	3480
Growth %	22%	24%	8%	12%
EBIDTA	417	465	512	571
EBIDTA Margin	18%	16%	16%	16%
Net Profit	297	313	345	376
Growth %	2%	5%	10%	9%
EPS	35	38	43	47
P/E	21.9	15.3	13.4	12.3
ROE	18.1	17.9	19.1	19.1

Source: Company data, Arianth Research



Quarterly Results:

Particulars (Rs. Cr)	Q4FY17	Q3FY17	QoQ%	Q4FY16	YoY%
Revenue	727	746	-2%	677	7.4%
Employee costs	440	470		420	
Other direct cost	48	48		49	
Total direct cost	488	518		469	
Gross Profit	239	227	5%	208	14.9%
Gross Profit Margin%	33%	30%		31%	
Other Expenses (SGA)	109	109		106	
EBIDTA	130	119	10%	102	27.3%
EBIDTA Margin	17.9%	15.9%		15.1%	
Depreciation	39	39		26	
EBIT	91	80	13%	76	19.8%
EBIT Margin	12.5%	10.7%		11.2%	
Other Income	14	32		18	
PBT	105	112	-6%	94	11.5%
Exceptional Item	-11.4				
Tax Paid	21	30		21	
Effective tax rate%	20%	27%		22%	
<i>Net profit</i>	73	82	-11%	73	-0.4%
EPS	9.1	10.2		9.1	

Source: Company data, Arihant Research



Profit and Loss statement				
Particulars (Rs. In Crore)	FY16	FY17 E	FY18 E	FY19 E
Net Revenue	2312	2878	3107	3480
Employee costs	1317	1734	1818	2053
Other direct expenses	113	117	157	177
Total Direct Expenses	1430	1852	1975	2231
Gross Profit	882	1027	1132	1249
Sales & Marketing Expenses	224	261	307	351
Admin & Other Expenses	241	300	313	326
EBIDTA	417	465	512	571
EBIDTA Margin	18%	16%	16%	16%
Depreciation	97	149	119	136
EBIT	321	316	393	436
Other Income	75	96	73	72
PBT	396	412	466	507
Tax	98	99	121	132
Tax rate	25%	24%	26%	26%
PAT	297	313	345	376
Growth (%)	2%	5%	10%	9%
Adjusted EPS	34.7	37.7	43.1	46.9

Cash Flow Statement				
Particulars (Rs. In Crore)	FY16	FY17 E	FY18 E	FY19 E
Profit before taxes	396	401	466	507
Add:- Depreciation	97	149	119	136
Change in Working Capital	147	-39	-9	-35
Cash generated from operations	639	486	551	583
Taxes paid	-98	-99	-121	-132
Net cash flow from operating activities	541	386	430	451
Purchase of fixed assets & capital	-155	-170	-176	-170
Others	-159	-79	-129	-129
Net cash flow from investing activities	-314	-249	-305	-299
Proceeds long term borrowings	2.0	0.0	0.0	0.0
Dividend	-64	-80	-96	-96
Tax on dividend	-16	-16	-16	-16
Net cash used in financing activities	-78	-96	-112	-112
Net Cash Flow	9	41	13	40
Opening Cash balance	99	108	149	162
Exchange difference	0	0	0	0
Closing Cash balance	108	149	162	202

Balance Sheet				
Particulars (Rs. In Crore)	FY16	FY17 E	FY18 E	FY19 E
Shareholder's funds				
Share Capital	80	80	80	80
Reserves & Surplus	1559	1666	1729	1889
Total	1639	1746	1809	1969
Minority Interest	0	0	0	0
Total Non Current Liabilities	15	23	24	27
Total Current Liabilities	452	447	466	486
Total Liabilities	2107	2216	2300	2482
Fixed asset	474	520	579	645
Goodwill	3	2	2	2
Other Non current Investment	273	319	342	342
Total Non Current Assets	750	841	923	988
Cash balance	108	149	162	202
Total Current Assets	1248	1226	1215	1292
Total Assets	2107	2216	2300	2482

Key Ratios				
Particulars	FY16	FY17 E	FY18 E	FY19 E
EPS	34.7	37.7	43.1	46.9
Book Value	204.9	218.2	226.2	246.1
DPS	8	10	12	12
Payout %	23	27	28	26
Dividend Yield %	1.1	1.3	1.6	1.6
P/E	21.9	15.3	13.4	12.3
EBIDTA Margin	18%	16%	16%	16%
PBT Margin	17%	14%	15%	15%
PAT Margin	13%	11%	11%	11%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.76	2.74	2.60	2.66
ROE	18.1	17.9	19.1	19.1
ROCE	18.1	17.9	19.0	19.0

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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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