

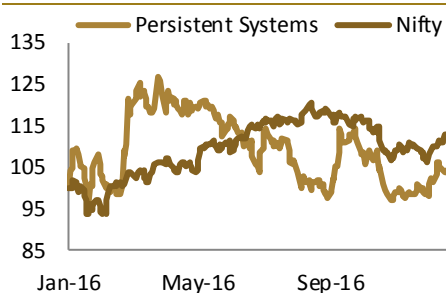
### Market statistics

Current stock price (₹)	613
Shares O/S (cr.)	8.0
Mcap (₹ cr)	4,900
52W H/L (₹)	797/501
6m avg. volume	102,641
Bloomberg	PSYS IN

### Shareholding pattern

Promoters	36.21
Domestic Institution	13.52
Foreign Institution	21.45
Non-institution	28.83
of which more than 1%	
Saif India Iv Fii Holdings Limited	5.33
Nordea 1 Sicav - Emerging Stars Equity Fund	2.58

### Persistent Systems vs Nifty



### Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	19.5	17.4	17.9
EPS (₹)	37.2	39.0	46.4
CEPS (₹)	49.2	57.5	66.6
P/E (x)	20.5	15.7	13.2
P/BV (x)	3.7	2.5	2.2
EV/EBITDA (x)	12.6	9.6	7.6
Income growth (%)	22.3	25.7	11.4
EBITDA growth (%)	6.9	16.9	18.5
PAT growth (%)	2.3	12.7	18.9

Persistent Systems reported 4.6% QoQ revenue increase in US\$ terms, while margins increased only 18bps QoQ. Persistent has been able to create a differentiated model through its early investment in digital technologies, and select acquisition of IP from its existing customers. Going forward, we expect Persistent Systems to maintain healthy revenue growth trajectory. There are multiple headwinds to the margins and rich valuations play spoilsport. Hence, we maintain our Hold rating on the stock and await better entry points.

**Revenue increase of 4.6% QoQ in US\$ terms:** The company reported US\$ revenue increase of 4.6% QoQ driven by an increase of 3.7% QoQ from Services (71.6% revenue share) and a 6.9% increase from IP-led solutions. PSYS has changed its strategy to leave non-strategic clients from the previous quarter. There was a volume increase of 3.9% QoQ in the Services (onsite +8.5% QoQ and offshore +3.2%), while onsite pricing was down 2.5% QoQ and offshore pricing down 0.7%.

**EBITDA Margin increased by just 18bps QoQ:** Margins were up on account of INR depreciation, increase in utilization (up 470bps QoQ) and dented by lower offshorization (down 100bps QoQ). Margin was lower-than-expected and is aided by headcount reduction. Profits at Rs819mn (+11.4% QoQ, +5.7% YoY) was higher than our estimates due to higher other income, dented by higher tax expense. We see offshore-mix, and SG&A efficiency to drive tailwind for operating margin from Q4FY17.

**Structural weakness** - Persistent's 3QFY17 performance continued to confirm structural weakness in ISV business (increased by 0.2% QoQ) after a series of QoQ declines. PSYS has reported just a 18 bps QoQ improvement in margins (despite 6.9% QoQ increase in IP revenues and 3.9% volume growth in Services). There have been a lot of misses in the past 3 years and is aided by headcount reduction.

**FY17 margins to remain under pressure:** The costs associated with the IBM deal are upfront and are expected to weigh heavy upon margins to the tune of ~200bps in FY17. Margins would face the headwinds in 4Q; although a lot of it can be offset by margin levers. The recovery to margins would only begin once revenue from the IBM deal reached a point where it exceeds the cost associated with it, which is likely to be back-ended. We believe that would be seen in FY18.

**Other details:** Top client revenue was up 7.7% QoQ at US\$23.2mn. 76 employees on a net basis left PSYS QoQ taking total head-count to 9,229. Attrition was down 10bps QoQ at 15.8%. Utilization (blended) increased to 78.9% (Q2FY17: 74.2%). DSO days were up by 4 to 70 QoQ in 3QFY17. Industry classification wise, ISV was up 0.2% QoQ while Enterprise was up 9.6%. Geographically, North America was up 5.2%, APAC was down 1.2%, while Europe decreased 10%. PSYS billed 1 client more (net) QoQ in the Services division to take the total to 315, while it billed 3 clients more in the IP-Led business to take the total to 338. The company lost 1 client QoQ in the US\$1mn+ bracket QoQ to take the list to 50.

**Outlook & Valuation:** Going forward, we expect Persistent Systems to maintain healthy revenue growth trajectory. There are multiple headwinds to the margins and rich valuations play spoilsport. Hence, we maintain our Hold rating on the stock and await better entry points.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in



**Exhibit 1: Quarterly details**

₹ mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	89.7	105.2	110.1	4.7	22.8	Volume increase of 3.9% QoQ in the Services (onsite +8.5% QoQ and offshore +3.2%). IP-led solutions increased 6.9%.
Revenues	5,921	7,040	7,455	5.9	25.9	
- Operating costs	4,836	5,932	6,269	5.7	29.6	
<b>EBITDA</b>	<b>1,085</b>	<b>1,108</b>	<b>1,187</b>	<b>7.1</b>	<b>9.4</b>	
EBITDA margin (%)	18.3	15.7	15.9	18bps	(240)bps	Margins up on account of INR depreciation, increase in utilization (up 470bps QoQ) and dented by lower offshorization (down 100bps)
- Interest expense	0	0	0	-	-	
- Depreciation	246	367	387	5.4	56.8	
+ Other income, net (incl forex)	187	244	318	30.5	70.5	
<b>PBT</b>	<b>1,024</b>	<b>985</b>	<b>1,118</b>	<b>13.5</b>	<b>9.1</b>	
- Taxes	250	250	299	19.8	19.8	
Effective tax rate (%)	24.4	25.3	26.7	140bps	238bps	Effective tax rate for FY17 to be between 24-25%
<b>PAT</b>	<b>775</b>	<b>735</b>	<b>819</b>	<b>11.4</b>	<b>5.7</b>	
<b>Net Margin</b>	<b>13.1</b>	<b>10.4</b>	<b>11.0</b>	<b>54bps</b>	<b>(210)bps</b>	

Source: Company

**Exhibit 2: Change in estimates**

₹ mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	429	433	0.9	482	491	1.9
Revenue	28,277	29,074	2.8	31,358	32,402	3.3
EBITDA margin (%)	15.9	15.7	(15)bps	16.9	16.7	(15)bps
EPS (₹)	37.8	39.0	3.2	45.7	46.4	1.5

Source: Trust Research

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
US	84.7	85.4	84.4	86.2	85.3	86.1	87.0	85.4	86.6
Europe	7.1	6.8	6.3	6.8	6.3	6.7	5.2	6.1	5.3
APAC	8.2	7.8	9.3	7.0	8.4	7.2	7.8	8.5	8.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**Exhibit 4: Client details**

Client concentration	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Top client (%)	17.5	16.5	18.1	17.6	17.4	25.4	29.0	28.4	29.5
Top 5 clients (%)	35.0	34.1	36.0	35.4	34.3	40.8	44.7	44.3	46.0
Top 10 clients (%)	44.2	43.2	45.6	44.7	44.1	49.6	52.7	52.8	54.6
Large >US\$3mn	14	14	15	17	19	18	15	15	15
Medium > US\$1m <US\$3m	41	48	52	46	44	42	50	51	50
Clients billed (Services)	273	268	277	311	337	319	340	314	315
Clients billed (IP Led)	349	326	310	299	291	353	338	335	338

Source: Company



**Human Resources:** 76 employees on a net basis left PSYS QoQ taking total head-count to 9,229. Attrition was down 10bps QoQ at 15.8%. Utilization (blended) increased to 78.9% (Q2FY17: 74.2%).

#### Exhibit 5: Employee strength at PSYS

(Nos)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Billable Personnel – onsite	1,518	1,551	1,623	1,854	2,097	2,108	2,121	2,048	2,109
Billable Personnel - offshore	14,513	14,512	14,515	14,212	14,621	14,523	14,909	15,426	14,968
<b>Total billable employees</b>	<b>16,031</b>	<b>16,063</b>	<b>16,138</b>	<b>16,066</b>	<b>16,718</b>	<b>16,631</b>	<b>17,030</b>	<b>17,474</b>	<b>17,077</b>
Billed Personnel - onsite	1,343	1,383	1,374	1,621	1,817	1,811	1,786	1,720	1,867
Billed Personnel - offshore	10,573	10,616	10,390	10,605	10,640	10,693	11,030	11,246	11,610
<b>Total billed employees</b>	<b>11,916</b>	<b>11,999</b>	<b>11,764</b>	<b>12,226</b>	<b>12,457</b>	<b>12,504</b>	<b>12,816</b>	<b>12,966</b>	<b>13,477</b>
<b>Utilisation details</b>									
Utilisation (blended, %)	74.3	74.7	72.9	76.1	74.5	75.2	75.3	74.2	78.9
Utilisation (onsite, %)	88.5	89.2	84.7	87.4	86.6	85.9	84.2	84.0	88.5
Utilisation (offshore, %)	72.9	73.2	71.6	74.6	72.8	73.6	74.0	72.9	77.6
<b>Employees</b>									
Technical	7,664	7,861	7,810	7,905	8,334	8,618	8,698	8,612	8,562
Sales & Business Development	208	224	216	208	203	201	204	207	200
Others	424	421	428	432	429	445	487	486	467
<b>Total</b>	<b>8,296</b>	<b>8,506</b>	<b>8,454</b>	<b>8,545</b>	<b>8,966</b>	<b>9,264</b>	<b>9,389</b>	<b>9,305</b>	<b>9,229</b>

Source: Company

#### Exhibit 6: Billing rates

US\$/ppm	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Onsite	14,862	15,159	15,321	15,075	14,717	14,574	15,437	16,101	15,704
Offshore	4,201	4,199	4,146	4,251	4,217	4,275	4,325	4,288	4,257

Source: Company

#### Exhibit 7: Other details

Revenue mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Onsite	25.1	26.2	26.8	29.5	29.8	26.3	26.3	26.3	26.7
Offshore	55.9	55.7	54.8	54.3	50.1	45.5	45.5	45.9	44.9
IP Led	19.0	18.1	18.4	16.2	20.1	28.2	28.2	27.8	28.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
DSO	65	64	67	68	69	62	63	66	70
Attrition (%)	14.7	15.5	16.4	17.1	17.1	16.4	16.7	15.9	15.8

Source: Company



## Financials

## Income Statement (₹ mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Revenues</b>	<b>18,913</b>	<b>23,123</b>	<b>29,074</b>	<b>32,402</b>	<b>36,468</b>
Op. Expenses	15,041	18,985	24,496	26,976	30,260
<b>EBITDA</b>	<b>3,871</b>	<b>4,138</b>	<b>4,578</b>	<b>5,426</b>	<b>6,208</b>
Other Income	970	784	1,083	1,142	1,450
Depreciation	939	965	1,474	1,616	1,816
<b>EBIT</b>	<b>3,903</b>	<b>3,957</b>	<b>4,187</b>	<b>4,953</b>	<b>5,842</b>
Interest	3	1	1	1	1
<b>PBT</b>	<b>3,900</b>	<b>3,956</b>	<b>4,186</b>	<b>4,952</b>	<b>5,842</b>
Tax	993	983	1,063	1,238	1,460
<b>PAT</b>	<b>2,906</b>	<b>2,974</b>	<b>3,124</b>	<b>3,714</b>	<b>4,381</b>
Minority	-	-	-	-	-
<b>Adj Pat</b>	<b>2,906</b>	<b>2,974</b>	<b>3,124</b>	<b>3,714</b>	<b>4,381</b>

## Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Per share (₹)</b>					
EPS	36.3	37.2	39.0	46.4	54.8
CEPS	48.1	49.2	57.5	66.6	77.5
BVPS	175.7	204.9	242.8	276.3	315.9
DPS	10.0	8.0	9.0	11.0	13.0
Payout (%)	32.2	25.2	27.0	27.7	27.8
<b>Valuation (x)</b>					
P/E	19.7	20.5	15.7	13.2	11.2
P/BV	4.1	3.7	2.5	2.2	1.9
EV/EBITDA	5.3	12.6	9.6	7.6	6.2
Dividend Yield (%)	1.4	1.0	1.5	1.8	2.1
<b>Return ratio (%)</b>					
EBITDA Margin	20.5	17.9	15.7	16.7	17.0
PAT Margin	15.4	12.9	10.7	11.5	12.0
ROAE	22.1	19.5	17.4	17.9	18.5
ROACE	29.7	25.9	23.4	23.8	24.6
<b>Leverage Ratios (x)</b>					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	3.1	2.9	2.9	3.1	3.2
<b>Growth Ratios (%)</b>					
Income growth	13.3	22.3	25.7	11.4	12.5
EBITDA growth	(9.2)	6.9	16.9	18.5	14.4
PAT growth	16.6	2.3	12.7	18.9	18.0
<b>Turnover Ratios</b>					
F.A Turnover x	6.1	7.1	9.9	9.9	10.6
Debtors Days	74	74	75	73	73
Payable days	14	35	34	32	31

## Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Sources of Funds</b>					
Equity Share Capital	800	800	800	800	800
Reserves & Surplus	13,255	15,593	17,874	20,559	23,723
<b>Total Shareholders Fund</b>	<b>14,055</b>	<b>16,393</b>	<b>18,674</b>	<b>21,359</b>	<b>24,523</b>
Non-current liabilities	(171)	(77)	(71)	(35)	(18)
Long term Borrowings	25	26	26	26	26
Deferred tax liabilities	(313)	(228)	(228)	(228)	(228)
Other LT liabilities & prov	117	126	132	168	185
<b>Current Liabilities</b>	<b>3,549</b>	<b>4,517</b>	<b>5,705</b>	<b>6,282</b>	<b>7,047</b>
Trade payables	529	1,651	2,013	2,217	2,487
Other cur liabilities & Prov	3,020	2,866	3,691	4,065	4,560
<b>Total Liabilities</b>	<b>17,433</b>	<b>20,833</b>	<b>24,308</b>	<b>27,606</b>	<b>31,552</b>
<b>Assets</b>					
<b>Non-current Assets</b>					
Fixed assets	3,097	3,273	2,947	3,267	3,451
Non-current investments	3,135	2,703	2,703	2,703	2,703
Long-term loans & adv	123	851	1,036	1,154	1,299
Other non-current assets	13	870	1,036	1,154	1,299
<b>Current assets</b>	<b>11,065</b>	<b>13,136</b>	<b>16,587</b>	<b>19,328</b>	<b>22,800</b>
Current investments	4,620	4,828	4,828	4,828	4,828
Trade receivables	3,586	4,275	5,337	6,125	6,894
Cash & bank balances	1,416	1,432	3,236	4,824	7,082
Short-term loans & adv	407	812	956	1,065	1,199
Other current assets	1,035	1,788	2,230	2,486	2,798
<b>Total Assets</b>	<b>17,433</b>	<b>20,833</b>	<b>24,308</b>	<b>27,606</b>	<b>31,552</b>

## Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
PBT	3,900	3,956	4,186	4,952	5,842
Depreciation	886	1,050	1,474	1,616	1,816
Interest expense	3	1	1	1	1
<b>CF before W.cap</b>	<b>4,789</b>	<b>5,007</b>	<b>5,661</b>	<b>6,568</b>	<b>7,658</b>
Inc/dec in W.cap	(260)	2,455	803	777	722
<b>Op CF after W.cap</b>	<b>5,049</b>	<b>2,552</b>	<b>4,858</b>	<b>5,792</b>	<b>6,936</b>
Less Taxes	993	983	1,063	1,238	1,460
<b>Net CF From Operations</b>	<b>4,056</b>	<b>1,569</b>	<b>3,795</b>	<b>4,554</b>	<b>5,476</b>
Inc/(dec) in F.A + CWIP	943	1,141	1,148	1,936	2,000
(Pur)/sale of investments	1,568	(224)	-	-	-
Others	(3)	(1)	(1)	(1)	(1)
<b>CF from Invst Activities</b>	<b>(2,514)</b>	<b>(918)</b>	<b>(1,149)</b>	<b>(1,936)</b>	<b>(2,001)</b>
Loan raised	(7)	1	-	-	-
Equity Raised	(138)	113	(0)	(0)	0
Dividend	936	749	842	1,030	1,217
<b>CF from Fin Activities</b>	<b>(1,082)</b>	<b>(635)</b>	<b>(842)</b>	<b>(1,030)</b>	<b>(1,217)</b>
<b>Net inc /(dec) in cash</b>	<b>460</b>	<b>16</b>	<b>1,804</b>	<b>1,588</b>	<b>2,258</b>
Op. bal of cash	957	1,416	1,432	3,236	4,824
<b>Cl. balance of cash</b>	<b>1,416</b>	<b>1,432</b>	<b>3,236</b>	<b>4,824</b>	<b>7,082</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
<b>Institutional Sales</b>				
Sriram Rangarajan	Sales		sriram.rangarajan@trustgroup.in	+91-22-4224-5216
Vivek Kumar	Sales		vivek.kumar@trustgroup.in	+91-22-4224-5197
<b>Sales Trading &amp; Dealing</b>				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Nikhil Shah	Dealer		nikhil.shah@trustgroup.in	+91-22-4084-5089
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Research Team</b>				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Ritu Chaudhary	Associate	Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

## DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.